

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016

1. Corporate Information

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

The registered office of the Bank is located at Level 16, Menara Bank Pembangunan, Bandar Wawasan, No. 1016, Jalan Sultan Ismail, 50250 Kuala Lumpur.

The holding and ultimate holding company of the Bank is the Minister of Finance (Incorporated) ("MOF (Inc.)") a corporate body established under the Minister of Finance (Incorporation) Act 1957 in Malaysia.

The Bank is principally engaged to provide medium to long term credit and financing facilities under both Conventional and Islamic financial business principles to finance infrastructure projects, maritime, oil & gas, technology and capital intensive industries in manufacturing as well as other identified sectors in line with the country's development policy. The principal activities of the subsidiary companies are as disclosed in Note 46.

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

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Board of Directors on 31 May 2017.

2. Significant Accounting Policies

2.1 Statement of Compliance and Basis of Preparation

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

The financial statements incorporate those activities relating to Islamic Financial Business, which have been undertaken by the Group. Islamic Financial Business refers generally to the business or activity of granting of financing in accordance with Shariah.

The Group and the Bank present the statements of financial position in order of liquidity. An analysis regarding the recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 47(c).

The financial statements of the Group and of the Bank have been prepared under the historical cost basis unless otherwise indicated in the summary of significant accounting policies below. The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand ("RM'000") except where otherwise indicated.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies

(a) Subsidiaries and basis of consolidation

(i) 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 in 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 return.

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 Group has power over an investee, including:

- The contractual arrangements 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, investments in subsidiaries are stated at cost less any impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(h). On disposal of such investments, the difference between the net disposal proceeds and their carrying amounts is included in the income statement. Dividends received from subsidiaries are recorded as a component of revenue in the Bank's separate income statement.

The consolidated financial statements comprise the financial statements of the Group and the Bank as at and for the financial year ended 31 December of each year.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(a) Subsidiaries and basis of consolidation (cont'd.)

(ii) 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 are prepared for the same reporting date as the Bank.

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. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

Non-controlling interests ("NCI") represent the portion of profit or loss and net assets in subsidiaries not owned, directly or indirectly by the Bank. NCI are presented separately in the consolidated income statements and statements of comprehensive income and within equity in the consolidated statement of financial position, but separate from parent shareholders' equity. Total comprehensive income is allocated against the interest of NCI, even if this results in a deficit balance. Acquisition of NCI are accounted for using the parent entity extension method, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognised as equity.

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;

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(a) Subsidiaries and basis of consolidation (cont'd.)

(ii) Basis of consolidation (cont'd.)

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: (cont'd.)

- Recognises the fair value of any investment retained in the former subsidiary;
- Recognises any surplus or deficit in the profit or loss; and
- 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.

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

(iii) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(a) Subsidiaries and basis of consolidation (cont'd.)

(iii) Business combinations and goodwill (cont'd.)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of MFRS 139 Financial Instruments: Recognition and Measurement ("MFRS 139"), is measured at fair value with changes in fair value recognised either in profit or loss or as a change to Other Comprehensive Income ("OCI"). If the contingent consideration is not within the scope of MFRS 139, it is measured in accordance with the appropriate MFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for NCI, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed off, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(b) Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture ("JV") is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the JV. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The Group has interests in JVs that is disclosed in Note 12.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate and JV are accounted for using the equity method.

Under the equity method, the investment in an associate or a JV is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or JV since the acquisition date. Goodwill relating to the associate or JV is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or JV. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or JV, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or JV are eliminated to the extent of the interest in the associate or JV.

The aggregate of the Group's share of profit or loss of an associate and a JV is shown on the face of the income statements outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or JV.

The financial statements of the associate or JV are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(b) Investment in associates and joint ventures (cont'd.)

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or JV. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or JV is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or JV and its carrying value, then recognises the loss as share of loss of an associate or JV.

Upon loss of significant influence over the associate or joint control over the JV, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or JV upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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

(c) Foreign currency transactions

(i) 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.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(c) Foreign currency transactions (cont'd.)

(ii) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Group and the Bank 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 dates 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.

Exchange differences arising on the settlement of monetary items or on translation of monetary items at the reporting date are recognised in the income statements except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to the income statement of the Group and on disposal of the foreign operation.

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

(iii) Foreign operations

The assets and liabilities of foreign operations are translated into RM at the rate of exchange ruling at the reporting date and income and expenses are translated at exchange rates at the dates of the transactions. The exchange differences arising on the translation are taken directly to OCI. On disposal of a foreign operation, the cumulative amount recognised in OCI and accumulated in the separate component of equity, is reclassified from equity to income statement (as a reclassification) when the gain or loss on disposal is recognised.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(d) Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the Bank and the cost of the item can be measured reliably.

Subsequent to recognition, plant and equipment and furniture and fixtures are measured at cost less accumulated depreciation and accumulated impairment losses. The policy for recognition and measurement of impairment is in accordance with Note 2.2(h), below. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group and the Bank recognise such parts as individual assets with specific useful lives and depreciation, respectively.

Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statements as incurred.

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

Freehold land has an unlimited useful life and therefore is not depreciated. Building-in-progress are also not depreciated as these assets are not available for use. Depreciation of other property, plant and equipment is provided for on a straight-line basis over the estimated useful life, as follows:

Leasehold land and buildings	19 - 50 years
Vessels	5 - 30 years
Furniture and equipment	3 - 10 years
Partitioning, installation and renovations	3 - 20 years
Motor vehicles	5 - 8 years
Dry-docking expenses	2.5 - 5 years

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. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in the income statements.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(e) Investment properties

Investment properties principally comprise properties held for long term rental yields or capital appreciation or both and which are not occupied by the Group and the Bank. Investment property is carried at cost less accumulated depreciation and any impairment losses. The policy for recognition and measurement of impairment is in accordance with Note 2.2(h), below.

Freehold land is not depreciated. Freehold building is depreciated at an annual rate of 2%, calculated on a straight line basis to write off the cost of each building over the estimated useful life.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria is met and excludes the cost of day-to-day servicing of that property.

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 gains or losses on the retirement or disposal of an investment property are recognised in the income statements in the year in which they arise.

(f) Intangible assets

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible asset are assessed to be either finite or infinite. Intangible assets with finite lives are amortised on straight line basis over the useful economic 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 each financial year end. The amortisation expense on intangible asset with finite lives is recognised in the income statements in the expense category consistent with the function of the intangible asset.

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

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(g) Leases

(i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Group and the Bank all the risks and rewards incidental to ownership. Leases of land and building are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. All leases that do not transfer substantially all the risks and rewards are classified as operating leases, with the following exceptions:

- Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and
- Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease.

(ii) Finance lease - the Group as lessee

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the statement of financial position as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practical to determine; otherwise, the Bank's incremental borrowing rate is used. Any initial direct costs are also added to the carrying amount of such assets.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the income statements over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2.2(d).

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(g) Leases (cont'd.)

(iii) Operating lease - the Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and building element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

(iv) Operating lease - the Group as lessor

Assets leased out under operating leases are presented on the statements of financial position according to the nature of the assets. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

(h) Impairment of non-financial assets

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

An asset's recoverable amount is the 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")).

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(h) Impairment of non-financial assets (cont'd.)

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the 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. Impairment losses are recognised in profit or loss.

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. Impairment loss on goodwill is not reversed in a subsequent period.

(i) Financial assets

Initial recognition and subsequent measurement

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 provisions of the financial instrument.

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

The Group and the Bank determine the classification of their financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss ("FVTPL"), loans/financing and receivables, financial investments - held-to-maturity ("HTM") investments and financial investment - available-for-sale ("AFS").

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(i) Financial assets (cont'd.)

Initial recognition and subsequent measurement (cont'd.)

The classification of financial assets at initial recognition depends on the purpose and the management's intention for which the financial assets were acquired and their characteristics. The Group and the Bank determine the classification of financial assets at initial recognition, in which the details are disclosed below.

Included in financial assets are the following :

(i) Financial assets at FVTPL

Financial assets are classified as financial assets at FVTPL if they are held for trading or are 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 fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in the income statements. 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 the income statements as part of other losses or other income.

Regular way purchases and sales of financial assets held-for-trading are recognised on settlement date.

The Group and the Bank did not have any embedded derivatives during the years ended 31 December 2016 and 2015.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(i) Financial assets (cont'd.)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less allowance for impairment. Interest income on loans and receivables is recognised as "interest income" in the income statements. Impairment losses on loans and receivables are recognised in the income statements as "allowances for impairment on loans, advances and financing".

Loans stocks in organisations set up for socio-economic purposes which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are classified as receivables.

(iii) Financing and receivables

Financing and receivables consist of Murabahah, Tawarruq, Ijarah (includes Ijarah Muntahiyah bi Tamlik and Ijarah Thummal Bai'), Istisna', Kafalah, Bai' Bithaman Ajil and Bai' 'Inah. These contracts, except for Kafalah, are recognised at amortised cost, including direct and incremental transaction costs using effective profit method. These contracts are stated at net of unearned income and any amounts written off and/or impaired.

Definition of Shariah concept:

- (a) Murabahah: It refers to a sale and purchase of an asset where the acquisition cost and the mark-up are disclosed to the purchaser. The sale price is payable by the purchaser usually on deferred terms.
- (b) Tawarruq: It basically consists of two sale and purchase contracts. The first involves the sale of an asset by a seller to a purchaser on a deferred basis. Subsequently, the purchaser of the first sale will sell the same asset to a third party on a cash and spot basis.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(i) Financial assets (cont'd.)

(iii) Financing and receivables (cont'd.)

Definition of Shariah concept (cont'd.):

- (c) Ijarah: It refers to a contract that transfers ownership of a permitted usufruct and/or service for a specified period in exchange for a specified consideration. It includes variations of this contract i.e. Ijarah Muntahiyah bi Tamlik and Ijarah Thummal Bai', where it is accompanied with an option to transfer the ownership of the leased asset to the lessee at the end of the lease period via acceptable means of ownership transfer. For financial reporting purpose the Ijarah contract meets the definition of finance lease.
- (d) Istisna': It refers to a contract which a seller sells to a purchaser an asset which is yet to be constructed, built or manufactured according to agreed specifications and delivered on an agreed specified future date at an agreed pre-determined sale price.
- (e) Kafalah: It refers to a contract where the guarantor conjoins the guaranteed party in assuming the latter's specified liability for a specified period.
- (f) Bai' Bithaman Ajil: It refers to a sale contract where the sale price is deferred and paid gradually during the specified period.
- (g) Bai' 'Inah: It refers to an arrangement that involves sale of an asset to the purchaser on a deferred basis and subsequent purchase of the asset at a cash price lower than the deferred sale price or vice versa, and which complies with the specific requirements.

(iv) Financial investments - HTM

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as financial investments - HTM when the Group and the Bank have the positive intention and ability to hold the investment to maturity.

Subsequent to initial recognition, financial investments - HTM are measured at amortised cost using the effective interest/profit method, less impairment. Interest/profit income on financial investments - HTM is recognised as "interest income" or "profit income" in the income statements. Impairment losses on financial investments - HTM are recognised in income statements as "impairment on financial investments - HTM".

Regular way of purchases and sales of financial investments - HTM are recognised on settlement date.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(i) Financial assets (cont'd.)

(v) Financial investment - AFS

Financial investments - AFS are financial assets that are designated as available for sale or are not classified in any of the three preceding categories. Financial investments - AFS include financial assets that are intended to be held for an indefinite period of time, which may be sold in response to liquidity needs or changes in market condition.

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

If a financial investment - AFS is determined to be impaired, the cumulative gain or loss recognised in OCI is recognised in the income statements.

Regular way of purchases and sales of financial assets that require delivery of assets within the period is generally established by regulation or convention in the marketplace concerned.

Fair value determination

For financial instruments measured at fair value, the fair value is determined by reference to quoted market prices or by using valuation models. The fair value of financial instruments traded in active markets are based on quoted market price or dealer price quotation.

For all other financial assets, fair value is determined using appropriate valuation techniques. In such cases, the fair values are estimated using discounted cash flow models, based on observable data in respect of similar financial instruments and using inputs (such as yield curve) existing at the reporting date.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(i) Financial assets (cont'd.)

Derecognition

Financial instruments are derecognised when the risks and rewards associated with the instruments are substantially transferred, cancelled or expired. Upon derecognition, the difference between the carrying amount of the instruments and the consideration received/paid, less the cumulative gain or loss that has been recognised in the equity are taken to the income statements.

(j) Impairment of financial assets

The Group and the Bank assess at each statements of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The impairment policies on the financial assets are summarised as follows:

(i) Loans and receivables

Classification of impaired loans, advances and financing

The Group and the Bank classify a loan, advance or financing as impaired when there is objective evidence that the loan is impaired. In addition, the Group and the Bank also comply with Bank Negara Malaysia's Guidelines on Classification and Impairment Provision for Loans/Financing which states that, based on repayment conduct, a loan or financing should be classified as impaired (see next page):

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(j) Impairment of financial assets (cont'd.)

(i) Loans and receivables (cont'd.)

Classification of impaired loans, advances and financing (cont'd.)

- Where the principal or interest/profit or both is past due more than 90 days or 3 months. In the case of revolving facilities, the facility shall be classified as impaired where the outstanding amount remains in excess of the approved limit for a period of more than 90 days or 3 months.

Declassification of an impaired account shall be supported by a credit assessment of the repayment capabilities, cash flow and financial position of the borrower.

Impairment - individual allowance ("IA")

The Group and the Bank first assess individually whether objective evidence of impairment exists individually for loans, advances and financing that are individually significant, or collectively for financial assets that are not individually significant. If the Group and the Bank determine that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss 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 (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statements. Where appropriate, the calculation of the present value of the estimated future cash flows of a collateralised loans or receivable reflect the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable. Interest/profit income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest/profit used to discount the future cash flows for the purpose of measuring the impairment loss. The interest/profit income is recorded as part of 'interest/profit income' in the income statements.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(j) Impairment of financial assets (cont'd.)

(i) Loans and receivables (cont'd.)

Impairment - collective allowance ("CA")

Loans, advances and financing and receivables that have been assessed individually and found not to be impaired are then assessed collectively, to determine whether allowance should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident.

As allowed by MFRS 139 in deriving the CA estimates, the Bank makes reference to the publicly available data particularly relating to Probability of Default ("PD") and Loss Given Default ("LGD") estimates as benchmarks. These estimates are mapped and calibrated to the Bank's loan, advances and financing portfolios using equivalent and comparable credit rating as references. The derived PD and LGD are then adjusted by management to reflect the effects of current conditions.

Impairment - write-off accounts

Loans together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group and the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statements.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(j) Impairment of financial assets (cont'd.)

(ii) Financial investments - HTM

The Group and the Bank assess at each reporting date whether objective evidence of impairment of financial investments - HTM exists as a result of one or more loss events and that loss event has an impact on the estimated future cash flows of the financial investment or group of financial investments that can be reliably estimated.

Where there is objective evidence of impairment, an impairment loss is recognised as the difference between the amortised cost and the present value of the estimated future cash flows, less any impairment previously recognised.

(iii) Financial investments - AFS

The Group and the Bank assess at each reporting date whether an objective evidence that financials investment classified as AFS is impaired.

In the case of quoted investments, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether objective evidence of impairment exists. Where such evidence exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less impairment loss previously recognised) is removed from equity and recognised in the income statements. For unquoted equity investments which are measured at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flow discounted at the current rate of return for a similar financial asset. Impairment losses recognised in the income statements on equity investments are not reversed through the income statements.

For debt instruments, impairment is assessed based on the same criteria as other AFS financial investments. Where impairment losses have been previously recognised in the income statements and there is a subsequent increase in the fair value of the debt instruments that can be objectively related to a credit event occurring after the impairment loan was recognised in the income statements, the impairment loss is reversed through income statements.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(k) 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 are recognised in the statement 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 recognised at amortised cost. Financial liabilities measured at amortised cost include deposits from customers, debt securities issued and other borrowed funds.

(l) Bills and acceptance payable

Bills and acceptance payable represents the Bank's own bills and acceptances rediscounted and outstanding in the market. These financial liabilities are stated at amortised cost.

(m) Equity instruments

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 shares are equity instruments.

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.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(n) Employee benefits

Short term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short term cash bonus if the Group and the Bank have a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group's and the Bank's contribution to the Employees Provident Fund are charged to the income statements in the year to which they relate. Once the contributions have been paid, the Group and the Bank have no further payment obligations.

(o) Government grants

Government grants are recognised at their fair value in the statements of financial position where there is a reasonable assurance that the grants will be received and all attaching conditions will be complied with. The Government grants are presented in the statements of financial position as "infrastructure support fund" ("ISF") and "deferred income".

ISF relates to fund received from the Government to cover the potential risk of loan/financing default, any allowance for impairment losses, write-off and other liquidity requirements that may arise. It is also to cover the contingent liabilities of Bank i.e guarantees, standby credits and performance bonds.

Deferred income comprises claims received in relation to profit rate differentials on financing of Government infrastructure project.

Grants that compensate the Group and the Bank for expenses incurred are recognised as income over the period necessary to match the grants on a systematic basis to the costs that it is intended to compensate.

(p) Provisions

Provisions are recognised when the Group and the Bank have a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(p) Provisions (cont'd.)

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

(q) Contingent liabilities

Contingent liabilities consist of secured guarantees given to third parties on behalf of borrowers. Contingent liabilities are disclosed in the notes to the accounts, unless the possibility of an outflow of resources embodying economic benefits is remote.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Disposal groups, assets held for sale and discontinued operation

Non-financial assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary.

Immediately before classification as held for sale, the measurement of the non-current assets (or all the assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable MFRSs. Then, on initial classification as held for sale, non-financial assets or disposal groups (other than investment properties, deferred tax assets, employee benefits assets and financial assets) are measured in accordance with MFRS 5: Non-current Assets Held for Sale and Discontinued Operations; that is at the lower of carrying amount and fair value less costs to sell. Any differences are included in the income statements.

A component of the Group is classified as a discontinued operation when the criteria to be classified as held for sale have been met or it has been disposed and such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resell.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(s) 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.

(i) Interest/profit and similar income

For all financial instruments measured at amortised cost, interest/profit bearing financial assets classified as AFS and financial instruments designated at FVTPL, interest/profit income is recorded using the effective interest/profit rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, repayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest/profit rate, but not future credit losses.

For impaired financial assets where the value of the financial asset have been written down as a result of an impairment loss, interest/profit income continues to be recognised using the rate of interest/profit used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Islamic income recognition

Income from financing and receivables is recognised in the income statements using the effective profit method. The effective profit rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. The calculation of the effective profit rate includes all contractual terms of the financial instruments and includes any fees incremental costs that are directly attributable to the instruments and are an integral part of the effective profit rate.

Sale-based Financing (Murabahah, Tawarruq, Istisna', Bai' Bithaman Ajil and Bai' 'Inah)

Income are accrued on monthly basis on the cost outstanding at the prevailing effective profit rate over the duration of the financing.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(s) Revenue (cont'd.)

(ii) Islamic income recognition (cont'd.)

Lease-based Financing (Ijarah, Ijarah Muntahiyah bi Tamlik and Ijarah Thummal Bai')

Ijarah income is recognised on the effective profit rate of the cost of the leased asset over the leased period.

Fee income

Fee-based income from charging administrative fees such processing fee, arrangement fee, facility fee and upfront fee is recognised on an accrual basis. Fee-based income is also derived from provision of guarantee based on kafalah contract.

(iii) Income recognition for leasing, hire purchase financing, pre-factoring and factoring

Income earned on leasing and hire purchase confirming and factoring financing is recognised based on the effective interest/profit method.

(iv) Dividend income

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

(v) Charter hire income

Charter hire fees are accounted for on accrual basis.

(t) Income Taxes

(i) Current tax

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

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(t) Income Taxes (cont'd.)

(i) Current tax (cont'd.)

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

(ii) 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 purposes.

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, affect 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 be reversed 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 substantially enacted at the reporting date.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(t) Income Taxes (cont'd.)

(ii) Deferred tax (cont'd.)

Deferred tax relating to items recognised outside the income statements is recognised outside the income statements. 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.

(u) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, bank balances and deposit placements with original maturity less than one month held for the purpose of meeting short term commitments and readily convertible into cash without significant risk of changes in value.

2.3 Changes in Accounting Policies

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

On 1 January 2016, the Group and the Bank adopted the following new and amended MFRSs and IC Interpretation mandatory for annual financial periods beginning on or after 1 January 2016.

Description	Effective for annual period beginning on or after
Annual Improvements to MFRSs 2012 – 2014 Cycle	1 January 2016
Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 116 and MFRS 141: Agriculture: Bearer Plants	1 January 2016
Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to MFRS 127: Equity Method in Separate Financial Statements	1 January 2016

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.3 Changes in Accounting Policies (cont'd.)

Description	Effective for annual period beginning on or after
Amendments to MFRS 101: Disclosure Initiatives	1 January 2016
Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception	1 January 2016
MFRS 14 Regulatory Deferral Accounts	1 January 2016

The adoption of the above standards and interpretations did not have any significant effect on the financial performance and position of the Group and of the Bank.

2.4 Standards Issued but not yet Effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's and the Bank's financial statements are disclosed below. The Group and the Bank intend to adopt these standards, if applicable, when they become effective.

Description	Effective for annual period beginning on or after
MFRS 107 Disclosures Initiatives (Amendments to MFRS 107)	1 January 2017
MFRS 112 Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)	1 January 2017
MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
MFRS 9 Financial Instruments	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 16 Leases	1 January 2019
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

The directors expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application except as discussed in the next page.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.4 Standards Issued but not yet Effective (cont'd.)

MFRS 9 *Financial Instruments*

In November 2014, MASB issued the final version of MFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. 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 comparative information is not compulsory. The adoption of MFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

(i) Classification and measurement

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

(ii) Impairment

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

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.4 Standards Issued but not yet Effective (cont'd.)

MFRS 9 Financial Instruments (cont'd.)

(iii) Hedge accounting

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

MFRS 15 Revenue from Contracts with Customers

The Group is currently assessing the impact of MFRS 15 and plans to adopt the new standard on the required effective date.

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

MFRS 16 Leases

MFRS 16 will replace MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

2. Significant Accounting Policies (cont'd.)

2.4 Standards Issued but not yet Effective (cont'd.)

MFRS 16 Leases (cont'd.)

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group plans to assess the potential effect of MFRS 16 on its financial statements in year 2017.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements involved making certain estimates, assumptions and that affect the accounting policies applied and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the financial statements in the period in which the estimate is revised and in any future periods affected. Significant areas of estimation, uncertainty and critical judgements used in applying accounting policies that have significant effect on the amount recognised in the financial statements include the following:

3.1 Judgments

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

(a) Impairment of financial investments portfolio (Note 6, Note 7 and Note 36)

The Group and the Bank review the financial investments portfolio of financial investments - AFS and HTM at each reporting date to assess whether there is any objective evidence that the investment is impaired. If there are indicators or objective evidence, the investments are subject to impairment review.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

3. Significant Accounting Judgments and Estimates (cont'd.)

3.1 Judgments (cont'd.)

**(a) Impairment of financial investments portfolio (Note 6, Note 7 and Note 36)
(cont'd.)**

In carrying out the impairment review, the following management's judgment are required:

- (i) Determination whether the investment is impaired based on certain indicators 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 or obligors; and
- (ii) Determination of "significant" or "prolonged" requires judgment and management evaluation on various factors, such as historical fair value movement, the duration and extent of reduction in fair value.

(b) Impairment of loans, advances and financing (Note 8 and Note 35)

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

**(c) Impairment of investment in subsidiaries (Note 10), interest in associates
(Note 11) and JVs (Note 12)**

The Group and the Bank assess whether there is any indication that an investment in subsidiaries, interest in associates and JVs may be impaired at each reporting date.

If indicators are present, these investments are subjected to impairment review which comprises a comparison of the carrying amount of the investment and the investment's estimated recoverable amount.

Judgments made by management in the process of applying the Group's accounting policies in respect of investment in subsidiaries, interest in an associates and JVs are as follows:

- (i) The Group and the Bank determine 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 effects on the investment and deteriorating financial performance of the investment due to observed changes and in the economic environment; and

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

3. Significant Accounting Judgments and Estimates (cont'd.)

3.1 Judgments (cont'd.)

(c) Impairment of investment in subsidiaries (Note 10), interest in associates (Note 11) and JVs (Note 12) (cont'd.)

Judgments made by management in the process of applying the Group's accounting policies in respect of investment in subsidiaries, interest in an associates and JVs are as follows: (cont'd.)

- (ii) Depending on their nature and the location in which the investments relate to, judgments are made by management to select suitable methods of valuation such as, amongst others, discounted future cash flows or estimated fair value based on quoted market price of the most recent transactions.

(d) Impairment of vessels (Note 13, Note 36 and Note 44)

The Group and the Bank assess whether there is any indication that the vessels 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 assets and the assets' recoverable amount.

3.2 Estimates

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the financial statements in the period in which the estimate is revised and in any future periods affected. Significant areas of estimation, uncertainty and critical judgments used in applying accounting policies that have significant effect on the amount recognised in the financial statements include the following:

(a) Allowance for impairment of loans, advances and financing (Note 8 and Note 35)

Management makes certain assumptions to estimate the recoverable amount of the loans, advances and financing once a suitable method of valuation is selected.

Amongst factors considered are the Group's and the Bank's aggregate exposure to the borrower, the net realisable value of the underlying collateral value, the viability of the customer's business model and the capacity to generate sufficient cash flow to service debt obligations and the aggregate amount and ranking of all other creditor claims. The actual amount of the future cash flows and their timing may differ from the estimates used by management and consequently may cause actual losses to differ from the impairment made.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

3. Significant Accounting Judgments and Estimates (cont'd.)

3.2 Estimates (cont'd.)

(a) Allowance for impairment of loans, advances and financing (Note 8 and Note 35) (cont'd.)

Collective assessment is performed on loans, advances and financing which the Group and the Bank have determined that no objective evidence of impairment exists based on individual assessment. These loans, advances and financing are then assessed collectively, to determine whether allowance should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident.

In deriving the collective allowance estimates, the Bank makes reference to the publicly available data particularly relating to Probability of Default ("PD") and Loss Given Default ("LGD") as benchmarks. The derived PD and LGD are then adjusted for by the management where deemed necessary.

For the subsidiaries involved in leasing and factoring business, future cash flows in a group of loans, advances and financing that are collectively evaluated for impairment are estimated based on the historical loss experience of those of the subsidiaries. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period during on which the historical loss experience is based on and to remove the effects of conditions in the historical period that do not currently exist.

(b) Allowance for impairment of financial investments portfolio (Note 6 and Note 7)

If there is objective evidence that an impairment loss has been incurred for financial investments - HTM, the amount of the loss is measured as the difference between the carrying amount and the present value of the estimated cash flows discounted at the original effective yield of the securities.

For financial investments - AFS, when there is evidence of impairment, the cumulative loss (which is measured as the difference between the acquisition cost and the current fair value, less any accumulated impairment loss on that investment previously recognised in the income statements) that had been recognised in other comprehensive income is reclassified from equity to income statements. Impairment losses on equity investments are not reversed through the income statements; increases in the fair value after impairment are recognised in other comprehensive income.

For quoted equity securities, its impairment losses are not reversed subsequent to its recognition until such equities are disposed.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

3. Significant Accounting Judgments and Estimates (cont'd.)

3.2 Estimates (cont'd.)

(b) Allowance for impairment of financial investments portfolio (Note 6 and Note 7) (cont'd.)

In the case of debt instruments classified as financial investments AFS, the impairment is assessed based on the same criteria as financial investments HTM. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any accumulated impairment loss on that investment previously recognised in the income statements.

(c) Fair value estimation of financial investments - AFS (Note 6)

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

(d) Allowance for impairment of investment in subsidiaries (Note 10), interest in associates (Note 11) and JVs (Note 12)

Once a suitable method of valuation is selected, management makes certain assumptions concerning the future to estimate the recoverable amount of the specific individual investment. These assumptions and other key sources of estimation uncertainty at the reporting date, may have a 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, terminal value, discount rate used for purposes of discounting future cash flows which incorporates the relevant risks and expected future outcome based on certain past trends.

Sensitivity to changes in assumptions

Management believes that no reasonably expected possible change in the key assumptions described above would cause the carrying amounts of the investments to materially exceed their recoverable amounts.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

3. Significant Accounting Judgments and Estimates (cont'd.)

3.2 Estimates (cont'd.)

(e) Allowance for impairment of vessels (Note 13, Note 36 and Note 44)

An asset's recoverable amount RA is the higher of the asset's value-in-use ("VIU") amount and fair value less costs to sell ("FVLCTS"). Estimating a VIU amount requires management to make an estimate of the expected future cash flows from vessels and also to choose a suitable discount rate in order to calculate to present value of those cash flows. The FVLCTS of the assets are determined by an independent professional valuer. The valuer has utilised market approach in valuing

(f) Deferred tax (Note 17) and Income taxes (Note 37)

Significant judgment 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 advice on the tax treatments 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.

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

4. Cash and Short Term Deposits

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash and balances with other financial institutions	23,357	35,381	7,840	2,698
Money at call and deposit placements maturing within one month	1,272,142	1,384,144	1,020,428	1,123,512
	<u>1,295,499</u>	<u>1,419,525</u>	<u>1,028,268</u>	<u>1,126,210</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

5. Deposits and Placements with Financial Institutions

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Licensed banks	-	51,672	-	-

6. Financial Investments - AFS

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At fair value				
Money market instruments:				
Government investment issues	1,305,405	872,906	1,305,405	872,906
Quoted securities:				
(In Malaysia)				
Shares	133,205	152,548	129,682	148,077
Unit trust funds	201,073	201,199	201,073	201,199
	<u>334,278</u>	<u>353,747</u>	<u>330,755</u>	<u>349,276</u>
Unquoted securities:				
(In Malaysia)				
Loan stock, at cost	-	727	-	727
Private debt securities	2,057,802	871,683	2,057,802	871,683
	<u>2,057,802</u>	<u>872,410</u>	<u>2,057,802</u>	<u>872,410</u>
	<u>3,697,485</u>	<u>2,099,063</u>	<u>3,693,962</u>	<u>2,094,592</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

7. Financial Investments - HTM

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At amortised cost				
Money market instruments:				
Cagamas	5,037	5,036	5,037	5,036
Unquoted securities: (In Malaysia)				
Private debt securities	527,365	500,832	527,365	500,832
Loan stock	22	22	-	-
	<u>527,387</u>	<u>500,854</u>	<u>527,365</u>	<u>500,832</u>
Less: Accumulated impairment losses	<u>(346,680)</u>	<u>(321,401)</u>	<u>(346,680)</u>	<u>(321,401)</u>
	<u>180,707</u>	<u>179,453</u>	<u>180,685</u>	<u>179,431</u>
	<u>185,744</u>	<u>184,489</u>	<u>185,722</u>	<u>184,467</u>

Indicative market values of the financial investments - HTM are as follows:

	Group and Bank	
	2016 RM'000	2015 RM'000
Cagamas	5,029	5,066
Unquoted private debt securities	<u>248,204</u>	<u>221,664</u>

The movements of the accumulated impairment losses are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	321,401	300,235	321,401	300,235
Provision during the financial year (Note 36)	25,279	21,166	25,279	21,166
At 31 December	<u>346,680</u>	<u>321,401</u>	<u>346,680</u>	<u>321,401</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

8. Loans, Advances and Financing

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Loans, advances and financing to industries:				
Government guaranteed	4,342,616	5,532,712	4,342,616	5,532,712
Others	19,772,635	19,537,708	19,482,973	19,215,784
	<u>24,115,251</u>	<u>25,070,420</u>	<u>23,825,589</u>	<u>24,748,496</u>
Loans, advances and financing to others:				
Staff financing	8,562	10,313	8,562	10,313
Loan to subsidiaries	-	-	-	86,030
	<u>8,562</u>	<u>10,313</u>	<u>8,562</u>	<u>96,343</u>
Gross loans, advances and financing	24,123,813	25,080,733	23,834,151	24,844,839
Allowance for impairment on loans, advances and financing:				
Individual allowance	(2,238,529)	(1,426,339)	(2,163,480)	(1,352,430)
Collective allowance	(675,201)	(897,045)	(664,573)	(919,953)
	<u>(2,913,730)</u>	<u>(2,323,384)</u>	<u>(2,828,053)</u>	<u>(2,272,383)</u>
Net loans, advances and financing	<u>21,210,083</u>	<u>22,757,349</u>	<u>21,006,098</u>	<u>22,572,456</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

8. Loans, Advances and Financing (cont'd.)

(i) Loans, advances and financing analysed by type are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Bai' Bithaman Ajil	203,699	306,160	195,342	291,788
Bai' 'Inah	52,009	74,049	52,009	74,049
Bridging financing	15,869	18,894	13,456	12,421
Factoring	60,078	44,432	-	-
Hire purchase	144,047	151,565	-	-
Istisna'	3,997,381	5,446,683	3,997,381	5,456,490
Ijarah	56,663	64,786	20,625	19,346
Ijarah Muntahiyah bi Tamlik	104,293	102,104	104,293	102,104
Infra support loan	-	29,273	-	29,273
Leasing	22,745	37,812	-	-
Murabahah	25,778	53,715	25,778	53,715
Revolving financing	2,546	4,762	-	-
Revolving working capital	253,146	373,292	253,146	373,292
Staff financing	8,562	10,313	8,562	10,313
Tawarruq	4,685,853	1,036,178	4,676,970	1,022,199
Term loan	14,491,144	17,326,260	14,486,589	17,399,394
Working capital	-	455	-	455
Gross loans, advances and financing	24,123,813	25,080,733	23,834,151	24,844,839
Allowance for impairment on loans, advances and financing:				
Individual allowance	(2,238,529)	(1,426,339)	(2,163,480)	(1,352,430)
Collective allowance	(675,201)	(897,045)	(664,573)	(919,953)
Net loans, advances and financing	21,210,083	22,757,349	21,006,098	22,572,456

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

8. Loans, Advances and Financing (cont'd.)

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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Domestic business enterprises	24,115,251	25,070,420	23,825,589	24,834,526
Individuals	8,562	10,313	8,562	10,313
	<u>24,123,813</u>	<u>25,080,733</u>	<u>23,834,151</u>	<u>24,844,839</u>

(iii) Loans, advances and financing analysed by interest/profit rate sensitivity are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Fixed rate:				
Housing loans/financing	16,919	21,303	8,562	10,313
Hire purchase receivables	144,047	162,819	-	-
Other fixed rate loans/financing	15,196,777	14,078,585	15,059,519	14,016,500
Variable rate:				
Cost plus	3,100,511	2,507,152	3,100,511	2,507,152
Other variable rates	5,665,559	8,310,874	5,665,559	8,310,874
	<u>24,123,813</u>	<u>25,080,733</u>	<u>23,834,151</u>	<u>24,844,839</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

8. Loans, Advances and Financing (cont'd.)

(iv) Loans, advances and financing analysed by industry are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Agriculture, hunting and forestry	5,756	6,997	-	-
Construction	11,019,192	11,531,521	10,993,823	11,520,391
Education	2,046,551	1,876,913	2,046,551	1,876,913
Electricity, gas and water supply	2,252,403	2,326,972	2,252,091	2,326,660
Finance, insurance and business	65,335	23,812	-	-
Hotel and restaurants	1,408,715	1,263,526	1,408,715	1,263,526
Housing	8,562	10,313	8,562	10,313
Manufacturing	552,400	543,639	538,971	474,015
Marine related	84,378	99,186	84,378	99,186
Materials technology	14,840	14,234	14,840	14,234
Medical and pharmaceuticals	43,371	41,917	43,371	41,917
Mining and quarrying	433	1,422	-	-
Other community, social and personal service activities	208,605	201,090	205,403	149,335
Production engineering	-	-	-	-
Public administration and defence	38,308	45,268	38,308	45,268
Real estate, renting and business activities	592,730	963,547	489,596	884,704
Shipping	1,434,745	1,552,401	1,434,745	1,638,431
Shipyard	201,369	193,748	201,369	193,748
Transport, storage and communication	4,146,120	4,384,227	4,073,428	4,306,198
	<u>24,123,813</u>	<u>25,080,733</u>	<u>23,834,151</u>	<u>24,844,839</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

8. Loans, Advances and Financing (cont'd.)

(v) The maturity structure of loans, advances and financing is as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Maturity within one year	4,508,249	4,925,097	4,480,690	4,901,056
One year to three years	5,159,757	4,995,772	5,028,630	4,920,670
Three years to five years	2,523,188	3,649,022	2,422,710	3,496,719
Over five years	11,932,619	11,510,842	11,902,121	11,526,394
	<u>24,123,813</u>	<u>25,080,733</u>	<u>23,834,151</u>	<u>24,844,839</u>

(vi) Loans, advances and financing analysed by geographical distribution are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Within Malaysia	<u>24,123,813</u>	<u>25,080,733</u>	<u>23,834,151</u>	<u>24,844,839</u>

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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	2,794,395	3,000,149	2,796,826	2,950,738
Impaired during the financial year	1,468,056	688,169	1,324,965	660,068
Reclassified as non-impaired	(17,817)	(38,546)	-	(36,982)
Recovered during the financial year	(508,180)	(114,529)	(467,084)	(65,255)
Amount written off	(113,330)	(740,848)	(113,330)	(711,743)
At 31 December	<u>3,623,124</u>	<u>2,794,395</u>	<u>3,541,377</u>	<u>2,796,826</u>
Gross impaired loans as a % of gross loans, advances and financing	<u>15.02%</u>	<u>11.14%</u>	<u>14.86%</u>	<u>11.26%</u>

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

8. Loans, Advances and Financing (cont'd.)

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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Construction	453,960	315,216	447,170	312,162
Education	77,551	76,853	77,551	76,853
Electricity, gas and water supply	118,783	111,166	118,783	111,166
Finance, insurance and business	2,641	550	-	-
Hotel and restaurants	484,304	446,259	474,029	432,520
Manufacturing	361,988	359,076	339,415	326,627
Marine related	84,378	98,732	84,378	98,732
Materials technology	14,841	14,234	14,841	14,234
Medical and pharmaceuticals	43,371	41,917	43,371	41,917
Other community, social and personal service activities	8,809	15,996	-	-
Real estate, renting and business activities	5,731	369,577	-	351,766
Shipping	1,339,807	722,210	1,339,807	808,240
Shipyard	639	14,660	-	14,660
Transport, storage and communication	626,321	207,949	602,032	207,949
	<u>3,623,124</u>	<u>2,794,395</u>	<u>3,541,377</u>	<u>2,796,826</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

8. Loans, Advances and Financing (cont'd.)

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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Individual allowance ("IA")				
At 1 January	1,426,339	1,957,260	1,352,430	1,842,562
Allowance made during the financial year	707,561	230,197	678,314	206,161
Allowance made during the year against ISF	9,334	11,060	9,334	11,060
Amount written back in respect of recoveries	(115,905)	(75,853)	(95,771)	(37,937)
Amount transferred from from CA	350,922	64,260	350,922	64,260
Amount transferred to CA	(22,317)	(21,933)	(22,317)	(21,933)
Amount written off	(117,405)	(738,652)	(109,432)	(711,743)
At 31 December	<u>2,238,529</u>	<u>1,426,339</u>	<u>2,163,480</u>	<u>1,352,430</u>
Collective allowance ("CA")				
At 1 January	897,045	681,860	919,953	699,397
Allowance made during the financial year	111,946	272,260	73,232	272,356
Allowance made during the year against ISF	(7)	-	(7)	-
Amount written back	(5,178)	(14,748)	-	(9,473)
Amount transferred to IA	(350,922)	(64,260)	(350,922)	(64,260)
Amount transferred from IA	22,317	21,933	22,317	21,933
At 31 December	<u>675,201</u>	<u>897,045</u>	<u>664,573</u>	<u>919,953</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

9. Other Assets

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Sundry receivables, deposits and prepayments	(i)	361,424	93,830	40,643	12,005
Less: Allowance for doubtful debts	(ii)	(215,421)	(23,364)	(601)	(706)
		<u>146,003</u>	<u>70,466</u>	<u>40,042</u>	<u>11,299</u>
Amount due from subsidiaries		-	-	726	1,603
Amount receivable from Government in respect of compensation for: Infrastructure projects		46,819	46,956	46,819	46,956
Foreign exchange differences		85,361	85,361	85,361	85,361
Tax recoverable		40,257	28,185	35,160	22,780
		<u>318,440</u>	<u>230,968</u>	<u>208,108</u>	<u>167,999</u>

(i) Included in the sundry receivables, deposits and prepayments of the Group is an amount due from Syarikat Borcos Shipping Sdn Bhd ("Borcos"), a former subsidiary of Global Maritime Ventures Berhad ("GMVB") amounting to RM290,179,000. Due to the deconsolidation of Borcos, as disclosed in Note 10(b), the amount due from Borcos is now treated as sundry receivables due from third party.

(ii) Allowance for doubtful debts

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	23,364	7,624	706	1,035
Provided during the financial year:				
- Trade receivables	-	12,498	-	-
- Associates	-	457	-	-
Impairment on amount due from discontinued operation	210,781	-	-	-
Recovered during the financial year	(18,651)	(329)	(32)	(329)
Exchange differences	-	3,114	-	-
Amount written off	(73)	-	(73)	-
At 31 December	<u>215,421</u>	<u>23,364</u>	<u>601</u>	<u>706</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

10. Investments in Subsidiaries

	Bank	
	2016	2015
	RM'000	RM'000
Unquoted shares, at cost	924,686	924,686
Additional capital contribution due to waiver of debt	68,750	68,750
	<u>993,436</u>	<u>993,436</u>
Less: Allowance for impairment on investments in subsidiaries	(603,749)	(512,577)
	<u>389,687</u>	<u>480,859</u>
Less: Transfer to subsidiary classified as held for sale, net of impairment allowance (Note 10(c))	(636)	-
	<u>389,051</u>	<u>480,859</u>

Movement of allowance for impairment:

As at 1 January	512,577	339,693
Amount provided during the year	91,172	172,884
At 31 December	<u>603,749</u>	<u>512,577</u>

(a) Subsidiary with significant non-controlling interest

The summarised financial information of Global Maritime Ventures Berhad ("GMVB") which have significant non-controlling interests to the Group is set out below. The summarised financial information presented below is the amount before inter-company elimination:

(i) Summarised statement of financial position

	GMVB	
	2016	2015
	RM'000	RM'000
Non current assets	30,024	40,198
Current assets	225,034	673,721
Total assets	<u>255,058</u>	<u>713,919</u>
Non current liabilities	-	71
Current liabilities	3,821	359,218
Total liabilities	<u>3,821</u>	<u>359,289</u>
Net assets	<u>251,237</u>	<u>354,630</u>
Equity attributable to the owners of the company	<u>243,813</u>	<u>345,116</u>
Carrying value of non-controlling interests	<u>7,424</u>	<u>9,514</u>

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

10. Investments in Subsidiaries (cont'd.)

(a) Subsidiary with significant non-controlling interest (cont'd.)

(ii) Summarised statement of comprehensive income

	GMVB	
	2016	2015
	RM'000	RM'000
Continuing operations:		
Revenue	-	121
Cost of sales	-	(359)
Other income	17,321	14,533
Administrative expenses	(7,903)	(52,040)
Finance costs	(4)	(3)
Share of loss of joint ventures and associates	(5,880)	(9,235)
Profit/(loss) before taxation	3,534	(46,983)
Income tax	(6,416)	(5,957)
Zakat	(1,050)	(16)
Loss for the financial year	(3,932)	(52,956)
Discontinued operations:		
Gain on deconsolidation of discontinued operations	440,370	-
Impairment on amount due from discontinued operations	(210,781)	-
Loss from discontinued operations	(119,746)	(275,946)
Profit/(loss) from discontinued operations, net of tax	109,843	(275,946)
Net profit/(loss) for the year	105,911	(328,902)
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:		
Exchange difference on translation of foreign operations		
- transferred to profit or loss	(215,292)	-
- translation during the year	5,988	122,911
	(209,304)	122,911
Total comprehensive loss for the financial year	(103,393)	(205,991)

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

10. Investments in Subsidiaries (cont'd.)

(a) Subsidiary with significant non-controlling interest (cont'd.)

	GMVB	
	2016	2015
	RM'000	RM'000
Profit/(loss) for the year attributable to:		
Equity holders of the parent	106,031	(328,772)
Non-controlling interest	(120)	(130)
	<u>105,911</u>	<u>(328,902)</u>
Total comprehensive loss attributable to the owners of the company	(101,303)	(207,380)
Total comprehensive (loss)/profit attributable to the non-controlling interests	(2,090)	1,389
	<u>(103,393)</u>	<u>(205,991)</u>

(iii) Summarised statement of cash flows

	GMVB	
	2016	2015
	RM'000	RM'000
Net cash used in operating activities	(72,048)	(6,111)
Net cash used in investing activities	(3,064)	(9,618)
Net cash used in financing activities	(23,218)	(182,489)
Net decrease in cash and cash equivalents	(98,330)	(198,218)
Effects of foreign exchange rate changes	328	38
Cash and cash equivalents at beginning of financial year	<u>209,987</u>	<u>408,167</u>
Cash and cash equivalents at the end of the financial year	<u>111,985</u>	<u>209,987</u>

(b) Creditors Voluntary Liquidation

On 22 December 2016, Borcos was placed under Creditors Voluntary Liquidation ("CVL") and the Group has lost control over Borcos and its subsidiaries ("Borcos Group"). As a result, Borcos Group's assets and liabilities have been deconsolidated from the Group's consolidated financial statements and its results are presented separately in the income statements as "Discontinued operations".

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

10. Investments in Subsidiaries (cont'd.)

(b) Creditors Voluntary Liquidation (cont'd.)

Details of the financial position of Borcos Group on the date of the deconsolidation were as follows:

Assets	Total RM'000
Asset held for sale	304,507
Cash and bank balances	7,397
Trade and other receivables	838
Amount due to holding company	64
Tax recoverable	45
	<u>312,851</u>
Liabilities	
Borrowings	(228,845)
Trade and other payables	(308,954)
Deferred tax liabilities	(4)
	<u>(537,803)</u>
Net liabilities	<u>(224,952)</u>
	At the date of deconsolidation RM'000
Net identifiable liabilities disposed	224,952
Reclassification of foreign exchange reserve to profit or loss	215,292
Transfer from non-controlling interest	126
Gain on deconsolidation	<u>440,370</u>
The effect of the deconsolidation on cash flow is as follows:	
Cash and bank balances of Borcos	<u>(7,397)</u>
Cash outflow to the Group on deconsolidation	<u>(7,397)</u>
Included in results from operating activities are:	
Depreciation of property, plant and equipment	30,644
Amortisation of intangible assets	15,511
Impairment allowance for vessels	<u>200,974</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

10. Investments in Subsidiaries (cont'd.)

(c) Disposal of a subsidiary

On 23 November 2016, the Bank has accepted the offer from Intrasy Sdn Bhd, to acquire the Bank's interest in Pembangunan Ekuiti Sdn Bhd ("PESB") at Net Tangible Assets ("NTA") as at 31 December 2016. The proposed disposal of the subsidiary is expected to be completed in 2017. As at 31 December 2016, the assets and liabilities of the subsidiary have been presented in the statements of financial position as "Assets of a subsidiary classified as held for sale" and "Liabilities of a subsidiary classified as held for sale" and its result is presented separately on the income statements as "Discontinued operations".

(i) Subsidiary classified as held for sale

	Bank 2016 RM'000
<u>Cost</u>	
At 1 January	-
Transferred from investment in subsidiaries	<u>1,747</u>
At 31 December	<u>1,747</u>
<u>Accumulated allowance for impairment losses on investment in subsidiary</u>	
At 1 January	-
Transferred from investment in subsidiaries	<u>1,111</u>
At 31 December	<u>1,111</u>
Net carrying amount (Note 46)	<u>636</u>

(ii) Statement of financial position disclosure

The major classes of assets and liabilities of a subsidiary classified as held for sale as at 31 December 2016 are as follows:-

Group	Carrying amount 31.12.2016 RM'000
Assets:	
Cash and bank balances	842
Tax recoverable	4
Total assets	<u>846</u>
Liabilities:	
Payables	<u>215</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

10. Investments in Subsidiaries (cont'd.)

(c) Disposal of a subsidiary (cont'd.)

(iii) Statement of cash flow disclosure

	2016
	RM'000
Cash outflow from operating activities	(3)
Cash inflow from investing activities	24
Cash and cash equivalents at beginning of financial year	821
Cash and cash equivalents at the end of the financial year	<u>842</u>

(d) Discontinued operations

The result from discontinued operation for the financial year ended 31 December 2016 is as follows:

	Borcus	PESB	2016
	RM'000	RM'000	RM'000
Interest income	88	19	107
Interest expense	(12,598)	-	(12,598)
Net interest income	(12,510)	19	(12,491)
Non-interest income	16,366	-	16,366
Net income	3,856	19	3,875
Overhead expenses	(28,818)	(19)	(28,837)
Allowance for impairment losses on other assets	(94,737)	-	(94,737)
Loss before taxation	(119,699)	-	(119,699)
Tax expense	(47)	(5)	(52)
Loss, net of tax	<u>(119,746)</u>	<u>(5)</u>	<u>(119,751)</u>

	Borcus	PESB	2015
	RM'000	RM'000	RM'000
Interest income	85	19	104
Interest expense	(21,864)	-	(21,864)
Net interest income	(21,779)	19	(21,760)
Non-interest income	90,460	-	90,460
Net income	68,681	19	68,700
Overhead expenses	(136,748)	(62)	(136,810)
Allowance for impairment losses on other assets	(213,472)	-	(213,472)
Loss before taxation	(281,539)	(43)	(281,582)
Tax expense	(845)	(4)	(849)
Loss, net of tax	<u>(282,384)</u>	<u>(47)</u>	<u>(282,431)</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

11. Interest in Associates

	Group	
	2016	2015
	RM'000	RM'000
At cost:		
Unquoted ordinary shares	74,975	74,975
Less: Result from deconsolidation exercise	(343)	-
	<u>74,632</u>	<u>74,975</u>
Group's share of post acquisition reserve	3,282	3,028
	<u>77,914</u>	<u>78,003</u>
Less: Accumulated impairment losses	(74,675)	(74,675)
Add: Result from deconsolidation exercise	343	-
	<u>(74,332)</u>	<u>(74,675)</u>
	<u>3,582</u>	<u>3,328</u>

(i) Details of the associates incorporated in Malaysia are as follows:

Name of Associates (incorporated in Malaysia)	Effective interest held by the Group		Principal Activities
	2016	2015	
	%	%	
Held through GMVB, a subsidiary:			
Wawasan Bulk Services Sdn Bhd	27.0	27.0	Ship management
Held through Syarikat Borcos Shipping Sdn Bhd			
Berkat Perkapalan Sdn Bhd *	-	44.1	Dormant
Held through SME Growth Accelerated Fund Sdn Bhd ("SME GAF"), a subsidiary:			
Ambang Wibawa Sdn Bhd *	26.0	26.0	Dormant
Cantuman Wawasan Sdn Bhd *	26.0	26.0	Dormant
Internexia Sdn Bhd *	26.0	26.0	Dormant

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

11. Interest in Associates (cont'd.)

(i) Details of the associates incorporated in Malaysia are as follows: (cont'd.)

Name of Associates (incorporated in Malaysia)	Effective interest held by the Group		Principal Activities
	2016 %	2015 %	
Held through SME Growth Accelerated Fund Sdn Bhd ("SME GAF"), a subsidiary: (cont'd.)			
MS Time Ventures Sdn Bhd *	26.0	26.0	Dormant
Nano C Sdn Bhd *	26.0	26.0	Dormant
Profound Kestrel Laboratories Sdn Bhd *	49.0	49.0	Dormant
Schiffs & Industries Tehcnic Sdn Bhd *	26.0	26.0	Dormant
Wellad Communications Sdn Bhd *	26.0	26.0	Dormant

* Audited by firms of auditors other than Ernst & Young, Malaysia.

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

11. Interest in Associates (cont'd.)

The summarised financial statements of the associates not adjusted for the proportion of ownership interest held by the Group are as follows:

(a) Summarised statement of financial position

	Group	
	2016	2015
	RM'000	RM'000
Total assets	38,245	45,058
Total liabilities	26,303	33,966

(b) Summarised statement of comprehensive income

Revenue	3,524	3,781
Profit for the financial year	773	409

(c) Reconciliation of the summarised financial information

Net assets at 1 January	11,092	9,482
Profit for the financial year	773	409
Other comprehensive income	77	1,201
Net assets at 31 December	11,942	11,092
Interests in joint ventures	30%	30%
Carrying value of Group's interest in associates	3,582	3,328

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

12. Interest in JVs

	Group	
	2016	2015
	RM'000	RM'000
At cost:		
Unquoted ordinary shares	53,979	53,979
Group's share of post acquisition deficit	(9,182)	(3,048)
Less: Accumulated impairment losses	(18,585)	(18,585)
	<u>26,212</u>	<u>32,346</u>
Advances to JVs:		
within 1 year	5,057	23,260
1 year to 2 years	10,202	4,122
2 years to 5 years	15,303	5,457
More than 5 years	24,995	23,071
Less: Allowance for doubtful debts	(48,345)	(48,345)
	<u>7,212</u>	<u>7,565</u>
	<u>33,424</u>	<u>39,911</u>

The advances to JVs bear an interest of 2.4% to 7.0% (2015: 2.4% to 7.0%) per annum and are repayable on a quarterly basis over a period of 10 years.

(i) Details of the JVs are as follows:

Name of JVs (incorporated in Malaysia)	Effective interest held by the Group		Principal Activities
	2016	2015	
Held through GMVB, a subsidiary:	%	%	
Alam Eksplorasi (M) Sdn Bhd ^	36.00	36.00	Ship-owning, ship operator, ship agency, chartering and other related to shipping industry
Alam Synergy I (L) Inc ^	36.00	36.00	Ship-owning, ship operator and charter hire of vessel
Alam Synergy II (L) Inc ^	36.00	36.00	Ship-owning, ship operator, and charter hire of vessel

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

12. Interest in JVs (cont'd.)

(i) Details of the JVs are as follows:

Name of JVs (incorporated in Malaysia)	Effective interest held by the Group		Principal Activities
	2016 %	2015 %	
Held through GMVB, a subsidiary (cont'd.):			
Alam Synergy III (L) Inc ^	36.00	36.00	Ship-owning, ship operator, and charter hire of vessel
Baycorp Ship Management Sdn Bhd #	36.00	36.00	Ship management
Formasi Cekal Sdn Bhd #	36.00	36.00	Ship-owning, ship operator and to undertake all kinds of contract to carry merchant goods
Gagasan Ked Sdn Bhd #	54.00	54.00	Ship-owning
Gagasan Paha Sdn Bhd #	54.00	54.00	Ship-owning
Global BMesra Sdn Bhd @	44.10	44.10	Ship-owning and freighting
Global BMesra Dua Sdn Bhd @	44.10	44.10	Ship-owning and freighting
Global Bikhlas Sdn Bhd @	44.10	44.10	Ship-owning and freighting
Sea Weasel Limited	44.10	44.10	Ship-owning and freighting

^ Collectively known as Alam Group

Collectively known as Gagasan Group

@ Collectively known as Global Group

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

12. Interest in JVs (cont'd.)

The aggregate current assets, non-current assets, current liabilities and results of the JVs are as follows (cont'd.):

(a) Summarised statement of financial position

	2016 RM'000	2015 RM'000
Assets:		
Non current assets	97,204	204,069
Current assets	55,385	186,728
Total assets	<u>152,589</u>	<u>390,797</u>
Liabilities:		
Non current liabilities	59,824	174,061
Current liabilities	199,694	242,169
Total liabilities	<u>259,518</u>	<u>416,230</u>
Net liabilities	<u>(106,929)</u>	<u>(25,433)</u>

(b) Summarised statement of comprehensive income

	2016 RM'000	2015 RM'000
Revenue	19,690	55,669
Cost of sales	(27,174)	(54,766)
Gross profit	(7,484)	903
Other income	7,824	35,530
Administrative expenses	(60,218)	(5,095)
Operating expenses	(13,286)	(43,216)
Loss from operations	(73,164)	(11,878)
Finance costs	(8,271)	(19,153)
Loss before taxation	(81,435)	(31,031)
Taxation	(60)	(67)
Loss for the financial year	<u>(81,495)</u>	<u>(31,098)</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

12. Interest in JVs (cont'd.)

(c) Reconciliation of the summarised financial information

	2016	2015
	RM'000	RM'000
Net assets at 1 January	(25,434)	5,665
Loss for the year	(81,495)	(31,098)
Net (liabilities)/assets at 31 December	<u>(106,929)</u>	<u>(25,433)</u>
Interests in joint ventures	<u>47,826</u>	<u>6,130</u>
Carrying value of Group's interest in joint ventures	(59,103)	(19,303)
Less: Cumulative unrecognised losses b/f	(51,649)	(54,612)
Share of unrecognised (losses)/gain for the year	<u>(33,666)</u>	<u>2,963</u>
Net carrying value of Group's interest in joint ventures	<u><u>26,212</u></u>	<u><u>32,346</u></u>

16562-K

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

13. Property, Plant and Equipment

Group	Freehold land RM'000	Leasehold land and buildings RM'000	Furniture and equipment RM'000	Motor vehicle RM'000	Mechanical and electricals RM'000	Vessels RM'000	Capital work-in progress RM'000	Dry-docking expenses RM'000	Total RM'000
2016									
Cost									
At 1 January	18,373	78,912	36,358	2,111	39,003	-	2,163	-	176,920
Additions	-	-	1,370	-	-	-	481	-	1,851
Disposals/write-off	-	(7,165)	(5,393)	(547)	(9)	-	-	-	(13,114)
Reclassification	-	-	(215)	-	-	-	(1,924)	-	(2,139)
At 31 December	18,373	71,747	32,120	1,564	38,994	-	720	-	163,518

16562-K

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

13. Property, Plant and Equipment (cont'd.)

Group	Freehold land RM'000	Leasehold land and buildings RM'000	Furniture and equipment RM'000	Motor vehicle RM'000	Mechanical and electricals RM'000	Vessels RM'000	Capital work-in progress RM'000	Dry- docking expenses RM'000	Total RM'000
2016 (cont'd.)									
Accumulated depreciation									
At 1 January	-	11,678	31,224	1,785	38,203	-	-	-	82,890
Charge for the financial year	-	1,486	2,199	201	248	-	-	-	4,134
Disposals/write-off	-	(614)	(5,542)	(547)	(9)	-	-	-	(6,712)
At 31 December	-	12,550	27,881	1,439	38,442	-	-	-	80,312
Net carrying amount	18,373	59,197	4,239	125	552	-	720	-	83,206

16562-K

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

13. Property, Plant and Equipment (cont'd.)

Group	Freehold land RM'000	Leasehold land and buildings RM'000	Furniture and equipment RM'000	Motor vehicle RM'000	Mechanical and electricals RM'000	Vessels RM'000	Capital work-in progress RM'000	Dry-docking expenses RM'000	Total RM'000
2015									
Cost									
At 1 January	20,383	80,327	37,506	3,657	38,914	801,633	18,630	67,214	1,068,264
Additions	-	-	1,426	-	28	46	10,916	-	12,416
Disposals/write-off	(387)	-	(844)	(95)	-	-	-	-	(1,326)
Effect of movements in exchange rates	-	-	906	-	-	187,502	(1,626)	10,337	197,119
Reclassification	(5)	430	921	4	61	12,209	(25,757)	12,137	-
Transfer to assets held for sale	(1,618)	(1,845)	(3,557)	(1,455)	-	(1,001,390)	-	(89,688)	(1,099,553)
At 31 December	18,373	78,912	36,358	2,111	39,003	-	2,163	-	176,920

16562-K

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

13. Property, Plant and Equipment (cont'd.)

Group	Freehold land RM'000	Leasehold land and buildings RM'000	Furniture and equipment RM'000	Motor vehicle RM'000	Mechanical and electricals RM'000	Vessels RM'000	Capital work-in progress RM'000	Dry- docking expenses RM'000	Total RM'000
2015 (cont'd.)									
Accumulated depreciation									
At 1 January	-	10,925	33,234	2,964	37,462	136,358	-	11,194	232,137
Charge for the financial year	-	1,677	2,605	148	741	43,238	-	11,381	59,790
Disposals/write-off	-	-	(843)	(95)	-	-	-	-	(938)
Effect of movements in exchange rates	-	-	(764)	-	-	22,369	-	13,573	35,178
Transfer to assets held for sale	-	(924)	(3,008)	(1,232)	-	(201,965)	-	(36,148)	(243,277)
At 31 December	-	11,678	31,224	1,785	38,203	-	-	-	82,890
Accumulated impairment losses									
At 1 January	-	-	-	-	-	211,499	-	-	211,499
Charge for the financial year	-	-	-	-	-	200,974	-	-	200,974
Transfer to assets held for sale	-	-	-	-	-	(462,101)	-	-	(462,101)
Effect of movements in exchange rates	-	-	-	-	-	49,628	-	-	49,628
At 31 December	-	-	-	-	-	-	-	-	-
Net carrying amount	18,373	67,234	5,134	326	800	-	2,163	-	94,030

16562-K

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

13. Property, Plant and Equipment (cont'd.)

Bank	Freehold land RM'000	Buildings RM'000	Furniture and equipment RM'000	Mechanical and electricals RM'000	Motor vehicles RM'000	Renovation progress RM'000	Capital work-in progress RM'000	Total RM'000
2016								
Cost								
At 1 January	18,203	78,782	31,991	39,004	1,336	-	2,163	171,479
Additions	-	-	490	-	-	820	481	1,791
Disposals/write off	-	(7,165)	(4,943)	(9)	(530)	-	-	(12,647)
Reclassification	-	-	-	-	-	-	(1,924)	(1,924)
At 31 December	18,203	71,617	27,538	38,995	806	820	720	158,699
Accumulated depreciation								
At 1 January	-	11,646	27,729	38,204	1,251	-	-	78,830
Charge for the financial year	-	1,484	1,557	248	82	38	-	3,409
Disposals/write off	-	(710)	(4,926)	(9)	(530)	-	-	(6,175)
At 31 December	-	12,420	24,360	38,443	803	38	-	76,064
Net carrying amount	18,203	59,197	3,178	552	3	782	720	82,635

16562-K

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

13. Property, Plant and Equipment (cont'd.)

Bank	Freehold land RM'000	Buildings RM'000	Furniture and equipment RM'000	Mechanical and electricals RM'000	Motor vehicles RM'000	Capital work-in progress RM'000	Total RM'000
2015							
Cost							
At 1 January	19,190	78,182	31,019	38,914	1,339	2,615	171,259
Additions	-	-	943	27	-	484	1,454
Disposals/write off	(387)	-	(844)	-	(3)	-	(1,234)
Reclassification	(600)	600	873	63	-	(936)	-
At 31 December	18,203	78,782	31,991	39,004	1,336	2,163	171,479
Accumulated depreciation							
At 1 January	-	10,071	26,787	37,462	1,119	-	75,439
Charge for the financial year	-	1,575	1,785	742	136	-	4,238
Disposals/write off	-	-	(843)	-	(4)	-	(847)
At 31 December	-	11,646	27,729	38,204	1,251	-	78,830
Net carrying amount	18,203	67,136	4,262	800	85	2,163	92,649

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

14. Prepaid Land Leases

	Group and Bank	
	2016	2015
	RM'000	RM'000
Cost		
At 1 January	1,662	2,012
Disposals	-	(350)
At 31 December	<u>1,662</u>	<u>1,662</u>
Depreciation		
At 1 January	745	838
Charge for the financial year	34	40
Disposals	-	(133)
At 31 December	<u>779</u>	<u>745</u>
Carrying amount	<u>883</u>	<u>917</u>

15. Investment Properties

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Cost				
At 1 January	7,510	8,817	2,149	3,226
Disposals	-	(925)	-	(695)
Transfer from assets held for sale (Note 44)	367	(382)	367	(382)
Transfer to assets held for sale (Note 44)	(2,886)	-	-	-
Transfer from property, plant and equipment	215	-	-	-
At 31 December	<u>5,206</u>	<u>7,510</u>	<u>2,516</u>	<u>2,149</u>
Depreciation and impairment loss				
At 1 January	4,125	4,059	1,310	1,287
Charge for the financial year	192	175	51	63
Disposals	-	(94)	-	(25)
Transfer to assets held for sale (Note 44)	-	(15)	-	(15)
Adjustment	15	-	-	-
At 31 December	<u>4,332</u>	<u>4,125</u>	<u>1,361</u>	<u>1,310</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

15. Investment Properties (cont'd.)

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Accumulated impairment losses				
At 1 January/31 December	(689)	(689)	-	-
Carrying amount	1,563	4,074	1,155	839
Included in the above are:				
Buildings	1,563	4,074	1,155	839

- (i) The Directors of the Group and the Bank estimated the fair values of the investment properties of the Group and the Bank to be RM11,080,000 (2015: RM11,320,000) and RM3,830,000 (2015: RM4,250,000) respectively based on comparison with indicative market value stated in the Property Market Report 2016 (2015: Property Market Report 2014).

16. Intangible Assets

Group	Computer software RM'000	Contract based related intangibles RM'000	Goodwill RM'000	Total RM'000
Cost				
At 1 January	28,477	62,089	76,664	167,230
Addition	2,367	-	-	2,367
Transfer from property, plant and equipment (Note 13)	1,924	-	-	1,924
Amount written off due to deconsolidation of a subsidiary	-	(62,089)	(76,664)	(138,753)
At 31 December	32,768	-	-	32,768
Amortisation				
At 1 January	19,653	62,089	-	81,742
Amortisation charged	3,891	-	-	3,891
Amount written off due to deconsolidation of a subsidiary	-	(62,089)	-	(62,089)
At 31 December	23,544	-	-	23,544

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

16. Intangible Assets (cont'd.)

Group (cont'd.)

2016	Computer software RM'000	Contract based related intangibles RM'000	Goodwill RM'000	Total RM'000
Accumulated impairment losses				
At 1 January	-	-	76,664	76,664
Amount written off due to deconsolidation of a subsidiary	-	-	(76,664)	(76,664)
At 31 December	-	-	-	-
Carrying amount	9,224	-	-	9,224
2015				
Cost				
At 1 January	26,859	62,089	76,664	165,612
Additions	1,618	-	-	1,618
At 31 December	28,477	62,089	76,664	167,230
Amortisation				
At 1 January	15,701	46,579	-	62,280
Amortisation charged	3,952	15,510	-	19,462
At 31 December	19,653	62,089	-	81,742
Accumulated impairment losses				
At 1 January/ 31 December	-	-	76,664	76,664
Carrying amount	8,824	-	-	8,824

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

16. Intangible Assets (cont'd.)

Group (cont'd.)

Contract based related intangibles

Contract based related intangibles relate to the customer contracts that were acquired in business combinations. The intangibles are in respect of contracts that will expire by 2017; and is amortised on a straight line basis up to expiry. The subsidiary of the Bank has fully amortised the intangible assets as its Petronas license has been revoked, where all of the existing contracts has been suspended.

Bank

	2016	2015
	Computer software	Computer software
	RM'000	RM'000
Cost		
At 1 January	24,937	23,319
Additions	3,920	1,618
At 31 December	<u>28,857</u>	<u>24,937</u>
Amortisation		
At 1 January	16,752	13,146
Amortisation charged	3,720	3,606
At 31 December	<u>20,472</u>	<u>16,752</u>
Carrying amount	<u>8,385</u>	<u>8,185</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

17. Deferred Tax Assets/(Liabilities)

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	(540)	(17,217)	6,026	(12,538)
Recognised in income statement	7,487	(876)	(779)	943
Recognised in equity	8,186	17,553	7,958	17,621
Deconsolidation of subsidiaries	4	-	-	-
At 31 December	<u>15,137</u>	<u>(540)</u>	<u>13,205</u>	<u>6,026</u>
Presented after appropriate offsetting as follows:				
Deferred tax assets	18,127	8,938	13,205	6,026
Deferred tax liabilities	(2,990)	(9,478)	-	-
	<u>15,137</u>	<u>(540)</u>	<u>13,205</u>	<u>6,026</u>

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

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

Deferred tax assets

Group	Loan loss and allowances RM'000	Unrealised AFS reserve RM'000	Other temporary differences RM'000	Total RM'000
At 1 January 2016	2,978	(6,167)	13,835	10,646
Recognised in income statement	1,784	-	506	2,290
Recognised in equity	-	8,186	-	8,186
Deconsolidation of subsidiaries	-	-	4	4
At 31 December 2016	<u>4,762</u>	<u>2,019</u>	<u>14,345</u>	<u>21,126</u>
At 1 January 2015	5,269	(23,720)	15,759	(2,692)
Recognised in income statement	(2,291)	-	(1,924)	(4,215)
Recognised in equity	-	17,553	-	17,553
At 31 December 2015	<u>2,978</u>	<u>(6,167)</u>	<u>13,835</u>	<u>10,646</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

17. Deferred Tax Assets/(Liabilities) (cont'd.)

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

Deferred tax liabilities

Group	Loan loss and allowances RM'000	Property, plant and equipment RM'000	Total RM'000
At 1 January 2016	(3,545)	(7,641)	(11,186)
Recognised in income statement	(2,375)	7,572	5,197
At 31 December 2016	<u>(5,920)</u>	<u>(69)</u>	<u>(5,989)</u>
At 1 January 2015	-	(14,525)	(14,525)
Recognised in income statement	(3,545)	6,884	3,339
At 31 December 2015	<u>(3,545)</u>	<u>(7,641)</u>	<u>(11,186)</u>

Deferred tax assets

Bank	Unrealised AFS reserve RM'000	Other temporary differences RM'000	Total RM'000
At 1 January 2016	(6,099)	12,281	6,182
Recognised in income statement	-	506	506
Recognised in equity	7,958	-	7,958
At 31 December 2016	<u>1,859</u>	<u>12,787</u>	<u>14,646</u>
At 1 January 2015	(23,720)	11,880	(11,840)
Recognised in income statement	-	401	401
Recognised in equity	17,621	-	17,621
At 31 December 2015	<u>(6,099)</u>	<u>12,281</u>	<u>6,182</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

17. Deferred Tax Assets/(Liabilities) (cont'd.)

Deferred tax liabilities

Bank	Property, plant and equipment RM'000
At 1 January 2016	(156)
Recognised in income statement	(1,285)
At 31 December 2016	<u>(1,441)</u>
At 1 January 2015	(698)
Recognised in income statement	542
At 31 December 2015	<u>(156)</u>

Deferred tax assets have not been recognised in respect of the following items:

	Group	
	2016	2015
	RM'000	RM'000
Other deductible temporary differences	-	25,479
Unutilised tax losses	-	307,760
Unabsorbed capital allowances	-	136,124
	<u>-</u>	<u>469,363</u>

The unutilised tax losses and unabsorbed capital allowances of the Group are available for offsetting against future taxable profits subject to no substantial change in shareholdings under the Income Tax Act, 1967 and guidelines issued by the tax authority.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

18. Deposits from Customers

	Group and Bank	
	2016	2015
	RM'000	RM'000
Fixed deposits and negotiable instruments of deposits:		
One year or less	<u>9,750,551</u>	<u>7,752,319</u>
(a) The deposits are sourced from the following types of deposit:		
Tawarruq	<u>9,750,551</u>	<u>7,752,319</u>
(b) The deposits are sourced from the following types of customers:		
Business enterprises	1,232,673	2,412,391
Government and statutory bodies	<u>8,517,878</u>	<u>5,339,928</u>
	<u>9,750,551</u>	<u>7,752,319</u>
(c) The deposits maturity structure are as follows:		
Less than six months	7,713,416	6,928,880
Six months to one year	<u>2,037,135</u>	<u>823,439</u>
	<u>9,750,551</u>	<u>7,752,319</u>

19. Deposits and Placements from Financial Institutions

	Group and Bank	
	2016	2015
	RM'000	RM'000
Licensed banks	<u>10,002</u>	<u>445,640</u>
(a) The deposits maturity structure are as follows:		
Less than six months	<u>10,002</u>	<u>445,640</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

20. Other Liabilities

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Provision for taxation		1,747	1,369	-	-
Zakat payables		19,339	22,671	17,137	21,807
Trade creditors		7,949	22,193	-	-
Sundry creditors and accruals		80,409	102,303	44,993	37,577
Provision for corporate guarantees	(i)	-	69,160	-	-
		<u>109,444</u>	<u>217,696</u>	<u>62,130</u>	<u>59,384</u>

- (i) Corporate guarantees payable in prior year was related to amounts due to certain banks as a result of payment default by certain joint ventures, which a subsidiary of the Group has provided corporate guarantees on the loan facilities granted to the joint ventures.

The movements of the provision for corporate guarantees are as follows:

	Group	
	2016 RM'000	2015 RM'000
At 1 January	69,160	59,300
Provision during the financial year	-	9,860
Recovered during the financial year	(69,160)	-
At 31 December	<u>-</u>	<u>69,160</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

21. Redeemable Notes

	Note	Group and Bank	
		2016 RM'000	2015 RM'000
Redeemable non guaranteed notes			
Medium term notes	(i)	404,695	808,743
Medium term notes - Murabahah	(ii)	1,511,090	-
		<u>1,915,785</u>	<u>808,743</u>
Redeemable guaranteed notes			
Medium term notes - Murabahah	(iii)	3,041,671	3,041,671
Medium term notes	(iv)	510,718	-
		<u>3,552,389</u>	<u>3,041,671</u>
Infrastructure notes - nominal value	(v)	455,733	506,473
Less: Unaccreted discount		(3,591)	(3,999)
		<u>452,142</u>	<u>502,474</u>
		<u>5,920,316</u>	<u>4,352,888</u>

- (i) This note carry coupon rates of 6.30% per annum and is for tenures 15 years. This note will mature in April 2021.
- (ii) These notes were issued on 4 November 2016 and carry coupon rates ranging between 4.50% to 4.95% per annum and are for tenures of 10 to 19 years. These notes will mature in November 2026 , 2031 and 2035 respectively.
- (iii) These notes carry coupon rates ranging between 4.19% to 4.85% per annum and for tenures of 7 to 20 years. These notes will mature in September 2021, 2024, 2029 and 2034 respectively.
- (iv) These notes were issued on 22 January 2016 and carry coupon rates ranging between 4.52% to 5.08% per annum and for tenures of 7 to 15 years. These notes will mature in January 2023 and 2031.
- (v) This note has a maturity of 25 years with nominal value of RM450,000,000 (2015: RM500,000,000), which carry coupon rates of 7.20% (2015: 7.20%) per annum. These notes will mature in October 2025.

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

22. Borrowings

Group	Note	31 December 2016		31 December 2015	
		Due after twelve months RM'000	Due within twelve months RM'000	Due after twelve months RM'000	Due within twelve months RM'000
Loans from Employees Provident Fund ("EPF")					
Unsecured:	22 (a)				
Principal		2,500,000	-	2,500,000	1,000,000
Interest		-	28,267	-	30,715
		<u>2,500,000</u>	<u>28,267</u>	<u>2,500,000</u>	<u>1,030,715</u>
Other loans					
Unsecured:	22 (b)				
Principal		250,000	156,249	406,248	489,912
Interest		-	9,068	-	16,757
		<u>250,000</u>	<u>165,317</u>	<u>406,248</u>	<u>506,669</u>
Other loans Secured:					
Principal	22 (c)	-	-	-	169,751
		<u>2,750,000</u>	<u>193,584</u>	<u>2,906,248</u>	<u>1,707,135</u>
Total borrowings			<u>2,943,584</u>		<u>4,613,383</u>
Bank					
Loans from EPF					
Unsecured:	22 (a)				
Principal		2,500,000	-	2,500,000	1,000,000
Interest		-	28,267	-	30,715
		<u>2,500,000</u>	<u>28,267</u>	<u>2,500,000</u>	<u>1,030,715</u>
Other loans					
Unsecured:	22 (b)				
Principal		250,000	156,249	406,248	489,912
Interest		-	9,068	-	16,757
		<u>250,000</u>	<u>165,317</u>	<u>406,248</u>	<u>506,669</u>
		<u>2,750,000</u>	<u>193,584</u>	<u>2,906,248</u>	<u>1,537,384</u>
Total borrowings			<u>2,943,584</u>		<u>4,443,632</u>

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

22. Borrowings (cont'd.)

(a) Loan from EPF

	Note	Group and Bank Principal	
		2016 RM'000	2015 RM'000
Loan 1	22(a)(i)	2,000,000	2,000,000
Loan 2	22(a)(ii)	500,000	500,000
Loan 3	22(a)(iii)	-	1,000,000
		<u>2,500,000</u>	<u>3,500,000</u>

- (i) The loan is repayable in 5 equal instalments over a period of 5 years, commencing 2019.
- (ii) The loan is repayable in 10 equal instalments over a period of 5 years, commencing 2024.
- (iii) The loan was drawdown on 5 December 2011 and is repayable via bullet repayment in December 2016. This facility was settled during the current financial year.

All the above loans are guaranteed by the Government of Malaysia and bear interest at rates of 4.518% to 5.225% (2015: 3.746% to 5.225%) per annum.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

22. Borrowings (cont'd.)

(b) Other Loans - unsecured:

	Note	Group and Bank Principal	
		2016 RM'000	2015 RM'000
Loan from:			
Japan Bank of International Cooperation	22(b)(i)	56,249	196,160
Pension Trust Fund Council ("PTFC")	22(b)(ii)	350,000	450,000
Bank of Tokyo Mitsubishi Malaysia Berhad	22(b)(iii)	-	250,000
		<u>406,249</u>	<u>896,160</u>

Included in other loan - unsecured are:

- (i) The IT7 Loan from Japan Bank for International Cooperation ("JBIC") amounting to RM56,248,500 (¥1,750,000,000) [2015: RM196,160,569 (¥6,102,936,000)] out of total loan facility of RM1,747,580,000 (¥59,000,000,000). This is guaranteed by Government of Malaysia and will mature in March 2017.
- (ii) The Loan from PTFC amounting to RM350,000,000 (2015: RM450,000,000) is repayable in 10 instalments over a period of 6 years, commencing from 2015. This loan will mature in 2020.
- (iii) The Revolving Credit ("RC") Facility from Bank of Tokyo Mitsubishi Malaysia Berhad amounting to RM250,000,000 was drawdown in 2015 and settled during the current financial year.

The interest rate on other loans - unsecured range from 1.84% to 5.875% (2015: 1.84% to 5.875%) per annum during the financial year.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

22. Borrowings (cont'd.)

(c) Other Loans - secured:

	Note	Group Principal	
		2016 RM'000	2015 RM'000
Islamic financing facility	22(c)(i)	-	88,310
Term loans	22(c)(i)	-	77,719
Finance lease liabilities	22(c)(ii)	-	99
Overdrafts	22(c)(iii)	-	3,623
		<u>-</u>	<u>169,751</u>

In prior year, these facilities relates to borrowings undertaken by Borcos :

(i) Islamic financing facility and term loans

The Islamic financing facility and term loans bear profit/interest of 4.10% to 7.85% per annum, repayable monthly and secured by the following:

- (i) negative pledges over the leasehold land of a subsidiary of the Bank;
- (ii) equitable assignment of contract with customers;
- (iii) statutory mortgages over the vessels of the Group; and
- (iv) jointly and severally guaranteed by the Directors of the Group.

(ii) Finance lease liabilities

The hire purchase liabilities bear flat interest rate of 2.50% per annum.

(iii) Overdrafts

Bank overdrafts are denominated in RM, bear interest of 7.0% to 7.5% per annum and secured by deposit placed with licensed banks.

As Borcos has been placed under CVL and the Group has lost control over Borcos, as disclosed in Note 10(b), the borrowings have been derecognised from the Group's consolidated financial statements.

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

23. Infrastructure Support Fund ("ISF")

		Group and Bank	
		2016	2015
	Note	RM'000	RM'000
ISF - Novated loans			
At 1 January/31 December	(i)	<u>303,974</u>	<u>303,974</u>
Infrastructure Support Fund			
At 1 January	(ii)	33,152	63,348
IA made during the financial year against ISF (Note 30)		(9,334)	(11,060)
ISF for CA written back (Note 30)		7	-
Impairment of financial investments made during the financial year against ISF (Note 30)		(25,279)	(21,166)
Recoverable from loan written off against ISF (Note 30)		<u>4,059</u>	<u>2,030</u>
At 31 December		<u>2,605</u>	<u>33,152</u>
		<u>306,579</u>	<u>337,126</u>

- (i) The amount relates to financial assistance given by the Government of Malaysia upon novation of loans and the related borrowing to finance the loans to the Bank. The Fund will be utilised to cover any future losses, costs and expenses incurred by the Bank upon the final settlement of the loans.
- (ii) The amount relates to funds received from the Government to cover losses arising from loan/financing default, any allowance for impairment losses, write-off and other liquidity requirements that may arise from loans given for government infrastructure projects.

24. Deferred Income

	Group and Bank	
	2016	2015
	RM'000	RM'000
At 1 January	239,420	243,977
Utilised during the financial year	(5,409)	(4,557)
At 31 December	<u>234,011</u>	<u>239,420</u>

Deferred income relates to amount received from the government for interest rate differentials on a loan given for a government infrastructure project.

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

25. Share capital

Group and Bank	Number of shares		Amount	
	2016 '000	2015 '000	2016 RM'000	2015 RM'000
Authorised:				
Ordinary shares of RM1.00 each	10,000,000	10,000,000	10,000,000	10,000,000
Issued and fully paid:				
Ordinary shares of RM1.00 each	3,078,724	3,078,724	3,078,724	3,078,724

26. Reserves

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Non-distributable:					
Capital reserve	26 (i)	1,000	1,000	-	-
Statutory reserve	26 (ii)	1,910,715	1,897,676	1,910,715	1,897,676
Unrealised AFS reserve	26 (iii)	(6,405)	18,501	(5,887)	18,298
Exchange translation reserve	26 (iv)	(40,776)	163,160	-	-
		1,864,534	2,080,337	1,904,828	1,915,974
Distributable:					
Retained profits	27	2,608,236	2,403,140	2,407,383	2,368,266
		4,472,770	4,483,477	4,312,211	4,284,240

- (i) The capital reserve of the Group arose from the capitalisation of bonus issue in certain subsidiaries in previous financial years.
- (ii) The statutory reserves are maintained in compliance with the requirements of Section 39 of Development Financial Institution Act 2002 ("the Act") and are not distributable as cash dividends. Under the Act, the Bank is required to transfer at least 25% of its profit after tax, as the statutory reserves is more than 50% but less than 100% of its paid up capital.
- (iii) Unrealised AFS reserve represents the cumulative fair value changes, net of tax, of AFS financial assets until they are disposed of or impaired.

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

26. Reserves (cont'd.)

Movements of the AFS reserve are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	2,185	54,845	1,982	54,845
Reclassification (Note 50)	16,316	16,316	16,316	16,316
At 1 January, restated	18,501	71,161	18,298	71,161
Unrealised loss on fair value changes	(33,092)	(68,138)	(32,143)	(68,409)
Realised gain transferred to profit or loss	-	(2,075)	-	(2,075)
Transfer to deferred tax	8,186	17,553	7,958	17,621
At 31 December	(6,405)	18,501	(5,887)	18,298

- (iv) The exchange translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

27. Retained Earnings

The retained earnings of the Bank can be distributed as dividends under the single-tier system.

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

28. Interest Income

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Loans, advances and financing	933,561	1,082,885	911,014	1,064,372
Compensation from the Government	120,092	115,034	120,092	115,034
Money at call and deposit placements with financial institutions	35,327	45,027	27,217	31,624
Financial investments - AFS	17,047	22,311	17,047	22,311
Financial investments - HTM	-	4,483	-	4,483
	<u>1,106,027</u>	<u>1,269,740</u>	<u>1,075,370</u>	<u>1,237,824</u>
Accretion of discount less amortisation of premium	(499)	13,856	(499)	13,856
	<u>1,105,528</u>	<u>1,283,596</u>	<u>1,074,871</u>	<u>1,251,680</u>
Of which:				
Interest income earned on impaired loans, advances and financing	<u>52,616</u>	<u>72,599</u>	<u>52,354</u>	<u>72,599</u>

29. Interest Expense

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Deposits from customers	149,571	108,791	149,571	108,790
Deposits and placements from financial institutions	5,443	6,307	5,443	6,113
Bills and acceptance payable	33,632	27,789	33,632	27,789
Borrowings	176,388	290,358	176,388	292,794
Redeemable notes	85,327	86,242	85,327	86,242
Others	8,896	1,785	8,572	-
	<u>459,257</u>	<u>521,272</u>	<u>458,933</u>	<u>521,728</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

30. Non-Interest Income

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
(a) Other operating income:				
Charter hire income	-	1,478	-	-
	<u>-</u>	<u>1,478</u>	<u>-</u>	<u>-</u>
(b) Investment income:				
Net gain on sale of:				
Financial investments				
- AFS	-	800	-	800
Gross dividends from:				
Financial investments				
- AFS	7,800	9,146	7,800	9,087
	<u>7,800</u>	<u>9,946</u>	<u>7,800</u>	<u>9,887</u>
(c) Other income:				
Fee income	24,907	17,010	20,184	14,539
Rental income:				
- Subsidiaries	-	-	825	824
- Others	2,167	2,289	2,051	2,172
Gain/(loss) on disposal of property, plant and equipment	205	(266)	196	(386)
Loss on disposal of prepaid land lease	-	(218)	-	(218)
Gain on disposal of investment property	-	741	-	741
Gain/(loss) on foreign exchange				
Realised	290	91	-	-
Unrealised	(879)	2,378	(879)	(224)
Others	10,633	2,822	284	7
	<u>37,323</u>	<u>24,847</u>	<u>22,661</u>	<u>17,455</u>
Total non-interest income	<u>45,123</u>	<u>36,271</u>	<u>30,461</u>	<u>27,342</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

31. Compensation from/(to) the Government

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
IA made during the financial year against ISF	9,334	11,060	9,334	11,060
CA written back during the financial year against ISF	(7)	-	(7)	-
Recoverable from loan written off against ISF	(4,059)	(2,030)	(4,059)	(2,030)
Financial investments impairment made during the financial year against ISF	25,279	21,166	25,279	21,166
	<u>30,547</u>	<u>30,196</u>	<u>30,547</u>	<u>30,196</u>

32. Overhead Expenses

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Personnel costs	(i)	79,078	58,928	56,196	51,759
Establishment related expenses	(ii)	17,468	41,661	13,884	13,645
Promotion and marketing expenses	(iii)	2,316	3,935	2,316	3,901
General administrative expenses	(iv)	11,222	9,118	15,806	15,262
		<u>110,084</u>	<u>113,642</u>	<u>88,202</u>	<u>84,567</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

32. Overhead Expenses (cont'd.)

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
(i) Personnel costs				
Salaries, allowances and bonuses	58,720	43,125	42,842	39,345
Non-executive Directors' fees and remuneration:	2,350	1,757	1,696	1,398
Social security cost	322	311	238	204
Pension costs - Defined contribution plan	6,613	6,417	5,260	4,835
Compensation paid on loss of employment	3,803	-	-	-
Other staff related expenses	7,270	7,318	6,160	5,977
	<u>79,078</u>	<u>58,928</u>	<u>56,196</u>	<u>51,759</u>
(ii) Establishment related expenses				
Depreciation:				
Property, plant and equipment	4,134	29,146	3,409	4,238
Investment properties	192	175	51	63
Amortisation of:				
Prepaid lease rental	34	40	34	40
Intangible assets	3,891	3,951	3,720	3,606
Repairs and maintenance of property, plant and equipment	3,507	3,786	1,919	2,077
Information technology expenses	5,710	4,563	4,751	3,621
	<u>17,468</u>	<u>41,661</u>	<u>13,884</u>	<u>13,645</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

32. Overhead Expenses (cont'd.)

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
(iii) Promotion and marketing expenses				
Advertisement and publicity	<u>2,316</u>	<u>3,935</u>	<u>2,316</u>	<u>3,901</u>
(iv) General administrative expenses				
General administrative expenses	9,148	7,716	14,900	14,662
Auditors' remuneration:				
- Statutory audit	1,180	840	424	373
- Non-audit services regulatory related services	56	15	30	15
- Other services	681	529	441	212
Property, plant and equipment written off	157	18	11	-
	<u>11,222</u>	<u>9,118</u>	<u>15,806</u>	<u>15,262</u>

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Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

33. Directors' Fees and Remuneration (cont'd.)

The total remuneration (including benefits-in-kind) of the Directors of the Bank are as follows:

2015	Remuneration received from the Bank					Remuneration received from Subsidiary Companies					
	Salary RM'000	Fees RM'000	Bonus RM'000	Pension cost RM'000	Other emoluments RM'000	Benefits-in-kind RM'000	Bank total RM'000	Fees RM'000	Other emoluments RM'000	Benefits-in-kind RM'000	Group total RM'000
Executive Director:											
Mohammed Rafidz bin Ahmed Rasiddi	423	-	-	49	18	4	494	-	-	-	494
	423	-	-	49	18	4	494	-	-	-	494
Non-Executive Directors:											
Tan Sri Dato' Sri Dr. Wan Abdul Aziz bin Wan Abdullah	-	198	-	-	140	-	338	-	-	-	338
Zainul Rahim bin Mohd Zain Rosli bin Abdullah	-	36	-	-	150	-	186	-	-	-	186
Datuk Nozirah binti Bahari	-	36	-	-	164	-	200	152	94	-	446
Dato' Abdul Rahman bin Md Khalid	-	34	-	-	152	-	186	-	-	-	186
Datuk Engku Nor Faizah Engku Atek	-	33	-	-	158	-	191	30	31	-	252
Dato' Ir. Hj. Mohamad bin Husin	-	33	-	-	38	-	71	-	-	-	71
Dato' Kapt. Haji Ahmad bin Othman	-	24	-	-	44	-	68	15	12	-	95
Datuk Wan Azhar bin Wan Ahmad	-	24	-	-	40	-	64	15	10	-	89
	-	24	-	-	70	-	94	-	-	-	94
Total	-	442	-	-	956	-	1,398	212	147	-	1,757
	423	442	-	49	974	4	1,892	212	147	-	2,251

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

34. Compensation to Key Management Personnel

Key management personnel are defined as Directors of the Bank, executive and non-executive having authority and responsibility for planning, directing and controlling the activities of the Group and the Bank directly or indirectly. The remuneration and compensation of the Directors of the Bank during the financial year are as follows:

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Short term employee benefits' (excluding benefits-in-kind)	33	3,397	2,247	2,743	1,888

Included in the above are:

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Executive Director's remuneration (excluding benefits-in-kind)	33	1,047	490	1,047	490

35. Allowances for/(Writeback of) Impairment Losses of Loans, Advances and Financing

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Individual allowances ("IA"):				
Made during the financial year	716,895	241,257	687,648	217,221
Written back	(115,905)	(75,853)	(95,771)	(37,937)
Transferred from CA	350,922	64,260	350,922	64,260
Transferred to CA	(22,317)	(21,933)	(22,317)	(21,933)
Balance carried forward	929,595	207,731	920,482	221,611

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

35. Allowances for/(Writeback of) Impairment Losses of Loans, Advances and Financing (cont'd.)

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Balance brought forward	929,595	207,731	920,482	221,611
Collective allowances ("CA"):				
Made during the financial year	111,939	272,260	73,225	272,356
Written back	(5,178)	(14,748)	-	(9,473)
Transferred to IA	(350,922)	(64,260)	(350,922)	(64,260)
Transferred from IA	22,317	21,933	22,317	21,933
Bad debts and financing:				
Written off	9,002	1,684	8,673	1,684
Recovered	(77,181)	(31,469)	(73,741)	(22,459)
	<u>639,572</u>	<u>393,131</u>	<u>600,034</u>	<u>421,392</u>

36. Allowances for/(Writeback of) Impairment Losses on Other Assets

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Financial investments - AFS	-	(800)	-	-
Financial investments - HTM	25,279	21,166	25,279	21,166
Investments in subsidiaries	-	-	91,172	172,884
Amount due from subsidiaries	-	-	-	(3,462)
Interest in JVs	-	6,950	-	-
Advance to JVs	-	12,566	-	-
Interest in associates	(1,456)	(163)	-	-
Amount due from associates	-	457	-	-
Trade receivables	1,103	-	-	-
Amount due from resigned staff				
- written off	-	47	-	47
- written back	(32)	(329)	(32)	(329)
	<u>24,894</u>	<u>39,894</u>	<u>116,419</u>	<u>190,306</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

37. Taxation

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Income tax expense:				
Current income tax	76,598	111,511	54,740	90,713
(Over)/under provision in prior years	(668)	2,363	3,428	626
	<u>75,930</u>	<u>113,874</u>	<u>58,168</u>	<u>91,339</u>
Deferred tax expense:				
Origination and reversal of temporary differences	(9,452)	3,405	196	6,455
Under/(over) provision in prior year	1,965	(2,529)	583	(7,398)
	<u>(7,487)</u>	<u>876</u>	<u>779</u>	<u>(943)</u>
Real property gains tax paid on disposal of investment properties	-	230	-	230
	<u>68,443</u>	<u>114,980</u>	<u>58,947</u>	<u>90,626</u>

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

A reconciliation of income tax expense applicable to profit before taxation and zakat at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Bank are as follows:

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

37. Taxation (cont'd.)

Reconciliation of effective taxation

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Profit before taxation and zakat	207,563	406,414	125,658	228,120
Tax using Malaysian tax rate of 24% (2015: 25%)	49,815	31,208	30,158	57,030
Income not subject to tax	(99,567)	(10,681)	(4,459)	(9,085)
Non-deductible expenses	82,459	40,596	29,237	49,223
Deferred tax assets not recognised during the year	34,439	53,818	-	-
Utilisation of previously unrecognised capital allowances and tax losses	-	(25)	-	-
	67,146	114,916	54,936	97,168
Under/(over) provision of deferred tax in prior years	1,965	(2,529)	583	(7,398)
(Over)/under provision of income tax in prior years	(668)	2,363	3,428	626
Real property gains tax paid on disposal of investment properties	-	230	-	230
Taxation	68,443	114,980	58,947	90,626

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

38. Dividends

Dividends recognised in the current year by the Bank are:

	2016		2015	
	Sen per share	Total amount RM'000	Sen per share	Total amount RM'000
Final 2014 ordinary, net of tax	-	-	1.20	37,000
	-	-	1.20	37,000

No dividend was declared or paid for the financial year ended 31 December 2015.

At the forthcoming Annual General Meeting, a final single tier tax exempt dividend in respect of the financial year ended 31 December 2016, of 3.25% on 3,078,724,049 ordinary shares, amounting to a dividend payable of RM100,000,000 (3.25 sen net per ordinary share) will be proposed for the shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2017.

39. Earnings Per Share ("EPS")

The basic EPS of the Group and the Bank are calculated by dividing the net profit for the financial year attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2016	2015
Profit/(loss) attributable to equity holders of the Bank (RM'000)		
- continuing operations	119,281	293,439
- discontinued operations	98,854	(282,431)
	<u>218,135</u>	<u>11,008</u>
Number of ordinary shares in issue ('000)	<u>3,078,724</u>	<u>3,078,724</u>
Basic EPS (sen) for:		
- continuing operations	3.87	9.53
- discontinued operations	3.21	(9.17)
	<u>7.08</u>	<u>0.36</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

40. Commitments and Contingencies

- (a) Loan and financing related commitments and contingencies of the Group and the Bank which are not included in these financial statements are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Disbursement of loans to industries	7,036,816	3,792,729	6,821,827	3,459,984
Direct credit substitutes	-	27,170	-	27,170
Secured guarantees on behalf of borrowers given to third parties	1,314,598	1,318,399	1,314,598	1,318,399
	<u>8,351,414</u>	<u>5,138,298</u>	<u>8,136,425</u>	<u>4,805,553</u>

The above corporate guarantees issued by a subsidiary to financial institutions related to contingent liability on corporate guarantees based on the outstanding balances of the credit facilities granted to JVs.

- (b) Capital commitments of the Group and the Bank which are not included in these financial statements are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Capital expenditure:				
Approved but not contracted for	10,128	6,374	10,128	6,374
Approved but not contracted for investment	-	172,740	-	-
	<u>-</u>	<u>172,740</u>	<u>-</u>	<u>-</u>

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

41. 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 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 line with this objective, 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.

In order to further strengthen the capital position of the Bank through a progressive and systematic building up of the reserve fund, the minimum RWCR under both normal and stress scenarios shall not be less than 20% and 12% respectively.

The following table sets forth capital resources and capital adequacy for the Bank as at reporting date.

	Bank	
	2016	2015
	RM'000	RM'000
Tier 1 capital		
Paid-up share capital	3,078,724	3,078,724
Other reserves	4,312,211	4,265,942
Total Tier 1 capital	<u>7,390,935</u>	<u>7,344,666</u>
Tier 2 capital		
Government support funds	540,590	576,546
Collective allowance*	647,023	823,305
Total Tier 2 capital	<u>1,187,613</u>	<u>1,399,851</u>
Total capital	8,578,548	8,744,517
Less: Investment in subsidiaries	(389,051)	(480,859)
Total capital base	<u>8,189,497</u>	<u>8,263,658</u>

* The eligible amount for Tier 2 capital is after excluding CA on impaired loans, advances and financing of the Bank.

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

41. Capital Adequacy (cont'd.)

Capital management (cont'd.)

Regulatory capital (cont'd.)

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

	Bank	
	2016	2015
	RM'000	RM'000
20%	215,197	239,420
50%	1,694,456	821,641
100%	21,727,110	20,379,230
	<u>23,636,763</u>	<u>21,440,291</u>

Without deducting proposed dividend:

	Bank	
	2016	2015
	%	%
Core capital ratio	31.269	34.256
RWCR	<u>34.647</u>	<u>38.543</u>

After deducting proposed dividend:

Core capital ratio	30.846	34.256
RWCR	<u>34.224</u>	<u>38.543</u>

Capital monitoring

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

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

42. Other Contingencies

Contingent liabilities not considered remote litigation (unsecured)

Subsidiary of the Bank

A subsidiary is being sued by a client alleging that the subsidiary has failed to exercise due diligence and duty of care in foreclosing the client's collateral. The client alleged to have suffered significant loss and has applied the Interlocutory Injunction from the Court to refrain the subsidiary from foreclosing the remaining collateral value of RM3.0 million. Mediation which was conducted on 5 February 2015 failed to reach an amicable settlement. Full trial held from 20 March 2017 to 23 March 2017, with 4 witnesses testified before the Court on behalf of the subsidiary. Trial has been concluded pending the submission of the bundle simultaneously by both parties before 30 May 2017 and the reply to the submission before 16 June 2017.

The defendant has closed the case on 23 March 2017. The Judge has given a date for both parties to file their submission simultaneously on 30 May 2017 and each parties has opportunity to reply to the other party submission on 16 January 2017. The decision date however, is yet to given by the Judge and will only be informed by Court at a later date.

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

43. Significant Related Party Transactions and Balances

For the purpose of these financial statements, parties are considered to be related to the Group if the Group or the Bank has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Bank and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Government of Malaysia ("GOM") is a shareholder with significant influence on the Bank, with direct shareholding of 99.99% (2015: 99.99%). GOM and entities directly controlled by GOM are collectively referred to as government-related entities to the Group and the Bank.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Bank either directly or indirectly. The key management personnel includes all the Directors of the Bank as disclosed in Note 34.

The Group has related party relationships with its substantial shareholders, subsidiaries, associates and key management personnel.

Related party transactions have been entered into in the normal course of business under normal trade terms. The Group established credit policies, pricing strategy and approval process for loans, which are independent of whether the counterparties are government-related entities or not. The significant related party transactions and balances of the Group and the Bank are as follows:

43.1 Significant balances and transactions with a significant shareholder

(a) Significant balances with a significant shareholder

	Group and Bank	
	2016	2015
	RM'000	RM'000
<u>Other assets</u>		
Amount receivable from Government in respect of compensation for:		
Foreign exchange differences	85,361	85,361
Infrastructure projects	46,819	46,956
	<u>46,819</u>	<u>46,956</u>

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

43. Significant Related Party Transactions and Balances (cont'd.)

43.1 Significant balances and transactions with a significant shareholder (cont'd.)

(b) Significant transactions with a significant shareholder

	Group and Bank	
	2016	2015
	RM'000	RM'000
<u>Conventional</u>		
Interest compensation from Government of Malaysia	120,092	115,034
Compensation from Government of Malaysia:		
- IA made during the financial year against ISF	9,334	11,060
- ISF for CA written back	(7)	-
- recoverable from loan written off against ISF	(4,059)	(2,030)
- impairment of financial investments made during the financial year against ISF	<u>25,279</u>	<u>21,166</u>
<u>Islamic</u>		
Profit compensation from Government of Malaysia	16,289	15,017
Fee income from Unit Kerjasama Awam Swasta ("UKAS")	<u>7,693</u>	<u>5,000</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

43. Significant Related Party Transactions and Balances (cont'd.)

43.2 Significant balances and transactions with a significant shareholder's linked companies and bodies

(a) Significant balances with a significant shareholder's linked companies and bodies

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<u>Assets</u>				
Short term deposits	1,102,692	1,274,131	850,380	1,013,498
Deposits and placements with financial institution	-	51,672	-	-
Financial investments				
- AFS	3,667,451	1,986,905	3,663,793	1,982,433
Financial investments - HTM	185,744	184,489	185,722	184,467
<u>Liabilities</u>				
Deposits from customers	9,750,551	7,752,319	9,750,551	7,752,319
Deposits and placements from financial institutions	10,002	445,640	10,002	445,640
Redeemable notes	5,920,316	4,352,888	5,920,316	4,352,888
Bills and acceptance payable	-	1,742,193	-	1,742,193
Borrowings	2,887,055	3,991,868	2,887,055	3,991,868
ISF	306,579	337,126	306,579	337,126
Deferred income	234,011	239,420	234,011	239,420

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

43. Significant Related Party Transactions and Balances (cont'd.)

43.2 Significant balances and transactions with a significant shareholder's linked companies and bodies (cont'd.)

(b) Significant transactions with a significant shareholder's linked companies and bodies

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
<u>Conventional</u>				
<u>Income</u>				
Money at call and deposit placements with financial institutions	24,882	40,285	16,690	26,775
Financial investments - AFS	16,202	21,785	16,202	21,785
Financial investments - HTM	-	4,483	-	4,483
Amortisation of premium less accretion of discount	(499)	13,856	(499)	13,856
Dividend from Unit Trust	7,800	7,307	7,800	7,248
Rental income	2,175	2,289	2,051	2,172
<u>Expenses</u>				
Interest expense on:				
Deposits from customers and financial institutions	(155,014)	(115,098)	(155,014)	(114,904)
Borrowings	(187,147)	(302,807)	(176,388)	(283,379)
Redeemable notes	(33,632)	(86,242)	(33,632)	(86,242)
Bills and acceptance payable	(85,327)	(27,789)	(85,327)	(27,789)

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

43. Significant Related Party Transactions and Balances (cont'd.)

43.2 Significant balances and transactions with a significant shareholder's linked companies and bodies (cont'd.)

(b) Significant transactions with a significant shareholder's linked companies and bodies (cont'd.)

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
<u>Islamic</u>				
<u>Income</u>				
Finance income from deposits and placements with financial institutions	21,507	28,098	20,133	27,529
Financial investments - AFS	92,198	24,733	92,198	24,733
Financial investments - HTM	4,264	1,942	4,264	1,942
Accretion of discount less amortisation of premium	27,015	10,757	27,015	10,757
<u>Expenses</u>				
Income attributable to the depositors:				
Deposits from customers and financial institutions	(213,343)	(176,810)	(213,343)	(176,810)
Redeemable notes	(161,596)	(160,430)	(161,596)	(160,430)

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

43. Significant Related Party Transactions and Balances (cont'd.)

43.3 Significant balances and transactions with subsidiaries, associates and JVs

(a) Significant balances with subsidiaries, associates and JVs

	Bank	
	2016	2015
	RM'000	RM'000
<u>Conventional</u>		
Loans to subsidiaries	18	47,647
Payment on behalf of subsidiary	708	1,603
	<hr/>	<hr/>

(b) Significant transactions with subsidiaries, associates and JVs

	Bank	
	2016	2015
	RM'000	RM'000
<u>Conventional</u>		
<u>Income</u>		
Interest income from loan to subsidiaries	-	2,969
Rental income from subsidiaries	825	824
Fee Income from subsidiaries	1,029	1,093
	<hr/>	<hr/>
<u>Expenses</u>		
Management fee expense from subsidiaries	(12)	(12)
	<hr/>	<hr/>
<u>Islamic</u>		
<u>Income</u>		
Profit from financing to subsidiaries	-	327
	<hr/>	<hr/>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

43. Significant Related Party Transactions and Balances (cont'd.)

43.4 Significant balances and transactions with Group's related parties

(a) Significant balances with the Group's related parties

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
<u>Other assets</u>				
Trade receivables due from related parties	101,277	31,541	-	-
<u>Other liabilities</u>				
Trade payables due to related parties	2	187	-	-

(b) Significant transactions with Group's related parties

<u>Income</u>				
Dividend from quoted shares				
- AFS	-	1,839	-	1,839

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

43. Significant Related Party Transactions and Balances (cont'd.)

The credit exposures above are based on paragraph 9.1 of BNM revised Guidelines on Credit Transactions and Exposures with related parties as follows:

- (i) Directors of the Bank and their close relatives;
- (ii) Controlling shareholder of the Bank and his close relatives;
- (iii) Executive officer, being a member of management having authority and responsibility for planning, directing and/or controlling activities of the Bank and his close relatives;
- (iv) Officers who are responsible for or have authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually and their close relatives;
- (v) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (iv) above, or in which they have an interest, as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;
- (vi) Any person for whom the persons listed in (i) to (iv) above is a guarantor; and
- (vii) Subsidiary of an entity controlled by the Bank and its connected parties.

Credit transactions and exposures to connected parties as disclosed above include the extension of credit facilities and/or off-balance sheet credit exposures such as guarantees, trade-related facilities and loan/financing commitments.

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

44. Assets Classified as Held For Sale

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
As at 1 January		394,541	18,534	367	-
Disposed during the financial year	(i)	-	(18,534)	-	-
Transfer from property, plant and equipment	(ii)	-	394,174	-	-
Impairment of vessels during the year	(ii)	(89,667)	-	-	-
Deconsolidation of a subsidiary	(ii)	(304,507)	-	-	-
Transfer to investment properties	(iii)	(367)	367	(367)	367
Transfer from investment properties	(iv)	2,886	-	-	-
As at 31 December		<u>2,886</u>	<u>394,541</u>	<u>-</u>	<u>367</u>

- (i) The vessel was classified as non-current assets held for sale in 2013. Memorandum of Agreements were signed in 2014 between the purchaser and the subsidiary, however, the risks and rewards were not transferred to the purchaser as at 31 December 2014. All conditions precedent for the disposal were satisfied during the year.
- (ii) These vessels belong to Borcos Group and were classified under asset held for sale in prior year, as there was an active plan to identify buyers for disposal. During the year, the Group made an additional impairment of RM89,667,000 on the vessels. The amount was deconsolidated from the Group's financial statements as Borcos was placed under CVL on 22 December 2016, as disclosed in Note 10(b).
- (iii) The investment properties were classified as non-current assets held for sale in 2015. The Sales and Purchase Agreement was signed between the purchaser and the Bank in 2015. However, the sale agreement could not be perfected as the investment properties are on a reserve land and the state government did not approve the sale of the investment properties. The properties have been transferred back to investment properties of the Group and of the Bank.
- (iv) The investment property were classified as non-current assets held for sale during the year. Sales and Purchase Agreement was signed between the purchaser and the Group as at year end.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

45. Subsequent Event

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

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

- (a) Removal of the authorised share capital; and
- (b) Shares of the Bank will cease to have par or nominal value.

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

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

46. Companies in the Group

(a) The subsidiaries, all incorporated in Malaysia, are as follows:

Subsidiary	Effective interest held by the Bank		Principal activities
	2016 %	2015 %	
BPMB Urus Harta Sdn Bhd	100.00	100.00	Dormant
Emerald Upline Sdn Bhd	100.00	100.00	Ship-owning
Global Maritime Ventures Berhad ("GMVB")	90.00	90.00	Venture capital investment
Maju Nominees (Tempatan) Sdn Bhd	100.00	100.00	Nominee for the holding company
Pembangunan Ekuiti Sdn Bhd	54.80	54.80	Dormant
Pembangunan Leasing Corporation Sdn Bhd	100.00	100.00	Lease, hire purchase financing, factoring, block discounting and investment holding
SME GAF	100.00	100.00	Venture capital investment

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

46. Companies in the Group (cont'd.)

- (b) Details of subsidiary companies of GMVB, all of which are incorporated in Malaysia, are as follows:

Subsidiary	Effective interest held by the Bank		Principal activities
	2016 %	2015 %	
Mutiara Navigation Sdn Bhd	63.00	63.00	Dormant
Intan Navigation Sdn Bhd	63.00	63.00	Dissolved
Nilam Navigation Sdn Bhd	63.00	63.00	Dormant
Kasa Navigation Sdn Bhd	63.00	63.00	Dissolved
Mayang Navigation Sdn Bhd	63.00	63.00	Dissolved
Sari Navigation Sdn Bhd	63.00	63.00	Dormant
Tiara Navigation Sdn Bhd	63.00	63.00	Dissolved
Glory Incentive Sdn Bhd	90.00	90.00	Investment holding
GMV-ALAM Sdn Bhd	90.00	90.00	Investment holding
GMV-Bahtera Sdn Bhd	90.00	90.00	Investment holding
GMV-Borcoss Sdn Bhd	90.00	90.00	Investment holding
GMV-Gagasan Sdn Bhd	90.00	90.00	Investment holding
GMV-Global Sdn Bhd	90.00	90.00	Investment holding
GMV-Efogen Sdn Bhd	90.00	90.00	Investment holding

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

46. Companies in the Group (cont'd.)

- (b) Details of subsidiary companies of GMVB, all of which are incorporated in Malaysia, are as follows:

Subsidiary	Effective interest held by the Bank		Principal activities
	2016 %	2015 %	
GMV-Jasa Sdn Bhd	90.00	90.00	Investment holding
GMV-Omni Sdn Bhd	90.00	90.00	Investment holding
GMV-Regional Sdn Bhd	90.00	90.00	Dormant
GMV-Orkim Sdn Bhd	90.00	90.00	Investment holding
GMV-Offshore Sdn Bhd	90.00	90.00	Investment holding

- (c) Details of subsidiary companies of Glory Incentive Sdn Bhd (GISB), all of which are incorporated in Malaysia, are as follows:

Subsidiary	Effective interest held by the Bank		Principal activities
	2016 %	2015 %	
Permata Navigation Sdn Bhd	63.00	63.00	Dormant
Gemala Navigation Sdn Bhd	63.00	63.00	Dormant
Ratna Navigation Sdn Bhd	63.00	63.00	Dormant
Kencana Navigation Sdn Bhd	63.00	63.00	Dormant
Ayu Navigation Sdn Bhd	63.00	63.00	Dormant

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

46. Companies in the Group (cont'd.)

- (d) Details of a subsidiary company of GMV-Borcoss Sdn Bhd, which is incorporated in Malaysia, are as follows:

Subsidiary	Effective interest held by the Bank		Principal activities
	2016 %	2015 %	
Syarikat Borcoss Shipping Sdn Bhd @ *	-	90.00	Creditors' Voluntary Liquidation

- (e) Details of subsidiary companies of Syarikat Borcoss Shipping Sdn Bhd, all of which are incorporated in Malaysia (except for #), are as follows:

Subsidiary	Effective interest held by the Bank		Principal activities
	2016 %	2015 %	
Wijaya Navigation Sdn Bhd	90.00	90.00	Dormant
Borcoss Tasneem Offshore Ltd @	90.00	90.00	Vessel chartering
Borcoss Firdaus Marine Offshore Ltd @	90.00	90.00	Vessel chartering
Borcoss SSV Marine Offshore Ltd @	90.00	90.00	Vessel chartering
Borcoss Franklin Offshore Mooring Sdn Bhd	45.90	45.90	Dormant
Cendana Lagenda Sdn Bhd @	90.00	90.00	Vessel chartering
P.T. Borcoss Nusantarajaya # @	90.00	90.00	Vessel chartering

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

46. Companies in the Group (cont'd.)

- (f) Details of a subsidiary company of GMV-Global Sdn Bhd, which is incorporated in Malaysia, are as follows:

Subsidiary	Effective interest held by the Bank		Principal activities
	2016 %	2015 %	
Bahtera Berlian Sdn Bhd	100.00	100.00	Ship-management

- (g) Details of subsidiary companies of Pembangunan Leasing Corporation Sdn Bhd ("PLC"), all of which are incorporated in Malaysia, are as follows:

Subsidiary	Effective interest held by the Bank		Principal activities
	2016 %	2015 %	
PLC Credit & Factoring Sdn Bhd	100.00	100.00	Hire purchase financing, confirming and factoring, insurance agency.
BI Credit & Leasing Berhad	100.00	100.00	Credit and leasing

Incorporated in Indonesia. Audited by firms of auditors other than Ernst & Young,

@ The financial statements of the subsidiary for the financial year ended 31 December 2016 was prepared on a basis other than that of a going concern basis as it is the intention of the Company to cease operations upon disposal of the subsidiary's assets.

@ * Placed under creditors voluntary liquidation during the financial year.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk

Financial risk management objectives and policies

The Group's and the Bank's financial risk management policies seek to enhance shareholder value. The Group and the Bank focus on the enterprise wide risk exposure, which include credit, market, liquidity and operational risk and seek to minimise potential adverse effects on the financial performance of the Group and the Bank. As part of the Group's and the Bank's strategy to integrate the management and control of risks across the various risk segments, a dedicated function known as the Group Risk Management had been

Financial risk management is carried out through risk assessment and reviews, internal control systems and adherence to Group financial risk management policies, which are reported to and approved by the Board of Directors. The Board also approves the treasury policies, which cover the management of these risks.

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

(a) Credit risk

Credit risk is the potential loss of revenue, either principal or interest or both, arising from customers or counterparties' failure or unwillingness to honour their financial and contractual obligations when they are due. These obligations are from lending, placement and other activities undertaken by the Bank.

Credit risk management activities conducted by the Bank are within Credit Risk Management Framework approved by the Board of Directors. This includes risk identification, assessment, measurement and monitoring.

Credit risk is principally managed through the establishment of lending directions, risk appetite and policies and guidelines to enhance loan/financing asset quality. Credit processes are structured to ensure adherence to credit policies and to establish impartiality in loan/financing origination, approval, documentation, disbursement and settlement.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(a) Credit risk (cont'd.)

All credit proposals are rated using an internal two dimensional credit rating system to measure each borrower's risk of default and facility risk. Only viable credit proposals with well-mitigated risk are considered for financing.

Credit reviews on existing customers are performed at least once a year and more frequent on watch-list accounts to proactively manage any delinquencies, maximise recoveries and to ensure timely recognition of asset impairment.

Prudential limits are established according to various categories such as customer and industry sector to minimise concentration risk. Single Customer Limit ("SCL") has been extended to capture the Group exposure to manage the Bank's and subsidiaries' concentration risk to common group of customers at group level.

Sector limit for commercial lending is being observed to monitor undesirable concentration which could expose the Bank to higher risk of lending. Meanwhile, counterparty limits are in place to control over exposure to a single financial institution.

Collateral is taken whenever possible to mitigate credit risk. The value of collateral is monitored periodically through updated valuation. Policies and processes are in place to monitor collateral value.

The overall credit risk management is subject to an ongoing process for reviewing and enhancement from time to time so as to be in line with regulatory requirements. Audit is periodically performed by the Group Internal Audit to ensure that credit policies and procedures are complied with.

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(a) Credit risk (cont'd.)

(i) Credit exposure

Credit exposure

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
On balance sheet:					
Cash and short term deposits	4	1,295,499	1,419,525	1,028,268	1,126,210
Deposits and placements with financial institutions	5	-	51,672	-	-
Financial investments - AFS	6	3,697,485	2,099,063	3,693,962	2,094,592
Financial investments - HTM	7	185,744	184,489	185,722	184,467
Loans, advances and financing	8	21,210,083	22,757,349	21,006,098	22,572,456
Other assets	9	318,440	230,968	208,108	167,999
		<u>26,707,251</u>	<u>26,743,066</u>	<u>26,122,158</u>	<u>26,145,724</u>
Other assets not subject to credit risk		153,741	554,563	495,950	589,842
		<u>26,860,992</u>	<u>27,297,629</u>	<u>26,618,108</u>	<u>26,735,566</u>
Off balance sheet:					
Commitments and Contingencies	40(a)	8,351,414	5,138,298	8,136,425	4,805,553
		<u>35,212,406</u>	<u>32,435,927</u>	<u>34,754,533</u>	<u>31,541,119</u>

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(a) Credit risk (cont'd.)

(ii) The following table sets out the credit risk concentration by economic sectors:

Group 2016	Short-term deposits, and placements with financial institutions RM'000	Financial investments - FVTPL RM'000	Financial investments - HTM RM'000	Financial investments - AFS RM'000	Loans, advances and financing RM'000	Other assets RM'000	Total RM'000	Commitments and contingencies RM'000
Agriculture, hunting and forestry	-	-	-	-	5,756	-	5,756	-
Construction	-	-	31,671	646,004	10,533,104	-	11,210,779	6,252,227
Education	-	-	-	-	1,932,235	-	1,932,235	194,692
Electrical, gas and water supply	-	-	100,368	266,438	2,008,155	-	2,374,961	119,500
Finance, insurance and business	1,295,499	-	53,705	2,085,999	57,048	-	3,492,251	195,964
Hotel and restaurants	-	-	-	-	1,192,330	-	1,192,330	610,067
Housing	-	-	-	-	8,330	-	8,330	-
Manufacturing	-	-	-	-	211,120	-	211,120	75,938
Marine related	-	-	-	-	-	-	-	-
Material technology	-	-	-	-	5,502	-	5,502	-
Medical and pharmaceuticals	-	-	-	-	13,596	-	13,596	-
Mining and quarrying	-	-	-	-	433	-	433	-
Other community, social and personal service activities	-	-	-	-	183,764	-	183,764	4,191
Public administration and defence	-	-	-	-	36,918	-	36,918	-
Real estate, renting and business activities	-	-	-	569,362	496,750	-	1,066,112	-
Shipping	-	-	-	129,682	807,841	-	937,523	3,775
Shipyard	-	-	-	-	199,517	-	199,517	-
Transport, storage and communications	-	-	-	-	3,517,684	-	3,517,684	895,060
Others	-	-	-	-	-	318,440	318,440	-
	1,295,499	-	185,744	3,697,485	21,210,083	318,440	26,707,251	8,351,414
Other assets not subject to credit risk	-	-	-	-	-	153,741	153,741	-
	1,295,499	-	185,744	3,697,485	21,210,083	472,181	26,860,992	8,351,414

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(a) Credit risk (cont'd.)

(ii) The following table sets out the credit risk concentration by economic sectors: (cont'd.)

Group (cont'd.) 2015	Short-term deposits, and placements with financial institutions				Financial investments		Financial investments		Loans, advances and financing		Other assets		Total		Commitments and contingencies	
	RM'000	RM'000	RM'000	RM'000	- FVTPL	- HTM	- AFS	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture, hunting and forestry	-	-	-	-	-	-	-	6,258	-	-	-	-	6,258	-	-	-
Construction	-	-	31,693	452,728	-	-	-	11,001,231	-	-	-	-	11,485,652	3,682,098	-	-
Education	-	-	-	-	-	-	-	1,801,432	-	-	-	-	1,801,432	506,602	-	-
Electrical, gas and water supply	-	-	100,805	41,582	-	-	-	2,085,458	-	-	-	-	2,227,845	3,870	-	-
Finance, insurance and business	1,471,197	-	51,991	1,335,595	-	-	-	45,595	-	-	-	-	2,904,378	3,957	-	-
Hotel and restaurants	-	-	-	-	-	-	-	1,121,304	-	-	-	-	1,121,304	393,292	-	-
Housing	-	-	-	-	-	-	-	10,081	-	-	-	-	10,081	-	-	-
Manufacturing	-	-	-	-	-	-	-	198,266	-	-	-	-	198,266	286,465	-	-
Marine related	-	-	-	-	-	-	-	6,569	-	-	-	-	6,569	7,178	-	-
Material technology	-	-	-	-	-	-	-	6,028	-	-	-	-	6,028	-	-	-
Medical and pharmaceuticals	-	-	-	-	-	-	-	14,029	-	-	-	-	14,029	-	-	-
Mining and quarrying	-	-	-	-	-	-	-	883	-	-	-	-	883	595	-	-
Other community, social and personal service activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public administration and defence	-	-	-	-	-	-	-	174,775	-	-	-	-	174,775	14,067	-	-
Real estate, renting and business activities	-	-	-	121,081	-	-	-	44,790	-	-	-	-	44,790	9,763	-	-
Shipping	-	-	-	148,077	-	-	-	874,394	-	-	-	-	995,475	-	-	-
Shipyard	-	-	-	-	-	-	-	1,145,671	-	-	-	-	1,293,748	59,685	-	-
Transport, storage and communications	-	-	-	-	-	-	-	185,353	-	-	-	-	185,353	104,848	-	-
Others	-	-	-	-	-	-	-	4,035,232	-	-	-	-	4,035,232	65,878	-	-
	1,471,197	-	184,489	2,099,063	22,757,349	230,968	-	22,757,349	230,968	26,743,066	5,138,298	-	26,743,066	5,138,298	-	-
Other assets not subject to credit risk	1,471,197	-	184,489	2,099,063	22,757,349	785,531	-	22,757,349	785,531	27,297,629	5,138,298	-	27,297,629	5,138,298	-	-

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(a) Credit risk (cont'd.)

(ii) The following table sets out the credit risk concentration by economic sectors: (cont'd.)

Bank 2016	Short-term deposits, and placements with financial institutions RM'000	Financial investments - HTM RM'000	Financial investments - AFS RM'000	Loans, advances and financing RM'000	Other assets RM'000	Total contingencies RM'000	Commitments and contingencies RM'000
Construction	-	31,671	646,004	10,530,173	-	11,207,848	6,247,845
Education	-	-	-	1,932,235	-	1,932,235	194,692
Electrical, gas and water supply	-	100,368	266,438	2,008,155	-	2,374,961	119,500
Finance, insurance and business	1,028,268	53,683	2,082,476	-	-	3,164,427	-
Hotel and restaurants	-	-	-	1,144,509	-	1,144,509	605,337
Housing	-	-	-	8,330	-	8,330	-
Manufacturing	-	-	-	202,034	-	202,034	71,347
Marine related	-	-	-	-	-	-	-
Material technology	-	-	-	-	-	-	-
Medical and pharmaceuticals	-	-	-	5,502	-	5,502	-
Medical and pharmaceuticals	-	-	-	13,596	-	13,596	-
Other community, social and personal service activities	-	-	-	-	-	-	-
Public administration and defence	-	-	-	181,831	-	181,831	4,023
Real estate, renting and business activities	-	-	-	36,918	-	36,918	-
Shipping	-	-	-	487,574	-	487,574	-
Shipyards	-	-	129,682	807,841	-	937,523	3,775
Transport, storage and communications	-	-	569,362	199,517	-	768,879	-
Others	-	-	-	3,447,883	-	3,447,883	889,906
	-	-	-	-	208,108	208,108	-
	1,028,268	185,722	3,693,962	21,006,098	208,108	26,122,158	8,136,425
Other assets not subject to credit risk	-	-	-	-	495,950	495,950	-
	1,028,268	185,722	3,693,962	21,006,098	704,058	26,618,108	8,136,425

47. Financial Instruments Risk (cont'd.)

(a) Credit risk (cont'd.)

(ii) The following table sets out the credit risk concentration by economic sectors: (cont'd.)

Bank (cont'd) 2015	Short-term deposits, and placements with financial institutions RM'000	Financial investments - HTM RM'000	Financial investments - AFS RM'000	Loans, advances and financing RM'000	Other assets RM'000	Total contingencies RM'000	Commitments and contingencies RM'000
Construction	-	31,671	452,728	10,998,318	-	11,482,717	3,669,037
Education	-	-	-	1,801,432	-	1,801,432	489,529
Electrical, gas and water supply	-	100,805	41,582	2,085,457	-	2,227,844	1,875
Finance, insurance and business	1,126,210	51,991	1,331,124	-	-	2,509,325	-
Hotel and restaurants	-	-	-	1,086,789	-	1,086,789	188,732
Housing	-	-	-	10,081	-	10,081	-
Manufacturing	-	-	-	175,654	-	175,654	254,498
Marine related	-	-	-	6,568	-	6,568	7,178
Material technology	-	-	-	6,028	-	6,028	-
Medical and pharmaceuticals	-	-	-	14,030	-	14,030	-
Other community, social and personal service activities	-	-	-	148,589	-	148,589	13,163
Public administration and defence	-	-	-	44,790	-	44,790	9,763
Real estate, renting and business activities	-	-	121,081	874,394	-	995,475	-
Shipping	-	-	148,077	1,192,992	-	1,341,069	59,685
Shipyard	-	-	-	185,353	-	185,353	104,848
Transport, storage and communications	-	-	-	3,941,981	-	3,941,981	7,245
Others	-	-	-	-	167,999	167,999	-
	1,126,210	184,467	2,094,592	22,572,456	167,999	26,145,724	4,805,553
Other assets not subject to credit risk	-	-	-	-	589,842	589,842	-
	1,126,210	184,467	2,094,592	22,572,456	757,841	26,735,566	4,805,553

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(a) Credit risk (cont'd.)

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

Group	2016			2015		
	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Total RM'000	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Total RM'000
High Quality	-	-	-	5,468,634	-	5,468,634
Upper-medium grade	4,355,971	1,040	4,357,011	413,354	2,568	415,922
Medium grade	5,271,679	22,485	5,294,164	7,250,580	37,222	7,287,802
Speculative	8,798,445	19,896	8,818,341	7,496,654	39,912	7,536,566
Considered speculative	1,814,995	10,366	1,825,361	1,520,567	45,115	1,565,682
Poor standing	205,812	-	205,812	11,732	-	11,732
Impaired	-	-	3,623,124	-	-	2,794,395
	20,446,902	53,787	24,123,813	22,161,521	124,817	25,080,733
Bank						
High Quality	-	-	-	5,468,634	-	5,468,634
Upper-medium grade	4,338,187	-	4,338,187	407,615	-	407,615
Medium grade	5,169,871	-	5,169,871	7,147,674	-	7,147,674
Speculative	8,756,730	-	8,756,730	7,417,715	33,652	7,451,367
Considered speculative	1,814,509	7,665	1,822,174	1,515,876	45,115	1,560,991
Poor standing	205,812	-	205,812	11,732	-	11,732
Impaired	-	-	3,541,377	-	-	2,796,826
	20,285,109	7,665	23,834,151	21,969,246	78,767	24,844,839

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(a) Credit risk (cont'd.)

(iv) Aging analysis of impaired and past due but not impaired loans, advances and financing

Analysis of loans, advances and financing that are impaired and past due but not impaired based on the Group's and the Bank's internal credit rating system are as follows:

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Impaired:				
0 month overdue	781,838	483,765	772,838	483,765
1 month overdue	133,926	37,938	129,586	37,660
2 months overdue	32,136	94,735	22,862	91,661
3 months overdue	425,781	15,921	418,694	12,826
> 3 months overdue	2,258,443	2,162,036	2,197,397	2,170,914
	<u>3,632,124</u>	<u>2,794,395</u>	<u>3,541,377</u>	<u>2,796,826</u>
Past due but not impaired:				
1 Month Overdue	37,784	39,338	6,706	5,554
2 Months Overdue	12,641	81,683	959	73,213
3 Months Overdue	3,362	3,796	-	-
	<u>53,787</u>	<u>124,817</u>	<u>7,665</u>	<u>78,767</u>

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

Collateral represents the asset pledged by a customer 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, and subject to seizure in the event of default. Collateral provides to the Bank with a secondary repayment source, i.e. a source of fund to help recover its investment if the customer is unable to repay the facility obtained from the Bank.

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

16562-K

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the financial statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(a) Credit risk (cont'd.)

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

<u>Collateral by amount</u>	2016		2015		Total Estimated fair value of collateral RM'000
	Secured RM'000	Unsecured RM'000	Secured RM'000	Unsecured RM'000	
Past due but not impaired	959	52,828	124,817	-	214,928
Impaired	2,344,054	1,279,070	2,024,751	769,644	3,536,523
	<u>2,345,013</u>	<u>1,331,898</u>	<u>2,149,568</u>	<u>769,644</u>	<u>3,751,451</u>
Bank					
Past due but not impaired	959	6,706	78,767	-	214,928
Impaired	2,344,054	1,197,323	2,005,316	791,510	3,536,523
	<u>2,345,013</u>	<u>1,204,029</u>	<u>2,084,083</u>	<u>791,510</u>	<u>3,751,451</u>

16562-K

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the financial statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(a) Credit risk (cont'd.)

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

Collateral by type	2016		2015	
	Properties, equipment and vessels RM'000	Cash RM'000	Properties, equipment and vessels RM'000	Cash RM'000
Group				
Past due but not impaired	12,600	-	214,928	-
Impaired	4,058,422	-	3,536,523	-
	<u>4,071,022</u>	<u>-</u>	<u>3,751,451</u>	<u>-</u>
Bank				
Past due but not impaired	12,600	-	214,928	-
Impaired	4,058,422	-	3,536,523	-
	<u>4,071,022</u>	<u>-</u>	<u>3,751,451</u>	<u>-</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(a) Credit risk (cont'd.)

(vi) Restructured loans

Restructured loans/financing refer to the financial assets that would otherwise be past due or impaired where there are fundamental revision in the principal terms and conditions of the facilities. Restructuring shall be considered when the customer's business is still viable and is expected to remain viable after the restructuring. The total restructured loans/financing held by the Group and the Bank stood at RM9,262.2 million (2015: RM9,328.1 million).

(vii) Credit quality for treasury credit risk exposures

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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<u>Financial investments - AFS</u>				
Sovereign	2,959,889	1,236,478	2,959,889	1,236,478
AAA	299,382	326,436	299,382	326,436
AA	30,383	112,162	30,383	112,162
BBB	73,553	69,513	73,553	69,513
Non-rated	334,278	354,474	330,755	350,003
	3,697,485	2,099,063	3,693,962	2,094,592
<u>Financial investments - HTM</u>				
Sovereign	149,036	147,759	149,014	147,759
AAA	5,037	5,037	5,037	5,037
B	31,671	31,671	31,671	31,671
Non-rated	-	22	-	-
	185,744	184,489	185,722	184,467

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(b) Market risk

(i) Foreign exchange risk

The Group and the Bank are exposed to foreign currency risk as a result of its borrowings made in currencies other than Ringgit Malaysia. The Group's and the Bank's policy in managing their exposure to foreign currency risks is by hedging through forward contract deals.

The net unhedged financial assets and financial liabilities of the Group and the Bank that are not denominated in its functional currency are as follows:

Net financial assets/(liabilities) held in non-functional currencies

	Ringgit Malaysia 2016 RM'000	Ringgit Malaysia 2015 RM'000
Functional currency of the Group		
Japanese Yen ("JPY")	4,167	(30,219)
United states dollar ("USD")	-	44,399
Singapore dollar ("SGD")	44,399	(6,997)
	<hr/>	<hr/>
Functional currency of the Bank		
JPY	4,167	(30,219)
	<hr/>	<hr/>

The table below shows the Group's and the Bank's foreign currency sensitivity based on reasonable possible movements in foreign exchange ("FX") rates.

	Strengthening/ weakening in FX rate (+/-)	Effect on profit/loss		Effect on equity	
		Increase in FX rate 2016 RM'000	Decrease in FX rate 2015 RM'000	Increase in FX rate 2016 RM'000	Decrease in FX rate 2015 RM'000
	%				
Group					
USD	10	-	-	-	-
JPY	10	(417)	417	(417)	417
SGD	10	-	-	-	-
		<hr/>	<hr/>	<hr/>	<hr/>
Bank					
JPY	10	(417)	417	(417)	417
		<hr/>	<hr/>	<hr/>	<hr/>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(b) Market risk (cont'd.)

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

	Strengthening/ weakening in FX rate (+/-)	Effect on profit/loss		Effect on equity	
		Increase in FX rate 2016 RM'000	Decrease in FX rate 2015 RM'000	Increase in FX rate 2016 RM'000	Decrease in FX rate 2015 RM'000
	%				
Group					
USD	10	(4,434)	4,434	(4,434)	4,434
JPY	10	(3,022)	3,022	(3,022)	3,022
SGD	10	(700)	700	(700)	700
Bank					
JPY	10	(3,022)	3,022	(3,022)	3,022

(ii) Interest/profit rate risk

Interest/profit rate risk is the impact to earnings and economic value of the Group and the Bank due to fluctuations in interest/profit 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 balance sheet arising from interest/profit rates and yield curve 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.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (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 net interest/profit income sensitivity based on possible parallel shift in interest profit rate.

	Group				
	Impact on profit 2016 RM'000	Impact on profit 2015 RM'000	Impact on equity 2016 RM'000	Impact on equity 2015 RM'000	
	Interest/profit rate				
	- parallel shift				
+ 50 basis points	10,416	29,055	101,845	24,516	
- 50 basis points	(10,416)	(29,055)	(101,845)	(24,516)	
	Bank				
	Impact on profit 2016 RM'000	Impact on profit 2015 RM'000	Impact on equity 2016 RM'000	Impact on equity 2015 RM'000	
	Interest/profit rate				
	- parallel shift				
+ 50 basis points	10,416	29,055	101,845	24,516	
- 50 basis points	(10,416)	(29,055)	(101,845)	(24,516)	

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(b) Market risk (cont'd.)

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

The table below summarises the Group's and the Bank's exposure to interest/profit rate risk. The table indicates effective average interest/profit rates at the reporting date and the periods in which the financial instruments reprice or mature, whichever is earlier.

Group 2016	Non-trading book						Non- interest/profit sensitive RM'000	Effective interest/profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Total RM'000		
Assets								
Cash and short term deposits	1,269,131	2,771	-	-	-	23,597	1,295,499	3.50
Financial investments - FVTPL	-	-	-	-	-	-	-	-
Financial investments - AFS	187,901	-	201,659	603,428	2,700,974	3,523	3,697,485	4.36
Financial investments - HTM	-	-	128,771	-	56,951	22	185,744	4.04
Loans, advances and financing								
- non-impaired	881,183	153,480	1,870,791	6,172,011	11,423,224	-	20,500,689	6.44
- impaired *	-	-	-	-	-	709,394	709,394	-
Other assets	-	-	-	-	-	318,440	318,440	-
Interest in associates	-	-	-	-	-	3,582	3,582	-
Interest in JVs	-	-	-	-	-	33,424	33,424	-
Property, plant and equipment	-	-	-	-	-	83,206	83,206	-
Prepaid land lease	-	-	-	-	-	883	883	-
Investment properties	-	-	-	-	-	1,563	1,563	-
Intangible assets	-	-	-	-	-	9,224	9,224	-
Deferred tax assets	-	-	-	-	-	18,127	18,127	-
Assets classified as held for sale	-	-	-	-	-	2,886	2,886	-
Assets of subsidiaries classified as held for sale	-	-	-	-	-	846	846	-
Total assets	2,338,215	156,251	2,201,221	6,775,439	14,181,149	1,208,717	26,860,992	

* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired loans.

16562-K

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(b) Market risk (cont'd.)

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

Group 2016 (cont'd.)	Non-trading book						Non- interest/profit sensitive RM'000	Total RM'000	Effective interest/profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	interest/profit sensitive RM'000			
Equity and liabilities									
Deposits from customers	2,431,773	2,517,697	4,660,027	141,054	-	-	9,750,551	3.94	
Deposits and placements from financial institutions	10,002	-	-	-	-	-	10,002	3.15	
Other liabilities	-	-	-	-	-	109,444	109,444		
Redeemable notes	-	-	-	1,113,575	4,806,741	-	5,920,316	4.48	
Borrowings	87,335	56,249	50,000	1,450,000	1,300,000	-	2,943,584	4.35	
Infrastructure support fund	-	-	-	-	-	306,579	306,579		
Deferred income	-	-	-	-	-	234,011	234,011		
Deferred tax liabilities	-	-	-	-	-	2,990	2,990		
Liabilities of subsidiaries classified as held for sale	-	-	-	-	-	215	215		
Total liabilities	2,529,110	2,573,946	4,710,027	2,704,629	6,106,741	653,239	19,277,692		
Shareholders' equity	-	-	-	-	-	7,551,494	7,551,494		
Non-controlling interest	-	-	-	-	-	31,806	31,806		
Total equity and liabilities	2,529,110	2,573,946	4,710,027	2,704,629	6,106,741	8,236,539	26,860,992		
On-balance sheet interest/profit sensitivity gap	(190,895)	(2,417,695)	(2,508,806)	4,070,810	8,074,408	(7,027,822)	-		
Off-balance sheet interest/profit sensitivity gap	-	-	-	-	-	-	-		
Total interest/profit sensitivity gap	(190,895)	(2,417,695)	(2,508,806)	4,070,810	8,074,408	(7,027,822)	-		

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(b) Market risk (cont'd.)

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

Group 2015	Non-trading book						Non- interest/profit sensitive RM'000	Effective interest/profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Total RM'000		
Assets								
Cash and short term deposits	1,384,144	-	-	-	-	35,381	1,419,525	4.01
Deposits and placements with financial institutions	-	51,672	-	-	-	-	51,672	4.01
Financial investments - FVTPL	-	-	-	-	-	-	-	-
Financial investments - AFS	227,574	-	181,529	718,810	966,679	4,471	2,099,063	4.41
Financial investments - HTM	-	-	-	152,796	31,671	22	184,489	4.04
Loans, advances and financing								
- non-impaired	1,295,073	216,024	1,927,283	7,634,489	11,213,469	-	22,286,338	7.46
- impaired *	-	-	-	-	-	471,011	471,011	-
Other assets	-	-	-	-	-	230,968	230,968	-
Interest in associates	-	-	-	-	-	3,328	3,328	-
Interest in JVs	-	-	-	-	-	39,911	39,911	-
Property, plant and equipment	-	-	-	-	-	94,030	94,030	-
Prepaid land lease	-	-	-	-	-	917	917	-
Investment properties	-	-	-	-	-	4,074	4,074	-
Intangible assets	-	-	-	-	-	8,824	8,824	-
Deferred tax assets	-	-	-	-	-	8,938	8,938	-
Assets classified as held for sale	-	-	-	-	-	394,541	394,541	-
Total assets	2,906,791	267,696	2,108,812	8,506,095	12,211,819	1,296,416	27,297,629	

* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired loans.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(b) Market risk (cont'd.)

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

Group 2015 (cont'd.)	Non-trading book						Non- interest/profit sensitive RM'000	Total RM'000	Effective interest/profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Interest/profit sensitive RM'000			
Equity and liabilities									
Deposits from customers	2,404,243	2,568,456	2,779,620	-	-	-	7,752,319	4.22	
Deposits and placements from financial institutions	345,545	100,095	-	-	-	-	445,640	4.22	
Bills and acceptance payable	372,002	580,020	790,171	-	-	-	1,742,193	4.22	
Other liabilities	-	-	-	-	-	217,696	217,696		
Redeemable notes	-	-	404,626	-	3,948,262	-	4,352,888	5.19	
Borrowings	551,397	74,630	1,115,282	1,210,193	1,661,881	-	4,613,383	4.43	
Infrastructure support fund	-	-	-	-	-	337,126	337,126	-	
Deferred income	-	-	-	-	-	239,420	239,420	-	
Deferred tax liabilities	-	-	-	-	-	9,478	9,478	-	
Total liabilities	3,673,187	3,323,201	5,089,699	1,210,193	5,610,143	803,720	19,710,143		
Shareholders' equity	-	-	-	-	-	7,562,201	7,562,201		
Non-controlling interest	-	-	-	-	-	25,285	25,285		
Total equity and liabilities	3,673,187	3,323,201	5,089,699	1,210,193	5,610,143	8,391,206	27,297,629		
On-balance sheet interest/profit sensitivity gap	(766,396)	(3,055,505)	(2,980,887)	7,295,902	6,601,676	(7,094,790)	-		
Off-balance sheet interest/profit sensitivity gap	-	-	-	-	-	-	-		
Total interest/profit sensitivity gap	(766,396)	(3,055,505)	(2,980,887)	7,295,902	6,601,676	(7,094,790)	-		

16562-K

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(b) Market risk (cont'd.)

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

Bank 2016	Non-trading book						Non- interest/profit sensitive RM'000	Effective interest/profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Total RM'000		
Assets								
Cash and short term deposits	1,020,428	-	-	-	-	7,840	1,028,268	3.66
Deposits and placements with financial institutions	-	-	-	-	-	-	-	-
Financial investments - AFS	187,901	-	201,659	603,428	2,700,974	-	3,693,962	4.36
Financial investments - HTM	-	-	128,771	-	56,951	-	185,722	4.04
Loans, advances and financing								
- non-impaired	829,286	139,470	1,828,331	6,072,464	11,423,223	-	20,292,774	6.35
- impaired *	-	-	-	-	-	713,324	713,324	-
Other assets	-	-	-	-	-	208,108	208,108	-
Investment in subsidiaries	-	-	-	-	-	389,051	389,051	-
Property, plant and equipment	-	-	-	-	-	82,635	82,635	-
Prepaid land lease	-	-	-	-	-	883	883	-
Investment properties	-	-	-	-	-	1,155	1,155	-
Intangible assets	-	-	-	-	-	8,385	8,385	-
Deferred tax assets	-	-	-	-	-	13,205	13,205	-
Assets classified as held for sale	-	-	-	-	-	-	-	-
Subsidiaries classified as held for sale	-	-	-	-	-	636	636	-
Total assets	2,037,615	139,470	2,158,761	6,675,892	14,181,148	1,425,222	26,618,108	

* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired loans.

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(b) Market risk (cont'd.)

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

Bank 2016 (cont'd.)	Non-trading book						Non- interest/profit sensitive RM'000	Effective interest/profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Total RM'000		
Equity and liabilities								
Deposits from customers	2,431,773	2,517,697	4,660,027	141,054	-	-	9,750,551	3.94
Deposits and placements from financial institutions	10,002	-	-	-	-	-	10,002	3.15
Other liabilities	-	-	-	-	-	-	62,130	-
Redeemable notes	-	-	-	1,113,575	4,806,741	-	5,920,316	4.48
Borrowings	87,335	56,249	50,000	1,450,000	1,300,000	-	2,943,584	4.43
Infrastructure support fund	-	-	-	-	-	306,579	306,579	-
Deferred income	-	-	-	-	-	234,011	234,011	-
Total liabilities	2,529,110	2,573,946	4,710,027	2,704,629	6,106,741	540,590	19,227,173	
Shareholders' equity	-	-	-	-	-	7,390,935	7,390,935	
Total equity and liabilities	2,529,110	2,573,946	4,710,027	2,704,629	6,106,741	7,931,525	26,618,108	
On-balance sheet interest/profit sensitivity gap	(491,495)	(2,434,476)	(2,551,266)	3,971,263	8,074,407	(6,506,303)	-	
Off-balance sheet interest/profit sensitivity gap	-	-	-	-	-	-	-	
Total interest/profit sensitivity gap	(491,495)	(2,434,476)	(2,551,266)	3,971,263	8,074,407	(6,506,303)	-	

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(b) Market risk (cont'd.)

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

Bank 2015	Non-trading book						Non- interest/profit sensitive RM'000	Effective interest/profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Total RM'000		
Assets								
Cash and short term deposits	1,123,512	-	-	-	-	2,698	1,126,210	4.32
Deposits and placements with financial institutions	-	-	-	-	-	-	-	-
Financial investments - AFS	227,574	-	181,529	718,811	966,678	-	2,094,592	4.42
Financial investments - HTM	-	-	-	152,796	31,671	-	184,467	4.04
Loans, advances and financing								
- non-impaired	1,256,566	237,192	1,873,787	7,536,127	11,144,341	-	22,048,013	6.47
- impaired *	-	-	-	-	-	524,443	524,443	-
Other assets	-	-	-	-	-	167,999	167,999	-
Investment in subsidiaries	-	-	-	-	-	480,859	480,859	-
Property, plant and equipment	-	-	-	-	-	92,649	92,649	-
Prepaid land lease	-	-	-	-	-	917	917	-
Investment properties	-	-	-	-	-	839	839	-
Intangible assets	-	-	-	-	-	8,185	8,185	-
Deferred tax assets	-	-	-	-	-	6,026	6,026	-
Assets classified as held for sale	-	-	-	-	-	367	367	-
Total assets	2,607,652	237,192	2,055,316	8,407,734	12,142,690	1,284,982	26,735,566	

* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired loans.

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(b) Market risk (cont'd.)

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

Bank 2015 (cont'd.)	Non-trading book						Non- interest/profit sensitive RM'000	Total RM'000	Effective interest/profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Interest/profit sensitive RM'000			
Equity and liabilities									
Deposits from customers	2,404,244	2,568,456	2,779,619	-	-	-	7,752,319	4.22	
Deposits and placements from financial institutions	345,545	100,095	-	-	-	-	445,640	4.22	
Bills and acceptance payable	372,002	580,020	790,171	-	-	-	1,742,193	-	
Other liabilities	-	-	-	-	-	59,384	59,384	-	
Redeemable notes	-	-	404,626	-	3,948,262	-	4,352,888	5.19	
Borrowings	339,431	74,630	1,115,282	1,210,163	1,704,126	-	4,443,632	4.43	
Infrastructure support fund	-	-	-	-	-	337,126	337,126	-	
Deferred income	-	-	-	-	-	239,420	239,420	-	
Total liabilities	3,461,222	3,323,201	5,089,698	1,210,163	5,652,388	635,930	19,372,602	-	
Shareholders' equity	-	-	-	-	-	7,362,964	7,362,964	-	
Total equity and liabilities	3,461,222	3,323,201	5,089,698	1,210,163	5,652,388	7,998,894	26,735,566	-	
On-balance sheet interest/profit sensitivity gap	(853,570)	(3,086,009)	(3,034,382)	7,197,571	6,490,302	(6,713,912)	-	-	
Off-balance sheet interest/profit sensitivity gap	-	-	-	-	-	-	-	-	
Total interest/profit sensitivity gap	(853,570)	(3,086,009)	(3,034,382)	7,197,571	6,490,302	(6,713,912)	-	-	

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (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 Group and the Bank manage their 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 Group and the Bank may raise funds locally and globally either through government-to-government arrangements or direct negotiations. Other sources of funding through the capital market are being explored on an on-going basis to ensure a diversity of funding source.

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(c) Liquidity risk (cont'd.)

(i) Contractual maturity of total assets and liabilities

The following table shows the maturity analysis of the Group's and the Bank's assets and liabilities based on remaining contractual maturities. The contractual maturity profile often does not reflect the actual behavioural patterns. In particular, the Group and the Bank have a significant amount of "core deposits" of non-bank customers which are contractually at call (included in the "Up to 3 months" time band) but historically a stable source of long-term funding for the Group and the Bank.

Group 2016	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 deposits	1,269,131	2,771	-	-	-	23,597	1,295,499
Financial investments - AFS	212,650	-	200,000	600,000	2,681,177	3,658	3,697,485
Financial investments - HTM	-	-	154,051	-	31,671	22	185,744
Loans, advances and financing	881,183	153,480	1,870,791	6,172,011	11,423,224	709,394	21,210,083
Other assets	-	-	-	-	-	318,440	318,440
	<u>2,362,964</u>	<u>156,251</u>	<u>2,224,842</u>	<u>6,772,011</u>	<u>14,136,072</u>	<u>1,055,111</u>	<u>26,707,251</u>
Liabilities							
Deposits from customers	2,431,773	2,517,697	4,660,027	141,054	-	-	9,750,551
Deposits and placements from financial institutions	10,002	-	-	-	-	-	10,002
Other liabilities	-	-	-	-	4,806,741	109,444	109,444
Redeemable notes	87,335	56,249	50,000	1,450,000	1,300,000	-	5,920,316
Borrowings	<u>2,529,110</u>	<u>2,573,946</u>	<u>4,710,027</u>	<u>2,704,629</u>	<u>6,106,741</u>	<u>109,444</u>	<u>2,943,584</u>
	<u>(166,146)</u>	<u>(2,417,695)</u>	<u>(2,485,185)</u>	<u>4,067,382</u>	<u>8,029,331</u>	<u>945,667</u>	<u>7,973,354</u>
Net maturity mismatches							

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(c) Liquidity risk (cont'd.)

(i) Contractual maturity of total assets and liabilities (cont'd.)

Group 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 deposits	1,384,174	-	-	-	-	35,351	1,419,525
Deposits and placements with financial institutions	-	51,672	-	-	-	-	51,672
Financial investments - AFS	198,029	-	10,000	795,727	1,090,835	4,472	2,099,063
Financial investments - HTM	-	-	-	127,516	56,951	22	184,489
Loans, advances and financing	1,295,073	216,024	1,927,283	7,634,489	11,213,469	471,011	22,757,349
Other assets	-	-	-	-	-	230,968	230,968
	2,877,276	267,696	1,937,283	8,557,732	12,361,255	741,824	26,743,066
Liabilities							
Deposits from customers	2,404,167	2,568,456	2,779,696	-	-	-	7,752,319
Deposits and placements from financial institutions	345,545	100,095	-	-	-	-	445,640
Bills and acceptance payable	372,002	580,020	790,171	-	-	-	1,742,193
Other liabilities	-	-	-	-	-	217,696	217,696
Redeemable notes	-	-	404,626	-	3,948,262	-	4,352,888
Borrowings	508,653	74,630	1,115,282	1,210,193	1,704,625	-	4,613,383
	3,630,367	3,323,201	5,089,775	1,210,193	5,652,887	217,696	19,124,119
Net maturity mismatches	(753,091)	(3,055,505)	(3,152,492)	7,347,539	6,708,368	524,128	7,618,947

47. Financial Instruments Risk (cont'd.)

(c) Liquidity risk (cont'd.)

(i) Contractual maturity of total assets and liabilities (cont'd.)

Bank 2016	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 deposits	1,020,428	-	-	-	-	7,840	1,028,268
Financial investments - AFS	212,785	-	200,000	600,000	2,681,177	-	3,693,962
Financial investments - HTM	-	-	154,051	-	31,671	-	185,722
Loans, advances and financing	829,286	139,470	1,828,331	6,072,464	11,423,223	713,324	21,006,098
Other assets	-	-	-	-	-	208,108	208,108
	2,062,499	139,470	2,182,382	6,672,464	14,136,071	929,272	26,122,158
Liabilities							
Deposits from customers	2,431,773	2,517,697	4,660,027	141,054	-	-	9,750,551
Deposits and placements from financial institutions	10,002	-	-	-	-	-	10,002
Other liabilities	-	-	-	-	-	62,130	62,130
Redeemable notes	-	-	-	1,113,575	4,806,741	-	5,920,316
Borrowings	87,335	56,249	50,000	1,450,000	1,300,000	-	2,943,584
	2,529,110	2,573,946	4,710,027	2,704,629	6,106,741	62,130	18,686,583
Net maturity mismatches	(466,611)	(2,434,476)	(2,527,645)	3,967,835	8,029,330	867,142	7,435,575

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(c) Liquidity risk (cont'd.)

(i) Contractual maturity of total assets and liabilities (cont'd.)

Bank 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 deposits	1,123,512	-	-	-	-	2,698	1,126,210
Financial investments - AFS	198,029	-	10,000	795,727	1,090,836	-	2,094,592
Financial investments - HTM	-	-	-	127,516	56,951	-	184,467
Loans, advances and financing	1,187,681	237,192	1,873,787	7,536,127	11,144,341	593,328	22,572,456
Other assets	-	-	-	-	-	167,999	167,999
	2,509,222	237,192	1,883,787	8,459,370	12,292,128	764,025	26,145,724
Liabilities							
Deposits from customers	2,404,244	2,568,456	2,779,619	-	-	-	7,752,319
Deposits and placements from financial institutions	345,545	100,095	-	-	-	-	445,640
Bills and acceptance payable	372,002	580,020	790,171	-	-	-	1,742,193
Other liabilities	-	-	-	-	-	59,384	59,384
Redeemable notes	339,431	74,630	404,626	-	3,948,262	-	4,352,888
Borrowings	3,461,222	3,323,201	5,089,698	1,210,163	1,704,126	-	4,443,632
	(952,000)	(3,086,009)	(3,205,911)	7,249,207	6,639,740	704,641	7,349,668
Net maturity mismatches							

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(c) Liquidity risk (cont'd.)

(ii) Contractual maturity of financial liabilities on an undiscounted basis

The tables below present the cash flows payable by the Group and the Bank under financial liabilities by remaining contractual maturities as at 31 December 2016 and 31 December 2015. The amounts disclosed in the table will not agree to the carrying amounts reported in the statements of financial positions as the amounts incorporated all contractual cash flows, on an undiscounted basis, relating to both principal and interest/profit analysis. The Group and the Bank manage interest liquidity risk based on discounted expected cash flows.

Group 2016	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	2,425,881	2,517,402	4,720,503	147,854	-	-	9,811,640
Deposits and placements from financial institutions	10,000	-	-	-	-	-	10,000
Other liabilities	-	-	-	-	-	109,444	109,444
Redeemable notes	106,554	56,887	-	2,504,251	4,235,226	-	6,739,477
Borrowings	2,542,435	2,574,289	4,770,503	6,173,271	4,235,226	-	3,734,607
Total liabilities	2,542,435	2,574,289	4,770,503	6,173,271	4,235,226	109,444	20,405,168
2015							
Liabilities							
Deposits from customers	2,164,296	3,301,317	2,340,245	7,439	-	-	7,813,297
Deposits and placements from financial institutions	297,319	148,965	-	-	-	-	446,284
Bills and acceptance payable	372,002	580,020	790,171	-	-	-	1,742,193
Other liabilities	-	-	-	-	-	197,242	197,242
Redeemable notes	-	-	43,285	-	5,844,391	-	5,887,676
Borrowings	35,509	35,286	2,298,971	1,011,678	1,559,289	-	4,940,733
Total liabilities	2,869,126	4,065,588	5,472,672	1,019,117	7,403,680	197,242	21,027,425

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

47. Financial Instruments Risk (cont'd.)

(c) Liquidity risk (cont'd.)

(ii) Contractual maturity of financial liabilities on an undiscounted basis (cont'd.)

Bank 2016	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	2,425,881	2,517,402	4,720,503	147,854	-	-	9,811,640
Deposits and placements from financial institutions	10,000	-	-	-	-	-	10,000
Other liabilities	-	-	-	-	-	62,130	62,130
Redeemable notes	-	-	-	2,504,251	4,235,226	-	6,739,477
Borrowings	106,554	56,887	50,000	3,521,166	-	-	3,734,607
Total liabilities	2,542,435	2,574,289	4,770,503	6,173,271	4,235,226	62,130	20,357,854
2015							
Liabilities							
Deposits from customers	2,164,296	3,301,317	2,340,245	7,439	-	-	7,813,297
Deposits and placements from financial institutions	297,319	148,965	-	-	-	-	446,284
Bills and acceptance payable	372,002	580,020	790,171	-	-	-	1,742,193
Other liabilities	-	-	-	-	-	47,137	47,137
Redeemable notes	-	-	43,285	-	5,844,391	-	5,887,676
Borrowings	35,509	35,286	2,298,971	1,011,678	1,351,351	-	4,732,795
Total liabilities	2,869,126	4,065,588	5,472,672	1,019,117	7,195,742	47,137	20,669,382

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

48. Fair Values Measurements

(a) Financial assets and liabilities measured at fair value

Determination of fair value and the fair value hierarchy

Fair value is the amount at which a financial asset could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's length transaction.

The Group and the Bank classify their financial assets and financial liabilities which are measured at fair value according to the following hierarchy, reflecting the significance of inputs used in making the fair value measurements:

Level 1 Quoted market prices: quoted prices (unadjusted) in active markets for identical assets and liabilities instruments;

Level 2 Valuation techniques based on observable inputs: inputs other than quoted prices included within Level 1 that are observable for the instrument, whether directly (i.e. prices) or indirectly (i.e. derived from prices), are used; and

Level 3 Valuation techniques using significant unobservable inputs: inputs used are not based on observable market data and the unobservable inputs have a significant impact on the valuation of the financial instruments and non-financial assets.

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include actively traded listed equities and actively exchange-traded derivatives.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Group and the Bank then determine fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high. These would include certain government sukuk and corporate sukuk, financing, derivatives and investment properties.

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Such inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the input or other analytical techniques.

Notes to the Financial Statements - 31 December 2016 (cont'd.)

48. Fair Values Measurements

(a) Financial assets and liabilities measured at fair value (cont'd.)

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

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

Group	2016			2015			Total RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	
Assets measured at fair value:							
Financial investments - AFS	334,278	3,362,480	-	353,747	1,744,589	-	2,098,336
Total financial assets	334,278	3,362,480	-	353,747	1,744,589	-	2,098,336
Total financial assets carried at fair value							2,098,336
Assets for which fair values are disclosed (Note 47 (b)):							
Loans, advances and financing	-	-	21,270,164	-	-	23,049,274	23,049,274
Financial investments - HTM	-	253,233	-	-	226,730	-	226,730
Investment properties	-	-	-	-	11,320	-	11,320
Liabilities for which fair values are disclosed (Note 47 (b)):							
Redeemable notes	-	-	5,819,421	-	-	3,498,933	3,498,933
Borrowings	-	-	2,603,108	-	-	4,015,604	4,015,604

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

48. Fair Values Measurements (cont'd.)

(a) Financial assets and liabilities measured at fair value (cont'd.)

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

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

Bank	2016			2015			Total RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	
Assets measured at fair value:							
Financial investments - AFS	330,755	3,362,480	-	349,276	1,744,589	-	2,093,865
Total financial assets	330,755	3,362,480	-	349,276	1,744,589	-	2,093,865
Total financial assets carried at fair value							<u>2,093,865</u>
Assets for which fair values are disclosed (Note 47 (b)):							
Loans, advances and financing	-	-	21,066,277	-	-	22,827,282	22,827,282
Financial investments - HTM	-	253,233	253,233	-	226,730	-	226,730
Investment properties	-	-	-	-	4,250	-	4,250
Liabilities for which fair values are disclosed (Note 47 (b)):							
Redeemable notes	-	-	5,819,421	-	-	3,498,933	3,498,933
Borrowings	-	-	2,603,108	-	-	3,807,665	3,807,665

There have been no transfer between Level 1 and Level 2 during the financial year. The fair value of loans, advances and financing that are valued at level 3 is estimated by discounting the estimated future cash flows at a discount rate between 2.0% to 13.0% (2015: 2.0% to 13.0%) whilst the fair value of redeemable notes and term loans that are valued at level 3 is estimated by discounting the estimated future cash flows at a discount rate between 3.6% to 7.2% (2015: 3.6% to 7.2%).

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

48. Fair Values Measurements (cont'd.)

(b) Financial assets and liabilities not carried at fair value

The following table summarises the carrying amounts and the estimated fair values of those financial assets not presented on the Group's statements of financial position at their fair value.

	Group		Bank	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
2016				
Financial assets				
Loans, advances and financing	21,210,083	21,270,164	21,006,098	21,066,277
Financial investments - HTM	185,744	253,233	185,722	253,233
Investment properties	1,563	11,080	1,155	3,830
Financial liabilities				
Redeemable notes	5,920,316	5,819,421	5,920,316	5,819,421
Borrowings	2,943,584	2,603,108	2,943,584	2,603,108
2015				
Financial assets				
Loans, advances and financing	22,757,349	23,049,274	22,572,456	22,827,282
Financial investments - HTM	184,489	226,730	184,467	226,730
Investment properties	4,074	11,320	839	4,250
Financial liabilities				
Redeemable notes	4,352,888	3,498,933	4,352,888	3,498,933
Borrowings	4,613,383	4,015,604	4,443,632	3,807,665

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

48. Fair Values Measurements (cont'd.)

(b) Financial assets and liabilities not carried at fair value (cont'd.)

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

(i) Financial investments HTM

Fair values of securities that are actively traded is determined by quoted bid prices. For non-actively traded securities, independent broker quotations are obtained. Fair values of equity securities are estimated using a number of methods, including earnings multiples and discounted cash flows analysis. Where discounted cash flows technique is used, the estimated future cash flows are discounted using applicable prevailing market or indicative rates of similar instruments at the reporting date.

(ii) Loans, advances and financing

Loans, advances and financing to customers, where such market prices are not available, various methodologies have been used to estimate the approximate fair values of such instruments. These methodologies are significantly affected by the assumptions used and judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in the assumptions could significantly affect these estimates and the resulting fair value estimates. Therefore, for a significant portion of the Group's and 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 amount that the Group and the Bank could realise in a sale transaction at the reporting date.

The fair values of variable rate loans/financing are estimated to approximate their carrying values. For fixed rate loans and Islamic financing, the fair values are estimated based on expected future cash flows of contractual instalment payments, discounted at applicable and prevailing rates at reporting date offered for similar facilities to new borrowers/customers with similar credit profiles. In respect of impaired loans, the fair values are deemed to approximate the carrying values which are net of impairment allowances.

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

48. Fair Values Measurements (cont'd.)

(b) Financial assets and liabilities not carried at fair value (cont'd.)

(iii) Deposits from customers, deposits and placements from financial institutions, and bills and acceptance payables

The fair values of deposits payable on demand and deposits and placements with maturities of less than one year approximate their carrying values due to the relatively short maturity of these instruments. The fair values of fixed deposits and placements with remaining maturities of more than one year are estimated based on discounted cash flows using applicable rates currently offered for deposits and placements with similar remaining maturities. The fair value of Islamic deposits are estimated to approximate their carrying values as the profit rates are determined at the end of their holding periods based on the actual profits generated from the assets invested.

(iv) Subordinated obligations and borrowings

The fair values of capital securities are estimated by discounting the expected future cash flows using the applicable prevailing interest rates for securities as at reporting date.

(v) Investment properties

The fair values of investment properties are estimated based on comparison with indicative market value stated in the Property Market Report 2015 (2015: Property Market Report 2014).

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business

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

Statements of Financial Position
As at 31 December 2016

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Assets					
Cash and short term deposits	(a)	457,802	798,404	399,627	775,329
Deposits and placements with financial institutions	(b)	-	16,000	-	-
Financial investments - AFS	(c)	2,753,065	1,674,010	2,753,065	1,674,010
Financial investments - HTM	(d)	185,722	184,467	185,722	184,467
Advances and financing	(e)	8,224,744	6,197,878	8,191,107	6,155,234
Other assets	(f)	87,698	800,425	71,034	755,691
Total assets		11,709,031	9,671,184	11,600,555	9,544,731
Liabilities					
Deposits from customers Tawarruq	(g)	6,020,848	5,088,661	6,020,848	5,088,661
Deposits and placements from financial institutions Tawarruq	(h)	-	50,004	-	50,004
Other liabilities	(h)	104,001	93,326	58,341	25,155
Redeemable notes		4,552,762	3,445,788	4,552,762	3,445,788
Deferred income		234,011	239,420	234,011	239,420
Total liabilities		10,911,622	8,917,199	10,865,962	8,849,028
Equity					
Islamic banking funds		797,409	753,985	734,593	695,703
Total liabilities and equity		11,709,031	9,671,184	11,600,555	9,544,731
Commitments and contingencies	(r)	6,940,785	3,352,398	6,940,785	3,352,398

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

Income Statements

For the Financial Year Ended 31 December 2016

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Income derived from investment of depositors' funds	(j)	278,726	191,833	278,726	191,833
Income derived from investment of shareholders' funds	(k)	355,205	288,792	349,580	282,302
Allowance for impairment losses on advances and financing	(l)	(126,645)	(164,050)	(129,227)	(158,481)
Allowance for impairment losses on other assets	(m)	(25,279)	(9,417)	(25,279)	(9,417)
Total distributable income		482,007	307,158	473,800	306,237
Income attributable to the depositors	(n)	(213,343)	(176,810)	(213,343)	(176,810)
Total net income		268,664	130,348	260,457	129,427
Overhead expenses	(o)	(26,348)	(21,403)	(25,925)	(20,716)
Finance cost	(p)	(161,596)	(160,430)	(161,596)	(160,430)
Profit/(loss) before zakat		80,720	(51,485)	72,936	(51,719)
Zakat	(q)	(17,805)	(21,653)	(14,555)	(19,795)
Profit/(loss) for the financial year		62,915	(73,138)	58,381	(71,514)

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

Statements of Comprehensive Income
For the Financial Year Ended 31 December 2016

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Profit/(loss) for the financial year	62,915	(73,138)	58,381	(71,514)
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:				
Net loss on revaluation of financial investments - AFS	(19,491)	-	(19,491)	-
Other comprehensive loss for the financial year, net of tax	(19,491)	-	(19,491)	-
Total comprehensive income/ (loss) for the financial year, net of zakat	43,424	(73,138)	38,890	(71,514)
Total comprehensive income/ (loss) attributable to:				
Shareholders of the Bank	43,424	(73,138)	38,890	(71,514)
Non-controlling interests	-	-	-	-
	43,424	(73,138)	38,890	(71,514)
Net income from Islamic financial business:				
Income derived from investment of depositors' funds	278,726	191,833	278,726	191,833
Income derived from investment of shareholders' funds	355,205	288,792	349,580	282,302
Income attributable to the depositors	(213,343)	(176,810)	(213,343)	(176,810)
Finance cost	(161,596)	(160,430)	(161,596)	(160,430)
Net income from Islamic financial business reported in the income statement	258,992	143,385	253,367	136,895

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

**Consolidated Statement of Changes in Equity
For the Financial Year Ended 31 December 2016**

Group	Capital funds RM'000	Unrealised AFS reserve RM'000	Retained profits RM'000	Total RM'000
At 1 January 2016	602,400	-	151,585	753,985
Total comprehensive (loss)/income for the financial year	-	(19,491)	62,915	43,424
At 31 December 2016	<u>602,400</u>	<u>(19,491)</u>	<u>214,500</u>	<u>797,409</u>
At 1 January 2015	602,400	-	224,723	827,123
Total comprehensive loss for the financial year	-	-	(73,138)	(73,138)
At 31 December 2015	<u>602,400</u>	<u>-</u>	<u>151,585</u>	<u>753,985</u>

**Statement of Changes in Equity
For the Financial Year Ended 31 December 2016**

Bank	Capital funds RM'000	Unrealised AFS reserve RM'000	Retained profits RM'000	Total RM'000
At 1 January 2016	597,400	-	98,303	695,703
Total comprehensive (loss)/income for the financial year	-	(19,491)	58,381	38,890
At 31 December 2016	<u>597,400</u>	<u>(19,491)</u>	<u>156,684</u>	<u>734,593</u>
At 1 January 2015	597,400	-	169,817	767,217
Total comprehensive loss for the financial year	-	-	(71,514)	(71,514)
At 31 December 2015	<u>597,400</u>	<u>-</u>	<u>98,303</u>	<u>695,703</u>

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

Statements of Cash Flows

For the Financial Year Ended 31 December 2016

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash flows from operating activities				
Profit/(loss) before zakat	80,720	(51,485)	72,936	(51,719)
Adjustments for:				
Net gain on sale of financial investments - AFS (Note 49(k))	(7,680)	(1,275)	(7,680)	(1,275)
Accretion of discount less amortisation of premium of financial investments (Note 49(k))	(27,015)	(10,757)	(27,015)	(10,757)
Individual allowance (Note 49(l)):				
Individual allowance made	187,510	84,371	185,869	72,489
Individual allowance written back	(16,924)	(10,066)	(13,818)	(8,794)
Transferred from collective allowance	63,794	11,305	63,794	11,305
Transferred to collective allowance	(22,317)	(4,337)	(22,317)	(4,337)
Collective allowance (Note 49(l)):				
Collective allowance made	-	101,129	-	100,362
Collective allowance written back	(47,094)	(1,975)	(47,201)	(1,975)
Transferred from individual allowance	22,317	4,337	22,317	4,337
Transferred to individual allowance	(63,794)	(11,305)	(63,794)	(11,305)
Impairment allowance for:				
Financial investments - HTM	25,279	9,656	25,279	9,656
Bad debts and financing recovered (Note 49(l))	(6,721)	(9,936)	(5,490)	(4,128)
Bad debts and financing written off (Note 49(l))	9,874	527	9,867	527
Zakat (Note 49(q))	(17,805)	(21,653)	(14,555)	(19,795)
Compensation from the Government (Note 49(k))	(16,289)	(15,017)	(16,289)	(15,017)
Operating profit before working capital changes	163,855	73,519	161,903	69,574

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

Statements of Cash Flows

For the Financial Year Ended 31 December 2016 (cont'd.)

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash flows from operating activities (cont'd.)				
(Increase)/decrease in operating assets:				
Other assets	704,117	(781,230)	674,919	(759,877)
Advances and financing	(2,153,511)	(145,035)	(2,163,974)	(153,871)
Deposits and placements with financial institutions	16,000	661,667	-	677,667
	<u>(1,433,394)</u>	<u>(264,598)</u>	<u>(1,489,055)</u>	<u>(236,081)</u>
(Decrease)/increase in operating liabilities:				
Other liabilities	38,841	(36,878)	60,468	(62,066)
Deposits from customers	932,187	2,298,088	932,187	2,298,088
Deposits and placements from financial institutions	(50,004)	50,004	(50,004)	50,004
	<u>921,024</u>	<u>2,311,214</u>	<u>942,651</u>	<u>2,286,026</u>
Cash (used in)/generated from operating activities	(348,515)	2,120,135	(384,501)	2,119,519
Zakat paid	(20,488)	(12,211)	(19,602)	(12,211)
Net cash (used in)/generated from operating activities	<u>(369,003)</u>	<u>2,107,924</u>	<u>(404,103)</u>	<u>2,107,308</u>
Cash flows from investing activities				
Purchase of financial investments - AFS	(1,078,573)	(1,418,416)	(1,078,573)	(1,418,416)
Proceeds from disposal/maturity of financial investments - AFS	-	540,586	-	540,586
Proceeds from disposal/maturity of financial investments - HTM	-	78,916	-	78,916
Net cash used in investing activities	<u>(1,078,573)</u>	<u>(798,914)</u>	<u>(1,078,573)</u>	<u>(798,914)</u>

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

Statements of Cash Flows

For the Financial Year Ended 31 December 2016 (cont'd.)

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash flows from financing activities				
Receipt from issuance of redeemable notes	1,106,974	-	1,106,974	-
Reclassification of financial investment - AFS to Islamic financial business	-	(794,538)	-	(794,538)
Reclassification of financial investment - HTM to Islamic financial business	-	(252,993)	-	(252,993)
Net cash generated/(used in) from financing activities	<u>1,106,974</u>	<u>(1,047,531)</u>	<u>1,106,974</u>	<u>(1,047,531)</u>
Cash and cash equivalents (Note A)				
Net (decrease)/increase in cash and cash equivalents	(340,602)	261,479	(375,702)	260,863
Cash and cash equivalents at beginning of financial year	<u>798,404</u>	<u>536,925</u>	<u>775,329</u>	<u>514,466</u>
Cash and cash equivalents at end of financial year	<u>457,802</u>	<u>798,404</u>	<u>399,627</u>	<u>775,329</u>

(A) Cash and cash equivalents

Cash and cash equivalents included in the cash flows statements comprise the following statements of financial position amounts:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash and short term deposits	<u>457,802</u>	<u>798,404</u>	<u>399,627</u>	<u>775,329</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
(a) Cash and short term deposits				
Cash and bank balances with financial institutions	12,993	24,431	4,828	1,356
Money at call and deposit placements maturing within one month	444,809	773,973	394,799	773,973
	<u>457,802</u>	<u>798,404</u>	<u>399,627</u>	<u>775,329</u>
(b) Deposits and placements with financial institutions				
Licensed banks	-	16,000	-	-
(c) Financial investments - AFS				
			Group and Bank	
			2016	2015
			RM'000	RM'000
At fair value				
Money market instruments:				
Government investment issues			1,141,858	872,907
At fair value				
Unquoted securities:				
(In Malaysia)				
Private debt securities			1,611,207	801,103
			<u>2,753,065</u>	<u>1,674,010</u>

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

(d) Financial investments - HTM

	Group and Bank	
	2016	2015
	RM'000	RM'000
At amortised cost		
Money market instruments:		
Cagamas	5,037	5,036
	<hr/>	<hr/>
Unquoted securities:		
(In Malaysia)		
Private debt securities	527,365	500,832
	<hr/>	<hr/>
Less: Accumulated impairment losses	(346,680)	(321,401)
	<hr/>	<hr/>
	180,685	179,431
	<hr/>	<hr/>
	185,722	184,467
	<hr/>	<hr/>

Indicative market values of the financial investments - HTM are as follows:

	Group and Bank	
	2016	2015
	RM'000	RM'000
Cagamas	5,029	5,066
Unquoted private debt securities	248,204	221,663
	<hr/>	<hr/>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

(e) Advances and financing

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Bai' Bithaman Ajil	219,355	339,824	219,349	328,834
Bai' 'Inah	52,009	162,173	52,009	162,173
Murabahah	25,778	53,822	25,778	53,822
Istisna'	5,787,662	9,578,230	5,787,662	9,578,230
Ijarah	56,663	60,544	20,625	20,301
Ijarah Muntahiyah bi Tamlik	110,757	146,156	110,757	146,156
Ijarah Thummal Bai'	-	499	-	-
Tawarruq	8,442,488	1,378,762	8,425,248	1,364,783
Staff financing	13,861	16,894	13,861	16,894
Unearned income	(5,575,694)	(4,642,889)	(5,575,694)	(4,642,889)
Gross advances and financing	9,132,879	7,094,015	9,079,595	7,028,304
Allowance for impairment on advances and financing:				
Individual allowance	(647,882)	(547,319)	(629,735)	(525,639)
Collective allowance	(260,253)	(348,818)	(258,753)	(347,431)
	(908,135)	(896,137)	(888,488)	(873,070)
Net advances and financing	8,224,744	6,197,878	8,191,107	6,155,234

(i) Advances and financing analysed by type of customers are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Domestic business enterprises	9,125,687	7,074,412	9,072,397	7,019,691
Individual	7,198	19,603	7,198	8,613
	9,132,885	7,094,015	9,079,595	7,028,304

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

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

(ii) Advances and financing analysed by profit rate sensitivity are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Fixed rate:				
Housing financing	7,198	19,603	7,198	8,613
Other fixed rate financing	6,137,351	4,406,887	6,084,067	4,352,166
Variable rate:				
Cost plus	1,424,769	851,755	1,424,769	851,755
Other variable rates	1,563,561	1,815,770	1,563,561	1,815,770
	<u>9,132,879</u>	<u>7,094,015</u>	<u>9,079,595</u>	<u>7,028,304</u>

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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Agriculture, hunting & forestry	5,227	5,190	-	-
Construction	3,818,165	3,418,452	3,817,852	3,417,979
Education	1,470,948	1,390,451	1,470,948	1,390,451
Electricity, gas and water supply	217,432	232,302	217,432	232,302
Finance, takaful and business	17,138	20,578	-	-
Hotel and restaurants	146,840	117,196	146,840	117,196
Housing	15,060	19,603	7,198	8,613
Manufacturing	286,419	223,723	283,470	220,310
Materials technology	10,259	7,422	10,259	7,422
Balance carried forward	<u>5,987,488</u>	<u>5,434,917</u>	<u>5,953,999</u>	<u>5,394,273</u>

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

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

(iii) Advances and financing analysed by industry are as follows (cont'd.):

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Balance brought forward	5,987,488	5,434,917	5,953,999	5,394,273
Other community, social and personal service activities	74,468	73,779	72,997	70,605
Public administration and defence	38,308	45,268	38,308	45,268
Shipping	751,170	923,570	751,170	923,570
Shipyards	201,369	94,248	201,369	94,248
Transport, storage and communication	2,080,076	522,233	2,061,752	500,340
	<u>9,132,879</u>	<u>7,094,015</u>	<u>9,079,595</u>	<u>7,028,304</u>

(iv) The maturity structure of advances and financing are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Receivable after 12 months	7,733,305	5,989,297	7,727,506	5,924,802
Receivable within 12 months	1,399,574	1,104,718	1,352,089	1,103,502
	<u>9,132,879</u>	<u>7,094,015</u>	<u>9,079,595</u>	<u>7,028,304</u>

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

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

(v) Advances and financing analysed by type and Shariah contract are as follows:

Group	Bai' Ajil		Istisna'	Ijarah Murabahah	Ijarah bi Tamlik	Ijarah Thummal Bai'	Tawarruq	Total
	RM'000	RM'000						
2016								
At amortised cost								
Term facility								
Sale-based financing	219,355	52,009	5,787,662	-	-	-	8,019,236	14,078,262
Lease-based financing	-	-	-	56,663	110,757	-	-	167,420
Revolving facility								
Sale-based financing	-	-	25,778	-	-	-	423,252	449,030
Staff financing	13,861	-	-	-	-	-	-	13,861
Unearned income	-	-	-	-	-	-	-	(5,575,694)
Gross advances and financing	233,216	52,009	5,787,662	56,663	110,757	-	8,442,488	9,132,879
Allowance for impairment on advances and financing:								
Individual allowance	-	-	-	-	-	-	-	(647,882)
Collective allowance	-	-	-	-	-	-	-	(260,253)
Net advances and financing	-	-	-	-	-	-	-	8,224,744

16562-K

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

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

(v) Advances and financing analysed by type and Shariah contract are as follows (cont'd.):

Group	Bai' Ajil		Istisna'	Ijarah		Ijarah Thummal Bai'	Total
	Bithaman RM'000	Bai' 'Inah RM'000		Muntahiyah bi Tamlik RM'000	Tawarruq RM'000		
2015							
At amortised cost							
Term facility							
Sale-based financing	339,824	162,173	-	-	-	-	11,458,989
Lease-based financing	-	-	-	60,544	499	-	207,199
Revolving facility							
Sale-based financing	-	-	53,822	-	-	-	53,822
Staff financing	16,894	-	-	-	-	-	16,894
Unearned income	-	-	-	-	-	-	(4,642,889)
Gross advances and financing	356,718	162,173	53,822	60,544	499	1,378,762	7,094,015
Allowance for impairment on advances and financing:							
Individual allowance	-	-	-	-	-	-	(547,319)
Collective allowance	-	-	-	-	-	-	(348,818)
Net advances and financing	-	-	-	-	-	-	6,197,878

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

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

(v) Advances and financing analysed by type and Shariah contract are as follows (cont'd.):

Bank	Bai' Ajil		Bai' 'Inah Murabahah		Istisna'	Ijarah RM'000	Ijarah Muntahiyah bi Tamlik		Tawarruq RM'000	Total RM'000
	RM'000	RM'000	RM'000	RM'000			RM'000	RM'000		
2016										
At amortised cost										
Term facility										
Sale-based financing	219,349	52,009	-	5,787,662	-	20,625	-	-	-	6,059,020
Lease-based financing	-	-	-	-	-	20,625	110,757	8,001,996	-	8,133,378
Revolving facility										
Sale-based financing	-	-	25,778	-	-	-	-	423,252	-	449,030
Staff financing	13,861	-	-	-	-	-	-	-	-	13,861
Unearned income	-	-	-	-	-	-	-	-	-	(5,575,694)
Gross advances and financing	233,210	52,009	25,778	5,787,662	20,625	110,757	8,425,248	9,079,595		
Allowance for impairment on advances and financing:										
Individual allowance	-	-	-	-	-	-	-	-	-	(629,735)
Collective allowance	-	-	-	-	-	-	-	-	-	(258,753)
Net advances and financing	-	-	-	-	-	-	-	-	-	8,191,107

16562-K

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

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

(v) Advances and financing analysed by type and Shariah contract are as follows (cont'd.):

Bank	Bai' Bithaman Ajil		Murabahah	Istisna'	Ijarah	Muntahiyah bi Tamlik	Tawarruq	Total
	RM'000	RM'000						
2015								
At amortised cost								
Term facility								
Sale-based financing	328,834	162,173	-	9,578,230	-	-	1,364,783	11,434,020
Lease-based financing	-	-	-	-	20,301	146,156	-	166,457
Revolving facility								
Sale-based financing			53,822					53,822
Staff financing	16,894	-	-	-	-	-	-	16,894
Unearned income	-	-	-	-	-	-	-	(4,642,889)
Gross advances and financing	345,728	162,173	53,822	9,578,230	20,301	146,156	1,364,783	7,028,304
Allowance for impairment on advances and financing:								
Individual allowance	-	-	-	-	-	-	-	(525,639)
Collective allowance	-	-	-	-	-	-	-	(347,431)
Net advances and financing	-	-	-	-	-	-	-	6,155,234

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

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

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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	894,765	568,364	866,841	544,429
Impaired during the financial year	322,452	442,700	309,372	436,722
Reclassified as non-impaired	(14,911)	-	-	-
Recovered during the financial year	(52,691)	(10,685)	(45,667)	(8,696)
Amount written off	(114,980)	(105,614)	(113,330)	(105,614)
At 31 December	<u>1,034,635</u>	<u>894,765</u>	<u>1,017,216</u>	<u>866,841</u>
Gross impaired financing as a % of gross loans, advances and financing	11.33%	12.61%	11.20%	12.33%

(vii) Impaired advances and financing analysed by industry are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Construction	52,009	74,049	52,009	74,049
Education	56,626	56,588	56,626	56,588
Electricity, gas and water supply	74,257	72,816	74,257	72,816
Hotel and restaurants	102,935	98,379	102,935	98,379
Housing	7,862	10,990	-	-
Manufacturing	88,973	93,450	83,915	88,825
Materials technology	10,259	7,422	10,259	7,422
Other community, social and personal service activities	905	865	-	-
Shipping	637,215	468,762	637,215	468,762
Transport, storage and communication	3,594	11,444	-	-
	<u>1,034,635</u>	<u>894,765</u>	<u>1,017,216</u>	<u>866,841</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

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

(viii) Movements in allowance for impaired advances and financing are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Individual allowance ("IA")				
At 1 January	547,319	577,648	525,639	560,591
Allowance made during the financial year	187,510	84,371	185,869	72,489
Amount written back in respect of recoveries	(16,924)	(10,066)	(13,818)	(8,794)
Amount transferred from CA	63,794	11,305	63,794	11,305
Amount transferred to CA	(22,317)	(4,337)	(22,317)	(4,337)
Amount written off	(111,500)	(111,602)	(109,432)	(105,615)
At 31 December	<u>647,882</u>	<u>547,319</u>	<u>629,735</u>	<u>525,639</u>
Collective allowance ("CA")				
At 1 January	348,818	256,632	347,431	256,012
Allowance made during the financial year	-	101,129	-	100,362
Amount written back	(47,094)	(1,975)	(47,201)	(1,975)
Amount transferred to IA	(63,794)	(11,305)	(63,794)	(11,305)
Amount transferred from IA	22,317	4,337	22,317	4,337
At 31 December	<u>260,247</u>	<u>348,818</u>	<u>258,753</u>	<u>347,431</u>

(ix) Advances and financing analysed by geographical distribution are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Within Malaysia	<u>9,132,879</u>	<u>7,094,015</u>	<u>9,079,595</u>	<u>7,028,304</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

(f) Other assets

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Other receivables		87,698	5,234	71,034	5,234
Interfund receivables	(i)	-	795,191	-	750,457
		<u>87,698</u>	<u>800,425</u>	<u>71,034</u>	<u>755,691</u>

(i) Interfund receivables are unsecured, profit free and are settled subsequent to year end.

(g) Deposits from Customers - Tawarruq

	Group and Bank	
	2016 RM'000	2015 RM'000
(a) The deposits are sourced from the following types of customers:		
Business enterprises	984,759	1,774,823
Government and statutory bodies	5,036,089	3,313,838
	<u>6,020,848</u>	<u>5,088,661</u>
(b) The deposits maturity structure are as follows:		
Less than six months	1,603,991	4,702,839
Six months to one year	4,416,857	385,822
	<u>6,020,848</u>	<u>5,088,661</u>

(h) Other liabilities

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Other payables		16,741	7,056	13,378	1,161
Zakat payables		19,337	21,807	17,137	21,807
Sources and uses of charity payables	(i)	1,901	2,187	1,901	2,187
Interfund payables	(ii)	66,022	62,276	25,925	-
		<u>104,001</u>	<u>93,326</u>	<u>58,341</u>	<u>25,155</u>

(i) Sources and uses of charity fund

Included in sources and uses of charity fund of the Group and Bank is an amount which are prohibited by Shariah amounting to RM800,236 (2015: RM800,236) and balance of RM1,101,260 (2015: RM1,386,699) is from profit equalisation reserve ("PER").

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

(h) Other liabilities (cont'd.)

(i) Sources and uses of charity payables (cont'd.)

Group and Bank	Charity Funds RM'000	Shariah Non-Compliance Income RM'000	Total RM'000
Undistributed funds as at 1 January 2015	-	-	-
Funds collected/received during the year	1,387	800	2,187
Undistributed funds as at 31 December 2015/1 January 2016	1,387	800	2,187
Uses of funds during the year			
Contribution to Non-profit Organisation	(152)	-	(152)
Contribution to School	(134)	-	(134)
	(286)	-	(286)
Undistributed funds as at 31 December 2016	1,101	800	1,901

(ii) Interfund payables are unsecured, profit free and are repayable on demand.

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

(i) Reserves

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Non-distributable:				
Unrealised AFS reserve	(19,491)	-	(19,491)	-
	<u>(19,491)</u>	<u>-</u>	<u>(19,491)</u>	<u>-</u>
Distributable:				
Retained profits	214,500	151,585	156,684	98,303
	<u>195,009</u>	<u>151,585</u>	<u>137,193</u>	<u>98,303</u>

Movements of the AFS reserve are as follows:

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
At 1 January	-	-	-	-
Unrealised loss on fair value changes	(27,171)	-	(27,171)	-
Realised gain transferred to profit or loss	7,680	-	7,680	-
At 31 December	<u>(19,491)</u>	<u>-</u>	<u>(19,491)</u>	<u>-</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

(j) Income derived from investment of depositors' funds

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Finance Income				
Advances and financing	242,991	175,485	242,991	175,485
Other income:				
Fee income	35,735	16,348	35,735	16,348
	<u>278,726</u>	<u>191,833</u>	<u>278,726</u>	<u>191,833</u>
Of which:				
Profit income earned on impaired advances and financing	<u>16,272</u>	<u>5,456</u>	<u>16,166</u>	<u>5,456</u>

(k) Income derived from investment of shareholders' funds

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Finance Income				
Advances and financing	168,655	191,530	164,604	185,776
Compensation from the Government	16,289	15,017	16,289	15,017
Deposits and placements with financial institution	21,507	28,098	20,133	27,529
Financial investments - AFS	93,068	24,733	93,068	24,733
Financial investments - HTM	4,264	1,942	4,264	1,942
	<u>303,783</u>	<u>261,320</u>	<u>298,358</u>	<u>254,997</u>
Accretion of discount less amortisation of premium	<u>27,015</u>	<u>10,757</u>	<u>27,015</u>	<u>10,757</u>
	<u>330,798</u>	<u>272,077</u>	<u>325,373</u>	<u>265,754</u>
Other income:				
Net gain on sale of :				
Financial investments - AFS	7,680	1,275	7,680	1,275
Fee income	16,727	15,440	16,527	15,273
	<u>355,205</u>	<u>288,792</u>	<u>349,580</u>	<u>282,302</u>
Of which:				
Profit income earned on impaired advances and financing	<u>10,883</u>	<u>5,678</u>	<u>10,777</u>	<u>5,678</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

(l) Allowances for/(Writeback on) impairment losses on advances and financing

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Individual allowance:				
Made during the financial year	187,510	84,371	185,869	72,489
Written back	(16,924)	(10,066)	(13,818)	(8,794)
Transferred from CA	63,794	11,305	63,794	11,305
Transferred to CA	(22,317)	(4,337)	(22,317)	(4,337)
Collective allowance:				
Made during the financial year	-	101,129	-	100,362
Written back	(47,094)	(1,975)	(47,201)	(1,975)
Transferred to IA	(63,794)	(11,305)	(63,794)	(11,305)
Transferred from IA	22,317	4,337	22,317	4,337
Bad debts and financing:				
written off	9,874	527	9,867	527
recovered	(6,721)	(9,936)	(5,490)	(4,128)
	<u>126,645</u>	<u>164,050</u>	<u>129,227</u>	<u>158,481</u>

(m) Allowances for/(Writeback on) impairment losses on other assets

	Group and Bank	
	2016 RM'000	2015 RM'000
Financial investments - HTM	25,279	9,656
Written off - resigned staff	-	24
Written back - resigned staff	-	(263)
	<u>25,279</u>	<u>9,417</u>

(n) Income attributable to the depositors

	Group and Bank	
	2016 RM'000	2015 RM'000
Deposit from customers:		
Tawarruq	212,549	176,078
Deposits and placements from financial institutions:		
Tawarruq	794	732
	<u>213,343</u>	<u>176,810</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

(o) Overhead expenses

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Personnel costs	(i)	17,464	13,483	17,464	13,483
General administrative expenses	(ii)	8,884	7,920	8,461	7,233
		<u>26,348</u>	<u>21,403</u>	<u>25,925</u>	<u>20,716</u>

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
(i) Personnel costs				
Salaries, allowances and bonuses	13,591	10,613	13,591	10,613
Social security cost	76	55	76	55
Pension costs - Defined contribution plan	1,666	1,304	1,666	1,304
Other staff related expenses	2,131	1,511	2,131	1,511
	<u>17,464</u>	<u>13,483</u>	<u>17,464</u>	<u>13,483</u>

(ii) General administrative expenses

General administrative expenses	<u>8,884</u>	<u>7,920</u>	<u>8,461</u>	<u>7,233</u>
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The above overhead expenses have been determined after charging amongst other items the following:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Shariah Committee's remuneration	<u>306</u>	<u>189</u>	<u>306</u>	<u>189</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

(p) Finance cost

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Redeemable notes	156,004	160,430	156,004	160,430
Bills and acceptance payable	5,592	-	5,592	-
	<u>161,596</u>	<u>160,430</u>	<u>161,596</u>	<u>160,430</u>

(q) Zakat

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Zakat	<u>17,805</u>	<u>21,653</u>	<u>14,555</u>	<u>19,795</u>

(r) Commitments and contingencies

	Group and Bank	
	2016	2015
	RM'000	RM'000
Contingencies as at the financial year end constitute the following:		
Secured guarantees on behalf of customers given to:		
Third parties	1,266,310	1,242,982
Disbursement of advances and financing to industries	5,674,475	2,109,416
	<u>6,940,785</u>	<u>3,352,398</u>

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

49. Islamic Financial Business (cont'd.)

(s) Capital Adequacy

Capital management

Regulatory capital

The following table sets forth capital resources and capital adequacy for the Bank as at reporting date.

	Bank	
	2016	2015
	RM'000	RM'000
Tier 1 capital		
Capital funds	597,400	597,400
Other reserves	98,303	169,817
Total Tier 1 capital	<u>695,703</u>	<u>767,217</u>
Tier 2 capital		
Government support funds	234,011	239,420
Collective allowance*	264,615	262,672
Total Tier 2 capital	<u>498,626</u>	<u>502,092</u>
Total capital base	<u>1,194,329</u>	<u>1,269,309</u>

* The eligible amount for Tier 2 capital is after excluding CA on impaired advances and financing of the Bank.

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

	Bank	
	2016	2015
	RM'000	RM'000
10%	-	-
20%	87,233	178,871
50%	1,431,652	511,628
100%	11,508,846	9,949,666
	<u>13,027,731</u>	<u>10,640,165</u>

Without deducting proposed dividend:

	Bank	
	2016	2015
	%	%
Core capital ratio	5.34%	7.21%
RWCR	<u>9.17%</u>	<u>11.93%</u>

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

50. Reclassification

The reclassification relates to the transfer of realised gains on AFS securities upon realisation that was not made in prior years.

The effect of the reclassification to the Group and Bank are as follows:

Group	As previously stated RM'000	Reclass RM'000	As restated RM'000
At 1 January 2015			
Unrealised AFS reserve	54,845	16,316	71,161
Distributable retained profits	<u>2,474,873</u>	<u>(16,316)</u>	<u>2,458,557</u>
At 31 December 2015			
Unrealised AFS reserve	2,185	16,316	18,501
Distributable retained profits	<u>2,419,456</u>	<u>(16,316)</u>	<u>2,403,140</u>
Bank			
	As previously stated RM'000	Reclass RM'000	As restated RM'000
At 1 January 2015			
Unrealised AFS reserve	54,845	16,316	71,161
Distributable retained profits	<u>2,333,308</u>	<u>(16,316)</u>	<u>2,316,992</u>
At 31 December 2015			
Unrealised AFS reserve	1,982	16,316	18,298
Distributable retained profits	<u>2,384,582</u>	<u>(16,316)</u>	<u>2,368,266</u>

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the Financial Statements - 31 December 2016 (cont'd.)

51. Government Funds

As a development financial institution, the Bank perform its mandated roles to promote strategic sectors identified by the Government of Malaysia as follows:

(a) Tourism Fund

The objective of the tourism fund is to develop and promote tourism industry.

(b) Maritime Fund

The objective of the maritime fund is to provide financial assistance to existing and new companies to stimulate growth in shipping, shipyard, marine and oil & gas related activities and services.

(c) Public Transport Fund

The objective of the public transport fund is to spur the growth in the public transportation industry and improve the quality of the nation's public transportation

For all the above funds, the Group and the Bank act as a financier that bear the credit risk and recognise its credit losses in the financial statements.

16562-K

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

51. Government Funds (cont'd.)

51.1 Performance of the fund

Group	2016				2015			
	Tourism fund RM'000	Maritime fund RM'000	Public Transport fund RM'000	Total RM'000	Tourism fund RM'000	Maritime fund RM'000	Public Transport fund RM'000	Total RM'000
Share capital	200,000	-	-	200,000	200,000	-	-	200,000
Borrowings/Islamic Funding	4,200,000	4,494,258	505,742	9,200,000	4,200,000	4,494,258	505,742	9,200,000
	4,400,000	4,494,258	505,742	9,400,000	4,400,000	4,494,258	505,742	9,400,000
Net approved	(2,947,290)	(3,088,241)	(411,894)	(6,447,425)	(2,499,380)	(3,121,811)	(373,491)	(5,994,682)
Fund available	1,452,710	1,406,017	93,848	2,952,575	1,900,620	1,372,447	132,251	3,405,318
Loans, advances and financing:								
Disbursement	2,147,691	3,405,968	296,069	5,849,728	1,903,271	2,701,339	277,947	4,882,557
Repayment	(618,247)	(1,886,140)	(234,720)	(2,739,107)	(518,600)	(1,199,170)	(201,700)	(1,919,470)
Outstanding	1,529,444	1,519,828	61,349	3,110,621	1,384,671	1,502,169	76,247	2,963,087
Number of beneficiaries	69	43	105	217	63	44	102	209

16562-K

Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)

Notes to the Financial Statements - 31 December 2016 (cont'd.)

51. Government Funds (cont'd.)

51.1 Performance of the fund (cont'd.)

Bank	2016				2015			
	Tourism fund RM'000	Maritime fund RM'000	Public Transport fund RM'000	Total RM'000	Tourism fund RM'000	Maritime fund RM'000	Public Transport fund RM'000	Total RM'000
Share capital	200,000	-	-	200,000	200,000	-	-	200,000
Borrowings/Isiamic Funding	4,200,000	4,494,258	5,742	8,700,000	4,200,000	4,494,258	5,742	8,700,000
Net approved	4,400,000	4,494,258	5,742	8,900,000	4,400,000	4,494,258	5,742	8,900,000
Fund available	(2,947,290)	(3,088,241)	(5,742)	(6,041,273)	(2,499,380)	(3,121,811)	(5,742)	(5,626,933)
	1,452,710	1,406,017	-	2,858,727	1,900,620	1,372,447	-	3,273,067
Loans, advances and financing:								
Disbursement	2,147,691	3,408,968	5,661	5,562,320	1,903,271	2,701,339	5,661	4,610,271
Repayment	(618,247)	(1,886,140)	(5,661)	(2,510,048)	(518,600)	(1,199,170)	(5,661)	(1,723,431)
Outstanding	1,529,444	1,522,828	-	3,052,272	1,384,671	1,502,169	-	2,886,840
Number of beneficiaries	69	43	1	113	63	44	1	108