



EMPOWERING BUSINESSES, **DRIVING NATION BUILDING**



Corporate Governance & Financial Report **2015**

WHAT'S INSIDE

STATEMENT OF CORPORATE GOVERNANCE	2
NOMINATION COMMITTEE	5
REMUNERATION COMMITTEE	7
RISK MANAGEMENT COMMITTEE	9
AUDIT COMMITTEE	11
STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL	14
ASSET QUALITY REVIEW COMMITTEE.....	19
SHARIAH COMMITTEE	20

go online to our website at:

www.smebank.com.my



STATEMENT OF CORPORATE GOVERNANCE

The Board of Directors of Small Medium Enterprise Development Bank Malaysia Berhad is committed to high standards of Corporate Governance and subscribes to Bank Negara Malaysia's Guideline on Corporate Governance Standards on Directorship for Development Financial Institutions (BNM/RH/GL 005-14) in achieving an optimal governance framework and maximising the shareholder value of the Bank.

A. BOARD OF DIRECTORS

The Board is governed by nine (9) members consisting of one (1) Non-Executive Chairman, one (1) Non-Independent Executive Director who is the Bank's Group Managing Director, two (2) Non-Independent Non-Executive Directors representing Minister of Finance Incorporated (MOF) and Ministry of International Trade and Industry (MITI) and five (5) Independent Non-Executive Directors.

The diversity of the Directors' background from the fields of Management, Banking, Finance, Accounting, Legal, Entrepreneur Development and their accumulated experiences while serving both in private and government sectors, brings to the Board the necessary range of expertise and experience required by the Board to effectively perform its functions.

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

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

The Board of Directors meets at least once a month to discuss amongst other matters relating to policies, strategies, performance, resources, overall conduct of the Bank's business and financial matters as well as to monitor the Bank's overall performance.

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

The composition of the Board of Directors during the year 2015 are as follows:

Name of Director	Designation
1. Tan Sri Faizah Mohd Tahir	Non-Executive Chairman (Appointed w.e.f. 4 September 2015)
2. Tan Sri Ab. Aziz Kasim	Non-Executive Chairman (Resigned w.e.f. 1 May 2015)
3. Datuk Mohd Radzif Mohd Yunus	Group Managing Director (Non-Independent Executive Director)
4. Encik Asri Hamidon	Non-Independent Non-Executive Director (representing MOF)
5. Dato' Abd Majid Kutiran	Non-Independent Non-Executive Director (representing MITI)
6. Datuk Mohd Nasir Ahmad	Independent Non-Executive Director (Ceased w.e.f. 20 September 2015)
7. Dato' Adzmy Abdullah	Independent Non-Executive Director
8. Encik Ishak Ismail	Independent Non-Executive Director
9. Encik Khairuzzaman Muhammad	Independent Non-Executive Director
10. Dato' Jamelah Jamaluddin	Independent Non-Executive Director
11. Prof. Dr. Abdul Basir Mohamad	Independent Non-Executive Director (Appointed w.e.f. from 3 June 2015)

For the year 2015, thirteen (13) meetings were held. The record of attendance by the Board of Directors at the Board Meetings for 2015 is as follows:

Name of Director	No. of Meetings Attended
1. Tan Sri Ab. Aziz Kasim	*1/2 (Resigned w.e.f. 1 May 2015)
2. Tan Sri Faizah Mohd Tahir	4/4 (Appointed w.e.f. 4 September 2015)
3. Datuk Mohd Radzif Mohd Yunus	13/13
4. Encik Asri Hamidon	10/13
5. Dato' Abd Majid Kutiran	11/13
6. Datuk Mohd Nasir Ahmad	*8/8 (Ceased w.e.f. 20 September 2015)
7. Dato' Adzmy Abdullah	13/13

STATEMENT OF CORPORATE GOVERNANCE (cont'd.)

Name of Director	No. of Meetings Attended
8. Encik Ishak Ismail	13/13
9. Encik Khairuzzaman Muhammad	11/13
10. Dato' Jamelah Jamaluddin	13/13
11. Prof. Dr. Abdul Basir Mohamad	5/7 (Appointed w.e.f. from 3 June 2015)

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

B. SUPPLY OF INFORMATION

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

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

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

The Directors of the Bank in 2015 have attended the Financial Institutions Directors' Education (FIDE) Program organised by The Iclif Leadership and Governance Centre.

C. TRAINING OF DIRECTORS

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

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

D. BOARD COMMITTEES

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

NOMINATION COMMITTEE

1. OBJECTIVE

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

2. COMPOSITION, MEETING AND ATTENDANCE

During the financial year ended 31 December 2015, the NC held ten (10) meetings. The composition of the NC during the year 2015 and the record of attendance of the Committee Members at the NC Meetings are as follows:

Name of Director	Designation	No. of Meetings Attended
1. Dato' Adzmy Abdullah	Chairman/Independent Non-Executive Director	10/10
2. Encik Asri Hamidon	Member/Non-Independent Non-Executive Director	10/10
3. Dato' Abd Majid Kutiran	Member/Non-Independent Non-Executive Director	8/10
4. Encik Ishak Ismail	Member/Independent Non-Executive Director	10/10
5. Datuk Mohd Radzif Mohd Yunus	Member/Non-Independent Executive Director	10/10
6. Datuk Mohd Nasir Ahmad	Member/Independent Non-Executive Director (Ceased w.e.f. 20 September 2015)	8/8*

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

NOMINATION COMMITTEE (cont'd.)

3. FUNCTIONS AND RESPONSIBILITIES

The functions and responsibilities of the NC shall be:

- To carry out annual assessment in evaluating effectiveness of each individual directors, the Board as a whole, and the various committees of the Board, the Managing Director and Senior Management (Management Director and above);
- To carry out annual assessment on the overall composition of the Board in terms of the appropriate size, the balance between Executive Directors, Non-Executive Directors and Independent Directors, the mix of skills, experience and required core competencies within the Board of Directors;
- To recommend and assess the nominees for directorship, the Directors to fill up board committees, as well as nominees for the Managing Director position. This includes assessing Directors and the Managing Director proposed for reappointment, before an application is submitted to Bank Negara Malaysia;
- To assess the effectiveness of the Board as a whole, the contribution by each director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the Managing Director;
- To recommend to the Board on removal of a Director/Managing Director if he is ineffective, errant or negligent in discharging his responsibilities;
- To oversee appointment, management succession planning and performance evaluation of Senior Management (Management Director and above), and recommending to the Board the removal of Senior Management (Management Director and above) if they are ineffective, errant and negligent in discharging their responsibilities;
- To ensure that members of the Board of Directors receive continuous training programmes; and
- To ensure that new Directors and reappointed Directors who have yet to attend the mandatory training programmes prescribed by the Malaysia Securities Exchange Berhad for listed companies or Companies Commission of Malaysia (CCM) are to attend the said programmes within 6 months of their appointment.

REMUNERATION COMMITTEE

1. OBJECTIVE

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

2. COMPOSITION, MEETING AND ATTENDANCE

During the financial year ended 31 December 2015, the RC held ten (10) meetings. The composition of the RC during the year 2015 and the record of attendance of the Committee Members at the RC Meetings are as follows:

Name of Director	Designation	No. of Meetings Attended
1. Encik Khairuzzaman Muhammad	Chairman/Independent Non-Executive Director	9/10
2. Encik Asri Hamidon	Member/Non-Independent Non-Executive Director	10/10
3. Encik Ishak Ismail	Member/Independent Non-Executive Director	10/10
4. Dato' Jamelah Jamaluddin	Member/Independent Non-Executive Director	10/10
5. Datuk Mohd Nasir Ahmad	Member/Independent Non-Executive Director (Ceased w.e.f. 20 September 2015)	8/8*

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

REMUNERATION COMMITTEE (cont'd.)

3. FUNCTIONS AND RESPONSIBILITIES

The functions and responsibilities of the RC are as follows:

- i. Recommending a framework of remuneration for Directors, Managing Director and Senior Management (Management Director and above). The remuneration policy should:

- Be documented and approved by the full Board and any changes thereto should be subject to the endorsement of the full Board;
- Reflect the experience and level of responsibility borne by individual Director, Managing Director and Senior Management (Management Director and above);
- Be sufficient to attract and retain Directors, Managing Director and Senior Management (Management Director and above) of calibre needed to manage the Bank successfully; and
- Be balanced against the need to ensure that the funds of the Bank are not used to subsidise excessive remuneration packages.

- ii. Recommending specific remuneration packages for Directors, Managing Director and Senior Management (Management Director and above). The Remuneration Packages should:

- Be based on an objective consideration and approved by the Full Board;
- Take due consideration of the assessments of the RC of the effectiveness and contribution of the Director, Managing Director or Senior Management (Management Director and above) concerned;
- Not be decided by the exercise of sole discretion or any one individual or restricted group of individuals; and
- Be competitive and is consistent with the Bank's culture, objective and strategy.

- iii. Endorsing any changes deemed necessary to the schemes, terms of services and new terms for Executives and Staff of SME Bank before submission to the Board of Directors for final approval.

RISK MANAGEMENT COMMITTEE

1. OBJECTIVE

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

2. COMPOSITION, MEETING AND ATTENDANCE

During the financial year ended 31 December 2015, the RMC held seven (7) meetings. The composition of the RMC during the year 2015 and the record of attendance of the Committee Members at the RMC Meetings are as follows:

Name of Director	Designation	No. of Meetings Attended
1. Encik Ishak Ismail	Chairman/Member/ Independent Non-Executive Director	7/7
2. Dato' Jamelah Jamaluddin	Chairman/Member/ Independent Non-Executive Director (Appointed as Chairman of RMC w.e.f. 21 October 2015)	6/7
3. Encik Asri Hamidon	Member/Non-Independent Non-Executive Director	6/7
4. Encik Khairuzzaman Muhammad	Member/Independent Non-Executive Director	5/7
5. Dato' Adzmy Abdullah	Member/Independent Non-Executive Director	7/7

RISK MANAGEMENT

COMMITTEE (cont'd.)

3. FUNCTIONS AND RESPONSIBILITIES

The functions and responsibilities of the RMC shall be:

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

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

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

AUDIT COMMITTEE

1. OBJECTIVE

The objective of the Audit Committee (AC) is to provide the Board of Directors with independent assurance on the adequacy and effectiveness of the risk management system, internal control and governance processes and to ensure checks and balances within the Bank.

2. COMPOSITION, MEETING AND ATTENDANCE

The Committee is appointed by the Board of Directors and consists of not less than three (3) Board members, none of whom shall be full-time Executive Directors of the Bank.

The details of attendance of each member at the Committee meetings held for the year 2015 are as follows:

Name of Director	Designation	No. of Meetings Attended
1. Datuk Mohd Nasir Ahmad	Chairman/Independent Non-Executive Director (Ceased w.e.f. 20 September 2015)	*3/3
2. Encik Ishak Ismail	Chairman/Independent Non-Executive Director (Appointed as Chairman of AC w.e.f. 24 November 2015)	1/1
3. Dato' Adzmy Abdullah	Member/Independent Non-Executive Director	4/4
4. Encik Khairuzzaman Muhammad	Member/Independent Non-Executive Director	4/4
5. Encik Asri Hamidon	Member/Non-Independent Non-Executive Director	4/4
6. Dato' Abd Majid Kutiran	Member/Non-Independent Non-Executive Director	3/4

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

3. FUNCTIONS AND RESPONSIBILITIES

The functions and responsibilities of the AC are to:

- i. Recommend to the Board of Directors on the appointment of External Auditors, the fee and other matters pertaining to the resignation or termination or change of External Auditors;
- ii. Review with the External Auditors the following:
 - The scope of the External Auditors' audit plan
 - The system of internal accounting controls
 - The External Auditors' audit report
 - The External Auditors' management letter and management's response
 - The assistance given by Management and staff to the External Auditors
- iii. Monitor and assess the External Auditor's performance, their independence and objectivity;
- iv. Carry out the following with regards to the internal audit function:
 - Review the adequacy of scope, functions and resources of the Group Audit Division and that it has the necessary authority to carry out its work
 - Review and approve the internal audit plan, audit methodology and audit processes
 - Review audit reports and assess the adequacy of management's actions taken on audit observations or recommendations
 - Decide on the selection, retention, evaluation and compensation of the Chief Internal Auditor
- v. Review and deliberate on reports relating to the perpetration and prevention of fraud;
- vi. Review the Bank's compliance with related to government's regulations;
- vii. Review the half-yearly results and the year-end financial statements prior to approval by the Board of Directors;
- viii. Ensure that for the year-end financial statements, the External Auditors will conduct the presentation to AC with particular focus on the following:
 - Any changes in or implementation of major accounting policies
 - Adequacy of provisions against contingencies and impairment
 - Any significant and unusual events
 - Compliance with the applicable Financial Reporting Standards and other legal requirements
- ix. Ensure prompt publication of annual accounts;
- x. Discuss issues arising from the interim and final audits and any matters the External Auditors may wish to discuss (in the absence of Management where necessary);

- xi. Review any related party transactions and conflict of interest situations that may arise in the Bank or within the Banking group including any transactions, procedures or conducts that raises questions of Management integrity; and
- xii. Review and endorse the status and progress of Management's response and corrective measures on issues raised in the Bank Negara Malaysia Examination Report, before it is tabled to the Board of Directors for approval.

The AC shall update the Board of Directors on the audit observations, issues and concerns discussed during its meeting including those raised by the External Auditors, and where appropriate, make the necessary recommendations to the Board of Directors.

The performance and contribution of the AC shall be formally assessed by the Nomination Committee (NC), as stipulated in BNM/RH/GL 005-14 and in line with the terms of reference of the NC. The NC shall report its recommendations relating to AC to the Board of Directors for decision.

4. TRAINING

Conferences, seminars and trainings programmes attended by the Committee members in 2015 are listed below:

- Anti-Money Laundering & Anti-Terrorism Financing Act (AMLATFA)
- Corporate Directors Advance Program (CDAP) – Strategy Analyst Managing Uncertainty

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

A. INTRODUCTION

The Board of Directors (“Board”) is responsible for the Group’s risk management and internal control system and for reviewing its adequacy and integrity. The Board recognises that the practice of good governance is an important and continuous process and has established the Risk Management Committee (RMC), Audit Committee (AC) and Asset Quality Review Committee (AQRC) to ensure the maintenance of a sound system of internal controls and good risk management practices.

For the purposes of this statement, associates are not dealt with as part of the Group, and are therefore not covered by this statement.

B. RESPONSIBILITIES

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

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

identifying and evaluating the risks faced, and the achievement of business objectives and strategies.

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

C. KEY INTERNAL CONTROL PROCESSES

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

a) Risk Management Function

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

The Board, via Risk Management Committee (“RMC”), drives the overall risk oversight agenda of the Group. The RMC, in discharging its roles and responsibilities, is supported by a number of Management Committees, namely Senior Management Committee

("SMC") as well as Asset and Liability Committee ("ALCO"). These Management Committees are generally accountable for the effectiveness of the day-to-day risk measures and controls, in an effort to balance the Group's risk and return as well as maintain its competitive advantage.

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

In line with the Group's aspiration to become a Shariah-based Development Financial Institution, an internal guideline has been established to strengthen the management of potential Shariah Non-compliance risk arising from business activities and operations. Amongst others, key functions of Shariah Review, Shariah Risk and Shariah Audit are governed

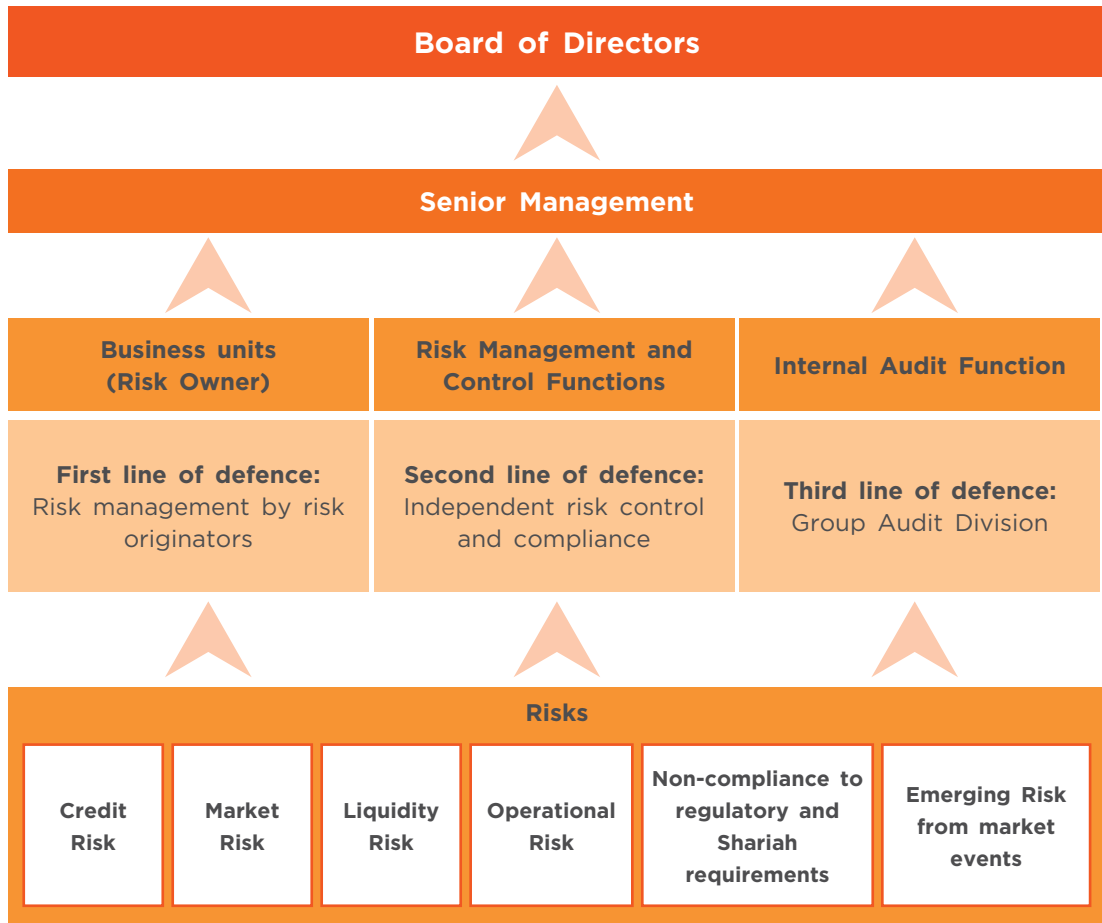
by clear roles and responsibilities, which were established in line with the Shariah Governance Framework and other regulatory requirements.

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

Operationally, the Group manages the spectrum of risks associated to its banking operations via the Three Lines of Defence Approach i.e. risk taking functions (risk owners), risk management and control functions (including compliance functions) and internal audit functions. The First Level of Defence entails the responsibilities of risk owners (business and support units) in the day-to-day management of risks inherent in the various business and operational activities. At the Second Level, the risk management and control functions (Group Compliance and Risk Management Division) perform the role of policy setting which includes the development of relevant tools and methodologies to identify, measure, mitigate and report significant and emerging risks brought about by the Group's business and operational activities. And thirdly, the internal audit functions (Group Audit Division) complements the functions

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

of risk management and control by reviewing and evaluating significant exposures to risks and contributing towards the overall improvement of risk management and control system. The internal audit functions also provide, from an independent perspective, its assessment and assurance on the adequacy and effectiveness of the existing risk management policies and guidelines.



b) Compliance Function

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

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

c) Internal Audit Function

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

made to the relevant Bank Negara Malaysia (BNM) requirements to ensure regulatory compliance.

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

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

GAD continues to enhance its capabilities to ensure that it is able to provide the necessary assurance to the Board more effectively and

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

efficiently. This is done through continuous improvements to its internal audit processes benchmarked against industry's standards, up-skilling of the internal auditors through various internal and external trainings, certification of auditors and engagements with reputable third party service providers when undertaking specific audit assignments.

d) Other Major Internal Controls

- Other Board Committees are also established to assist the Board to perform its oversight function namely Nomination Committee, Remuneration Committee and Asset Quality Review Committee. Specific responsibilities have been delegated to these Board Committees via formalised terms of reference.
- The Board receives regular reports from the Management on the key operating statistics, business dynamics, legal matters and regulatory issues. An annual business plan and a budget are submitted to the Board for approval. Actual performance is reviewed against the targeted results on periodic basis allowing timely response and corrective actions to be taken to mitigate risk. The Board also approves any changes or amendments to the Group's policies.

- The Group manages its human capital through rigorous recruitment process, training programs and performance appraisal system. Adequate policies and guidelines are in place for the recruitment, promotion and termination of staff.
- Establishment of the Group's Integrity Pledge Ethics is based on the following principles: observance of laws both in letter and in spirit; upholding the reputation of integrity throughout the Group; avoiding possible conflicts of interest; ensuring completeness and accuracy of relevant records; ensuring fair and equitable treatment of all customers; avoiding misuse of position and information and ensuring confidentiality of information and transactions.

e) Assurance from Management

The Board has also received reasonable assurance from the Group Managing Director and Chief Operating Officer – Operations & Group Corporate Management that the Group's risk management and internal control system for the year ended 2015 is operating adequately and effectively, in all material respects, based on the risk management and internal control system of the Group.

ASSET QUALITY REVIEW COMMITTEE

1. OBJECTIVE

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

2. COMPOSITION, MEETING AND ATTENDANCE

During the financial year ended 31 December 2015, the AQRC held six (6) meetings. The composition of the AQRC during the year 2015 and the record of attendance of the Committee Members at the AQRC Meetings are as follows:

Name of Director	Designation	No. of Meetings Attended
1. Dato' Jamelah Jamaluddin	Chairman/Independent Non-Executive Director	6/6
2. Encik Asri Hamidon	Member/Non-Independent Non-Executive Director	6/6
3. Encik Ishak Ismail	Member/Independent Non-Executive Director	6/6
4. Encik Khairuzzaman Muhammad	Member/Independent Non-Executive Director	6/6
5. Datuk Mohd Radzif Mohd Yunus	Member/Non-Independent Executive Director	6/6

3. FUNCTIONS AND RESPONSIBILITIES

The duties and responsibilities of AQRC include but not limited to the following:

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

SHARIAH COMMITTEE

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

1. COMPOSITION

As at 31 December 2015, the SC consist of (six) 6 members from diverse backgrounds in terms of their qualifications, experience and knowledge, including law and economics, so as to support the depth and breadth of the Shariah deliberations. The majority of members are scholars who have qualifications, expertise and experience in the areas of Shariah especially Islamic Jurisprudence (Usul al-Fiqh) and Islamic Commercial Law (Fiqh al-Muamalat).

2. COMPOSITION, MEETING AND ATTENDANCE

During the financial year ended 31 December 2015, the SC held fourteen (14) meetings. The composition of the SC during the year 2015 and the record of attendance of the Committee Members at the SC Meetings are as follows:

Name of Shariah Committee Members	Designation	No. of Meetings Attended
1. Prof. Dr. Abdul Basir Mohamad	Chairman	14/14
2. Dr. Asmak Ab Rahman	Member	14/14
3. Prof. Dr. Norhashimah Mohd Yasin	Member	13/14
4. Tuan Haji Jalil Haji Said	Member	13/14
5. Prof. Dr. Yusof Ramli	Member	12/14
6. Prof. Madya Dr. Ahmad Basri Ibrahim	Member (Appointed w.e.f 1 January 2015)	13/14

3. FUNCTIONS AND RESPONSIBILITIES

The main role and function of the Committee is to advise and supervise the Islamic Banking business. The Committee would also review and approve Shariah Review & Shariah Audit plan to ensure the Bank's operation and banking activities are in compliance with Shariah.

The Committee oversees the state of Shariah Governance of the Bank's Islamic Banking activities. The Committee should accord itself a high level of integrity that commands confidence of all in order to effectively discharge its role.

4. DUTIES AND RESPONSIBILITIES

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

- Provide advice to the Bank's Board of Directors and/or the Management on Shariah matters in order to ensure that at all times, the Islamic Banking business of the Bank adheres with Shariah principles.
- Well informed of the latest developments of Islamic Banking business, regulatory changes affecting the Bank's business, the rulings made by the Bank Negara Malaysia Shariah Advisory Council (BNM SAC) and the changes in the latest Shariah research, ijtiḥad, fatwas or findings.
- Advise the Bank to refer to the BNM SAC on any Shariah matter that requires the BNM SAC's endorsement.
- To review and recommend the policies and procedures for the Bank's Islamic Banking business and endorse all the operating manuals and policies governing the Islamic Banking business of the Bank including recommendations for revisions, improvements, and updates whenever necessary.
- To review and recommend the policies and guidelines to allow the Shariah functions of the Bank are in accordance with Shariah Governance Framework of Bank Negara Malaysia.
- The Committee members are expected to engage actively in deliberating Shariah issues presented. The Committee must have active participation through attending meetings, evaluating reports, reading minutes, and other mandated task.
- Ensure high standard in arriving at Shariah decision through proper and comprehensive Shariah ruling.
- Review and respond to proposals submitted for the Circular Resolution within seven (7) days after the proposals have been circulated.
- Portray professionalism in the best manner to reflect the integrity of the Committee.
- Ensure attending at least 75% of all the meetings held in a year. Any Committee Member who does not meet the minimum requirement might be subjected to a review of his or her service.

FINANCIAL STATEMENTS

DIRECTORS' REPORT	24
STATEMENT BY DIRECTORS	28
STATUTORY DECLARATION	29
SHARIAH COMMITTEE'S REPORT	30
INDEPENDENT AUDITORS' REPORT	32
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	34
STATEMENT OF FINANCIAL POSITION	35
STATEMENT OF COMPREHENSIVE INCOME	36
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	38
STATEMENT OF CHANGES IN EQUITY	39
STATEMENTS OF CASH FLOWS	40
NOTES TO THE FINANCIAL STATEMENTS	42

Directors' Report

24

Statement By Directors

28

**Statutory
Declaration**

29

**Shariah Committee's
Report**

30

**Independent
Auditors' Report**

32



DIRECTORS' REPORT

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2015.

PRINCIPAL ACTIVITIES

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

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

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

FINANCIAL RESULTS

	Group RM'000	Bank RM'000
Profit before tax expense and zakat:	56,541	50,125
Taxation	(15,264)	(14,296)
Zakat	(2,000)	(2,000)
Net profit for the year	39,277	33,829
Profit attributable to:		
Owner of the Bank	39,277	33,829
Non-controlling interest	-	-
	39,277	33,829

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

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

DIVIDENDS

The amount of dividend paid by the Bank since 31 December 2014 was as follows:

In respect of the financial year ended 31 December 2014, a final single-tier dividend of 0.28 sen per share on 1,350,000,000 ordinary shares, amounting to a dividend payable of RM3,780,000 which was approved and declared at the Annual General Meeting held on 30 June 2015, and paid on 30 June 2015.

At the forthcoming Annual General Meeting, a final single-tier dividend in respect of the financial year ended 31 December 2015 of 0.5 sen per share on 1,350,000,000 ordinary shares, amounting to a dividend payable of RM6,750,000 will be proposed for the shareholder's approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholder, will be accounted for in equity as an appropriate of retained profits in the financial year ending 31 December 2016.

DIRECTORS

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

Y.Bhg. Tan Sri Faizah binti Mohd Tahir (Chairman)	(appointed on 4 September 2015)
Y.Bhg. Dato' Abd Majid bin Kutiran	
En. Asri bin Hamidin @ Hamidon	
En. Ishak bin Ismail	
En. Khairuzzaman Muhammad	
Y.Bhg. Dato' Jamelah binti Jamaluddin	
Y.Bhg. Datuk Mohd Radzif bin Mohd Yunus	
Prof. Dr. Abdul Basir bin Mohamad	(appointed on 3 June 2015)
Y.Bhg. Tan Sri Ab. Aziz bin Kasim	(resigned on 1 May 2015)
Y.Bhg. Datuk Mohd Nasir bin Ahmad	(resigned on 20 September 2015)
Y.Bhg. Dato' Adzmy bin Abdullah	(resigned on 1 February 2016)

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Bank was a party, whereby the Directors might acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in Note 30 or the fixed salary of a full time employee of the Bank) by reason of a contract made by the Bank or a related corporation with any Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

DIRECTORS' REPORT (cont'd.)

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, none of the Directors in office as at 31 December 2015 had any interest in the ordinary shares of the Bank and of its related corporations during the financial year.

OTHER STATUTORY INFORMATION

- (a) Before the statements of financial position and statements of comprehensive income of the Group and of the Bank were made out, the Directors took reasonable steps:
 - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances which would render:
 - (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Bank inadequate to any substantial extent; and
 - (ii) the values attributed to the current assets in the financial statements of the Group and of the Bank misleading.
- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate.
- (d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Bank which would render any amount stated in the financial statements misleading.
- (e) At the date of this report, there does not exist:
 - (i) any charge on the assets of the Group or of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Group or of the Bank which has arisen since the end of the financial year.

OTHER STATUTORY INFORMATION (CONT'D.)

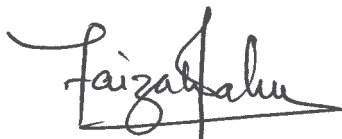
(f) In the opinion of the Directors:

- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Bank to meet their obligations when they fall due; and
- (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Bank for the financial year in which this report is made.

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the Directors dated 24 June 2016.



Tan Sri Faizah binti Mohd Tahir

Kuala Lumpur, Malaysia



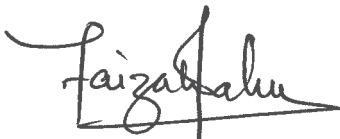
Datuk Mohd Radzif bin Mohd Yunus

STATEMENT BY DIRECTORS

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

We, Tan Sri Faizah binti Mohd Tahir and Datuk Mohd Radzif bin Mohd Yunus, being two of the Directors of Small Medium Enterprise Development Bank Malaysia Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 34 to 203 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2015 and of their 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 24 June 2016.



Tan Sri Faizah binti Mohd Tahir



Datuk Mohd Radzif bin Mohd Yunus

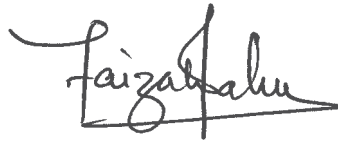
Kuala Lumpur, Malaysia

STATUTORY DECLARATION

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

We, Tan Sri Faizah binti Mohd Tahir and Datuk Mohd Radzif bin Mohd Yunus, being the Director and Managing Director respectively, primarily responsible for the financial management of Small Medium Enterprise Development Bank Malaysia Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 34 to 203 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.

Subscribed and solemnly declared by
the abovenamed at Kuala Lumpur in
the Federal Territory on 24 June 2016.



Tan Sri Faizah binti Mohd Tahir



Datuk Mohd Radzif bin Mohd Yunus

Before me,



Level 15, Menara Tokio Marine Life,
189, Jalan Tun Razak, 50400 Kuala Lumpur.

SHARIAH COMMITTEE'S REPORT

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

We have reviewed the principles and the contracts relating to the transactions and applications introduced by Small Medium Enterprise Development Bank Malaysia Berhad (“the Bank”) during the financial year ended 31 December 2015. We have also conducted our review to form an opinion as to whether the Bank has complied with the Shariah principles and with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia (“BNM”), as well as Shariah decisions made by us.

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

We have assessed the work carried out by Shariah review and Shariah audit which included examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by the Bank followed by the submission of monthly Shariah Non-compliance Reports for 2015 to BNM.

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.

Throughout 2015, we have confirmed 1 (one) incident of breaching Shariah rules and principles in Bai’ Bithamanin ‘Ajl (BBA) Financing based-product due to operational failure in identifying the suitable underlying asset that can be financed under Shariah principle of Murabahah. We noted that the Bank has taken its corrective as well as preventive measures in order to avoid similar incidents from occurring in the future.

As a part of the rectification plan, the affected accounts have been converted to Tawarruq based facility, Commodity Murabahah Term Financing (CMTF) and we have instructed the Bank to cease the BBA offering to avoid the occurrence of such event in the future. The proposal has been approved by Senior Management Committee and us.

During the financial year, the Bank detected Shariah non-compliant income amounting to RM761,455.49, which includes profit portion for unrectified accounts. The amount was disposed to a charitable account which its uses and utilisation is subject to our approval.

In our opinion:

- i) The contracts, transactions and dealings of Islamic banking products entered into by the Bank during the financial year ended 31 December 2015 that we have reviewed are in compliance with the Shariah principles;
- ii) The calculation and distribution of zakat is in compliance with Shariah principles; and
- iii) Any Shariah non-compliance event were rectified accordingly and the Bank has taken preventive measures to avoid the recurrence of such events.

We, Prof Dr. Abdul Basir bin Mohamad and Dr. Asmak bt Ab Rahman, being two of the members of the Shariah Committee of the Bank, do hereby confirm on behalf of the members of the Shariah Committee that, in our level best, the Islamic Banking operations of the Bank for the financial year ended 31 December 2015 have been conducted in conformity with the Shariah principles.

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

On behalf of the Committee:



Prof Dr. Abdul Basir bin Mohamad
Chairman of the Committee



Dr. Asmak bt Ab Rahman
Member of the Committee

Kuala Lumpur, Malaysia
24 June 2016

INDEPENDENT AUDITORS' REPORT

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Small Medium Enterprise Development Bank Malaysia Berhad, which comprise the statements of financial position as at 31 December 2015 of the Group and of the Bank, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 34 to 203.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2015 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 11 to the financial statements, being financial statements that have been included in the consolidated financial statements.
- (c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Bank are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.
- (d) The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

OTHER MATTERS

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



Ernst & Young

AF: 0039

Chartered Accountants

Kuala Lumpur, Malaysia

24 June 2016



Muhammad Syarizal bin Abdul Rahim

No. 3157/01/17/(J)

Chartered Accountant

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

		Group	
	Note	2015 RM'000	2014 RM'000
ASSETS			
Cash and short term funds	4	1,255,803	1,289,069
Deposits and placements with banks and other financial institutions	5	180,952	651,266
Available-for-sale financial investments	6	1,908,948	1,804,660
Held-to-maturity financial investments	7	631,544	641,423
Loans, advances and financing	8	5,638,375	5,193,564
Other assets	9	60,676	45,956
Derivative asset	10	1,442	–
Investments in associate	12	4,523	4,840
Property, plant and equipment	13	150,954	138,913
Investment properties	14	156,333	160,492
Intangible assets	15	11,917	17,841
Tax recoverable		21,040	13,560
Deferred tax	16	159,479	174,339
TOTAL ASSETS		10,181,986	10,135,923
LIABILITIES			
Deposits from customers	17	3,024,907	3,483,781
Deposits from other financial institutions	18	345,396	336,201
Obligations on securities sold under repurchase agreements	19	254,300	–
Medium term note	20	1,519,789	1,520,160
Term loans	21	2,775,523	2,731,781
Other liabilities	22	722,229	555,432
Government funds	23	284,841	288,142
TOTAL LIABILITIES		8,926,985	8,915,497
EQUITY			
Share capital	24	1,350,000	1,350,000
Accumulated losses		(52,465)	(87,962)
Other reserves	25	(42,534)	(41,612)
TOTAL EQUITY		1,255,001	1,220,426
TOTAL LIABILITIES AND EQUITY		10,181,986	10,135,923
COMMITMENTS AND CONTINGENCIES	35	1,450,502	1,290,518

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

		Bank	
	Note	2015 RM'000	2014 RM'000
ASSETS			
Cash and short term funds	4	1,249,356	1,287,765
Deposits and placements with banks and other financial institutions	5	180,952	651,266
Available-for-sale financial investments	6	1,908,948	1,804,660
Held-to-maturity financial investments	7	631,544	641,423
Loans, advances and financing	8	5,155,012	4,683,563
Other assets	9	597,832	558,746
Derivative asset	10	1,442	-
Investments in subsidiaries	11	3,582	3,582
Investments in associate	12	-	-
Property, plant and equipment	13	150,879	138,874
Investment properties	14	156,333	160,492
Intangible assets	15	11,487	17,397
Tax recoverable		20,972	13,498
Deferred tax	16	159,479	174,339
TOTAL ASSETS		10,227,818	10,135,605
LIABILITIES			
Deposits from customers	17	3,049,913	3,483,781
Deposits from other financial institutions	18	345,396	336,201
Obligations on securities sold under repurchase agreements	19	254,300	-
Medium term note	20	1,519,789	1,520,160
Term loans	21	2,775,523	2,731,781
Other liabilities	22	752,869	559,480
Government funds	23	284,841	288,142
TOTAL LIABILITIES		8,982,631	8,919,545
EQUITY			
Share capital	24	1,350,000	1,350,000
Accumulated losses		(62,279)	(92,328)
Other reserves	25	(42,534)	(41,612)
TOTAL EQUITY		1,245,187	1,216,060
TOTAL LIABILITIES AND EQUITY		10,227,818	10,135,605
COMMITMENTS AND CONTINGENCIES	35	1,450,502	1,290,518

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

STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2015

	Note	Group		Bank	
		2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Interest income	26	50,830	143,343	42,125	143,343
Interest expense	27	(65,122)	(77,203)	(65,122)	(77,203)
Net interest income		(14,292)	66,140	(22,997)	66,140
Gross income from Islamic banking business	41	259,455	245,850	272,975	245,850
Other operating income	28	13,105	20,439	11,249	17,178
Net income		258,268	332,429	261,227	329,168
Other operating expenses	29	(179,122)	(168,418)	(185,225)	(165,569)
Operating profit		79,146	164,011	76,002	163,599
Writeback/(allowance) for impairment loss:					
- loans, advances and financing	31	(22,585)	(128,273)	(26,174)	(128,273)
- available-for-sale financial investments	32	297	(6,000)	297	(6,000)
		56,858	29,738	50,125	29,326
Share of loss after tax of associates		(317)	(800)	-	-
Profit before tax expense and zakat		56,541	28,938	50,125	29,326
Tax expense	33	(15,264)	(8,275)	(14,296)	(8,177)
Zakat	33	(2,000)	(2,267)	(2,000)	(2,267)
Profit for the year		39,277	18,396	33,829	18,882
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods					
Unrealised (loss)/gain on revaluation of available-for-sale financial investments		(307)	11,407	(307)	11,407
Income tax relating to components of other comprehensive income		(615)	(2,852)	(615)	(2,852)
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		(922)	8,555	(922)	8,555
Total comprehensive income for the year, net of tax		38,355	26,951	32,907	27,437

	Note	Group		Bank	
		2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Profit for the year attributable to the owner of the Bank		39,277	18,396	33,829	18,882
Total comprehensive income attributable to the owner of the Bank		38,355	26,951	32,907	27,437
Profit per share attributable to the owner of the Bank					
- Basic	34	2.91	1.36	2.51	1.40

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2015

Group	Attributable to the Owner of the Bank					Total equity RM'000
	Share capital RM'000	Non-distributable available-for-sale reserve RM'000	Non-distributable profit equalisation reserve RM'000	Distributable general reserve RM'000	Accumulated losses RM'000	
As 1 January 2015	1,350,000	(51,726)	-	10,114	(87,962)	1,220,426
Unrealised loss on revaluation of available-for-sale financial investments	-	(922)	-	-	-	(922)
Profit for the year	-	-	-	-	39,277	39,277
Total comprehensive income for the year	-	(922)	-	-	39,277	38,355
Transaction with owner:						
Dividends (Note 40)	-	-	-	-	(3,780)	(3,780)
At 31 December 2015	1,350,000	(52,648)	-	10,114	(52,465)	1,255,001
As 1 January 2014	1,350,000	(60,281)	403	10,114	(100,011)	1,200,225
Unrealised gain on revaluation of available-for-sale financial investments	-	8,555	-	-	-	8,555
Net provision of profit equalisation reserve for the year	-	-	(403)	-	403	-
Profit for the year	-	-	-	-	18,396	18,396
Total comprehensive income for the year	-	8,555	(403)	-	18,799	26,951
Transaction with owner:						
Dividends (Note 40)	-	-	-	-	(6,750)	(6,750)
At 31 December 2014	1,350,000	(51,726)	-	10,114	(87,962)	1,220,426

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

STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2015

Bank	Share capital RM'000	Non-distributable available-for-sale reserve RM'000	Non-distributable profit equalisation reserve RM'000	Distributable general reserve RM'000	Accumulated losses RM'000	Total equity RM'000
As 1 January 2015	1,350,000	(51,726)	-	10,114	(92,328)	1,216,060
Unrealised loss on revaluation of available-financial investments	-	(922)	-	-	-	(922)
Profit for the year	-	-	-	-	33,829	33,829
Total comprehensive income for the year	-	(922)	-	-	33,829	32,907
Transaction with owner: Dividends (Note 40)	-	-	-	-	(3,780)	(3,780)
At 31 December 2015	1,350,000	(52,648)	-	10,114	(62,279)	1,245,187
As 1 January 2014	1,350,000	(60,281)	403	10,114	(104,863)	1,195,373
Unrealised gain on revaluation of available-for-sale financial investments	-	8,555	-	-	-	8,555
Net provision of profit equalisation reserve for the year	-	-	(403)	-	403	-
Profit for the year	-	-	-	-	18,882	18,882
Total comprehensive income for the year	-	8,555	(403)	-	19,285	27,437
Transaction with owner: Dividends (Note 40)	-	-	-	-	(6,750)	(6,750)
At 31 December 2014	1,350,000	(51,726)	-	10,114	(92,328)	1,216,060

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

STATEMENTS OF CASH FLOWS

For the financial year ended 31 December 2015

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Cash flows from operating activities				
Profit before tax expense and zakat	56,541	28,938	50,125	29,326
Adjustments for:				
Gain on disposal of quoted investments	-	(516)	-	(516)
Gain on disposal of an associate	-	(750)	-	-
(Writeback)/allowance for impairment on value of unquoted securities	(297)	6,000	(297)	6,000
Allowance for impairment loss on loans, advances and financing, net of reversal	46,345	182,140	49,935	182,140
Loans, advances and financing waived	-	28	-	28
Loans, advances and financing written-off	-	6,055	-	6,055
Share of loss of associates	317	800	-	-
Depreciation of property, plant and equipment	8,737	5,974	8,719	5,964
Depreciation of investment properties	4,159	3,955	4,159	3,955
Amortisation of intangible assets	6,085	5,362	5,919	5,306
Unrealised gain on revaluation of derivative	(1,111)	-	(1,111)	-
Government funds released	(2,229)	(11,945)	(2,229)	(11,945)
Dividend income	-	(381)	-	(1,652)
Interest and profit expense	251,180	270,311	251,185	270,311
Interest and profit income	(480,209)	(538,802)	(466,760)	(538,802)
Operating loss before working capital changes	(110,482)	(42,831)	(100,355)	(43,830)
Changes in working capital:				
Other assets	(15,199)	31,745	(39,209)	(478,915)
Loans, advances and financing	(171,481)	(675,772)	(215,155)	(165,771)
Deposits and placements with financial institutions	519,907	(425,801)	519,907	(425,801)
Deposits from customers	(575,427)	22,993	(550,426)	22,993
Deposits from other financial institutions	953	(50,413)	953	(50,413)
Obligations on securities sold under repurchase agreements	254,106	-	254,106	-
Other liabilities	165,356	174,145	192,563	174,585
Cash generated from/(used in) operating activities	67,733	(965,934)	62,384	(967,152)
Interest and profit paid	(111,702)	(240,870)	(111,702)	(240,870)
Interest and profit received	105,763	536,290	105,763	536,290
Tax refund	-	1,235	-	1,235
Tax paid	(5,759)	(8,275)	(5,759)	(8,275)
Zakat paid	(1,934)	-	(1,934)	-
Net cash generated from/(used in) operating activities	54,101	(677,554)	48,752	(678,772)

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Cash flows from investing activities				
Dividend received from investment	-	381	-	1,652
Purchase of bonds	(352,775)	(487,758)	(352,775)	(487,758)
Purchase of islamic commercial paper	(19,160)	-	(19,160)	-
Purchase of property, plant and equipment	(20,810)	(15,870)	(20,756)	(15,846)
Purchase of investment properties	-	(2,824)	-	(2,824)
Purchase of intangible assets	(161)	(435)	(9)	(435)
Purchase of additional ordinary shares in existing subsidiaries	-	(500)	-	(500)
Proceeds from redemption of bond	280,438	264,081	280,438	264,081
Proceeds from disposal property, plant and equipment	-	132	-	132
Proceeds from disposal of associate investments	-	750	-	750
Proceeds from disposal of quoted investments	-	516	-	516
Net cash used in investing activities	(112,468)	(241,527)	(112,262)	(240,232)
Cash flows from financing activities				
Dividends paid on ordinary shares	(3,780)	(6,750)	(3,780)	(6,750)
Drawdown of term loans	70,000	23,507	70,000	23,507
Repayment of term loans	(41,119)	(236,485)	(41,119)	(236,485)
Transfer of government grant	-	(5,000)	-	(5,000)
Proceeds from sukuk issuance	-	1,000,000	-	1,000,000
Net cash generated from financing activities	25,101	775,272	25,101	775,272
Net decrease in cash and cash equivalents	(33,266)	(143,809)	(38,409)	(143,732)
Cash and cash equivalents at beginning of year	1,289,069	1,432,878	1,287,765	1,431,497
Cash and cash equivalents at end of year	1,255,803	1,289,069	1,249,356	1,287,765
Cash and cash equivalents comprise:				
- Cash and short term funds (Note 4)	1,255,803	1,289,069	1,249,356	1,287,765

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

1. CORPORATE INFORMATION

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

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

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

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

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

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

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 24 June 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance and basis of preparation

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

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

The financial statements of the Group and the Bank have been prepared under the historical cost convention unless otherwise indicated in the summary of significant accounting policies disclosed in Note 2. The Group and the Bank present the statement of financial position in order of liquidity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:-

On 1 January 2015, the Group and the Bank adopted the following new and amended MFRSs and Issue Committee ("IC Interpretations") mandatory for annual financial periods beginning on or after 1 January 2015.

Description	Effective for annual period beginning on or after
Amendments to MFRS 119 <i>Defined Benefit Plans</i> :	
Employee Contributions (Amendments to MFRS 119)	1 July 2014
Annual Improvements 2010-2012 Cycle	1 July 2014
Annual Improvements 2011-2013 Cycle	1 July 2014

2.3 Standards and annual improvements to standards issued but not yet effective

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

Effective for annual period beginning on or after 1 January 2016

Annual improvements to MFRS 2012 - 2014 Cycle

MFRS 116	Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to MFRS 116)
MFRS 138	Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to MFRS 138)
MFRS 116	Property, Plant and Equipment - Agriculture: Bearer Plants (Amendments to MFRS 116)
MFRS 141	Agriculture - Agriculture: Bearer Plants (Amendments to MFRS 141)
MFRS 11	Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations (Amendments to MFRS 11)

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Standards and annual improvements to standards issued but not yet effective (cont'd.)

Effective for annual period beginning on or after 1 January 2016 (cont'd.)

MFRS 127	Separate Financial Statements – Equity Method in Separate Financial Statements
MFRS 101	Presentation of Financial Statements Disclosure Initiative (Amendments to MFRS 101)
MFRS 10	Consolidated Financial Statements – Investment Entities: Applying the Consolidation Exception (Amendments to MFRS 10)
MFRS 12	Disclosure of Interests in Other Entities – Investment Entities: Applying the Consolidation Exception (Amendments to MFRS 12)
MFRS 128	Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception (Amendments to MFRS 128)
MFRS 14	Regulatory Deferral Accounts

Effective for annual period beginning on or after 1 January 2018

MFRS 15	Revenue from Contracts with Customers
---------	---------------------------------------

Effective for annual period beginning on or after 1 January 2018

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

Effective date deferred

The adoption of the above standards are not expected to have a material impact on the financial statements of the Group and of the Bank, except for the following standards:

MFRS 10	Consolidated Financial Statements – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to MFRS 10)
MFRS 128	Investment in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to MFRS 128)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Standards and annual improvements to standards issued but not yet effective (cont'd.)

MFRS 9 Financial Instruments

In November 2014, MASB issued the final revision of MFRS 9 Financial Instruments which reflects all phase of the financial instruments project and replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not compulsory.

The areas with expected significant impact from application of MFRS 9 are summarised below:-

(i) Classification and measurement

The classification and measurement of financial assets is determined on the basis of the contractual cash flow characteristics and the objective of the business model associated with holding the assets. Key changes include:

- The held-to-maturity ("HTM") and available-for-sale ("AFS") asset categories will be removed;
- A new asset category measured at fair value through other comprehensive income ("FVOCI") is introduced. This applies to debt instruments with contractual cash flow characteristics that are solely payments of principal and interest and held in a model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- A new asset category for non-traded equity investments measured at FVOCI is introduced.
- Classification of financial liabilities will remain largely unchanged, other than the fair value gains and losses attributable to changes in 'own credit risk' for financial liabilities designated and measured at fair value through profit or loss to be presented in other comprehensive income.

The adoption of MFRS 9 will have an effect on the classification and measurement of the Group's and of the Bank's financial assets, and may have no impact on the classification and measurement of the Group's and of the Bank's financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Standards and annual improvements to standards issued but not yet effective (cont'd.)

MFRS 9 Financial Instruments (cont'd.)

(ii) Impairment

The MFRS 9 impairment requirements are based on an expected credit loss model ("ECL") that replaces the incurred loss model under the current accounting standard. The Group and the Bank will be generally required to recognise either a 12-month or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. The ECL model will apply to financial assets measured at amortised cost or at FVOCI, irrevocable loan commitments and financial guarantee contracts, which will include loans, advances and financing and debt instruments held by the Group and the Bank. MFRS 9 will change the Group's and the Bank's current methodology for calculating allowances for impairment.

(iii) Hedge accounting

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

2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at the reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Bank. Consistent accounting policies are applied to like transactions and events in similar circumstances.

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

Acquisitions of subsidiaries are accounted for by applying the purchase method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Adjustments to those fair value relating to previously held interest are treated as a revaluation and recognised in other comprehensive income. The cost of a business combination is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the business combination. Any excess of the cost of business combination of the Group's share in the fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill on the statements of financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Basis of consolidation (cont'd.)

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

2.5 Subsidiaries

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.5 Subsidiaries (cont'd.)

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

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

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

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

2.6 Associates

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.6 Associates (cont'd.)

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

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

2.7 Property, plant and equipment and depreciation

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

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognised in profit or loss as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

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

Freehold land has an unlimited useful life and therefore is not depreciated.

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

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

The residual values, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

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

2.8 Intangible assets

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.8 Intangible assets (cont'd.)

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

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

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

2.9 Derivative financial instruments

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.10 Impairment of non-financial assets

The Group assesses at each reporting date whether there is indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGU")).

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case reversal is treated as revaluation increase. Impairment loss on goodwill is not reversed in a subsequent period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.11 Financial assets

Financial assets are recognised in the statements of financial position when, and only when, the Group and the Bank become a party to the contractual provision of the financial instrument.

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

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

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

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Group and the Bank commit to purchase or sell the asset.

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

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or designated as such upon initial recognition. Financial assets held-for-trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at FVTPL are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or net losses on financial assets at FVTPL do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at FVTPL are recognised separately in profit or loss as part of other losses or other income.

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.11 Financial assets (cont'd.)

(b) Loan and receivables

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

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

(c) Held-to-maturity investment

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

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

(d) Available-for-sale financial assets

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.12 Impairment of financial assets

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

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

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

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

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

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

(b) Unquoted equity securities carried at cost

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on unquoted equity securities carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.12 Impairment of financial assets (cont'd.)

(c) Available-for-sale financial assets

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

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

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

2.13 Cash and cash equivalents

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

2.14 Provisions

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

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.15 Government funds

Government funds are meant for the following purposes:

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

2.16 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of MFRS 139, are recognised in the statements of financial position when, and only when, the Group and the Bank become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.16 Financial liabilities (cont'd.)

(b) Other financial liabilities

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

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

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

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

2.17 Borrowing costs

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

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

2.18 Repurchase agreements

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.19 Employee benefits

(i) Short term benefits

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

(ii) Defined contribution plans

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

2.20 Fair value measurement

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.20 Fair value measurement (cont'd.)

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

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

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

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

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

2.21 Revenue

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.21 Revenue (cont'd.)

(c) Dividend income

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

(d) Fee income

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

(e) Rental income

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

2.22 Income taxes

(a) Current tax

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

(b) Deferred tax

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.22 Income taxes (cont'd.)

(b) Deferred tax (cont'd.)

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.23 Zakat

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

2.24 Foreign currency

(a) Functional and presentation currency

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

(b) Foreign currency transactions

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

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

2.25 Share capital

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Bank after deducting all of its liabilities. Ordinary share is an equity instrument.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.26 Contingencies

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

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

2.27 Investment properties

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

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

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

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

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

3.1 Judgement made in applying accounting policies

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

(a) Going concern

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

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

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

The impairment review comprises the following judgement made by management:

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONT'D.)

3.1 Judgement made in applying accounting policies (cont'd.)

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

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

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

(d) Impairment of investments in subsidiaries and associates

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONT'D.)

3.2 Key sources of estimation uncertainty

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

(a) Income and deferred taxes

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

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

The fair value of securities that are not traded in an active market are determined using valuation techniques based on assumptions of market conditions existing at the reporting date, including reference to quoted market prices and independent dealer quotes for similar securities.

(c) Impairment of investments in subsidiaries and associates

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONT'D.)

3.2 Key sources of estimation uncertainty (cont'd.)

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

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

4. CASH AND SHORT TERM FUNDS

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Cash at banks and on hand	52,790	33,387	46,343	32,083
Short term deposits and maturing within three months:				
- Licensed banks	882,671	1,098,168	882,671	1,098,168
- Other financial institutions	320,342	157,514	320,342	157,514
	1,255,803	1,289,069	1,249,356	1,287,765

Cash at banks is placed in non-interest bearing accounts. Short-term deposit placements are made between one day to three months depending on the Group's and the Bank's cash requirements, and earn interest at the respective short-term deposit rates. The weighted average effective interest rate and weighted average remaining maturity as at 31 December 2015 for the Group and the Bank was 3.79% per annum and 31 days respectively (2014: 3.80% per annum and 12 days).

5. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank	
	2015 RM'000	2014 RM'000
Licensed banks	112,830	532,706
Other financial institutions	68,122	118,560
	180,952	651,266

Included in deposits and placements with licensed banks are Islamic Callable Range Accrual Structured deposits of RM100 million. In prior year, RM150 million was placed in commodity-linked time deposits.

The maturity structure of deposits and placements are as follows:

	Group and Bank	
	2015 RM'000	2014 RM'000
Three months to six months	97,307	580,054
Six months to one year	83,645	71,212
	180,952	651,266

The weighted average effective interest rate for deposits and placements with banks and other financial institutions is 5.33% (2014: 3.30%) per annum.

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

6. AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

	Note	Group and Bank	
		2015 RM'000	2014 RM'000
At fair value			
<u>Money market instruments:</u>			
Malaysian Government Investment Issues		650,332	690,478
Malaysian Government Securities		197,004	197,370
Commercial papers		20,169	89,234
		867,505	977,082
Private debt securities		1,038,320	824,455
		1,905,825	1,801,537
<u>Quoted Securities</u>			
Shares		3,021	3,021
Less: Allowance for impairment	(i)	(3,021)	(3,021)
Total at fair value		-	-
At cost			
<u>Unquoted securities</u>			
Shares		3,123	3,123
Total at cost		3,123	3,123
Total available-for-sale financial investments		1,908,948	1,804,660
<u>Note (i)</u>			
Movement in allowance for impairment			
At 1 January		3,021	4,100
Reversal of impairment		-	(1,079)
At 31 December		3,021	3,021

6. AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS (CONT'D.)

Included in the available-for-sale financial investments are financial assets sold under repurchase agreements as follows:

	Group and Bank	
	2015 RM'000	2014 RM'000
Malaysian Government Investment Issues	175,437	-
Malaysian Government Securities	28,061	-
Total available-for-sale financial investments (Note 19)	203,498	-

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

	Group and Bank	
	2015 RM'000	2014 RM'000
Within one year	45,156	144,375
More than one year to three years	74,621	49,562
More than three years to five years	381,385	168,628
More than five years	1,404,663	1,438,972
	1,905,825	1,801,537

7. HELD-TO-MATURITY FINANCIAL INVESTMENTS

	Group and Bank	
	2015 RM'000	2014 RM'000
<u>Money market instruments</u>		
Malaysian Government Investment Issues	72,887	60,233
Malaysian Government Securities	50,233	50,355
	123,120	110,588
Private debt securities	508,424	530,835
Total held-to-maturity financial investments	631,544	641,423

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

7. HELD-TO-MATURITY FINANCIAL INVESTMENTS (CONT'D.)

Included in the held-to-maturity financial investments are financial assets sold under repurchase agreements as follows:

	Group and Bank	
	2015 RM'000	2014 RM'000
Malaysian Government Securities	50,802	-
Total held-to-maturity financial investments (Note 19)	50,802	-

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

	Group and Bank	
	2015 RM'000	2014 RM'000
Within one year	20,042	10,010
More than one year to three years	75,330	70,533
More than three years to five years	212,691	225,130
More than five years	323,481	335,750
	631,544	641,423

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

	Group and Bank	
	2015 RM'000	2014 RM'000
Malaysian Government Investment Issues	60,426	60,038
Malaysian Government Securities	50,997	50,399
Private debt securities	514,434	524,118
	625,857	634,555

8. LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Term loans				
- Hire purchase	323,615	316,500	282,353	274,769
- Leasing	272,798	264,014	246,307	236,546
- Other term loans	4,894,172	4,404,788	4,390,813	3,872,945
Revolving credits	455,502	464,902	436,712	445,814
Staff loans	24,586	29,313	24,586	29,313
Gross loans, advances and financing	5,970,673	5,479,517	5,380,771	4,859,387
Less: Allowance for impairment on loans, advances and financing				
- Individual assessment allowance	(199,851)	(168,122)	(135,851)	(95,581)
- Collective assessment allowance	(132,447)	(117,831)	(89,908)	(80,243)
Net loans, advances and financing	5,638,375	5,193,564	5,155,012	4,683,563
Gross impaired loans, advances and financing (Note 8(viii))	1,144,169	988,168	554,267	379,287
Net impaired loans, advances and financing	944,318	820,046	418,416	283,706

Included in loans, advances and financing for the Group and the Bank are gross loans, advances and financing of RM82,952,000 (2014: RM98,090,000) financed by the Government funds. The treatment of the credit losses incurred for these loans, advances and financing are as disclosed in Note 2.15(ii).

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Within one year	783,823	720,170	494,935	451,528
More than one year to three years	630,965	457,287	582,303	408,721
More than three years to five years	843,415	973,298	813,279	927,895
More than five years	3,712,470	3,328,762	3,490,254	3,071,243
	5,970,673	5,479,517	5,380,771	4,859,387

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

8. LOANS, ADVANCES AND FINANCING (CONT'D.)

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Domestic business enterprise	5,946,087	5,450,204	5,356,185	4,830,074
Individual	24,586	29,313	24,586	29,313
	5,970,673	5,479,517	5,380,771	4,859,387

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Import, export, wholesale, retail trade, restaurants and hotels	1,718,618	1,625,035	1,398,559	1,291,050
Manufacturing	1,069,179	1,072,870	914,820	908,854
Community, social and personal services	926,370	832,793	886,494	787,959
Transportation and communication	862,416	839,517	797,802	773,457
Financial, insurance, real estate and business services	601,036	434,267	594,665	427,713
Constructions	682,071	577,921	679,016	574,819
Mining and quarrying	43,367	38,321	43,367	38,321
Electricity, gas and water supply	34,003	18,371	32,751	17,112
Agriculture, forestry and fishing	9,027	11,109	8,711	10,789
Others	24,586	29,313	24,586	29,313
	5,970,673	5,479,517	5,380,771	4,859,387

8. LOANS, ADVANCES AND FINANCING (CONT'D.)

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

Group	Northern Region RM'000	Kuala Lumpur Region RM'000	Selangor Region RM'000	East Coast Region RM'000	Southern Region RM'000	Sabah Region RM'000	Sarawak Region RM'000	Total RM'000
2015								
Import, export, wholesale, retail trade, restaurants and hotels	327,950	348,322	283,794	224,975	238,889	269,659	25,029	1,718,618
Manufacturing	141,646	365,844	112,420	104,570	244,332	38,231	62,136	1,069,179
Community, social and personal services	78,859	317,171	67,101	177,266	195,377	20,551	70,045	926,370
Transportation and communication	161,140	186,385	112,347	124,867	108,726	107,788	61,163	862,416
Financial, insurance, real estate and business services	69,321	323,289	97,185	36,158	18,037	22,501	34,545	601,036
Constructions	84,715	155,084	175,885	50,062	125,647	20,135	70,543	682,071
Mining and quarrying	-	15,912	10,824	12,241	2,753	1,266	371	43,367
Electricity, gas and water supply	672	3,177	15,576	272	13,615	58	633	34,003
Agriculture, forestry and fishing	-	-	-	6,115	91	2,821	-	9,027
Others	-	24,586	-	-	-	-	-	24,586
At 31 December 2015	864,303	1,739,770	875,132	736,526	947,467	483,010	324,465	5,970,673
2014								
Import, export, wholesale, retail trade, restaurants and hotels	362,063	226,396	364,026	246,160	194,920	188,003	43,467	1,625,035
Manufacturing	168,664	67,075	436,003	101,250	193,167	54,187	52,524	1,072,870
Community, social and personal services	128,487	109,030	218,858	151,224	172,229	21,176	31,789	832,793
Transportation and communication	138,467	103,849	204,575	129,329	93,249	104,994	65,054	839,517
Financial, insurance, real estate and business services	81,625	95,657	175,208	21,792	17,809	14,427	27,749	434,267
Constructions	12,617	145,696	148,474	23,928	176,182	11,234	59,790	577,921
Mining and quarrying	-	10,573	9,248	14,082	64	1,795	2,559	38,321
Electricity, gas and water supply	-	2,598	11,757	48	3,785	56	127	18,371
Agriculture, forestry and fishing	-	1,501	-	6,793	-	2,815	-	11,109
Others	-	29,313	-	-	-	-	-	29,313
At 31 December 2014	891,923	791,688	1,568,149	694,606	851,405	398,687	283,059	5,479,517

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

8. LOANS, ADVANCES AND FINANCING (CONT'D.)

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

Bank	Northern Region RM'000	Kuala Lumpur Region RM'000	Selangor Region RM'000	East Coast Region RM'000	Southern Region RM'000	Sabah Region RM'000	Sarawak Region RM'000	Total RM'000
2015								
Import, export, wholesale, retail trade, restaurants and hotels	214,849	329,858	192,197	212,850	171,738	255,676	21,391	1,398,559
Manufacturing	111,673	355,966	90,458	79,160	223,267	15,384	38,912	914,820
Community, social and personal services	68,817	307,406	59,816	175,888	192,543	19,977	62,047	886,494
Transportation and communication	136,013	185,682	109,246	120,812	103,910	81,580	60,559	797,802
Financial, insurance, real estate and business services	68,093	322,601	93,827	35,597	17,670	22,331	34,546	594,665
Constructions	84,173	155,035	174,928	49,964	125,272	20,135	69,509	679,016
Mining and quarrying	-	15,912	10,824	12,241	2,753	1,266	371	43,367
Electricity, gas and water supply	672	3,177	15,576	272	12,363	58	633	32,751
Agriculture, forestry and fishing	-	-	-	5,799	91	2,821	-	8,711
Others	-	24,586	-	-	-	-	-	24,586
At 31 December 2015	684,290	1,700,223	746,872	692,583	849,607	419,228	287,968	5,380,771
2014								
Import, export, wholesale, retail trade, restaurants and hotels	248,537	207,355	271,641	233,465	116,450	173,779	39,823	1,291,050
Manufacturing	136,662	57,197	413,770	75,623	165,427	31,113	29,062	908,854
Community, social and personal services	118,380	97,933	211,146	149,816	169,329	20,502	20,853	787,959
Transportation and communication	112,968	103,119	201,112	125,101	88,304	78,409	64,444	773,457
Financial, insurance, real estate and business services	80,387	94,963	171,781	21,161	17,421	14,251	27,749	427,713
Constructions	12,075	145,647	147,501	23,826	175,808	11,234	58,728	574,819
Mining and quarrying	-	10,573	9,248	14,082	64	1,795	2,559	38,321
Electricity, gas and water supply	-	2,598	11,757	48	2,526	56	127	17,112
Agriculture, forestry and fishing	-	1,501	-	6,472	-	2,816	-	10,789
Others	-	29,313	-	-	-	-	-	29,313
At 31 December 2014	709,009	750,199	1,437,956	649,594	735,329	333,955	243,345	4,859,387

8. LOANS, ADVANCES AND FINANCING (CONT'D.)

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Fixed rate				
- Staff loan/financing	24,586	29,313	24,586	29,313
- Hire purchase receivables	293,350	289,176	252,095	247,452
- Leasing receivables	240,615	255,271	214,124	227,803
- Revolving credits	379,357	457,752	360,623	438,720
- Other term loans/financing	2,489,375	2,485,668	2,079,234	2,054,696
Variable rate				
- Hire purchase receivables	30,265	27,324	30,258	27,317
- Leasing receivables	32,183	8,743	32,183	8,743
- Revolving credits	76,145	7,150	76,089	7,094
- Other term loans/financing	2,404,797	1,919,120	2,311,579	1,818,249
	5,970,673	5,479,517	5,380,771	4,859,387

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Import, export, wholesale, retail trade, restaurants and hotels	518,628	484,435	198,568	151,351
Manufacturing	294,190	256,892	139,831	99,628
Community, social and personal services	129,547	111,950	89,671	69,227
Transportation and communication	122,544	85,143	57,931	20,221
Financial, insurance, real estate and business services	35,427	15,057	29,056	8,850
Constructions	41,533	33,057	38,478	29,954
Electricity, gas and water supply	1,953	1,314	701	56
Agriculture, forestry and fishing	347	320	31	-
	1,144,169	988,168	554,267	379,287

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

8. LOANS, ADVANCES AND FINANCING (CONT'D.)

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

Group	Northern Region RM'000	Kuala Lumpur Region RM'000	Selangor Region RM'000	East Coast Region RM'000	Southern Region RM'000	Sabah Region RM'000	Sarawak Region RM'000	Total RM'000
2015								
Import, export, wholesale, retail trade, restaurants and hotels	128,715	113,360	96,394	15,618	110,126	48,941	5,474	518,628
Manufacturing	50,806	72,776	28,874	30,529	63,819	23,944	23,442	294,190
Community, social and personal services	10,920	60,662	8,918	32,582	3,371	740	12,354	129,547
Transportation and communication	29,506	5,904	9,378	42,752	7,009	27,209	786	122,544
Financial, insurance, real estate and business services	2,034	6,549	3,951	1,334	487	207	20,865	35,427
Constructions	1,902	18,042	6,333	564	13,629	30	1,033	41,533
Electricity, gas and water supply	-	643	-	-	1,252	58	-	1,953
Agriculture, forestry and fishing	-	-	-	316	-	31	-	347
At 31 December 2015	223,883	277,936	153,848	123,695	199,693	101,160	63,954	1,144,169
2014								
Import, export, wholesale, retail trade, restaurants and hotels	126,130	48,966	136,306	66,623	80,097	22,556	3,757	484,435
Manufacturing	41,668	10,030	64,317	30,453	63,317	23,497	23,610	256,892
Community, social and personal services	58,379	11,347	7,968	19,684	2,900	738	10,934	111,950
Transportation and communication	25,446	1,511	17,320	7,790	5,324	26,939	813	85,143
Financial, insurance, real estate and business services	1,897	1,634	8,696	1,260	1,300	241	29	15,057
Constructions	1,651	14,214	4,558	233	11,338	-	1,063	33,057
Electricity, gas and water supply	-	-	-	-	-	1,259	55	1,314
Agriculture, forestry and fishing	-	-	-	320	-	-	-	320
At 31 December 2014	255,171	87,702	239,165	126,363	164,276	75,230	40,261	988,168

8. LOANS, ADVANCES AND FINANCING (CONT'D.)

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

Bank	Northern Region RM'000	Kuala Lumpur Region RM'000	Selangor Region RM'000	East Coast Region RM'000	Southern Region RM'000	Sabah Region RM'000	Sarawak Region RM'000	Total RM'000
2015								
Import, export, wholesale, retail trade, restaurants and hotels	15,615	94,896	4,798	3,493	42,975	34,956	1,835	198,568
Manufacturing	20,833	62,898	6,912	5,118	42,754	1,096	220	139,831
Community, social and personal services	878	50,897	1,634	31,205	538	165	4,354	89,671
Transportation and communication	4,378	5,202	6,277	38,697	2,193	1,001	183	57,931
Financial, insurance, real estate and business services	806	5,861	593	773	120	37	20,866	29,056
Constructions	1,360	17,993	5,375	465	13,255	30	-	38,478
Electricity, gas and water supply	-	643	-	-	-	58	-	701
Agriculture, forestry and fishing	-	-	-	-	-	31	-	31
At 31 December 2015	43,870	238,390	25,589	79,751	101,835	37,374	27,458	554,267
2014								
Import, export, wholesale, retail trade, restaurants and hotels	12,654	29,926	43,946	54,742	1,627	8,342	114	151,351
Manufacturing	16,161	151	42,315	4,827	35,604	424	146	99,628
Community, social and personal services	48,272	250	2,367	18,276	-	62	-	69,227
Transportation and communication	178	781	13,857	3,664	379	1,159	203	20,221
Financial, insurance, real estate and business services	1,006	940	5,269	629	912	64	30	8,850
Constructions	1,108	14,165	3,586	132	10,963	-	-	29,954
Electricity, gas and water supply	-	-	-	-	-	56	-	56
At 31 December 2014	79,379	46,213	111,340	82,270	49,485	10,107	493	379,287

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

8. LOANS, ADVANCES AND FINANCING (CONT'D.)

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
At 1 January	988,168	654,772	379,287	654,772
Impaired during the year	225,840	533,220	214,592	533,220
Reclassified as non-impaired	(27,144)	(106,609)	(27,144)	(106,609)
Amount recovered	(42,695)	(38,063)	(12,468)	(38,063)
Amount written-off	-	(55,152)	-	(55,152)
Transfer to subsidiary company	-	-	-	(608,881)
At 31 December	1,144,169	988,168	554,267	379,287

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

	Group		Bank	
	2015	2014	2015	2014
Net impaired loans as %	16.43%	15.53%	8.02%	5.99%

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Individual assessment allowance				
At 1 January	168,122	63,023	95,581	63,023
Amount written-off	-	(45,150)	-	(45,150)
Transfer from collective allowance	3,071	18,582	3,071	18,582
Allowance made during the year	50,272	153,326	50,242	153,326
Writeback made during the year	(21,614)	(21,659)	(13,043)	(21,659)
Transfer to subsidiary company	-	-	-	(72,541)
At 31 December	199,851	168,122	135,851	95,581

8. LOANS, ADVANCES AND FINANCING (CONT'D.)

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Collective assessment allowance				
At 1 January	117,831	89,887	80,243	89,887
Amount written-off	-	(3,947)	-	(3,947)
Transfer to individual allowance	(3,071)	(18,582)	(3,071)	(18,582)
Allowance made during the year	53,704	104,710	47,762	104,710
Writeback made during the year	(36,017)	(54,237)	(35,026)	(54,237)
Transfer to subsidiary company	-	-	-	(37,588)
At 31 December	132,447	117,831	89,908	80,243

9. OTHER ASSETS

	Note	Group	
		2015 RM'000	2014 RM'000
Fair value of financial guarantee from the Government of Malaysia	(i)	9,468	7,528
Other receivables and prepayments		25,507	15,870
Interest receivables		25,701	22,558
		60,676	45,956
	Note	Bank	
		2015 RM'000	2014 RM'000
Amount due from subsidiaries	(ii)	543,413	517,312
Less: Allowance for impairment	(iii)	(1,943)	(1,943)
		541,470	515,369
Fair value of financial guarantee from the Government of Malaysia	(i)	9,468	7,528
Other receivables and prepayments		21,193	13,291
Interest receivables		25,701	22,558
		597,832	558,746

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

9. OTHER ASSETS (CONT'D.)

- (i) The amount relates to fair value of financial guarantee from the Government of Malaysia on the foreign exchange loss suffered by the Bank on retranslation of Japanese Yen term loans that the Bank received from Japan International Cooperation Agency ("JICA").
- (ii) The amount due from subsidiaries are unsecured, interest free and repayable on demand except for amount owing from SMEB Asset Management Sdn. Bhd. ("SAM") to finance the purchase of a portfolio of impaired loans and financing from the Bank. The Bank extended unsecured Bai' Inah facility at the profit rate of 3.50% per annum. Principal and profit are repayable over a period of 8 years commencing 31 December 2016, after a grace period of 2 years. The facility will mature on 31 December 2023.
- (iii) Movement in allowance for impairment is as follows:

	Bank	
	2015 RM'000	2014 RM'000
At 1 January	(1,943)	(3,248)
Reversal of impairment	-	1,305
At 31 December	(1,943)	(1,943)

10. DERIVATIVE ASSET

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

The table below shows the Group's and the Bank's derivative financial instruments as at the date of statements of financial position. The contractual or underlying principal amounts of these derivative financial instruments and their corresponding gross positive (derivative financial asset) fair values at the date of statements of financial position are analysed below:

	Group and Bank	
	2015 RM'000	2014 RM'000
Derivative asset:		
- Fair value derivative	1,442	-

10. DERIVATIVE ASSET (CONT'D.)

	Contract or underlying principal amount RM'000	Financial Year-end positive fair value RM'000
Group and Bank		
31.12.2015		
Profit rate related contract:		
- Islamic profit rate swaps	400,000	1,442
31.12.2014		
Profit rate related contract:		
- Islamic profit rate swaps	-	-

11. INVESTMENTS IN SUBSIDIARIES

	Bank	
	2015 RM'000	2014 RM'000
Unquoted shares		
At cost		
At 1 January	3,582	500
Addition during the year	-	3,082
At 31 December	3,582	3,582
Accumulated impairment losses		
At 1 January	-	-
Charge for the year	-	-
At 31 December	-	-
Carrying amount		
At 31 December	3,582	3,582

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

11. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

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

Name of companies	Principal activities	Effective ownership interest (%)	
		2015	2014
Held by the Bank:			
SMEB Asset Management Sdn. Bhd.	Asset management	100	100
Centre For Entrepreneur Development And Research Sdn. Bhd.	Training services	100	100
BI Nominees (Tempatan) Sdn. Bhd.	Nominee services	100	100
BI Nelayan Malaysia Berhad	Dormant	100	100
BI Walden Ventures ke Lima Sdn. Bhd.	Dormant	100	100
Guardmont Industries Sdn. Bhd.	Dormant	100	100
Malaysian Technology Investments (L) Bhd.*	Dormant	100	100
Metro Maple Sdn. Bhd.	Dormant	100	100
Metro Prominent Sdn. Bhd.	Dormant	100	100

* Audited by a firm other than Ernst & Young.

12. INVESTMENTS IN ASSOCIATE

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
At cost:				
Unquoted shares in Malaysia	6,826	6,826	6,826	6,826
	6,826	6,826	6,826	6,826
Share of post-acquisition reserves	4,523	4,840	-	-
	11,349	11,666	6,826	6,826
Less: Accumulated impairment losses of unquoted shares	(6,826)	(6,826)	(6,826)	(6,826)
	4,523	4,840	-	-

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

Name of company	Principal activity	Effective percentage of ownership (%)		Accounting model applied
		2015	2014	
Held by the Bank: Capatronics (M) Sdn. Bhd.	Manufacturing of ceramic capacitor	30	30	Equity method

(i) Summarised statements of financial position

	Capatronics (M) Sdn. Bhd.		Total	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Non-current assets	22,996	23,057	22,996	23,057
Current assets	779	1,462	779	1,462
Total assets	23,775	24,519	23,775	24,519
Current liabilities	8,698	8,386	8,698	8,386
Total liabilities	8,698	8,386	8,698	8,386
Net assets as at 31 December	15,077	16,133	15,077	16,133

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

12. INVESTMENTS IN ASSOCIATE (CONT'D.)

(ii) Summarised statements of comprehensive income

	Capatronics (M) Sdn. Bhd.		Total	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Revenue	1,110	1,644	1,110	1,644
Loss before tax	(1,056)	(805)	(1,056)	(805)
Loss for the year	(1,056)	(805)	(1,056)	(805)
Total comprehensive loss for the year	(1,056)	(805)	(1,056)	(805)

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

	Capatronics (M) Sdn. Bhd.		Total	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Net asset at 1 January	16,133	16,938	16,133	16,938
Loss for the year	(1,056)	(805)	(1,056)	(805)
Net assets as at 31 December	15,077	16,133	15,077	16,133
Interest in associate	30%	30%	-	-
Carrying value of Group's interest in associate	4,523	4,840	4,523	4,840

13. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land RM'000	Long term leasehold land RM'000	Building RM'000	Furniture and equipment RM'000	Office partition RM'000	Motor vehicles RM'000	Electrical and machinery RM'000	Work-in progress RM'000	Total RM'000
2015									
Cost									
At 1 January	4,017	34,752	84,976	30,284	17,490	2,748	7,126	9,392	190,785
Additions	-	-	-	1,199	16,329	-	9	3,273	20,810
Written off	-	-	-	(1,006)	-	-	-	-	(1,006)
Reclassification	-	-	-	213	7,484	-	-	(7,728)	(31)
At 31 December	4,017	34,752	84,976	30,690	41,303	2,748	7,135	4,937	210,558
Accumulated depreciation									
At 1 January	-	4,471	11,681	20,984	5,756	2,614	6,366	-	51,872
Charge for the year (Note 29)	-	640	1,826	2,661	3,213	93	304	-	8,737
Written off	-	-	-	(1,005)	-	-	-	-	(1,005)
At 31 December	-	5,111	13,507	22,640	8,969	2,707	6,670	-	59,604
Net carrying amount	4,017	29,641	71,469	8,050	32,334	41	465	4,937	150,954
2014									
Cost									
At 1 January	4,017	34,752	84,976	28,671	31,198	3,681	7,840	32,694	227,829
Additions	-	-	-	14,489	1,124	-	257	-	15,870
Written off	-	-	-	(3,693)	(19,124)	(933)	(971)	(564)	(25,285)
Reclassification	-	-	-	(9,183)	4,292	-	-	(22,738)	(27,629)
At 31 December	4,017	34,752	84,976	30,284	17,490	2,748	7,126	9,392	190,785
Accumulated depreciation									
At 1 January	-	3,831	9,855	22,978	22,916	3,365	7,002	-	69,947
Charge for the year (Note 29)	-	640	1,826	1,538	1,453	182	335	-	5,974
Written off	-	-	-	(3,532)	(18,613)	(933)	(971)	-	(24,049)
At 31 December	-	4,471	11,681	20,984	5,756	2,614	6,366	-	51,872
Net carrying amount	4,017	30,281	73,295	9,300	11,734	134	760	9,392	138,913

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

13. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

Bank	Freehold land RM'000	Long term leasehold land RM'000	Building RM'000	Furniture and equipment RM'000	Office partition RM'000	Motor vehicles RM'000	Electrical and machinery RM'000	Work-in progress RM'000	Total RM'000
2015									
Cost									
At 1 January	4,017	34,752	84,976	30,234	17,490	2,748	7,126	9,392	190,735
Additions	-	-	-	1,145	16,329	-	9	3,273	20,756
Written off	-	-	-	(1,006)	-	-	-	-	(1,006)
Reclassification	-	-	-	213	7,484	-	-	(7,728)	(31)
At 31 December	4,017	34,752	84,976	30,586	41,303	2,748	7,135	4,937	210,454
Accumulated depreciation									
At 1 January	-	4,471	11,681	20,973	5,756	2,614	6,366	-	51,861
Charge for the year (Note 29)	-	640	1,826	2,643	3,213	93	304	-	8,719
Written off	-	-	-	(1,005)	-	-	-	-	(1,005)
At 31 December	-	5,111	13,507	22,611	8,969	2,707	6,670	-	59,575
Net carrying amount	4,017	29,641	71,469	7,975	32,334	41	465	4,937	150,879
2014									
Cost									
At 1 January	4,017	34,752	84,976	28,645	31,198	3,681	7,840	32,694	227,803
Additions	-	-	-	14,465	1,124	-	257	-	15,846
Written off	-	-	-	(3,693)	(19,124)	(933)	(971)	(564)	(25,285)
Reclassification	-	-	-	(9,183)	4,292	-	-	(22,738)	(27,629)
At 31 December	4,017	34,752	84,976	30,234	17,490	2,748	7,126	9,392	190,735
Accumulated depreciation									
At 1 January	-	3,831	9,855	22,977	22,916	3,365	7,002	-	69,946
Charge for the year (Note 29)	-	640	1,826	1,528	1,453	182	335	-	5,964
Written off	-	-	-	(3,532)	(18,613)	(933)	(971)	-	(24,049)
At 31 December	-	4,471	11,681	20,973	5,756	2,614	6,366	-	51,861
Net carrying amount	4,017	30,281	73,295	9,261	11,734	134	760	9,392	138,874

14. INVESTMENT PROPERTIES

	Group and Bank	
	2015 RM'000	2014 RM'000
At cost		
At 1 January	212,974	199,352
Transfer from property, plant and equipment	-	10,798
Addition for the year	-	2,824
At 31 December	212,974	212,974
Accumulated depreciation		
At 1 January	52,482	48,527
Charge for the year (Note 29)	4,159	3,955
At 31 December	56,641	52,482
Carrying amount		
At 31 December	156,333	160,492
Estimated fair value		
At 31 December	248,221	248,221

The carrying amount of the investment properties is represented by:

	Group and Bank	
	2015 RM'000	2014 RM'000
Building	139,666	143,491
Land	16,667	17,001
	156,333	160,492

The investment properties comprise of land and building. The valuation of the properties were conducted in 2013 by Messrs IM Global Property Consultants Sdn. Bhd., a registered and licensed property consultant. Fair value amount is determined using the comparison method.

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

14. INVESTMENT PROPERTIES (CONT'D.)

Based on this method, sales and listings of comparable properties recorded in the areas are compiled. From the compiled data, adjustments are made between the subject property and those similar properties. The adjustments are made in relation to location, size, shape of the lot, physical features, legal and legislative constraints, building design and condition, time element, planning provision, improvements and renovation works made if any, surrounding developments, facilities and amenities available and other factors that may affect the value of the subject property.

The Bank is of the view that there is no significant change in the fair value of the investment properties as there is no factor identified by the Bank which is likely to affect the value of the investment properties.

The investment properties are at its highest and current best use.

As at 31 December 2015, the Group and the Bank held the following investment properties:

	Group and Bank			
	At cost RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
31 December 2015				
Building	191,413	-	-	230,330
Land	21,561	-	-	17,891
	212,974	-	-	248,221
31 December 2014				
Building	191,413	-	-	230,330
Land	21,561	-	-	17,891
	212,974	-	-	248,221

15. INTANGIBLE ASSETS

	Group Software RM'000
At cost	
At 1 January 2014	17,813
Additions	435
Transfer from property, plant and equipment (Note 13)	16,831
At 31 December 2014	35,079
Additions	161
At 31 December 2015	35,240
Accumulated amortisation	
At 1 January 2014	11,876
Charge for the year (Note 29)	5,362
At 31 December 2014	17,238
Charge for the year (Note 29)	6,085
At 31 December 2015	23,323
Carrying amount	
At 31 December 2015	11,917
At 31 December 2014	17,841

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

15. INTANGIBLE ASSETS (CONT'D.)

	Bank Software RM'000
At cost	
At 1 January 2014	17,313
Additions	435
Transfer from property, plant and equipment (Note 13)	16,831
At 31 December 2014	34,579
Additions	9
At 31 December 2015	34,588
Accumulated amortisation	
At 1 January 2014	11,876
Charge for the year (Note 29)	5,306
At 31 December 2014	17,182
Charge for the year (Note 29)	5,919
At 31 December 2015	23,101
Carrying amount	
At 31 December 2015	11,487
At 31 December 2014	17,397

16. DEFERRED TAX

	Group and Bank	
	31.12.2015 RM'000	31.12.2014 RM'000
At 1 January	174,339	185,313
Recognised in profit or loss	(14,245)	(8,122)
Recognised in equity	(615)	(2,852)
At 31 December	159,479	174,339
Presented before appropriate offsetting as follows:		
Deferred tax assets	168,355	189,880
Deferred tax liabilities	(8,876)	(15,541)
	159,479	174,339

16. DEFERRED TAX (CONT'D.)

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

Deferred tax assets of the Group and Bank:

Group and Bank	Collective impairment allowance RM'000	Unabsorbed business losses and capital allowance RM'000	Provision RM'000	MTM revaluation on bonds RM'000	Total RM'000
At 1 January 2015	-	167,609	5,030	17,241	189,880
Recognised in profit or loss	-	(19,791)	(1,119)	-	(20,910)
Recognised in equity	-	-	-	(615)	(615)
At 31 December 2015	-	147,818	3,911	16,626	168,355
At 1 January 2014	22,472	147,040	5,341	20,317	195,170
Recognised in profit or loss	(22,472)	20,569	(311)	-	(2,214)
Recognised in equity	-	-	-	(3,076)	(3,076)
At 31 December 2015	-	167,609	5,030	17,241	189,880

Deferred tax liabilities of the Group and Bank:

	MTM revaluation on bonds RM'000	Property plant and equipment RM'000	Total RM'000
At 1 January 2015	-	(15,541)	(15,541)
Recognised in profit or loss	-	6,665	6,665
At 31 December 2015	-	(8,876)	(8,876)
At 1 January 2014	(224)	(9,633)	(9,857)
Recognised in profit or loss	-	(5,908)	(5,908)
Recognised in equity	224	-	224
At 31 December 2014	-	(15,541)	(15,541)

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

17. DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Term deposit:				
- Commodity murabahah	3,024,907	3,483,781	3,049,913	3,483,781

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Government and statutory bodies	2,104,919	3,046,450	2,104,919	3,046,450
Business enterprise	848,373	336,846	873,379	336,846
Others	71,615	100,485	71,615	100,485
	3,024,907	3,483,781	3,049,913	3,483,781

(ii) The deposits maturity structure are as follows:

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Less than three months	2,600,875	2,300,622	2,600,875	2,300,622
Three months to six months	210,193	956,561	210,193	956,561
Six months to one year	213,839	226,598	238,845	226,598
	3,024,907	3,483,781	3,049,913	3,483,781

18. DEPOSITS FROM OTHER FINANCIAL INSTITUTIONS

	Group and Bank	
	2015 RM'000	2014 RM'000
Licensed banks	345,396	336,201

18. DEPOSITS FROM OTHER FINANCIAL INSTITUTIONS (CONT'D.)

(i) The deposit maturity structure is as follows:

	Group and Bank	
	2015 RM'000	2014 RM'000
Less than three months	345,396	336,201

19. OBLIGATIONS ON SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

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

The carrying value of financial assets sold under repurchase agreement are as follows:

	Group and Bank	
	2015 RM'000	2014 RM'000
Financial investments available for sale (Note 6)	203,498	-
Financial investments held-to-maturity (Note 7)	50,802	-
	254,300	-

20. MEDIUM TERM NOTE

	Group and Bank	
	2015 RM'000	2014 RM'000
Islamic medium term note ("IMTN")	1,519,789	1,520,160

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

20. MEDIUM TERM NOTE (CONT'D.)

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

	Issuance Date
RM250,000,000 3.60% maturing at 13 August 2019	13 August 2012
RM250,000,000 3.69% maturing at 12 August 2022	13 August 2012
RM600,000,000 3.70% maturing at 30 March 2017	20 March 2014
RM400,000,000 4.06% maturing at 20 March 2019	20 March 2014

(i) The maturity structure of medium term note is as follows:

	Group and Bank	
	2015 RM'000	2014 RM'000
Within 1 year	19,789	20,160
More than one year to three years	600,000	600,000
More than three years to five years	650,000	650,000
More than 5 years	250,000	250,000
	1,519,789	1,520,160

21. TERM LOANS

	Group and Bank	
	2015 RM'000	2014 RM'000
Unsecured term loans	2,775,523	2,731,781

The maturity structure of the term loans is as follows:

	Group and Bank	
	2015 RM'000	2014 RM'000
Within one year	289,317	295,636
More than five years	2,486,206	2,436,145
	2,775,523	2,731,781

21. TERM LOANS (CONT'D.)

The unsecured term loans denominated in RM are sourced from the following:

	Note	Group and Bank	
		2015 RM'000	2014 RM'000
Government of Malaysia	(i)	1,703,954	1,632,962
Other institutions	(ii)	1,071,569	1,098,819
		2,775,523	2,731,781

(i) Loans from Government of Malaysia

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

	Group and Bank	
	2015 RM'000	2014 RM'000
Maturity structure:		
Within one year	206,341	221,491
More than five years	1,497,613	1,411,471
	1,703,954	1,632,962

The interest rates on the loans from the Government of Malaysia range from 0% to 4% (2014: 0% to 4%) per annum during the year.

(ii) Loans from other institutions

	Group and Bank	
	2015 RM'000	2014 RM'000
Bank Negara Malaysia	208,336	248,262
Employee Provident Fund	834,186	813,611
Japan International Cooperation Agency	29,047	36,946
	1,071,569	1,098,819

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

21. TERM LOANS (CONT'D.)

(ii) Loans from other institutions (cont'd.)

The loans from other institutions are repayable as follows:

	Group and Bank	
	2015 RM'000	2014 RM'000
Maturity structure:		
Within one year	82,976	74,145
More than five years	988,593	1,024,674
	1,071,569	1,098,819

The interest rates on the loans from other institutions range from 1.50% to 5.23% (2014: 1.50% to 5.23%) per annum.

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

- (i) Initial loan of ¥9,320,000,000 (approximately RM331,568,320) principal repayable over a period of 18 years commencing 20 May 2002, after a grace period of 7 years. The loan will mature on 20 May 2017.
- (ii) Loans received for Small and Medium Industry Promotion Program ("SMIPP") which is repayable in semi-annual instalments of Ringgit Malaysia equivalent of ¥125,945,000 each commencing from May 1999 respectively.

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

The interest rates on long term loans from JICA range from 3.0% to 3.5% (2014: 3.0% to 3.5%) per annum.

22. OTHER LIABILITIES

	2015 RM'000	2014 RM'000
Group		
Other payables and accruals (Note a)	485,043	346,310
Islamic margin account (Note b)	124,850	178,710
Guarantee payable	77,331	-
Other provisions	25,712	22,738
Rental and security deposits	5,521	5,285
Profit equalisation reserve		
- depositors	-	69
Charity fund	761	-
Provision for taxation	616	-
Provision for zakat	2,395	2,320
	722,229	555,432
Bank		
Other payables and accruals (Note a)	479,345	342,240
Amount due to subsidiaries	36,954	8,118
Islamic margin account (Note b)	124,850	178,710
Guarantee payable	77,331	-
Other provisions	25,712	22,738
Rental and security deposits	5,521	5,285
Profit equalisation reserve		
- depositors	-	69
Charity fund	761	-
Provision for zakat	2,395	2,320
	752,869	559,480

Note a

Included in other payables and accruals are undisbursed funds amounting to RM80.25 million (2014: RM96.73 million) provided by Small and Medium Enterprise Corporation Malaysia ("SME Corp"). Under the arrangement with SME Corp, the Bank acts as an agent to administer the said funds to be channeled as financial assistance to companies within the small and medium sized industry.

Note b

Islamic margin account refers to the cash collateral pledged by the Islamic banking customers of the Bank. The amount will be repaid to the customers at the end of the financing tenure or will be offset with any overdue amount. The Bank will pay profit rate at overnight profit rate minus 0.25% to the customers.

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

23. GOVERNMENT FUNDS

	Note	Group and Bank	
		2015 RM'000	2014 RM'000
To finance:			
Purchase of investment properties	(a)	129,543	133,093
Loans, advances and financing	(b)	155,298	155,049
		284,841	288,142

(a) To finance the purchase of investment properties:

Group and Bank	Kompleks Kilang Bimbingan			Total RM'000
	Nursery Factory Scheme (RMK7) RM'000	Nursery Factory Scheme (RMK8) RM'000	Nursery Factory Scheme (RMK9) RM'000	
2015				
At 1 January	66,779	30,803	35,511	133,093
Utilised to offset depreciation charge for the year	(236)	(2,912)	(402)	(3,550)
At 31 December	66,543	27,891	35,109	129,543
2014				
At 1 January	100,504	228	35,957	136,689
Utilised to offset depreciation charge for the year	(236)	(2,914)	(446)	(3,596)
Utilised to offset expenses	(33,489)	33,489	-	-
At 31 December	66,779	30,803	35,511	133,093

23. GOVERNMENT FUNDS (CONT'D.)

(b) To finance loans, advances and financing:

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

23. GOVERNMENT FUNDS (CONT'D.)

(b) To finance loans, advances and financing: (cont'd.)

Group and Bank	Soft Loan Scheme RM'000	Tabung Usahawan Pahang RM'000	Tabung Inkubator Pertanian Kelantan RM'000	Tabung Usahawan Siswazah RM'000	Dana Usahawan Negeri Terengganu RM'000	Program dan Skim Usahawan Batik RM'000	Balance c/f RM'000
At 1 January 2014	36,637	288	2,669	23,403	7,785	4,099	74,881
Refund to the Government	-	-	-	-	-	-	-
Write-off	-	-	-	(3,119)	(776)	-	(3,895)
Recoveries from loans written-off	79	-	-	1,015	22	22	1,138
Muqasah	-	-	-	-	(1,745)	-	(1,745)
At 31 December 2014	36,716	288	2,669	21,299	5,286	4,121	70,379

	Balance c/f RM'000	Basis Capital Scheme (SMA) RM'000	Skim Pembangunan Ekonomi Desa-Islamic RM'000	Skim Perusahaan Kapal Tradisional RM'000	Program dan Skim Usahawan Kraf RM'000	Total RM'000
At 1 January 2014	74,881	31,599	56,107	3,000	4,711	170,298
Refund to the Government	-	-	(5,000)	-	-	(5,000)
Write-off	(3,895)	(2,895)	(3,950)	-	-	(10,740)
Recoveries from loans written-off	1,138	345	878	-	29	2,390
Muqasah	(1,745)	-	(154)	-	-	(1,899)
At 31 December 2014	70,379	29,049	47,881	3,000	4,740	155,049

23. GOVERNMENT FUNDS (CONT'D.)

Summary of the government funds are as follows:

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

23. GOVERNMENT FUNDS (CONT'D.)

Summary of the performance of the government funds

31 December 2015

Types of funds	Outstanding loan/ financing	No. of borrower assisted
(a) Soft Loan Scheme	-	-
(b) Tabung Usahawan Pahang	-	-
(c) Tabung Inkubator Pertanian Kelantan	-	-
(d) Tabung Usahawan Siswazah	23,279	234
(e) Dana Usahawan Negeri Terengganu & Skim Perusahaan Kapal Tradisional	7,979	76
(f) Program dan Skim Usahawan Batik	36	1
(g) Basic Capital Scheme	25,099	47
(h) Skim Pembangunan Ekonomi Desa - Islamic	26,472	494
(i) Program dan Skim Usahawan Kraf	87	1
(j) Kompleks Kilang Bimbingan	156,333	-

23. GOVERNMENT FUNDS (CONT'D.)

Summary of the performance of the government funds (cont'd.)

31 December 2014

Types of funds	Outstanding loan/ financing	No. of borrower assisted
(a) Soft Loan Scheme	-	-
(b) Tabung Usahawan Pahang	-	-
(c) Tabung Inkubator Pertanian Kelantan	-	-
(d) Tabung Usahawan Siswazah	23,185	229
(e) Dana Usahawan Negeri Terengganu & Skim Perusahaan Kapal Tradisional	6,564	61
(f) Program dan Skim Usahawan Batik	88	1
(g) Basic Capital Scheme	40,225	57
(h) Skim Pembangunan Ekonomi Desa - Islamic	27,939	510
(i) Program dan Skim Usahawan Kraf	90	2
(j) Kompleks Kilang Bimbingan	160,492	-

24. SHARE CAPITAL

Group and Bank	Number of ordinary shares of RM1 each		Amount	
	2015 Unit '000	2014 Unit '000	2015 RM'000	2014 RM'000
Authorised:				
At 31 December	5,000,000	5,000,000	5,000,000	5,000,000
Issued and fully paid:				
At 31 December	1,350,000	1,350,000	1,350,000	1,350,000

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

25. OTHER RESERVES

Group and Bank	Non-distributable available-for-sale reserve RM'000	Non-distributable profit equalisation reserve RM'000	Distributable general reserve RM'000	Total RM'000
At 1 January 2015	(51,726)	-	10,114	(41,612)
Movement in revaluation reserve of available-for-sale financial investments	(922)	-	-	(922)
At 31 December 2015	(52,648)	-	10,114	(42,534)
At 1 January 2014	(60,281)	403	10,114	(49,764)
Movement in revaluation reserve of available-for-sale financial investments	8,555	-	-	8,555
Movement in profit equalisation reserves	-	(403)	-	(403)
At 31 December 2014	(51,726)	-	10,114	(41,612)

(a) Distributable general reserve

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

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

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

(c) Non-distributable profit equalisation reserve

Non-distributable profit equalisation reserve represents Bank's portion of profit equalisation reserve. Subsequent apportionments from and distributions to retained earnings will be treated as transfers between reserves.

26. INTEREST INCOME

	Group	
	2015 RM'000	2014 RM'000
Interest income from loans, advances and financing	41,279	121,111
Deposits and placements with banks and other financial institutions	1,202	10,983
Available-for-sale financial investments	7,244	9,843
Held-to-maturity financial investments	1,105	1,406
	50,830	143,343

	Bank	
	2015 RM'000	2014 RM'000
Interest income from loans, advances and financing	32,574	121,111
Deposits and placements with banks and other financial institutions	1,202	10,983
Available-for-sale financial investments	7,244	9,843
Held-to-maturity financial investments	1,105	1,406
	42,125	143,343

Included in interest income from loans, advances and financing is interest on impaired loans amounting to RM1,783,952 (2014: RM11,353,116).

27. INTEREST EXPENSE

	Group and Bank	
	2015 RM'000	2014 RM'000
Deposits from customers	-	9,458
Deposits from other financial institutions	4,105	7,647
Securities sold under repurchase agreements	194	-
Term loans	60,823	60,098
	65,122	77,203

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

28. OTHER OPERATING INCOME

	Group	
	2015 RM'000	2014 RM'000
Fee income	2,184	4,500
Income from available-for-sale financial investments:		
- gain on disposal of quoted investments	-	516
- gross dividend income from unquoted investments	-	381
	-	897
Other income:		
Government funds released	3,550	3,543
Government compensation	6,590	9,810
Others	781	939
Gain on disposal of an associate	-	750
	10,921	15,042
Total other operating income	13,105	20,439

	Bank	
	2015 RM'000	2014 RM'000
Fee income	446	635
Income from available-for-sale financial investments:		
- gain on disposal of quoted investments	-	516
- gross dividend income from unquoted investments	-	381
	-	897
Investment in associates:		
- gross dividend income	-	1,271
	-	1,271

28. OTHER OPERATING INCOME (CONT'D.)

	Bank	
	2015 RM'000	2014 RM'000
Other income:		
Government funds released	3,550	3,543
Government compensation	6,590	9,810
Others	663	1,022
	10,803	14,375
Total other operating income	11,249	17,178

29. OTHER OPERATING EXPENSES

	Note	Group	
		2015 RM'000	2014 RM'000
Personnel expenses	(i)	112,912	109,530
Establishment related expenses	(ii)	34,700	31,138
Promotion and marketing expenses	(iii)	3,993	2,623
Administration and general expenses	(iv)	27,517	25,127
		179,122	168,418
(i) Personnel expenses			
Salaries, allowances and bonuses		92,086	89,285
Social security cost		729	623
Contribution to Employee Provident Fund		11,782	11,436
Other staff related expenses		8,315	8,186
		112,912	109,530
(ii) Establishment related expenses			
Depreciation of property, plant and equipment (Note 13)		8,737	5,974
Depreciation of investment properties (Note 14)		4,159	3,955
Amortisation of intangible assets (Note 15)		6,085	5,362
Rental of premises		3,894	3,557
Repairs and maintenance of property, plant and equipment		11,825	12,290
		34,700	31,138

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

29. OTHER OPERATING EXPENSES (CONT'D.)

		Group	
		2015 RM'000	2014 RM'000
(iii) Promotion and marketing expenses			
Advertisement and publicity		3,993	2,623
(iv) Administration and general expenses			
Administrative expenses		10,561	10,535
Auditors' remuneration			
- Statutory audit		400	354
- Regulatory related services		11	11
- Other assurance services		16	185
General expenses		16,529	14,042
		27,517	25,127
		Bank	
	Note	2015 RM'000	2014 RM'000
Personnel expenses	(i)	107,150	106,436
Establishment related expenses	(ii)	34,463	30,829
Promotion and marketing expenses	(iii)	3,850	2,540
Administration and general expenses	(iv)	39,762	25,764
		185,225	165,569
(i) Personnel expenses			
Salaries, allowances and bonuses		87,417	86,717
Social security cost		590	610
Contribution to Employee Provident Fund		11,304	11,119
Other staff related expenses		7,839	7,990
		107,150	106,436
(ii) Establishment related expenses			
Depreciation of property, plant and equipment (Note 13)		8,719	5,964
Depreciation of investment properties (Note 14)		4,159	3,955
Amortisation of intangible assets (Note 15)		5,919	5,306
Rental of premises		3,894	3,557
Repairs and maintenance of property, plant and equipment		11,772	12,047
		34,463	30,829

29. OTHER OPERATING EXPENSES (CONT'D.)

	Bank	
	2015 RM'000	2014 RM'000
(iii) Promotion and marketing expenses		
Advertisement and publicity	3,850	2,540
(iv) Administration and general expenses		
Administrative expenses	10,321	10,240
Auditors' remuneration		
- Statutory audit	355	323
- Regulatory related services	11	11
- Other assurance services	16	185
General expenses	29,059	15,005
	39,762	25,764

30. DIRECTORS' REMUNERATION

The details of remuneration receivable by directors of the Group and Bank during the year are as follows:

	Group and Bank	
	2015 RM'000	2014 RM'000
Directors of the Bank		
Executive director/managing director:		
Salaries, other emoluments and defined contribution plan	1,248	1,206
Total	1,248	1,206
Non-executive directors:		
Fees	866	712
Total directors' remuneration of the Bank	2,114	1,918

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

30. DIRECTORS' REMUNERATION (CONT'D.)

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

	Group and Bank	
	2015 RM'000	2014 RM'000
Number of executive director:		
RM1,000,000 to RM1,500,000	1	1
Number of non-executive directors:		
RM100,001 to RM120,000	2	2
RM1 to RM100,000	8	7*
	10	9

* Includes one former non-executive director of the Bank who retired on 1 May 2014.

31. ALLOWANCE FOR IMPAIRMENT LOSS ON LOANS, ADVANCES AND FINANCING

	Group	
	2015 RM'000	2014 RM'000
Allowance for impaired loans, advances and financing made during the year		
- Individual assessment allowance	50,272	153,326
- Collective assessment allowance	53,704	104,710
	103,976	258,036
Writeback/recoveries of allowance for impaired loans, advances and financing made during the year		
- Individual assessment allowance	(21,614)	(21,659)
- Collective assessment allowance	(36,017)	(54,237)
	(57,631)	(75,896)

31. ALLOWANCE FOR IMPAIRMENT LOSS ON LOANS, ADVANCES AND FINANCING (CONT'D.)

	Group	
	2015 RM'000	2014 RM'000
Loans, advances and financing written-off	-	6,055
Loans, advances and financing waived	-	28
Recoveries from bad loans, advances and financing written-off	(23,760)	(59,950)
Total allowance for impairment loss on loans, advances and financing	22,585	128,273

	Bank	
	2015 RM'000	2014 RM'000
Allowance for impaired loans, advances and financing made during the year		
- Individual assessment allowance	50,242	153,326
- Collective assessment allowance	47,762	104,710
	98,004	258,036
Writeback/recoveries of allowance for impaired loans, advances and financing made during the year		
- Individual assessment allowance	(13,043)	(21,659)
- Collective assessment allowance	(35,026)	(54,237)
	(48,069)	(75,896)

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

31. ALLOWANCE FOR IMPAIRMENT LOSS ON LOANS, ADVANCES AND FINANCING (CONT'D.)

	Bank	
	2015 RM'000	2014 RM'000
Loans, advances and financing written-off	-	6,055
Loans, advances and financing waived	-	28
Recoveries from bad loans, advances and financing written-off	(23,761)	(59,950)
Total allowance for impairment loss on loans, advances and financing	26,174	128,273

32. (WRITEBACK)/ALLOWANCE FOR IMPAIRMENT LOSS ON AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

	Group and Bank	
	2015 RM'000	2014 RM'000
(Writeback)/allowance for impairment loss on:		
- unquoted securities	-	6,000
- quoted securities	(297)	-
	(297)	6,000

33. TAX EXPENSE AND ZAKAT

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Income tax:				
Tax expense for the year	994	98	26	-
Under provision in prior year	25	55	25	55
	1,019	153	51	55
Deferred income tax:				
Origination or reversal of temporary differences	14,492	8,122	14,492	8,122
Over provision in prior year	(247)	-	(247)	-
	14,245	8,122	14,245	8,122
Total tax expense for the year	15,264	8,275	14,296	8,177

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Zakat:				
Zakat for the year	2,000	2,000	2,000	2,000
Under provision of zakat in prior year	-	267	-	267
Total zakat for the year	2,000	2,267	2,000	2,267

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2014: 25%) of the estimated assessable profit for the year.

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

33. TAX EXPENSE AND ZAKAT (CONT'D.)

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Profit before tax and zakat	56,541	28,938	50,125	29,326
Income tax at 25% (2014: 25%)	13,428	7,235	12,531	7,332
Non-deductible expenses	2,048	1,401	2,056	1,406
Non-taxable income	(69)	(616)	(69)	(616)
Effects of share of associates' post-tax loss included in Group's profit before taxation	79	200	-	-
Over provision of deferred tax in prior year	(247)	-	(247)	-
Under provision of income tax in prior year	25	55	25	55
Total tax expense for the year	15,264	8,275	14,296	8,177

Tax savings during the financial year arising from:

	Group and Bank	
	2015 RM'000	2014 RM'000
Utilisation of capital allowances	2,805	8,314
Utilisation of tax lossess brought forward from previous year	13,265	2,101
	16,070	10,415

34. EARNINGS PER SHARE

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

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Profit for the year attributable to owner of the Bank	39,277	18,396	33,829	18,882
Earnings per share attributable to owner of the Bank (sen)				
- Basic	2.91	1.36	2.51	1.40
	Group and Bank			
	2015 RM'000	2014 RM'000		
Number of ordinary shares for basic profit per share computation			1,350,000	1,350,000

35. COMMITMENT AND CONTINGENCIES

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

	Group and Bank	
	2015 RM'000	2014 RM'000
Direct credit substitutes	169,354	197,861
Transaction-related-contingent items	254,256	234,986
Irrevocable commitments to extend credit:		
- maturity exceeding one year	78,878	107,327
- maturity not exceeding one year	536,268	721,908
Profit rate related contract	400,000	-
	1,439,026	1,262,082

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

35. COMMITMENT AND CONTINGENCIES (CONT'D.)

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

	Group and Bank	
	2015 RM'000	2014 RM'000
Approved and contracted for:		
Property, plant and equipment	10,333	27,432
IT system	703	564
KKB construction	440	440
	11,476	28,436
Total commitments and contingencies	1,450,502	1,290,518

36. CAPITAL ADEQUACY

Capital management

Capital policy

The overall objective of capital management is to maintain a strong capital position in order to provide opportunities for business growth and able to provide cushion for any potential losses. In line with this objective, the Bank views capital position as an important key barometer of financial health.

Regulatory capital

In order to support its mandated roles, the Bank must have strong and adequate capital to support its business activities on an on-going basis. In lieu of this, Bank Negara Malaysia has imposed several regulatory capital requirements whereby, the Bank must have an absolute minimum capital of RM300,000,000 and a minimum Risk Weighted Capital Ratio ("RWCR") of 8% at all times. The minimum capital funds refer to paid-up capital and reserves as defined in Section 3 of Development Financial Institution Act 2002.

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

36. CAPITAL ADEQUACY (CONT'D.)

Capital management (cont'd.)

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
<u>Tier I Capital</u>				
Paid-up share capital	1,350,000	1,350,000	1,350,000	1,350,000
Accumulated losses	(52,465)	(87,962)	(62,279)	(92,328)
Other reserves	10,114	10,114	10,114	10,114
Less: Deferred tax	(159,479)	(174,339)	(159,479)	(174,339)
Total Tier I capital	1,148,170	1,097,813	1,138,356	1,093,447
<u>Tier II Capital</u>				
Collective allowance for loans, advances and financing*	69,605	67,523	69,605	67,523
Government funds	284,841	288,142	284,841	288,142
Total Tier II capital	354,446	355,665	354,446	355,665
Total capital	1,502,616	1,453,478	1,492,802	1,449,112
Less: Investment in subsidiaries	-	-	(3,582)	(3,582)
Total capital base	1,502,616	1,453,478	1,489,220	1,445,530

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

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
20%	295,075	390,128	295,075	390,128
50%	50,008	40,539	50,008	40,539
100%	7,107,875	6,661,105	7,157,296	6,660,787
	7,452,958	7,091,772	7,502,379	7,091,454

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

36. CAPITAL ADEQUACY (CONT'D.)

Capital management (cont'd.)

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Before deducting proposed dividends:				
Core capital ratio	15.41%	15.48%	15.17%	15.42%
Risk-weighted capital ratio	20.16%	20.50%	19.85%	20.38%
After deducting proposed dividends:				
Core capital ratio	15.31%	15.43%	15.08%	15.37%
Risk-weighted capital ratio	20.07%	20.44%	19.76%	20.33%

Capital monitoring

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

37. RELATED PARTY TRANSACTIONS

(a) Parent entity

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

(b) Compensation of key management personnel

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Salaries and other emoluments	8,503	10,914	8,503	10,914
Defined contribution plan	1,271	1,589	1,271	1,589
	9,774	12,503	9,774	12,503

37. RELATED PARTY TRANSACTIONS (CONT'D.)

(c) Related party transactions

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Long term loans from Ministry of Finance	1,628,917	1,580,104	1,628,917	1,580,104
Interest payable to Ministry of Finance	59,732	52,859	59,732	52,859
Deposit acceptance from government agencies	2,089,409	3,027,826	2,089,409	3,027,826
Interest payable to government agencies	15,509	18,624	15,509	18,624
Government fund from MITI	232,936	240,261	232,936	240,261
Government fund from MRRD	47,758	47,881	47,758	47,881
Forex exchange payable by government agencies	9,468	7,528	9,468	7,528
	4,083,729	4,975,083	4,083,729	4,975,083

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

For loans, advances and financing to customers, where such market prices are not available, various methodologies have been used to estimate the approximate fair value of such instruments. These methodologies are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, historical loss experience and other factors. Changes in the assumptions could significantly affect these estimates and the resulting fair value estimates. Therefore, for a significant portion of the Group and the Bank's financial instruments, including loans, advances and financing to customers, their respective fair value estimates do not purport to represent, nor should they be construed to represent, the amounts that the Group and the Bank could realise in a sale transaction at the reporting date. The fair value information presented herein should also in no way be construed as representative of the underlying value of the Group and the Bank as a going concern.

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

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

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

	Group		Bank	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
31 December 2015				
Financial assets:				
Financial investments:				
Available-for-sale				
- Unquoted shares, at amortised cost*	3,123	3,123	3,123	3,123
Held-to-maturity, at amortised cost	631,544	625,857	631,544	625,857
Loans, advances and financing	5,638,375	4,942,469	5,155,012	4,497,409
Investment properties	156,333	248,221	156,333	248,221
Financial liabilities:				
Term loans	2,775,523	2,644,413	2,775,523	2,644,413
31 December 2014				
Financial assets:				
Financial investments:				
Available-for-sale				
- Unquoted shares, at amortised cost*	3,123	3,123	3,123	3,123
Held-to-maturity, at amortised cost	641,423	634,555	641,423	634,555
Loans, advances and financing	5,193,564	4,534,820	4,683,563	4,081,041
Investment properties	160,492	248,221	160,492	248,221
Financial liabilities:				
Term loans	2,731,781	2,503,589	2,731,781	2,503,589

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

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

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

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

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

(b) Quoted equity instruments and quoted government bonds

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

(c) Loans, advances and financing

The fair values of variable and fixed rate loans with remaining maturity of less than one year are estimated to approximate their carrying values. For variable and fixed rate loans, advances and financing with maturities of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at prevailing rates at balance sheet date offered for similar loans to new borrowers with similar credit profiles, where applicable. For impaired loans, the fair values are deemed to approximate the carrying values, net of impairment allowance.

(d) Term loans

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

(e) 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 asset or liabilities;

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

(e) Determination of fair value and fair value hierarchy (cont'd.)

Financial investment - Available-for-sale

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

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

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

(ii) Quoted shares

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

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

	Group			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
31 December 2015				
<u>Assets measured at fair value:</u>				
Financial assets:				
Financial investments:				
Available-for-sale				
- Private debt securities	-	1,038,320	-	1,038,320
- Malaysian Government Investment Issues	-	650,332	-	650,332
- Malaysian Government Securities	-	197,004	-	197,004
- Commercial papers	-	20,169	-	20,169
<u>Assets and liabilities for which fair values are disclosed</u>				
Financial assets:				
Loans, advances and financing	-	4,942,469	-	4,942,469
Investment properties	-	-	248,221	248,221
Financial liabilities:				
Term loans	-	2,644,413	-	2,644,413

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

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

	Group			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
31 December 2014				
<u>Assets measured at fair value:</u>				
Financial assets:				
Financial investments:				
Available-for-sale				
- Private debt securities	-	824,455	-	824,455
- Malaysian Government Investment Issues	-	690,478	-	690,478
- Malaysian Government Securities	-	197,370	-	197,370
- Commercial papers	-	89,234	-	89,234
<u>Assets and liabilities for which fair values are disclosed</u>				
Financial assets:				
Loans, advances and financing	-	4,534,820	-	4,534,820
Investment properties	-	-	248,221	248,221
Financial liabilities:				
Term loans	-	2,503,589	-	2,503,589

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

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

	Bank			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
31 December 2015				
<u>Assets measured at fair value:</u>				
Financial assets:				
Financial investments:				
Available-for-sale				
- Private debt securities	-	1,038,320	-	1,038,320
- Malaysian Government Investment Issues	-	650,332	-	650,332
- Malaysian Government Securities	-	197,004	-	197,004
- Commercial papers	-	20,169	-	20,169
<u>Assets and liabilities for which fair values are disclosed</u>				
Financial assets:				
Loans, advances and financing	-	4,497,409	-	4,497,409
Investment properties	-	-	248,221	248,221
Financial liabilities:				
Term loans	-	2,644,413	-	2,644,413

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

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

	Bank			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
31 December 2014				
<u>Assets measured at fair value:</u>				
Financial assets:				
Financial investments:				
Available-for-sale				
- Private debt securities	-	824,455	-	824,455
- Malaysian Government Investment Issues	-	690,478	-	690,478
- Malaysian Government Securities	-	197,370	-	197,370
- Commercial papers	-	89,234	-	89,234
<u>Assets and liabilities for which fair values are disclosed</u>				
Financial assets:				
Loans, advances and financing	-	4,081,041	-	4,081,041
Investment properties	-	-	248,221	248,221
Financial liabilities:				
Term loans	-	2,503,589	-	2,503,589

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Risk management structure

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

(a) Board Risk Management Committee

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

(b) Risk Management and Compliance

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

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

(c) Treasury and Balance Sheet Management and Fund Administration

Treasury and Balance Sheet Management and Fund Administration are responsible for managing the Bank's assets and liabilities and the overall financial structure. Treasury and Balance Sheet Management and Fund Administration are also responsible for the funding and liquidity of the Bank.

(d) Internal Audit

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

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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(e) Risk measurement and reporting systems

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

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

The main areas of financial risks faced by the Group are set out as follows:

(a) Credit risk

Credit risk is the potential loss arising from customers or counterparties failing to meet their financial contractual obligations. Management of credit risk is principally through lending directions and policies, which are instituted based on prevailing business and economic conditions. Credit processes are also structured to ensure adherence of credit policies and to establish impartiality in loan/financing origination, approval, documentation, disbursement and settlement.

The Bank's Credit and Risk Management manages and reviews asset quality, reviews concentration limits, according to various categories such as customer, economic segment and product types and monitors credit portfolio risk. Industry risk is also evaluated and monitored as dynamic changes in the economic environment has a direct impact on the Bank's assets quality.

The internal credit risk rating system has been established to measure the credit worthiness of each customer. The primary objectives are to provide a consistent approach in risk grading of the Bank's borrowers.

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(a) Credit risk (cont'd.)

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

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

(i) Credit exposure

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

	Group	
	2015 RM'000	2014 RM'000
On balance sheet:		
Cash and short term funds	1,255,803	1,289,069
Deposits and placements with banks and other financial institutions	180,952	651,266
Available-for-sale financial investments	1,908,948	1,804,660
Held-to-maturity financial investments	631,544	641,423
Loans, advances and financing	5,638,375	5,193,564
Derivative assets	1,442	–
Interest receivables	25,701	22,558
	9,642,765	9,602,540

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)**(e) Risk measurement and reporting systems (cont'd.)****(a) Credit risk (cont'd.)****(i) Credit exposure (cont'd.)**

	Group	
	2015 RM'000	2014 RM'000
On balance sheet:		
Other assets not subject to credit risk	539,221	533,383
	10,181,986	10,135,923
Off balance sheet:		
Commitments and contingency (Note 35)	1,450,502	1,290,518
	11,632,488	11,426,441

	Bank	
	2015 RM'000	2014 RM'000
On balance sheet:		
Cash and short term funds	1,249,356	1,287,765
Deposits and placements with banks and other financial institutions	180,952	651,266
Available-for-sale financial investments	1,908,948	1,804,660
Held-to-maturity financial investments	631,544	641,423
Loans, advances and financing	5,155,012	4,683,563
Derivative assets	1,442	-
Interest receivables	25,701	22,558
	9,152,955	9,091,235
Other assets not subject to credit risk	1,074,863	1,044,370
	10,227,818	10,135,605
Off balance sheet:		
Commitments and contingency (Note 35)	1,450,502	1,290,518
	11,678,320	11,426,123

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(a) Credit risk (cont'd.)

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

Group	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Total RM'000
31 December 2015			
Risk rating category			
Highest safety*	992,189	14,995	1,007,184
Moderate safety**	3,390,467	176,467	3,566,934
High risk***	90,922	6,956	97,878
Non-rated	117,725	36,783	154,508
	4,591,303	235,201	4,826,504
31 December 2014			
Risk rating category			
Highest safety*	831,447	42,834	874,281
Moderate safety**	2,744,968	250,854	2,995,822
High risk***	61,864	45,881	107,745
Non-rated	467,834	45,667	513,501
	4,106,113	385,236	4,491,349

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(a) Credit risk (cont'd.)

(ii) Gross loans, advances and financing are rated based on internal rating by the Bank: (cont'd.)

Bank	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Total RM'000
31 December 2015			
Risk rating category			
Highest safety*	992,189	14,995	1,007,184
Moderate safety**	3,390,468	176,467	3,566,935
High risk***	90,922	6,956	97,878
Non-rated	117,724	36,783	154,507
	4,591,303	235,201	4,826,504
31 December 2014			
Risk rating category			
Highest safety*	831,447	42,833	874,280
Moderate safety**	2,743,438	248,310	2,991,748
High risk***	55,901	45,749	101,650
Non-rated	466,755	45,667	512,422
	4,097,541	382,559	4,480,100

* Strong capacity to meet financial commitments

** Moderate capacity to meet financial commitments

*** Poor credit quality and high risk of default

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(a) Credit risk (cont'd.)

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

Group	Short-term funds, and placements with financial institutions RM'000	Available- for-sale financial investments RM'000	Held-to- maturity financial investments RM'000	Loans, advances and financing RM'000	Other assets RM'000	Derivative asset RM'000	Total RM'000	Commitments RM'000
31 December 2015								
Government	-	847,336	123,120	-	-	-	970,456	-
Import, export, wholesale and retail trade and restaurant and hotels	-	-	-	1,718,618	-	-	1,718,618	-
Manufacturing	-	-	-	1,069,179	-	-	1,069,179	-
Community, social and personal services	-	-	-	926,370	-	-	926,370	-
Transportation and communication	-	-	-	862,416	-	-	862,416	-
Financial, insurance, real estate and business services	1,436,755	1,061,612	508,424	601,036	25,701	1,442	3,634,970	-
Constructions	-	-	-	682,071	-	-	682,071	-
Mining and quarrying	-	-	-	43,367	-	-	43,367	-
Electricity, gas and water supply	-	-	-	34,003	-	-	34,003	-
Agriculture, forestry and fishing	-	-	-	9,027	-	-	9,027	-
Others	-	-	-	24,586	-	-	24,586	1,450,502
Gross total	1,436,755	1,908,948	631,544	5,970,673	25,701	1,442	9,975,063	1,450,502
Less: Allowances for impairment	-	-	-	(332,298)	-	-	(332,298)	-
	1,436,755	1,908,948	631,544	5,638,375	25,701	1,442	9,642,765	1,450,502
Other assets not subject to credit risk	-	-	-	-	539,221		539,221	-
	1,436,755	1,908,948	631,544	5,638,375	564,922	1,442	10,181,986	1,450,502

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(a) Credit risk (cont'd.)

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

Group	Short-term funds, and placements with financial institutions RM'000	Available- for-sale financial investments RM'000	Held-to- maturity financial investments RM'000	Loans, advances and financing RM'000	Other assets RM'000	Derivative asset RM'000	Total RM'000	Commitments RM'000
31 December 2014								
Government	-	887,848	110,588	-	-	-	998,436	-
Import, export, wholesale and retail trade and restaurant and hotels	-	-	-	1,625,035	-	-	1,625,035	-
Manufacturing	-	-	-	1,072,870	-	-	1,072,870	-
Community, social and personal services	-	-	-	832,793	-	-	832,793	-
Transportation and communication	-	-	-	839,517	-	-	839,517	-
Financial, insurance, real estate and business services	1,940,335	916,812	530,835	434,267	22,558	-	3,844,807	-
Constructions	-	-	-	577,921	-	-	577,921	-
Mining and quarrying	-	-	-	38,321	-	-	38,321	-
Electricity, gas and water supply	-	-	-	18,371	-	-	18,371	-
Agriculture, forestry and fishing	-	-	-	11,109	-	-	11,109	-
Others	-	-	-	29,313	-	-	29,313	1,290,518
Gross total	1,940,335	1,804,660	641,423	5,479,517	22,558	-	9,888,493	1,290,518
Less: Allowances for impairment	-	-	-	(285,953)	-	-	(285,953)	-
	1,940,335	1,804,660	641,423	5,193,564	22,558	-	9,602,540	1,290,518
Other assets not subject to credit risk	-	-	-	-	533,383	-	533,383	-
	1,940,335	1,804,660	641,423	5,193,564	555,941	-	10,135,923	1,290,518

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(a) Credit risk (cont'd.)

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

Bank	Short-term funds, and placements with financial institutions RM'000	Available- for-sale financial investments RM'000	Held-to- maturity financial investments RM'000	Loans, advances and financing RM'000	Other assets RM'000	Derivative asset RM'000	Total RM'000	Commitments RM'000
31 December 2015								
Government	-	847,336	123,120	-	-	-	970,456	-
Import, export, wholesale and retail trade and restaurant and hotels	-	-	-	1,398,559	-	-	1,398,559	-
Manufacturing	-	-	-	914,820	-	-	914,820	-
Community, social and personal services	-	-	-	886,494	-	-	886,494	-
Transportation and communication	-	-	-	797,802	-	-	797,802	-
Financial, insurance, real estate and business services	1,430,308	1,061,612	508,424	594,665	25,701	1,442	3,622,152	-
Constructions	-	-	-	679,016	-	-	679,016	-
Mining and quarrying	-	-	-	43,367	-	-	43,367	-
Electricity, gas and water supply	-	-	-	32,751	-	-	32,751	-
Agriculture, forestry and fishing	-	-	-	8,711	-	-	8,711	-
Others	-	-	-	24,586	-	-	24,586	1,450,502
Gross total	1,430,308	1,908,948	631,544	5,380,771	25,701	1,442	9,378,714	1,450,502
Less: Allowances for impairment	-	-	-	(225,759)	-	-	(225,759)	-
	1,430,308	1,908,948	631,544	5,155,012	25,701	1,442	9,152,955	1,450,502
Other assets not subject to credit risk	-	-	-	-	1,074,863	-	1,074,863	-
	1,430,308	1,908,948	631,544	5,155,012	1,100,564	1,442	10,227,818	1,450,502

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(a) Credit risk (cont'd.)

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

Bank	Short-term funds, and placements with financial institutions RM'000	Available- for-sale financial investments RM'000	Held-to- maturity financial investments RM'000	Loans, advances and financing RM'000	Other assets RM'000	Derivative asset RM'000	Total RM'000	Commitments RM'000
31 December 2014								
Government	-	887,848	110,588	-	-	-	998,436	-
Import, export, wholesale and retail trade and restaurant and hotels	-	-	-	1,291,050	-	-	1,291,050	-
Manufacturing	-	-	-	908,854	-	-	908,854	-
Community, social and personal services	-	-	-	787,959	-	-	787,959	-
Transportation and communication	-	-	-	773,457	-	-	773,457	-
Financial, insurance, real estate and business services	1,939,031	916,812	530,835	427,713	22,558	-	3,836,949	-
Constructions	-	-	-	574,819	-	-	574,819	-
Mining and quarrying	-	-	-	38,321	-	-	38,321	-
Electricity, gas and water supply	-	-	-	17,112	-	-	17,112	-
Agriculture, forestry and fishing	-	-	-	10,789	-	-	10,789	-
Others	-	-	-	29,313	-	-	29,313	1,290,518
Gross total	1,939,031	1,804,660	641,423	4,859,387	22,558	-	9,267,059	1,290,518
Less: Allowances for impairment	-	-	-	(175,824)	-	-	(175,824)	-
	1,939,031	1,804,660	641,423	4,683,563	22,558	-	9,091,235	1,290,518
Other assets not subject to credit risk	-	-	-	-	1,044,370	-	1,044,370	-
	1,939,031	1,804,660	641,423	4,683,563	1,066,928	-	10,135,605	1,290,518

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(a) Credit risk (cont'd.)

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

Group	Past due but not impaired				Past due and impaired RM'000	Total RM'000
	Current RM'000	1 month RM'000	>2 - 3 months RM'000	>3 - 6 months RM'000		
31 December 2015						
Term loans						
- Hire purchase	262,430	1,707	1,992	2,501	54,985	323,615
- Leasing	205,661	3,196	20,195	1,491	42,254	272,797
- Other term loans	3,735,887	20,142	78,433	69,272	990,439	4,894,173
Revolving credits	387,325	-	7,348	4,338	56,491	455,502
Staff loan	-	-	-	24,586	-	24,586
	4,591,303	25,045	107,968	102,188	1,144,169	5,970,673
31 December 2014						
Term loans						
- Hire purchase	239,808	1,599	14,492	16,400	44,201	316,500
- Leasing	222,813	1,199	4,587	7,999	27,416	264,014
- Other term loans	3,245,719	62,319	167,469	57,507	871,774	4,404,788
Revolving credits	397,773	146	17,485	4,721	44,777	464,902
Staff loan	-	-	-	29,313	-	29,313
	4,106,113	65,263	204,033	115,940	988,168	5,479,517

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)**(e) Risk measurement and reporting systems (cont'd.)****(a) Credit risk (cont'd.)**

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

Bank	Past due but not impaired				Past due and impaired RM'000	Total RM'000
	Current RM'000	1 month RM'000	>2 - 3 months RM'000	>3 - 6 months RM'000		
31 December 2015						
Term loans						
- Hire purchase	262,430	1,707	1,992	2,501	13,723	282,353
- Leasing	205,661	3,196	20,195	1,491	15,763	246,306
- Other term loans	3,735,887	20,142	78,433	69,272	487,080	4,390,814
Revolving credits	387,325	-	7,348	4,338	37,701	436,712
Staff loan	-	-	-	24,586	-	24,586
	4,591,303	25,045	107,968	102,188	554,267	5,380,771
31 December 2014						
Term loans						
- Hire purchase	236,323	1,468	14,302	16,374	6,302	274,769
- Leasing	220,306	1,198	3,783	7,999	3,260	236,546
- Other term loans	3,243,136	60,847	167,469	57,458	344,035	3,872,945
Revolving credits	397,776	144	17,483	4,721	25,690	445,814
Staff loan	-	-	-	29,313	-	29,313
	4,097,541	63,657	203,037	115,865	379,287	4,859,387

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(a) Credit risk (cont'd.)

(v) Collateral and credit enhancement

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

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

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

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

Collateral represents the asset pledged by a borrower and/or a third party on behalf of the customer, in whole or in part, to secure a credit exposure and/or potential credit exposure with the Bank.

The Bank will consider accepting the collateral based on its marketability, measurability, stability, transferability, speed in realising the collateral value, enforceability and free from encumbrances. The collateral types and amounts held by the Group and the Bank are as follows:

Group	Gross loans RM'000	Estimated fair value of collateral (%)
31 December 2015		
Import, export, wholesale, retail trade, restaurants and hotels	1,718,618	80.1
Manufacturing	1,069,179	59.4
Community, social and personal services	926,370	71.8
Transportation and communication	862,416	74.8
Financial, insurance, real estate and business services	601,036	58.7
Constructions	682,071	48.8
Mining and quarrying	43,367	42.3
Electricity, gas and water supply	34,003	52.2
Agriculture, forestry and fishing	9,027	86.8
Others	24,586	-
	5,970,673	

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)**(e) Risk measurement and reporting systems (cont'd.)****(a) Credit risk (cont'd.)****(vi) Collateral and credit enhancement for loans, advances and financing (cont'd.)**

Group	Gross loans RM'000	Estimated fair value of collateral (%)
31 December 2014		
Import, export, wholesale, retail trade, restaurants and hotels	1,625,035	82.7
Manufacturing	1,072,870	57.6
Community, social and personal services	832,793	69.6
Transportation and communication	839,517	75.8
Financial, insurance, real estate and business services	434,267	60.5
Constructions	577,921	44.3
Mining and quarrying	38,321	42.0
Electricity, gas and water supply	18,371	70.2
Agriculture, forestry and fishing	11,109	74.0
Others	29,313	-
	5,479,517	

Bank	Gross loans RM'000	Estimated fair value of collateral (%)
31 December 2015		
Import, export, wholesale, retail trade, restaurants and hotels	1,398,559	76.6
Manufacturing	914,820	58.6
Community, social and personal services	886,494	73.0
Transportation and communication	797,802	76.5
Financial, insurance, real estate and business services	594,665	59.0
Constructions	679,016	48.9
Mining and quarrying	43,367	42.3
Electricity, gas and water supply	32,751	54.1
Agriculture, forestry and fishing	8,711	90.0
Others	24,586	-
	5,380,771	

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(a) Credit risk (cont'd.)

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

Bank	Gross loans RM'000	Estimated fair value of collateral (%)
31 December 2014		
Import, export, wholesale, retail trade, restaurants and hotels	1,291,050	78.1
Manufacturing	908,854	55.8
Community, social and personal services	787,959	70.9
Transportation and communication	773,457	76.9
Financial, insurance, real estate and business services	427,713	60.7
Constructions	574,819	44.4
Mining and quarrying	38,321	42.0
Electricity, gas and water supply	17,112	74.3
Agriculture, forestry and fishing	10,789	76.2
Others	29,313	-
	4,859,387	

(vii) Restructured loans/financing

Restructured loans/financing refer to the financial assets that would otherwise be past due or impaired where there is fundamental revision in the principal terms and conditions of the facility. Restructuring shall be considered when the customer's business is still viable and is expected to remain viable after the restructuring. The gross of restructured loans/financing held by the Group and the Bank at the reporting date stood at RM750 million (2014: RM726 million).

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(a) Credit risk (cont'd.)

(viii) Credit quality for treasury credit risk exposures

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

Group and Bank

Financial investments:

	Rating agency	Credit rating	Nominal value 2015 RM'000	Nominal value 2014 RM'000
Corporate bonds	RAM	AAA	130,000	190,000
Corporate bonds	MARC	AAA	105,000	90,000
Corporate bonds	RAM	AA1	50,000	115,000
Corporate bonds	RAM	AA2	125,000	85,000
Corporate bonds	RAM	AA3	245,000	110,000
Corporate bonds	MARC	AA+	5,000	-
Corporate bonds	MARC	AA-	10,000	75,000
Malaysian Government Bonds	N/A	Exempted	1,150,000	260,000
Guarantee Bonds	N/A	Exempted	620,000	1,380,000
Non-rated			130,000	100,000
Total			2,570,000	2,405,000

Deposits and placements with banks and other financial institutions:

	Total principal outstanding 2015 RM'000	Total principal outstanding 2014 RM'000
Rating for counterparty		
AAA	324,840	121,069
AA	366,000	585,720
A	387,000	599,650
Non-rated	296,000	441,740
Total	1,373,840	1,748,179

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(a) Credit risk (cont'd.)

(ix) Impairment assessment

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

The main considerations for the loan impairment assessment include:

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

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

Individually assessed allowances

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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(a) Credit risk (cont'd.)

(ix) Impairment assessment (cont'd.)

Collectively assessed allowances

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

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

(x) Commitment and guarantees

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

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

	Group and Bank	
	2015 RM'000	2014 RM'000
Financial guarantees, Corporate Guarantee Schemes, Letters of Credit and others	169,354	197,861
Performance guarantees	254,526	234,986
Undisbursed commitments	615,146	829,235
Profit rate related contract	400,000	-
	1,439,026	1,262,082

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(b) Market risk

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

(i) Foreign exchange risk

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

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

(ii) Interest/profit rate risk

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

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

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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)**(e) Risk measurement and reporting systems (cont'd.)****(b) Market risk (cont'd.)****(ii) Interest/profit rate risk (cont'd.)**

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

	Group and Bank	
	2015 RM'000	2014 RM'000
Impact on loans		
+ 50 basis points	6,919	4,879
- 50 basis points	(6,919)	(4,879)
Impact on bonds		
+ 50 basis points	6,425	6,012
- 50 basis points	(6,425)	(6,012)

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(b) Market risk (cont'd.)

(ii) Interest/profit rate risk (cont'd.)

Group 31 December 2015	Non-trading book						Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000		
Assets								
Cash and short term funds	52,790	1,203,013	-	-	-	-	1,255,803	3.79
Deposits and placements with bank and other financial institutions	-	-	180,952	-	-	-	180,952	5.33
Available-for-sale financial investments	-	-	45,156	456,006	1,404,663	3,123	1,908,948	4.44
Held-to-maturity financial investments	-	-	20,042	288,021	323,481	-	631,544	4.40
Loans, advances and financing	4,591,303	133,013	102,188	-	-	811,871	5,638,375	5.79
Other assets	-	-	-	-	-	60,676	60,676	
Derivative asset	1,442	-	-	-	-	-	1,442	
Investments in associate	-	-	-	-	-	4,523	4,523	
Property, plant and equipment	-	-	-	-	-	150,954	150,954	
Investment properties	-	-	-	-	-	156,333	156,333	
Intangible assets	-	-	-	-	-	11,917	11,917	
Tax recoverable	-	-	-	-	-	21,040	21,040	
Deferred tax	-	-	-	-	-	159,479	159,479	
	4,645,535	1,336,026	348,338	744,027	1,728,144	1,379,916	10,181,986	

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(b) Market risk (cont'd.)

(ii) Interest/profit rate risk (cont'd.)

Group 31 December 2015 (cont'd.)	Non-trading book						Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000		
Liabilities and shareholder's equity								
Deposits from customers	1,983,101	617,773	424,033	-	-	-	3,024,907	3.91
Deposits from other financial institutions	345,396	-	-	-	-	-	345,396	3.44
Obligations on securities sold under repurchase agreements	254,300	-	-	-	-	-	254,300	3.39
Medium term notes	-	-	19,789	1,250,000	250,000	-	1,519,789	3.76
Term loans	1,657	211,048	76,612	-	2,486,206	-	2,775,523	2.65
Other liabilities	-	-	-	-	-	722,229	722,229	
Government funds	-	-	-	-	-	284,841	284,841	
Total liabilities	2,584,454	828,821	520,434	1,250,000	2,736,206	1,007,070	8,926,985	
Share capital	-	-	-	-	-	1,350,000	1,350,000	
Accumulated losses	-	-	-	-	-	(52,465)	(52,465)	
Other reserves	-	-	-	-	-	(42,534)	(42,534)	
Total equity	-	-	-	-	-	1,255,001	1,255,001	
Total liabilities and shareholder's equity	2,584,454	828,821	520,434	1,250,000	2,736,206	2,262,071	10,181,986	
On-balance sheet interest sensitivity gap	2,061,081	507,205	(172,096)	(505,973)	(1,008,062)	(882,155)		
Off-balance sheet interest sensitivity gap	-	-	-	-	-	1,450,502		
Total interest sensitivity gap	2,061,081	507,205	(172,096)	(505,973)	(1,008,062)	568,347		

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(b) Market risk (cont'd.)

(ii) Interest/profit rate risk (cont'd.)

Group 31 December 2014	Non-trading book						Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000		
Assets								
Cash and short term funds	33,387	1,255,682	-	-	-	-	1,289,069	3.80
Deposits and placements with bank and other financial institutions	-	-	651,266	-	-	-	651,266	3.30
Available-for-sale financial investments	-	-	144,375	218,190	1,438,972	3,123	1,804,660	4.03
Held-to-maturity financial investments	-	-	10,010	295,663	335,750	-	641,423	4.48
Loans, advances and financing	4,106,113	269,296	115,940	-	-	702,215	5,193,564	5.66
Other assets	-	-	-	-	-	45,956	45,956	
Investments in associate	-	-	-	-	-	4,840	4,840	
Property, plant and equipment	-	-	-	-	-	138,913	138,913	
Investment properties	-	-	-	-	-	160,492	160,492	
Intangible assets	-	-	-	-	-	17,841	17,841	
Tax recoverable	-	-	-	-	-	13,560	13,560	
Deferred tax	-	-	-	-	-	174,339	174,339	
	4,139,500	1,524,978	921,591	513,853	1,774,722	1,261,279	10,135,923	

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(b) Market risk (cont'd.)

(ii) Interest/profit rate risk (cont'd.)

Group 31 December 2014 (cont'd.)	Non-trading book						Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000		
Liabilities and shareholder's equity								
Deposits from customers	1,511,970	788,652	1,183,159	-	-	-	3,483,781	3.64
Deposits from other financial institutions	321,141	15,060	-	-	-	-	336,201	3.63
Medium term notes	-	-	20,160	1,250,000	250,000	-	1,520,160	3.76
Term loans	2,474	225,824	67,338	-	2,436,145	-	2,731,781	2.70
Other liabilities	-	-	-	-	-	555,432	555,432	
Government funds	-	-	-	-	-	288,142	288,142	
Total liabilities	1,835,585	1,029,536	1,270,657	1,250,000	2,686,145	843,574	8,915,497	
Share capital	-	-	-	-	-	1,350,000	1,350,000	
Accumulated losses	-	-	-	-	-	(87,962)	(87,962)	
Other reserves	-	-	-	-	-	(41,612)	(41,612)	
Total equity	-	-	-	-	-	1,220,426	1,220,426	
Total liabilities and shareholder's equity	1,835,585	1,029,536	1,270,657	1,250,000	2,686,145	2,064,000	10,135,923	
On-balance sheet interest sensitivity gap	2,303,915	495,442	(349,066)	(736,147)	(911,423)	(802,721)		
Off-balance sheet interest sensitivity gap	-	-	-	-	-	1,290,518		
Total interest sensitivity gap	2,303,915	495,442	(349,066)	(736,147)	(911,423)	487,797		

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(b) Market risk (cont'd.)

(ii) Interest/profit rate risk (cont'd.)

Bank 31 December 2015	Non-trading book						Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000		
Assets								
Cash and short term funds	46,343	1,203,013	-	-	-	-	1,249,356	3.79
Deposits and placements with bank and other financial institutions	-	-	180,952	-	-	-	180,952	5.33
Available-for-sale financial investments	-	-	45,156	456,006	1,404,663	3,123	1,908,948	4.44
Held-to-maturity financial investments	-	-	20,042	288,021	323,481	-	631,544	4.40
Loans, advances and financing	4,591,303	133,013	102,188	-	-	328,508	5,155,012	5.79
Other assets	-	-	-	-	-	597,832	597,832	
Derivative asset	1,442	-	-	-	-	-	1,442	
Investments in subsidiaries	-	-	-	-	-	3,582	3,582	
Investments in associate	-	-	-	-	-	-	-	
Property, plant and equipment	-	-	-	-	-	150,879	150,879	
Investment properties	-	-	-	-	-	156,333	156,333	
Intangible assets	-	-	-	-	-	11,487	11,487	
Tax recoverable	-	-	-	-	-	20,972	20,972	
Deferred tax	-	-	-	-	-	159,479	159,479	
	4,639,088	1,336,026	348,338	744,027	1,728,144	1,432,195	10,227,818	

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(b) Market risk (cont'd.)

(ii) Interest/profit rate risk (cont'd.)

Bank 31 December 2015 (cont'd.)	Non-trading book						Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000		
Liabilities and shareholder's equity								
Deposits from customers	1,983,101	617,773	449,039	-	-	-	3,049,913	3.91
Deposits from other financial institutions	345,396	-	-	-	-	-	345,396	3.44
Obligations on securities sold under repurchase agreements	254,300	-	-	-	-	-	254,300	3.39
Medium term notes	-	-	19,789	1,250,000	250,000	-	1,519,789	3.76
Term loans	1,657	211,048	76,612	-	2,486,206	-	2,775,523	2.65
Other liabilities	-	-	-	-	-	752,869	752,869	
Government funds	-	-	-	-	-	284,841	284,841	
Total liabilities	2,584,454	828,821	545,440	1,250,000	2,736,206	1,037,710	8,982,631	
Share capital	-	-	-	-	-	1,350,000	1,350,000	
Accumulated losses	-	-	-	-	-	(62,279)	(62,279)	
Other reserves	-	-	-	-	-	(42,534)	(42,534)	
Total equity	-	-	-	-	-	1,245,187	1,245,187	
Total liabilities and shareholder's equity	2,584,454	828,821	545,440	1,250,000	2,736,206	2,282,897	10,227,818	
On-balance sheet interest sensitivity gap	2,054,634	507,205	(197,102)	(505,973)	(1,008,062)	(850,702)		
Off-balance sheet interest sensitivity gap	-	-	-	-	-	1,450,502		
Total interest sensitivity gap	2,054,634	507,205	(197,102)	(505,973)	(1,008,062)	599,800		

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(b) Market risk (cont'd.)

(ii) Interest/profit rate risk (cont'd.)

Bank 31 December 2014	Non-trading book						Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000		
Assets								
Cash and short term funds	32,083	1,255,682	-	-	-	-	1,287,765	3.80
Deposits and placements with bank and other financial institutions	-	-	651,266	-	-	-	651,266	3.30
Available-for-sale financial investments	-	-	144,375	218,190	1,438,972	3,123	1,804,660	4.03
Held-to-maturity financial investments	-	-	10,010	295,663	335,750	-	641,423	4.48
Loans, advances and financing	4,097,541	266,694	115,865	-	-	203,463	4,683,563	5.66
Tax recoverable	-	-	-	-	-	13,498	13,498	
Other assets	-	-	-	-	-	558,746	558,746	
Investments in subsidiaries	-	-	-	-	-	3,582	3,582	
Investments in associate	-	-	-	-	-	-	-	
Property, plant and equipment	-	-	-	-	-	138,874	138,874	
Investment properties	-	-	-	-	-	160,492	160,492	
Intangible assets	-	-	-	-	-	17,397	17,397	
Deferred tax	-	-	-	-	-	174,339	174,339	
	4,129,624	1,522,376	921,516	513,853	1,774,722	1,273,514	10,135,605	

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(b) Market risk (cont'd.)

(ii) Interest/profit rate risk (cont'd.)

Bank 31 December 2014 (cont'd.)	Non-trading book						Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000		
Liabilities and shareholder's equity								
Deposits from customers	1,511,970	788,652	1,183,159	-	-	-	3,483,781	3.64
Deposits from other financial institutions	321,141	15,060	-	-	-	-	336,201	3.63
Medium term notes	-	-	20,160	1,250,000	250,000	-	1,520,160	3.76
Term loans	2,474	225,824	67,338	-	2,436,145	-	2,731,781	2.70
Other liabilities	-	-	-	-	-	559,480	559,480	
Government funds	-	-	-	-	-	288,142	288,142	
Total liabilities	1,835,585	1,029,536	1,270,657	1,250,000	2,686,145	847,622	8,919,545	
Share capital	-	-	-	-	-	1,350,000	1,350,000	
Accumulated losses	-	-	-	-	-	(92,328)	(92,328)	
Other reserves	-	-	-	-	-	(41,612)	(41,612)	
Total equity	-	-	-	-	-	1,216,060	1,216,060	
Total liabilities and shareholder's equity	1,835,585	1,029,536	1,270,657	1,250,000	2,686,145	2,063,682	10,135,605	
On-balance sheet interest sensitivity gap	2,294,039	492,840	(349,141)	(736,147)	(911,423)	(790,168)		
Off-balance sheet interest sensitivity gap	-	-	-	-	-	1,290,518		
Total interest sensitivity gap	2,294,039	492,840	(349,141)	(736,147)	(911,423)	500,350		

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(c) Liquidity risk

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

The Bank manages its liquidity requirement on a day-to-day basis to ensure that funds are readily available for its operational needs, withdrawals of deposits and repayments to fund providers. The Bank may raise funds locally through government-to-government arrangements or direct negotiations.

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

Group 31 December 2015	Non-trading book						Total RM'000
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- specific maturity RM'000	
Assets							
Cash and short term funds	52,790	1,203,150	-	-	-	-	1,255,940
Deposits and placements with banks and other financial institutions	-	-	180,952	5,836	-	-	186,788
Available-for-sale financial investments	-	-	45,156	527,341	1,962,692	3,123	2,538,312
Held-to-maturity financial investments	-	-	20,042	288,021	464,165	-	772,228
Loans, advances and financing	4,591,303	133,013	102,188	-	-	811,871	5,638,375
Other assets	-	-	-	-	-	60,676	60,676
Derivative asset	1,442	-	-	-	-	-	1,442
	4,645,535	1,336,163	348,338	821,198	2,426,857	875,670	10,453,761

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)**(e) Risk measurement and reporting systems (cont'd.)****(c) Liquidity risk (cont'd.)**

Group 31 December 2015 (cont'd.)	Non-trading book						Total RM'000
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- specific maturity RM'000	
Liabilities							
Deposits from customers	1,986,761	622,275	434,338	-	-	-	3,043,374
Deposits from other financial institutions	345,578	-	-	-	-	-	345,578
Obligations on securities sold under repurchase agreements	254,820	-	-	-	-	-	254,820
Medium term notes	-	-	19,789	1,422,182	268,425	-	1,710,396
Term loans	1,657	211,048	76,612	82,717	3,045,300	-	3,417,334
Other liabilities	-	-	-	-	-	722,229	722,229
Total undiscounted financial liabilities	2,588,816	833,323	530,739	1,504,899	3,313,725	722,229	9,493,731
Net maturity mismatches	2,056,719	502,840	(182,401)	(683,701)	(886,868)	153,441	960,030

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(c) Liquidity risk (cont'd.)

Group 31 December 2014	Non-trading book						Total RM'000
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- specific maturity RM'000	
Assets							
Cash and short term funds	33,387	1,256,755	447	-	-	-	1,290,589
Deposits and placements with banks and other financial institutions	-	-	657,185	3,589	-	-	660,774
Available-for-sale financial investments	-	-	144,375	218,190	1,451,903	3,123	1,817,591
Held-to-maturity financial investments	-	-	10,010	295,663	345,377	-	651,050
Loans, advances and financing	4,106,113	269,296	115,940	-	-	702,215	5,193,564
Other assets	-	-	-	-	-	45,956	45,956
	4,139,500	1,526,051	927,957	517,442	1,797,280	751,294	9,659,524
Liabilities							
Deposits from customers	1,511,970	791,631	1,204,641	437	-	-	3,508,679
Deposits from other financial institutions	321,141	15,600	-	-	-	-	336,741
Medium term notes	-	-	20,160	1,404,489	323,825	-	1,748,474
Term loans	3,482	248,611	100,201	-	2,999,397	-	3,351,691
Other liabilities	-	-	-	-	-	555,432	555,432
Total undiscounted financial liabilities	1,836,593	1,055,842	1,325,002	1,404,926	3,323,222	555,432	9,501,017
Net maturity mismatches	2,302,907	470,209	(397,045)	(887,484)	(1,525,942)	195,862	158,507

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)**(e) Risk measurement and reporting systems (cont'd.)****(c) Liquidity risk (cont'd.)**

Bank 31 December 2015	Non-trading book						Total RM'000
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- specific maturity RM'000	
Assets							
Cash and short term funds	46,343	1,203,150	-	-	-	-	1,249,493
Deposits and placements with banks and other financial institutions	-	-	180,952	5,836	-	-	186,788
Available-for-sale financial investments	-	-	45,156	527,341	1,962,692	3,123	2,538,312
Held-to-maturity financial investments	-	-	20,042	288,021	464,165	-	772,228
Loans, advances and financing	4,591,303	133,013	102,188	-	-	328,508	5,155,012
Other assets	-	-	-	-	-	597,832	597,832
Derivative asset	1,442	-	-	-	-	-	1,442
	4,639,088	1,336,163	348,338	821,198	2,426,857	929,463	10,501,107
Liabilities							
Deposits from customers	1,986,761	622,275	459,344	-	-	-	3,068,380
Deposits from other financial institutions	345,578	-	-	-	-	-	345,578
Obligations on securities sold under repurchase agreements	254,820	-	-	-	-	-	254,820
Medium term notes	-	-	19,789	1,422,182	268,425	-	1,710,396
Term loans	1,657	211,048	76,612	82,717	3,045,300	-	3,417,334
Other liabilities	-	-	-	-	-	752,869	752,869
Total undiscounted financial liabilities	2,588,816	833,323	555,745	1,504,899	3,313,725	752,869	9,549,377
Net maturity mismatches	2,050,272	502,840	(207,407)	(683,701)	(886,868)	176,594	951,730

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(c) Liquidity risk (cont'd.)

Bank 31 December 2014	Non-trading book						Total RM'000
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- specific maturity RM'000	
Assets							
Cash and short term funds	32,083	1,256,755	447	-	-	-	1,289,285
Deposits and placements with banks and other financial institutions	-	-	657,185	3,589	-	-	660,774
Available-for-sale financial investments	-	-	144,375	218,190	1,451,903	3,123	1,817,591
Held-to-maturity financial investments	-	-	10,010	295,663	345,377	-	651,050
Loans, advances and financing	4,097,541	266,694	115,865	-	-	203,463	4,683,563
Other assets	-	-	-	-	-	558,746	558,746
	4,129,624	1,523,449	927,882	517,442	1,797,280	765,332	9,661,009
Liabilities							
Deposits from customers	1,511,970	791,631	1,204,641	437	-	-	3,508,679
Deposits from other financial institutions	321,141	15,600	-	-	-	-	336,741
Medium term notes	-	-	20,160	1,404,489	323,825	-	1,748,474
Term loans	3,482	248,611	100,201	-	2,999,397	-	3,351,691
Other liabilities	-	-	-	-	-	559,480	559,480
Total undiscounted financial liabilities	1,836,593	1,055,842	1,325,002	1,404,926	3,323,222	559,480	9,505,065
Net maturity mismatches	2,293,031	467,607	(397,120)	(887,484)	(1,525,942)	205,852	155,944

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

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

(c) Liquidity risk (cont'd.)

The Bank is subject to liquidity requirements to support calls under outstanding contingent liabilities and undrawn credit facility commitments as disclosed in Notes 35. These have been incorporated in the net off-balance sheet position for year ended 31 December 2015. The total outstanding contractual amounts of these items do not represent future cash requirements since the Bank expects many of these contingent liabilities and commitments (such as direct credit substitutes and undrawn credit facilities) to expire without being called or drawn upon, and many of the contingent liabilities (such as letters of credit) are reimbursable by customers.

(d) Operational risk

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

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

40. DIVIDENDS

	Group and Bank	
	2015 RM'000	2014 RM'000
Dividends on ordinary shares:		
Final tax exempt (single-tier) dividend for 2014: 0.50 sen per share	-	6,750
Dividends on ordinary shares:		
Final tax exempt (single-tier) dividend for 2015: 0.28 sen per share	3,780	-
	3,780	6,750

At the forthcoming Annual General Meeting, a final single-tier dividend in respect of the financial year ended 31 December 2015 of 0.5 sen per share on 1,350,000,000 ordinary shares, amounting to a dividend payable of RM6,750,000 will be proposed for the shareholder's approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholder, will be accounted for in equity as an appropriate of retained profits in the financial year ending 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

41. ISLAMIC BANKING BUSINESS

The state of affairs as at 31 December 2015 and results for the financial year then ended under the Islamic Banking business of the Bank and included in the Group and Bank financial statements are summarised as follows:

Statement of financial position

As at 31 December 2015

		Group	
	Note	As at 31 December 2015 RM'000	As at 31 December 2014 RM'000
Assets			
Cash and short-term funds	(a)	1,083,675	1,263,318
Deposits and placements with financial institutions	(b)	180,952	651,209
Available-for-sale financial investments	(c)	1,693,966	1,590,082
Held-to-maturity financial investments	(d)	581,311	591,679
Advances and financing	(e)	4,672,063	4,105,810
Other assets	(f)	27,814	24,255
Derivative asset (Note 10)		1,442	-
Investments in subsidiaries		3,582	3,582
Property and equipment		83,121	82,938
Investment properties (Note 14)		156,333	160,492
Deferred tax	(l)	135,074	148,293
Total assets		8,619,333	8,621,658
Liabilities			
Deposits acceptance	(g)	3,049,913	3,483,781
Deposits from other financial institutions	(h)	100,243	250,985
Medium term note (Note 20)		1,519,789	1,520,160
Term financing	(i)	1,003,164	907,854
Other liabilities	(j)	2,044,589	1,611,454
Government funds	(k)	144,900	144,650
Total liabilities		7,862,598	7,918,884
Islamic general fund		756,735	702,774
Total liabilities and Islamic banking funds		8,619,333	8,621,658
Commitments	(u)	1,436,756	1,238,544

41. ISLAMIC BANKING BUSINESS (CONT'D.)**Statement of financial position****As at 31 December 2015 (cont'd.)**

		Bank	
		As at 31 December 2015 RM'000	As at 31 December 2014 RM'000
	Note		
Assets			
Cash and short-term funds	(a)	1,083,675	1,263,318
Deposits and placements with financial institutions	(b)	180,952	651,209
Available-for-sale financial investments	(c)	1,693,966	1,590,082
Held-to-maturity financial investments	(d)	581,311	591,679
Advances and financing	(e)	4,578,581	4,003,358
Other assets	(f)	569,089	539,449
Derivative asset (Note 10)		1,442	-
Investments in subsidiaries		3,582	3,582
Property and equipment		83,121	82,938
Investment properties (Note 14)		156,333	160,492
Deferred tax	(l)	135,074	148,293
Total assets		9,067,126	9,034,400
Liabilities			
Deposits acceptance	(g)	3,049,913	3,483,781
Deposits from other financial institutions	(h)	100,243	250,985
Medium term note (Note 20)		1,519,789	1,520,160
Term financing	(i)	1,003,164	907,854
Other liabilities	(j)	2,477,462	2,024,196
Government funds	(k)	144,900	144,650
Total liabilities		8,295,471	8,331,626
Islamic general fund		771,655	702,774
Total liabilities and Islamic banking funds		9,067,126	9,034,400
Commitments	(u)	1,436,756	1,238,544

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Statement of comprehensive income

For the financial year ended 31 December 2015

	Note	Group		Bank	
		2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Income from Islamic banking business	(m)	445,513	422,636	459,038	422,636
Profit expense attributable to Islamic banking business	(o)	(186,058)	(178,529)	(186,063)	(178,529)
Net provision for profit equalisation reserve	(p)	-	1,743	-	1,743
Gross income from Islamic banking business		259,455	245,850	272,975	245,850
Other operating expenses	(q)	(145,170)	(122,818)	(145,170)	(122,818)
Operating profit		114,285	123,032	127,805	123,032
Allowance for impairment on advances and financing	(r)	(45,163)	(107,454)	(43,763)	(107,454)
Profit before taxation and zakat		69,122	15,578	84,042	15,578
Tax expense	(s)	(12,643)	9,800	(12,643)	9,800
Zakat	(t)	(2,000)	(2,267)	(2,000)	(2,267)
Profit for the year		54,479	23,111	69,399	23,111
Other comprehensive (loss)/ income to be reclassified to profit or loss in subsequent periods					
Unrealised gain on revaluation of available for sale financial investments		58	7,486	58	7,486
Income tax relating to components of other comprehensive income		(576)	(1,872)	(576)	(1,872)
Net other comprehensive (loss)/income to be reclassified in profit or loss in subsequent periods		(518)	5,614	(518)	5,614
Total comprehensive income for the year		53,961	28,725	68,881	28,725

41. ISLAMIC BANKING BUSINESS (CONT'D.)**Statement of changes in Islamic General Funds****For the financial year ended 31 December 2015**

Group	Capital funds RM'000	Non-distributable available-for-sale reserve RM'000	Non-distributable profit equalisation reserve RM'000	Retained profits RM'000	Total RM'000
As 1 January 2015	550,564	(42,218)	-	194,428	702,774
Unrealised loss on revaluation of available-for-sale financial investments	-	(518)	-	-	(518)
Profit for the year	-	-	-	54,479	54,479
Total comprehensive income for the year	-	(518)	-	54,479	53,961
At 31 December 2015	550,564	(42,736)	-	248,907	756,735
As 1 January 2014	550,564	(47,832)	403	170,914	674,049
Unrealised gain on revaluation of available-for-sale financial investments	-	5,614	-	-	5,614
Net provision of profit equalisation reserve for the year	-	-	(403)	403	-
Profit for the year	-	-	-	23,111	23,111
Total comprehensive income for the year	-	5,614	(403)	23,514	28,725
At 31 December 2014	550,564	(42,218)	-	194,428	702,774

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Statement of changes in Islamic General Funds

For the financial year ended 31 December 2015 (cont'd.)

Bank	Capital funds RM'000	Non-distributable available- for-sale reserve RM'000	Non-distributable profit equalisation reserve RM'000	Retained profits RM'000	Total RM'000
As 1 January 2015	550,564	(42,218)	-	194,428	702,774
Unrealised loss on revaluation of available-for-sale financial investments	-	(518)	-	-	(518)
Profit for the year	-	-	-	69,399	69,399
Total comprehensive income for the year	-	(518)	-	69,399	68,881
At 31 December 2015	550,564	(42,736)	-	263,827	771,655
As 1 January 2014	550,564	(47,832)	403	170,914	674,049
Unrealised gain on revaluation of available-for-sale financial investments	-	5,614	-	-	5,614
Net provision of profit equalisation reserve for the year	-	-	(403)	403	-
Profit for the year	-	-	-	23,111	23,111
Total comprehensive income for the year	-	5,614	(403)	23,514	28,725
At 31 December 2014	550,564	(42,218)	-	194,428	702,774

41. ISLAMIC BANKING BUSINESS (CONT'D.)**Statements of cash flows****For the financial year ended 31 December 2015**

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Cash flows from operating activities				
Profit before taxation and zakat	69,122	15,578	84,042	15,578
Adjustments for:				
Allowance for impairment loss of advances and financing	52,066	114,674	50,666	114,674
Advances and financing written-off	-	8,682	-	8,682
Unrealised gain on revaluation of derivative	(1,111)	-	(1,111)	-
Government funds released/ (writeback)	1,321	(8,402)	1,321	(8,402)
Operating profit before working capital changes	121,398	130,532	134,918	130,532
Changes in working capital:				
Other assets	(566,253)	(536,732)	(62,125)	(536,732)
Advances and financing	(618,319)	(675,353)	(626,409)	(675,353)
Deposits and placements with financial institutions	470,257	(437,130)	470,257	(437,130)
Deposits from customers	(433,869)	344,064	(433,869)	344,064
Deposits from other financial institutions	(150,742)	150,882	(150,742)	150,882
Other liabilities	245,868	(311,300)	(263,690)	(311,300)
Cash used in operations	(931,660)	(1,335,037)	(931,660)	(1,335,037)
Zakat paid	(1,934)	-	(1,934)	-
Net cash used in operations	(933,594)	(1,335,037)	(933,594)	(1,335,037)

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Statements of cash flows

For the financial year ended 31 December 2015 (cont'd.)

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Cash flow from investing activities				
Purchase of additional ordinary shares in existing subsidiaries	-	(500)	-	(500)
Purchase of private debt securities	(352,775)	(487,758)	(352,775)	(487,758)
Proceed from redemption of private debt securities	235,101	190,284	235,101	190,284
Net cash used in investing activity	(117,674)	(297,974)	(117,674)	(297,974)
Cash flows from financing activities				
Drawdown from long-term advances	976,148	976,148	976,148	976,148
Repayment from long-term advances	(104,523)	(104,523)	(104,523)	(104,523)
Proceeds from sukuk issuance	-	1,000,000	-	1,000,000
Net cash generated from financing activities	871,625	1,871,625	871,625	1,871,625
Net (decrease)/increase in cash and cash equivalents	(179,643)	238,614	(179,643)	238,614
Cash and cash equivalents at beginning of year	1,263,318	1,024,704	1,263,318	1,024,704
Cash and cash equivalents at end of year	1,083,675	1,263,318	1,083,675	1,263,318

Cash and cash equivalents

For the purpose of statements of cash flows, cash and cash equivalents represent the following items in the statements of financial position:

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Cash and short term funds	1,083,675	1,263,318	1,083,675	1,263,318

41. ISLAMIC BANKING BUSINESS (CONT'D.)**Notes to the financial statements****For the financial year ended 31 December 2015****(a) Cash and short-term funds**

	Group and Bank	
	2015 RM'000	2014 RM'000
Cash at banks and on hand	94,555	29,465
Money at call and deposit placements maturing within three months	989,120	1,233,853
	1,083,675	1,263,318

(b) Deposits and placements with banks and other financial institutions

	Group and Bank	
	2015 RM'000	2014 RM'000
Licensed banks	112,830	532,649
Other financial institutions	68,122	118,560
	180,952	651,209

The maturity structure of deposits and placements are as follows:

	Group and Bank	
	2015 RM'000	2014 RM'000
Three months to six months	97,307	579,997
Six months to one year	83,645	71,212
	180,952	651,209

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Notes to the financial statements

For the financial year ended 31 December 2015 (cont'd.)

(c) Available-for-sale financial investments

	Group and Bank	
	2015 RM'000	2014 RM'000
At fair value		
Money market instruments:		
Malaysian Government Investment Issues	650,332	691,602
Commercial papers	20,169	89,234
	670,501	780,836
Private debt securities	1,023,465	809,246
Total available-for-sale financial investments	1,693,966	1,590,082

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

	Group and Bank	
	2015 RM'000	2014 RM'000
Within one year	45,156	144,375
More than one year to three years	59,766	49,562
More than three years to five years	381,385	153,751
More than five years	1,207,659	1,242,394
	1,693,966	1,590,082

41. ISLAMIC BANKING BUSINESS (CONT'D.)**Notes to the financial statements****For the financial year ended 31 December 2015 (cont'd.)****(d) Held-to-maturity financial investments**

	Group and Bank	
	2015 RM'000	2014 RM'000
At amortised cost		
<u>Money market instruments:</u>		
Malaysian Government Investment Issues	72,887	60,233
	72,887	60,233
<u>Unquoted securities</u>		
Private debt securities	508,424	531,446
	581,311	591,679

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

	Group and Bank	
	2015 RM'000	2014 RM'000
Within one year	20,042	10,009
More than one year to three years	25,097	20,180
More than three years to five years	212,691	225,130
More than five years	323,481	336,360
	581,311	591,679

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

	Group and Bank	
	2015 RM'000	2014 RM'000
Malaysian Government Investment Issues	60,426	60,038
Private debt securities	514,434	524,119
	574,860	584,157

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Notes to the financial statements

For the financial year ended 31 December 2015 (cont'd.)

(e) Advances and financing

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Bai Bithaman Ajil	2,295,404	1,986,255	2,226,147	1,910,141
Ijarah	264,926	258,641	236,835	229,597
Murabahah	320,763	259,211	319,954	258,285
Bai' Dayn	99,097	128,200	98,703	127,806
Istisna	602,299	547,554	589,881	535,136
Ijarah Thumma Al-Bai	335,745	318,114	298,428	280,395
Bai' Inah	992,695	798,036	981,776	787,913
Murabahah Dayn	19,064	23,533	16,095	20,527
Tawwaruq	7,870	-	7,870	-
Gross advances and financing	4,937,863	4,319,544	4,775,689	4,149,800
Less: Allowance for impairment on advances and financing				
- Individual assessment allowance (Note 41(e)(x))	(166,845)	(124,206)	(121,403)	(75,141)
- Collective assessment allowance (Note 41(e)(x))	(98,955)	(89,528)	(75,705)	(71,301)
Net advances and financing	4,672,063	4,105,810	4,578,581	4,003,358
Gross impaired advances and financing (Note 41(e)(vi))	557,653	405,589	395,479	245,759
Net impaired advances and financing	390,808	281,383	274,076	170,618

Included in advances and financing are gross advances and financing of RM82,923,000 (2014: RM98,047,000) financed by the Government funds. The treatment of the credit losses incurred for these advances and financing are as disclosed in Note 2.15.

41. ISLAMIC BANKING BUSINESS (CONT'D.)**Notes to the financial statements****For the financial year ended 31 December 2015 (cont'd.)****(e) Advances and financing (cont'd.)**

(i) The maturity profile of the gross advances and financing are as follows:

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Maturity within one year	558,179	494,869	470,936	423,074
More than one year to three years	578,498	405,287	545,560	372,800
More than three years to five years	770,642	909,639	756,895	876,999
More than five years	3,030,544	2,509,749	3,002,298	2,476,927
	4,937,863	4,319,544	4,775,689	4,149,800

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Domestic business enterprise	3,945,168	3,521,508	3,793,913	3,361,887
Individual	992,695	798,036	981,776	787,913
	4,937,863	4,319,544	4,775,689	4,149,800

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Notes to the financial statements

For the financial year ended 31 December 2015 (cont'd.)

(e) Advances and financing (cont'd.)

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Import, export, wholesale, retail trade, restaurants and hotels	954,973	790,119	944,436	778,781
Manufacturing	980,055	959,304	894,007	871,001
Community, social and personal services	854,530	747,684	830,068	720,027
Transportation and communication	810,258	782,816	775,620	747,045
Financial, insurance, real estate and business services	590,689	412,687	586,655	408,497
Constructions	640,755	534,866	639,235	533,328
Mining and quarrying	43,367	38,321	43,367	38,321
Electricity, gas and water supply	33,371	17,739	32,751	17,112
Agriculture, forestry and fishing	9,026	11,109	8,711	10,789
Others	20,839	24,899	20,839	24,899
	4,937,863	4,319,544	4,775,689	4,149,800

41. ISLAMIC BANKING BUSINESS (CONT'D.)**Notes to the financial statements****For the financial year ended 31 December 2015 (cont'd.)****(e) Advances and financing (cont'd.)**

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

Group	Northern Region RM'000	Kuala Lumpur Region RM'000	Selangor Region RM'000	East Coast Region RM'000	Southern Region RM'000	Sabah Region RM'000	Sarawak Region RM'000	Total RM'000
2015								
Import, export, wholesale, retail trade, restaurants and hotels	156,457	200,101	161,134	136,948	109,010	171,642	19,681	954,973
Manufacturing	130,294	350,462	97,670	91,458	236,433	32,466	41,272	980,055
Community, social and personal services	76,780	281,302	62,729	176,655	171,918	19,364	65,782	854,530
Transportation and communication	132,269	182,504	112,335	116,710	105,395	100,055	60,990	810,258
Financial, insurance, real estate and business services	65,786	320,469	95,376	36,158	15,886	22,468	34,546	590,689
Constructions	84,715	155,084	146,956	50,062	114,295	20,134	69,509	640,755
Mining and quarrying	-	15,912	10,824	12,241	2,753	1,266	371	43,367
Electricity, gas and water supply	672	3,177	15,576	272	12,983	59	632	33,371
Agriculture, forestry and fishing	-	-	-	6,114	91	2,821	-	9,026
Others	-	20,839	-	-	-	-	-	20,839
At 31 December 2015	646,973	1,529,850	702,600	626,618	768,764	370,275	292,783	4,937,863

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Notes to the financial statements

For the financial year ended 31 December 2015 (cont'd.)

(e) Advances and financing (cont'd.)

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

Group	Northern Region RM'000	Kuala Lumpur Region RM'000	Selangor Region RM'000	East Coast Region RM'000	Southern Region RM'000	Sabah Region RM'000	Sarawak Region RM'000	Total RM'000
2014								
Import, export, wholesale, retail trade, restaurants and hotels	170,190	143,974	159,313	118,214	75,866	104,388	18,174	790,119
Manufacturing	156,148	61,006	401,605	87,553	176,985	44,370	31,637	959,304
Community, social and personal services	115,357	80,913	209,012	150,132	145,538	19,492	27,240	747,684
Transportation and communication	107,825	103,208	196,116	127,686	86,335	97,198	64,448	782,816
Financial, insurance, real estate and business services	74,373	94,924	165,460	21,792	14,296	14,394	27,448	412,687
Constructions	12,617	145,696	119,576	23,928	163,089	11,233	58,727	534,866
Mining and quarrying	-	10,573	9,248	14,082	64	1,794	2,560	38,321
Electricity, gas and water supply	-	2,598	11,757	48	3,153	56	127	17,739
Agriculture, forestry and fishing	-	1,501	-	6,793	-	2,815	-	11,109
Others	-	24,899	-	-	-	-	-	24,899
At 31 December 2014	636,510	669,292	1,272,087	550,228	665,326	295,740	230,361	4,319,544

41. ISLAMIC BANKING BUSINESS (CONT'D.)**Notes to the financial statements****For the financial year ended 31 December 2015 (cont'd.)****(e) Advances and financing (cont'd.)**

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

Bank	Northern Region RM'000	Kuala Lumpur Region RM'000	Selangor Region RM'000	East Coast Region RM'000	Southern Region RM'000	Sabah Region RM'000	Sarawak Region RM'000	Total RM'000
2015								
Import, export, wholesale, retail trade, restaurants and hotels	153,591	199,326	157,902	136,068	107,399	170,534	19,616	944,436
Manufacturing	110,515	345,970	86,995	76,344	220,777	14,526	38,880	894,007
Community, social and personal services	66,787	281,302	59,816	175,293	169,606	19,364	57,900	830,068
Transportation and communication	124,815	182,228	109,246	113,641	103,553	81,577	60,560	775,620
Financial, insurance, real estate and business services	64,864	319,930	93,827	35,597	15,560	22,331	34,546	586,655
Constructions	84,173	155,035	146,497	49,964	113,923	20,134	69,509	639,235
Mining and quarrying	-	15,912	10,824	12,241	2,753	1,266	371	43,367
Electricity, gas and water supply	672	3,177	15,576	272	12,363	59	632	32,751
Agriculture, forestry and fishing	-	-	-	5,799	91	2,821	-	8,711
Others	-	20,839	-	-	-	-	-	20,839
At 31 December 2015	605,417	1,523,719	680,683	605,219	746,025	332,612	282,014	4,775,689

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Notes to the financial statements

For the financial year ended 31 December 2015 (cont'd.)

(e) Advances and financing (cont'd.)

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

Bank	Northern Region RM'000	Kuala Lumpur Region RM'000	Selangor Region RM'000	East Coast Region RM'000	Southern Region RM'000	Sabah Region RM'000	Sarawak Region RM'000	Total RM'000
2014								
Import, export, wholesale, retail trade, restaurants and hotels	167,147	143,152	155,933	117,188	74,177	103,081	18,103	778,781
Manufacturing	134,915	56,515	390,767	72,361	161,132	26,309	29,002	871,001
Community, social and personal services	105,300	80,913	205,986	148,740	143,168	19,492	16,428	720,027
Transportation and communication	100,303	102,909	192,663	124,442	84,365	78,344	64,019	747,045
Financial, insurance, real estate and business services	73,445	94,385	163,845	21,161	13,963	14,251	27,447	408,497
Constructions	12,075	145,647	119,102	23,826	162,717	11,233	58,728	533,328
Mining and quarrying	-	10,573	9,248	14,082	64	1,794	2,560	38,321
Electricity, gas and water supply	-	2,598	11,757	48	2,526	56	127	17,112
Agriculture, forestry and fishing	-	1,501	-	6,473	-	2,815	-	10,789
Others	-	24,899	-	-	-	-	-	24,899
At 31 December 2014	593,185	663,092	1,249,301	528,321	642,112	257,375	216,414	4,149,800

41. ISLAMIC BANKING BUSINESS (CONT'D.)**Notes to the financial statements****For the financial year ended 31 December 2015 (cont'd.)****(e) Advances and financing (cont'd.)**

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Fixed rate				
- Staff financing	20,839	24,899	20,839	24,899
- Hire purchase receivables	291,901	286,373	251,882	245,886
- Leasing	239,409	253,692	213,913	227,308
- Revolving credits	361,937	410,944	357,765	406,618
- Other term financing	1,706,973	1,658,100	1,615,654	1,560,778
Variable rate				
- Hire purchase receivables	30,258	27,317	30,258	27,317
- Leasing	32,183	8,743	32,183	8,743
- Revolving credits	68,145	-	68,145	-
- Other term financing	2,186,218	1,649,476	2,185,050	1,648,251
	4,937,863	4,319,544	4,775,689	4,149,800

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Notes to the financial statements

For the financial year ended 31 December 2015 (cont'd.)

(e) Advances and financing (cont'd.)

(vi) Impaired financing analysed by industry are as follows:

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Import, export, wholesale, retail trade, restaurants and hotels	72,510	52,603	61,973	41,351
Manufacturing	220,827	170,734	134,779	88,664
Community, social and personal services	106,644	92,103	82,182	66,556
Transportation and communication	85,390	47,386	50,753	12,753
Financial, insurance, real estate and business services	30,615	10,267	26,582	6,425
Constructions	39,999	31,493	38,478	29,954
Electricity, gas and water supply	1,321	683	701	56
Agriculture, forestry and fishing	347	320	31	-
	557,653	405,589	395,479	245,759

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Notes to the financial statements

For the financial year ended 31 December 2015 (cont'd.)

(e) Advances and financing (cont'd.)

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

Group	Northern Region RM'000	Kuala Lumpur Region RM'000	Selangor Region RM'000	East Coast Region RM'000	Southern Region RM'000	Sabah Region RM'000	Sarawak Region RM'000	Total RM'000
2015								
Import, export, wholesale, retail trade, restaurants and hotels	10,722	25,199	8,029	4,373	11,533	10,753	1,901	72,510
Manufacturing	39,971	64,005	16,901	20,232	58,068	19,036	2,614	220,827
Community, social and personal services	10,871	47,583	4,547	32,567	2,850	138	8,088	106,644
Transportation and communication	11,830	5,476	9,366	34,595	4,035	19,477	611	85,390
Financial, insurance, real estate and business services	1,728	3,927	2,142	1,334	444	173	20,867	30,615
Constructions	1,902	18,042	5,834	564	13,627	30	-	39,999
Electricity, gas and water supply	-	643	-	-	620	58	-	1,321
Agriculture, forestry and fishing	-	-	-	316	-	31	-	347
At 31 December 2015	77,024	164,875	46,819	93,981	91,177	49,696	34,081	557,653

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Notes to the financial statements

For the financial year ended 31 December 2015 (cont'd.)

(e) Advances and financing (cont'd.)

(vii) Impaired advances and financing analysed by location and sector are as follows:
(cont'd.)

Group	Northern Region RM'000	Kuala Lumpur Region RM'000	Selangor Region RM'000	East Coast Region RM'000	Southern Region RM'000	Sabah Region RM'000	Sarawak Region RM'000	Total RM'000
2014								
Import, export, wholesale, retail trade, restaurants and hotels	7,985	5,360	22,137	9,692	3,145	4,099	185	52,603
Manufacturing	30,773	4,643	42,827	20,018	51,206	18,485	2,782	170,734
Community, social and personal services	56,793	250	2,147	19,668	2,370	63	10,812	92,103
Transportation and communication	7,469	1,081	10,564	6,147	2,350	19,143	632	47,386
Financial, insurance, real estate and business services	1,587	1,479	4,460	1,260	1,246	208	27	10,267
Constructions	1,651	14,214	4,060	233	11,335	-	-	31,493
Electricity, gas and water supply	-	-	-	-	627	56	-	683
Agriculture, forestry and fishing	-	-	-	320	-	-	-	320
At 31 December 2014	106,258	27,027	86,195	57,338	72,279	42,054	14,438	405,589

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Notes to the financial statements

For the financial year ended 31 December 2015 (cont'd.)

(e) Advances and financing (cont'd.)

(vii) Impaired advances and financing analysed by location and sector are as follows:
(cont'd.)

Bank	Northern Region RM'000	Kuala Lumpur Region RM'000	Selangor Region RM'000	East Coast Region RM'000	Southern Region RM'000	Sabah Region RM'000	Sarawak Region RM'000	Total RM'000
2015								
Import, export, wholesale, retail trade, restaurants and hotels	7,856	24,424	4,798	3,493	9,922	9,645	1,835	61,973
Manufacturing	20,192	59,514	6,226	5,118	42,412	1,096	221	134,779
Community, social and personal services	878	47,583	1,634	31,205	538	138	206	82,182
Transportation and communication	4,377	5,200	6,277	31,526	2,193	999	181	50,753
Financial, insurance, real estate and business services	806	3,387	593	773	119	37	20,867	26,582
Constructions	1,360	17,993	5,375	465	13,255	30	-	38,478
Electricity, gas and water supply	-	643	-	-	-	58	-	701
Agriculture, forestry and fishing	-	-	-	-	-	31	-	31
At 31 December 2015	35,469	158,744	24,903	72,580	68,439	12,034	23,310	395,479

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Notes to the financial statements

For the financial year ended 31 December 2015 (cont'd.)

(e) Advances and financing (cont'd.)

(vii) Impaired advances and financing analysed by location and sector are as follows:
(cont'd.)

Bank	Northern Region RM'000	Kuala Lumpur Region RM'000	Selangor Region RM'000	East Coast Region RM'000	Southern Region RM'000	Sabah Region RM'000	Sarawak Region RM'000	Total RM'000
2014								
Import, export, wholesale, retail trade, restaurants and hotels	4,991	4,538	18,782	8,666	1,457	2,803	114	41,351
Manufacturing	15,515	151	32,220	4,827	35,380	424	147	88,664
Community, social and personal services	46,735	250	1,233	18,276	-	62	-	66,556
Transportation and communication	178	781	7,112	3,006	379	1,094	203	12,753
Financial, insurance, real estate and business services	1,006	940	2,845	629	912	65	28	6,425
Constructions	1,108	14,165	3,586	132	10,963	-	-	29,954
Electricity, gas and water supply	-	-	-	-	-	-	56	56
At 31 December 2014	69,533	20,825	65,778	35,536	49,091	4,448	548	245,759

41. ISLAMIC BANKING BUSINESS (CONT'D.)**Notes to the financial statements****For the financial year ended 31 December 2015 (cont'd.)****(e) Advances and financing (cont'd.)**

(ix) Movements in impaired advances and financing ("impaired financing") are as follows:

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
At 1 January				
Impaired during the year	405,589	218,540	245,759	218,540
Reclassified as non-impaired	185,496	330,083	175,582	330,083
Amount recovered	(19,531)	(89,469)	(19,531)	(89,469)
Amount written-off	(13,901)	(22,859)	(6,331)	(22,859)
Transfer to subsidiary company	-	(30,706)	-	(30,706)
At 31 December	-	-	-	(159,830)
	557,653	405,589	395,479	245,759

Net impaired financing as % of net advances and financing are as follows:

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Net impaired loans as %	8.19%	6.71%	5.89%	4.19%

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Notes to the financial statements

For the financial year ended 31 December 2015 (cont'd.)

(e) Advances and financing (cont'd.)

(x) Movements in the allowance for financing are as follows:

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Individual assessment allowance				
At 1 January	124,206	56,770	75,141	56,770
Amount written-off	-	(21,123)	-	(21,123)
Transfer from collective allowance	2,979	8,018	2,979	8,018
Allowance made during the year	49,292	91,395	49,292	91,395
Writeback made during the year	(9,632)	(10,854)	(6,009)	(10,854)
Transfer to subsidiary company	-	-	-	(49,065)
At 31 December	166,845	124,206	121,403	75,141
Collective assessment allowance				
At 1 January	89,528	64,314	71,301	64,314
Amount written-off	-	(901)	-	(901)
Transfer to individual allowance	(2,979)	(8,018)	(2,979)	(8,018)
Allowance made during the year	44,282	72,446	38,705	72,446
Writeback made during the year	(31,876)	(38,313)	(31,322)	(38,313)
Transfer to subsidiary company	-	-	-	(18,227)
At 31 December	98,955	89,528	75,705	71,301

41. ISLAMIC BANKING BUSINESS (CONT'D.)**Notes to the financial statements****For the financial year ended 31 December 2015 (cont'd.)****(e) Advances and financing (cont'd.)**

(xi) Gross advances and financing by types and Shariah contracts are as follows:

Group	Hire purchase RM'000	Leasing receivables RM'000	Other term loans RM'000	Revolving credit RM'000	Staff financing RM'000	Total RM'000
2015						
Bai Bithaman Ajil	-	-	2,274,565	-	20,839	2,295,404
Ijarah	7,726	257,200	-	-	-	264,926
Murabahah	-	-	8,842	311,921	-	320,763
Bai' Dayn	-	-	-	99,097	-	99,097
Istisna	7,043	-	595,256	-	-	602,299
Ijarah Thumma Al-Bai	307,283	14,392	14,070	-	-	335,745
Bai' Inah	107	-	992,588	-	-	992,695
Murabahah Dayn	-	-	-	19,064	-	19,064
Tawwaruq	-	-	7,870	-	-	7,870
At 31 December 2015	322,159	271,592	3,893,191	430,082	20,839	4,937,863
2014						
Bai Bithaman Ajil	-	-	1,961,356	-	24,899	1,986,255
Ijarah	8,453	250,188	-	-	-	258,641
Murabahah	-	-	-	259,211	-	259,211
Bai' Dayn	-	-	-	128,200	-	128,200
Istisna	-	-	547,554	-	-	547,554
Ijarah Thumma Al-Bai	305,130	12,246	738	-	-	318,114
Bai' Inah	107	-	797,929	-	-	798,036
Murabahah Dayn	-	-	-	23,533	-	23,533
At 31 December 2014	313,690	262,434	3,307,577	410,944	24,899	4,319,544

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Notes to the financial statements

For the financial year ended 31 December 2015 (cont'd.)

(e) Advances and financing (cont'd.)

(xi) Gross advances and financing by types and Shariah contracts are as follows: (cont'd.)

Bank	Hire purchase RM'000	Leasing receivables RM'000	Other term loans RM'000	Revolving credit RM'000	Staff financing RM'000	Total RM'000
2015						
Bai Bithaman Ajil	-	-	2,205,308	-	20,839	2,226,147
Ijarah	5,131	231,704	-	-	-	236,835
Murabahah	-	-	8,842	311,112	-	319,954
Bai' Dayn	-	-	-	98,703	-	98,703
Istisna	7,043	-	582,838	-	-	589,881
Ijarah Thumma Al-Bai	269,966	14,392	14,070	-	-	298,428
Bai' Inah	-	-	981,776	-	-	981,776
Murabahah Dayn	-	-	-	16,095	-	16,095
Tawwaruq	-	-	7,870	-	-	7,870
At 31 December 2015	282,140	246,096	3,800,704	425,910	20,839	4,775,689
2014						
Bai Bithaman Ajil	-	-	1,885,242	-	24,899	1,910,141
Ijarah	5,792	223,805	-	-	-	229,597
Murabahah	-	-	-	258,285	-	258,285
Bai' Dayn	-	-	-	127,806	-	127,806
Istisna	-	-	535,136	-	-	535,136
Ijarah Thumma Al-Bai	267,411	12,246	738	-	-	280,395
Bai' Inah	-	-	787,913	-	-	787,913
Murabahah Dayn	-	-	-	20,527	-	20,527
At 31 December 2014	273,203	236,051	3,209,029	406,618	24,899	4,149,800

41. ISLAMIC BANKING BUSINESS (CONT'D.)**Notes to the financial statements****For the financial year ended 31 December 2015 (cont'd.)****(f) Other assets**

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Amount due from subsidiaries	-	-	541,275	515,194
Other receivables and prepayments	3,613	3,191	3,613	3,191
Income receivables	24,201	21,064	24,201	21,064
	27,814	24,255	569,089	539,449

Included in amount due from subsidiaries is amount due from SMEB Asset Management Sdn Bhd ("SAM") for Bai' Inah facility granted by the Bank amounting to RM510.0 million. The facility is granted to finance the purchase of impaired loans and financing. The Bank extended unsecured Bai' Inah facility ("facility") at the profit rate of 3.50% per annum. Principal and profit are repayable over a period of 8 years commencing from 31 December 2016, after a grace period of 2 years. The facility will mature on 31 December 2023.

(g) Deposits acceptance

	Group and Bank	
	2015 RM'000	2014 RM'000
Term deposit:		
- Commodity Murabahah/Tawarruq	3,049,913	3,483,781

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

	Group and Bank	
	2015 RM'000	2014 RM'000
Government and statutory bodies	2,104,919	3,046,450
Business enterprises	873,379	336,846
Others	71,615	100,485
	3,049,913	3,483,781

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Notes to the financial statements

For the financial year ended 31 December 2015 (cont'd.)

(g) Deposits acceptance (cont'd.)

(ii) The deposits maturity structure are as follows:

	Group and Bank	
	2015 RM'000	2014 RM'000
Less than three months	2,600,875	2,300,622
Three months to six months	210,193	956,561
Six months to one year	238,845	226,598
	3,049,913	3,483,781

(h) Deposits from other financial institutions

	Group and Bank	
	2015 RM'000	2014 RM'000
Licensed banks	100,243	250,985

The deposit maturity structure is as follows:

Less than three months	100,243	250,985
------------------------	---------	---------

(i) Term financing

	Group and Bank	
	2015 RM'000	2014 RM'000
Unsecured term financing	1,003,164	907,854

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Notes to the financial statements

For the financial year ended 31 December 2015 (cont'd.)

(i) Term financing (cont'd.)

The maturity structure of the term financing are as follows:

	Group and Bank	
	2015 RM'000	2014 RM'000
Within one year	29,401	28,865
More than five years	973,763	878,989
	1,003,164	907,854

The unsecured term financing denominated in RM are sourced from the following:

	Group and Bank	
	2015 RM'000	2014 RM'000
Loans from:		
- Government of Malaysia	662,064	657,890
- Bank Negara Malaysia ("BNM")	341,100	249,964
	1,003,164	907,854

The profit rates on the financing from the Government of Malaysia is 1.50% (2014: 1.50%) per annum. The rate for BNM ranges from 4% - 5.23% (2014: 4% - 5.23%)

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Notes to the financial statements

For the financial year ended 31 December 2015 (cont'd.)

(j) Other liabilities

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Other payables and accruals (Note 22a)	1,840,013	1,430,355	2,237,130	1,836,177
Amount due to subsidiaries	-	-	35,756	6,920
Islamic margin account	124,850	178,710	124,850	178,710
Guaranteed payable	77,331	-	77,331	-
Profit equalisation reserve - depositors	-	69	-	69
Provision for zakat	2,395	2,320	2,395	2,320
	2,044,589	1,611,454	2,477,462	2,024,196

(k) Government funds

	Group and Bank	
	2015 RM'000	2014 RM'000
To finance:		
Advances and financing	144,900	144,650
	144,900	144,650

41. ISLAMIC BANKING BUSINESS (CONT'D.)**Notes to the financial statements****For the financial year ended 31 December 2015 (cont'd.)****(k) Government funds (cont'd.)****(a) To finance advances and financing:**

Group and Bank	Soft Loan Scheme RM'000	Program dan Skim Usahawan Batik RM'000	Basic Capital Scheme (SMA) RM'000	Tabung Usahawan Siswazah (TUS) RM'000	Dana Usahawan Negeri Terengganu RM'000	Skim Pembangunan Ekonomi Desa-Islamic RM'000	Program dan Skim Usahawan Kraf RM'000	Total RM'000
At 1 January 2015	36,716	4,121	29,049	16,857	5,286	47,881	4,740	144,650
Write-off	-	-	(2,182)	98	-	(382)	-	(2,466)
Loan written-off recoverable	38	26	1,065	997	971	631	5	3,733
Muqasah	-	-	-	-	(645)	(426)	-	(1,071)
Placement expenses payable	-	-	-	-	-	54	-	54
At 31 December 2015	36,754	4,147	27,932	17,952	5,612	47,758	4,745	144,900
At 1 January 2014	36,638	4,099	31,599	19,014	7,784	56,107	4,711	159,952
Payment	-	-	-	-	-	(5,000)	-	(5,000)
Write-off	-	-	(2,895)	(3,119)	(776)	(3,950)	-	(10,740)
Loan written-off recoverable	78	22	345	962	23	878	29	2,337
Muqasah	-	-	-	-	(1,745)	(154)	-	(1,899)
At 31 December 2014	36,716	4,121	29,049	16,857	5,286	47,881	4,740	144,650

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Notes to the financial statements

For the financial year ended 31 December 2015 (cont'd.)

(I) Deferred tax

	Group and Bank	
	31.12.2015 RM'000	31.12.2014 RM'000
At 1 January	148,293	140,365
Recognised in profit or loss (Note s)	(12,643)	9,800
Recognised in equity	(576)	(1,872)
At 31 December	135,074	148,293
Presented before appropriate offsetting as follows:		
Deferred tax assets	142,436	161,571
Deferred tax liabilities	(7,362)	(13,278)
	135,074	148,293

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

Deferred tax assets of the Group and Bank:

Group and Bank	Collective impairment allowance RM'000	Un- absorbed business losses and capital allowance RM'000	Provision RM'000	MTM revaluation on bonds RM'000	Total RM'000
At 1 January 2015	-	143,204	4,296	14,071	161,571
Recognised in profit or loss	-	(17,566)	(993)	-	(18,559)
Recognised in equity	-	-	-	(576)	(576)
At 31 December 2015	-	125,638	3,303	13,495	142,436
At 1 January 2014	10,932	125,631	4,564	16,078	157,205
Recognised in profit or loss	(10,932)	17,573	(268)	-	6,373
Recognised in equity	-	-	-	(2,007)	(2,007)
At 31 December 2014	-	143,204	4,296	14,071	161,571

41. ISLAMIC BANKING BUSINESS (CONT'D.)**Notes to the financial statements****For the financial year ended 31 December 2015 (cont'd.)****(I) Deferred tax (cont'd.)****Deferred tax assets of the Group and Bank:**

	MTM revaluation on bonds RM'000	Property and equipment RM'000	Total RM'000
At 1 January 2015	-	(13,278)	(13,278)
Recognised in profit or loss	-	5,916	5,916
At 31 December 2015	-	(7,362)	(7,362)
At 1 January 2014	(135)	(16,705)	(16,840)
Recognised in profit or loss	-	3,427	3,427
Recognised in equity	135	-	135
At 31 December 2014	-	(13,278)	(13,278)

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Notes to the financial statements

For the financial year ended 31 December 2015 (cont'd.)

(m) Income from Islamic banking business

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Income from advances and financing				
- Bai Bithaman Ajil	129,560	115,522	127,300	115,522
- Ijarah	14,953	13,885	13,624	13,885
- Bai' Murabahah	18,105	15,620	18,406	15,620
- Bai' Dayn	5,593	7,729	5,678	7,729
- Bai' Istisna	33,996	32,364	33,933	32,364
- Ijarah Thuma Al-Bai	18,951	16,958	17,167	16,958
- Bai' Inah	56,031	47,651	56,478	47,651
- Murabahah Dayn	1,076	1,241	926	1,241
- Tawwaruq	444	-	453	-
Total income from advances and financing	278,709	250,970	273,965	250,970
Mudharabah deposit acceptance	48,478	52,059	48,478	52,059
Derivative asset	1,722	-	1,722	-
Available-for-sale financial investments	72,556	62,997	72,556	62,997
Held-to-maturity financial investments	27,914	29,433	27,914	29,433
Other income (Note 41(n))	16,134	27,177	34,403	27,177
	445,513	422,636	459,038	422,636

Included in income from loans, advances and financing is profit on impaired financing amounting to RM6,674,508 (2014: RM932,170).

41. ISLAMIC BANKING BUSINESS (CONT'D.)**Notes to the financial statements****For the financial year ended 31 December 2015 (cont'd.)****(n) Other income**

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Fee income	7,569	8,974	7,569	8,974
Rental income	9,676	9,637	9,997	9,637
Government funds (writeback)/ released	(1,321)	8,402	(1,321)	8,402
Management fee	-	61	98	61
Others	210	103	18,060	103
	16,134	27,177	34,403	27,177

(o) Profit expense attributable to Islamic banking business

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Commodity murabahah	118,473	112,615	118,478	112,615
Medium term note	57,945	48,295	57,945	48,295
Long term financing	4,028	7,622	4,028	7,622
Deposits from other financial institutions	4,942	3,169	4,942	3,169
Mudharabah deposit acceptance	670	2,300	670	2,300
Others	-	4,528	-	4,528
	186,058	178,529	186,063	178,529

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Notes to the financial statements

For the financial year ended 31 December 2015 (cont'd.)

(p) Profit equalisation reserve ("PER")

	Group and Bank	
	2015 RM'000	2014 RM'000
Provided during the year	-	8,725
Utilised during the year	-	(10,468)
	-	(1,743)

Profit equalisation reserve at the end of the financial year of which the shareholder's portion is RMnil (2014: RMnil).

(q) Other operating expenses

	Group and Bank	
	2015 RM'000	2014 RM'000
Personnel expenses	94,031	80,789
Establishment related expenses	26,040	21,087
Promotion and marketing expenses	3,369	2,006
Administration and general expenses	21,730	18,936
	145,170	122,818

41. ISLAMIC BANKING BUSINESS (CONT'D.)**Notes to the financial statements****For the financial year ended 31 December 2015 (cont'd.)****(r) Allowance/(writeback) for impairment on advances and financing**

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Allowance for advances and financing during the year				
- Individual assessment allowance	49,292	91,395	49,292	91,395
- Collective assessment allowance	44,282	72,446	38,705	72,446
	93,574	163,841	87,997	163,841
Writeback/recoveries for advances and financing during the year				
- Individual assessment allowance	(9,632)	(10,854)	(6,009)	(10,854)
- Collective assessment allowance	(31,876)	(38,313)	(31,322)	(38,313)
	(41,508)	(49,167)	(37,331)	(49,167)
Advances and financing written-off	-	8,682	-	8,682
Recoveries from advances and financing written-off	(6,903)	(15,902)	(6,903)	(15,902)
Total Allowance for impairment loss on advances and financing	45,163	107,454	43,763	107,454

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Notes to the financial statements

For the financial year ended 31 December 2015 (cont'd.)

(s) Tax expense

	Group and Bank	
	2015 RM'000	2014 RM'000
Deferred tax:		
Origination or reversal of temporary differences	22,607	6,647
Over provision in prior year	(9,964)	(16,447)
	12,643	(9,800)

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2014: 25%) of the estimated assessable profit for the year.

The reconciliation between tax expense and accounting profit of the Group and Bank multiplied by the applicable corporate tax rate are as follows:

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Profit before taxation and zakat	69,122	15,578	84,042	15,578
Income tax at 25% (2014: 25%)	17,281	3,895	21,011	3,895
Non-deductible expenses	5,387	3,278	1,657	3,278
Non-taxable income	(61)	(526)	(61)	(526)
Over provision of deferred tax in prior year	(9,964)	(16,447)	(9,964)	(16,447)
Tax expense for the year	12,643	(9,800)	12,643	(9,800)

41. ISLAMIC BANKING BUSINESS (CONT'D.)**Notes to the financial statements****For the financial year ended 31 December 2015 (cont'd.)****(s) Tax expense (cont'd.)**

Tax savings during the current financial year arising from utilisation of the following items:

	Group and Bank	
	2015 RM'000	2014 RM'000
Utilisation of tax losses brought forward from previous year	2,489	7,379
Utilisation of capital allowances	11,775	1,865
	14,264	9,244

(t) Zakat

	Group and Bank	
	2015 RM'000	2014 RM'000
Zakat for the year	2,000	2,000
Under provision of zakat expenses in prior year	-	267
	2,000	2,267

(u) Commitments

	Group and Bank	
	2015 RM'000	2014 RM'000
Direct credit substitutes	167,610	190,509
Transaction-related-contingent items	254,000	234,455
Irrevocable commitments to extend credit:		
- maturity exceeding one year	78,878	102,408
- maturity not exceeding one year	536,268	711,172
Profit rate related contract	400,000	-
	1,436,756	1,238,544

NOTES TO THE FINANCIAL STATEMENTS (cont'd.)

31 December 2015

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Notes to the financial statements

For the financial year ended 31 December 2015 (cont'd.)

(v) Capital adequacy

Capital management

The following table set forth capital resources and capital adequacy for the Bank's Islamic as at reporting date:

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
<u>Tier I Capital</u>				
Capital funds	550,564	550,564	550,564	550,564
Retained profit	248,907	194,428	263,827	194,428
Less: Deferred tax	(135,074)	(148,293)	(135,074)	(148,293)
Total Tier I capital	664,397	596,699	679,317	596,699
<u>Tier II Capital</u>				
Collective allowance for advances and financing*	58,987	61,079	58,987	61,079
Government funds	144,900	144,650	144,900	144,650
Total Tier II capital	203,887	205,729	203,887	205,729
Total capital	868,284	802,428	883,204	802,428
Less: Investment in subsidiaries	-	-	(3,582)	(3,582)
Total capital base	868,284	802,428	879,622	798,846

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

41. ISLAMIC BANKING BUSINESS (CONT'D.)

Notes to the financial statements

For the financial year ended 31 December 2015 (cont'd.)

(v) Capital adequacy (cont'd.)

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
20%	252,852	384,270	252,852	384,270
50%	29,422	37,143	29,422	37,143
100%	6,005,359	5,455,103	6,453,152	5,867,844
	6,287,633	5,876,516	6,735,426	6,289,257

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Before deducting proposed dividends:				
Core capital ratio	10.57%	10.15%	10.09%	9.49%
Risk-weighted capital ratio	13.81%	13.65%	13.06%	12.70%

After deducting proposed dividends:

Core capital ratio	10.46%	10.09%	9.99%	9.43%
Risk-weighted capital ratio	13.70%	13.59%	12.96%	12.64%

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

This page has been intentionally left blank

FOR BUSINESS. FOR GROWTH. FOR LIFE.

SMALL MEDIUM ENTERPRISE DEVELOPMENT BANK MALAYSIA BERHAD (49572-H)

Menara SME Bank, Jalan Sultan Ismail, 50250 Kuala Lumpur

 +603 2615 2020 (General Line)

 www.smebank.com.my

 www.facebook.com/smebank

 customercare@smebank.com.my

 +603 2698 1748 (Fax No.)

 www.YourSuccessOurStory.com

 www.twitter.com/SME_Bank

 1800-88-3131 (Customer Care Centre)