

Serial No.

STRICTLY PRIVATE AND CONFIDENTIAL

INFORMATION MEMORANDUM

IN RESPECT OF THE

PROPOSED ISSUANCE OF TIER 2 SUBORDINATED SUKUK MURABAHAH OF UP TO RM5.0 BILLION IN NOMINAL VALUE UNDER A SUBORDINATED SUKUK PROGRAMME, BASED ON THE SHARIAH PRINCIPLE OF MURABAHAH (VIA A TAWARRUQ ARRANGEMENT)

by

MUMTAZ RAKYAT SUKUK BERHAD

(Company No. 1143951-X)

(Incorporated under the Companies Act 1965 in Malaysia)

with recourse to



BANK KERJASAMA RAKYAT MALAYSIA BERHAD

(Co-operative Registration No. 2192)

(Deemed registered under the Co-operative Societies Act 1993 in Malaysia)

Principal Adviser / Lead Arranger



MAYBANK INVESTMENT BANK BERHAD

(Company No. 15938-H)

Joint Lead Managers



AmINVESTMENT BANK BERHAD
(Company No. 23742-V)



MAYBANK INVESTMENT BANK BERHAD
(Company No. 15938-H)

This Information Memorandum is dated 19 May 2016

RESPONSIBILITY STATEMENTS

This information memorandum ("**Information Memorandum**") has been approved by the directors of Mumtaz Rakyat Sukuk Berhad (Company No. 1143951-X) ("**Issuer**" or "**Mumtaz Rakyat**") and Bank Kerjasama Rakyat Malaysia Berhad (Co-operative Registration No. 2192) ("**Obligor**", the "**Bank**" or "**Bank Rakyat**"), respectively and they collectively and individually accept full responsibility for the accuracy of all the information and statements contained in this Information Memorandum, and confirm that, after having made all reasonable enquiries, and to the best of their information and belief, there are no false or misleading statements or other facts, the omission of which would make any statement in this Information Memorandum false or misleading and there is no material omission in this Information Memorandum, and that the opinions and intentions expressed in the information contained in this Information Memorandum are honestly held. Enquiries have been made by the Issuer and Bank Rakyat to ascertain all material facts have been disclosed and to verify the accuracy of all such information and statements. In this context, the Issuer and Bank Rakyat accept full responsibility for such information contained in this Information Memorandum.

IMPORTANT NOTICE AND GENERAL STATEMENT OF DISCLAIMER

This Information Memorandum is in connection with the proposed issuance of Tier 2 Subordinated Sukuk Murabahah ("**Subordinated Sukuk Murabahah**") pursuant to a Subordinated Sukuk Murabahah Programme ("**Subordinated Sukuk Programme**") of up to RM5.0 billion in nominal value, based on the Shariah principle of Murabahah (via a Tawarruq arrangement).

Each of the Issuer and Bank Rakyat acknowledges that it has authorised Maybank Investment Bank Berhad (Company No. 15938-H) ("**Maybank IB**") as amongst others, the lead arranger ("**Lead Arranger**") and Maybank IB and AmlInvestment Bank Berhad (Company No. 23742-V) as the joint lead managers ("**Joint Lead Managers**") to distribute this Information Memorandum, which is now being furnished on a private and confidential basis solely to the prospective investors, for the sole purpose of assisting them to decide whether to subscribe for or purchase the Subordinated Sukuk Murabahah, whom at the point of issuance of the Subordinated Sukuk Murabahah, would fall within the categories of persons specified in Part I of Schedule 6 or Section 229(1)(b) and Part I of Schedule 7 or Section 230(1)(b) of the Capital Markets and Services Act 2007, as amended from time to time ("**CMSA**"), read together with Schedule 9 or Section 257(3) of the CMSA, and after issuance of the Subordinated Sukuk Murabahah, it is a person whom would fall within Part I of Schedule 6 or Section 229(1)(b) of the CMSA, read together with Schedule 9 or Section 257(3) of the CMSA, to consider the offer or invitation to purchase the Subordinated Sukuk Murabahah.

No application is being made to list or quote the Subordinated Sukuk Murabahah on any stock exchange as at the date of this Information Memorandum. However, the Subordinated Sukuk Murabahah may be listed on Bursa Malaysia Securities Berhad under the Exempt Regime.

This Information Memorandum may not be, in whole or in part, reproduced or used for any other purpose, or shown, given, copied to or filed with any other person including, without limitation, any government or regulatory authority except with the prior consent of the Issuer, Bank Rakyat and the Lead Arranger and the Joint Lead Managers and as required under the Malaysian laws, regulations or guidelines.

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The information in this Information Memorandum supersedes all other information and material previously supplied (if any) to the recipients. By taking possession of this Information Memorandum, the recipients are acknowledging and agreeing and are deemed to have acknowledged and agreed that they will not rely on any previous information supplied (if any).

This Information Memorandum has not been and will not be made to comply with the laws of any jurisdiction other than Malaysia (each such jurisdiction a “**Foreign Jurisdiction**”), and has not been and will not be lodged, registered or approved pursuant to or under any legislation (or with or by any regulatory authorities or other relevant bodies) of any Foreign Jurisdiction and it does not constitute an issue or offer of, or an invitation to apply for, the Subordinated Sukuk Murabahah or any other securities of any kind by any party in any Foreign Jurisdiction. The distribution or possession of this Information Memorandum in Malaysia or in any Foreign Jurisdiction may be restricted or prohibited by law. Each recipient is required by the Issuer, Bank Rakyat, the Lead Arranger and the Joint Lead Managers to seek appropriate professional advice regarding, and to observe, any such restriction or prohibition. Neither the Issuer, Bank Rakyat, the Lead Arranger nor the Joint Lead Managers accept any responsibility or liability to any person in relation to the distribution or possession of this Information Memorandum in Malaysia or in any Foreign Jurisdiction. This Information Memorandum is not and is not intended to be a prospectus and has not been registered or lodged under the laws of Malaysia or of any Foreign Jurisdiction as a prospectus.

By accepting delivery of this Information Memorandum, each recipient agrees to the terms upon which this Information Memorandum is provided to such recipient as set out in this Information Memorandum, and further agrees and confirms that: (a) it will keep confidential all of such information and data; (b) it is lawful for the recipient to subscribe for or purchase the Subordinated Sukuk Murabahah under all jurisdictions to which the recipient is subject; (c) the recipient has complied with all applicable laws in connection with such subscription or purchase of the Subordinated Sukuk Murabahah; (d) the Issuer, Bank Rakyat, the Lead Arranger and the Joint Lead Managers and their respective directors, officers, employees and professional advisers are not and will not be in breach of the laws of any jurisdiction to which the recipient is subject to as a result of such subscription or purchase of the Subordinated Sukuk Murabahah, and they shall not have any responsibility or liability in the event that such subscription or purchase of the Subordinated Sukuk Murabahah is or shall become unlawful, unenforceable, voidable or void; (e) it is aware that the Subordinated Sukuk Murabahah can only be offered, sold, transferred or otherwise disposed of directly or indirectly in accordance with the relevant selling restrictions as referred to above and all applicable laws; (f) it has sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of subscribing or purchasing the Subordinated Sukuk Murabahah, and is able and prepared to bear the economic and financial risks of investing in or holding the Subordinated Sukuk Murabahah; (g) it is subscribing or accepting the Subordinated Sukuk Murabahah for its own account; and (h) at the point of issuance of the Subordinated Sukuk Murabahah, it is a person to whom an issue, offer or invitation to subscribe or purchase the Subordinated Sukuk Murabahah would constitute persons falling within any one of the categories of persons specified in Part I of Schedule 6 or Section 229(1)(b) of the CMSA and Part I of Schedule 7 or Section 230(1)(b) of the CMSA, read together with Schedule 9 or Section 257(3) of the CMSA; and after the issuance of the Subordinated Sukuk Murabahah, it is a person to whom an issue or offer of the Subordinated Sukuk Murabahah would constitute persons falling within any one of the categories of persons specified in Part I of Schedule 6 or Section 229(1)(b) of the CMSA, read together with Schedule 9 or Section 257(3) of the CMSA. Each recipient is solely responsible for seeking all appropriate expert advice as to the laws of all jurisdictions to which it is subject to. For the avoidance of doubt, this Information Memorandum shall not constitute an offer or invitation to subscribe or purchase the Subordinated Sukuk Murabahah in relation to any recipient who does not fall within the categories of persons specified in item (h) above.

This Information Memorandum or any document delivered under or in relation to the issue, offer and sale of the Subordinated Sukuk Murabahah is not, and should not be construed as, a recommendation by the Issuer, Bank Rakyat, the Lead Arranger or the Joint Lead Managers to subscribe for or purchase the Subordinated Sukuk Murabahah. This Information Memorandum is not

a substitute for, and should not be regarded as, an independent evaluation and analysis and does not purport to be all-inclusive. Each recipient should perform and is deemed to have made its own independent investigation and analysis of the Issuer, Bank Rakyat, the Subordinated Sukuk Murabahah and all other relevant matters, and each recipient should consult its own professional advisers. All information and statements herein are subject to the detailed provisions of the respective agreements referred to herein and are qualified in their entirety by reference to such documents.

Neither the delivery of this Information Memorandum nor the offering, sale, transfer, delivery or otherwise disposal of any Subordinated Sukuk Murabahah shall in any circumstance imply that the information contained herein concerning the Issuer and/or Bank Rakyat is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Subordinated Sukuk Murabahah is correct as of any time subsequent to the date indicated in the document containing the same. The Lead Arranger and the Joint Lead Managers expressly do not undertake to review the financial condition or affairs of the Issuer or Bank Rakyat during the tenure of the Subordinated Sukuk Murabahah and the Subordinated Sukuk Programme or to advise any investor of the Subordinated Sukuk Murabahah of any information coming to its attention. The recipient of this Information Memorandum and potential investors should review, inter alia, the most recently published documents when deciding whether or not to subscribe for or purchase the Subordinated Sukuk Murabahah.

Certain statements, information, estimates and reports in this Information Memorandum are based on historical data, which may not be reflective of the future, and others are forward-looking in nature and are subject to risks and uncertainties, including, amongst others, the Issuer's and/or Bank Rakyat's business strategy and expectations concerning their position in the Malaysian economy, future operations, growth prospects and industry prospects. While the directors of the Issuer and Bank Rakyat respectively believe that these forward-looking statements are reasonable, these statements are nevertheless subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in such forward-looking statements. In light of all this, the inclusion of forward-looking statements in this Information Memorandum should not be regarded as a representation or warranty by the Issuer or Bank Rakyat that the plans and objectives of the Issuer and/or Bank Rakyat will be achieved.

All figures in the tables included in this Information Memorandum are shown after rounding. Where this Information Memorandum contains or refers to a summary of a document or agreement, the summary is not meant to be exhaustive and potential investors should refer to or read the document or agreement in its entirety.

Statements of Disclaimer by the Securities Commission Malaysia

In accordance with the CMSA, a copy of this Information Memorandum will be deposited with the Securities Commission Malaysia (the “SC”), who takes no responsibility for its contents.

The lodgement with the SC pursuant to the Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework issued by the SC on 9 March 2015 (effective on 15 June 2015) in relation to the proposed issuance of Subordinated Sukuk Murabahah under the Subordinated Sukuk Programme has been made on 19 April 2016.

The SC shall not be liable for any non-disclosure on the part of the Issuer and/or Bank Rakyat and assumes no responsibility for the correctness of any statements made or opinions or reports expressed or contained in this Information Memorandum.

Statements of Disclaimer on Shariah Pronouncement

Maybank Islamic Berhad as the Shariah adviser of the Subordinated Sukuk Programme (“**Shariah Adviser**”) has approved the structure and mechanism of the Subordinated Sukuk Murabahah and their compliance with Shariah principles vide the Shariah pronouncement dated 14 August 2015. However, the approval is only an expression of the view of the Shariah Adviser based on its

experience in the subject. There can be no assurance as to the Shariah permissibility of the structure of the issue and the trading of the Subordinated Sukuk Murabahah and none of the Issuer, Bank Rakyat, the Lead Arranger or the Joint Lead Managers makes any representation as to the same. Investors are reminded that, as with any Shariah views, differences in opinion are possible. Investors are advised to obtain their own independent Shariah advice as to whether the structure meets their individual standards of compliance and make their own determination as to the future tradability of the Subordinated Sukuk Murabahah on any secondary market.

EACH ISSUE OF THE SUBORDINATED SUKUK MURABAHAH WILL CARRY DIFFERENT RISKS AND ALL INVESTORS SHOULD EVALUATE EACH ISSUE ON ITS MERITS AND RISKS. INVESTORS SHOULD RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THEIR INVESTMENT IN THE SUBORDINATED SUKUK MURABAHAH.

INVESTORS SHOULD READ THIS ENTIRE INFORMATION MEMORANDUM CAREFULLY AND AS A WHOLE, INCLUDING THE APPENDICES. IT IS RECOMMENDED THAT PROSPECTIVE INVESTORS CONSULT THEIR FINANCIAL, LEGAL, SHARIAH AND OTHER ADVISERS BEFORE PURCHASING OR ACQUIRING OR SUBSCRIBING FOR THE SUBORDINATED SUKUK MURABAHAH.

CONFIDENTIALITY

This Information Memorandum and its contents are strictly confidential and are provided strictly on the basis that the recipient shall ensure the same remain confidential. Accordingly, this Information Memorandum and its contents, or any information, which is made available in connection with any further enquiries, must be held in complete confidence.

This Information Memorandum is provided to prospective investors solely with reference to their own evaluation of the Subordinated Sukuk Murabahah.

In the event that there is any contravention of this confidentiality undertaking or there is reasonable likelihood that this confidentiality undertaking may be contravened, the Issuer and/or Bank Rakyat may, at its discretion, apply for any remedy available to the Issuer and/or Bank Rakyat whether at law or equity, including without limitation, injunctions. The Issuer and/or Bank Rakyat is entitled to fully recover from the contravening party all costs, expenses and losses incurred and/or suffered in this regard. For the avoidance of doubt, it is hereby deemed that this confidentiality undertaking shall be imposed upon the recipient, the recipient's professional advisers, directors, employees and any other persons concerned with the Subordinated Sukuk Murabahah.

The recipient must return this Information Memorandum and all reproductions thereof whether in whole or in part and any other information in connection therewith to the Lead Arranger and/or the Joint Lead Managers promptly upon the request of the Lead Arranger and/or the Joint Lead Managers, unless the recipient provides proof of a written undertaking satisfactory to the Lead Arranger and/or the Joint Lead Managers with respect to destroying these documents as soon as reasonably practicable after the said request from the Lead Arranger and/or the Joint Lead Managers.

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CONTENTS

<i>Particulars</i>	<i>Page</i>
RESPONSIBILITY STATEMENTS	I
IMPORTANT NOTICE AND GENERAL STATEMENT OF DISCLAIMER	I
STATEMENTS OF DISCLAIMER BY THE SECURITIES COMMISSION MALAYSIA	III
STATEMENTS OF DISCLAIMER ON SHARIAH PRONOUNCEMENT.....	III
CONFIDENTIALITY	IV
CONTENTS	V
DEFINITIONS AND ABBREVIATIONS	VII
SECTION 1	
EXECUTIVE SUMMARY	1
1.1 THE ISSUER.....	1
1.2 BANK RAKYAT	1
1.3 THE ISSUE	1
1.4 UTILISATION OF PROCEEDS.....	5
1.5 CREDIT RATING	5
1.6 REGULATORY APPROVALS REQUIRED	5
SECTION 2	
DETAILS OF THE SUBORDINATED SUKUK PROGRAMME	7
SECTION 3	
SELLING RESTRICTIONS	31
SECTION 4	
INVESTMENT CONSIDERATIONS	32
4.1 INVESTMENT CONSIDERATIONS RELATING TO THE SUBORDINATED SUKUK PROGRAMME	32
4.2 INVESTMENT CONSIDERATIONS RELATING TO THE ISSUER	38
4.3 INVESTMENT CONSIDERATIONS RELATING TO BANK RAKYAT AND ITS BUSINESS	38
4.4 INVESTMENT CONSIDERATIONS RELATING TO THE INDUSTRY	40
4.5 GENERAL INVESTMENT CONSIDERATIONS	40
SECTION 5	
BACKGROUND INFORMATION OF THE ISSUER	42
5.1 INTRODUCTION.....	42
5.2 SHARE CAPITAL AND SHAREHOLDING STRUCTURE.....	42
5.3 PROFILE OF DIRECTORS	42
SECTION 6	
BACKGROUND INFORMATION OF BANK RAKYAT	44
6.1 INTRODUCTION.....	44
6.2 CORPORATE INFORMATION	45
6.3 SHARE CAPITAL AND SHAREHOLDING STRUCTURE.....	45
6.4 PROFILE OF DIRECTORS	45
6.5 SUBSIDIARIES	53
6.6 MANAGEMENT COMMITTEE.....	54
6.7 SHARIAH COMMITTEE.....	54
SECTION 7	
SELECTED FINANCIAL INFORMATION	55

SECTION 8	
LIABILITIES AND CAPITALISATION	56
SECTION 9	
FUNDING AND CAPITAL ADEQUACY	57
9.1 FUNDING STRUCTURE OF THE BANK	57
9.2 CAPITAL ADEQUACY	58
SECTION 10	
ASSET QUALITY	62
10.1 FINANCING PORTFOLIO	62
10.2 FINANCING AND ADVANCES BY TYPE.....	62
10.3 FINANCING AND ADVANCES BY ISLAMIC PRINCIPLE	63
10.4 FINANCING AND ADVANCES BY SECTOR.....	63
10.5 CLASSIFICATION AND IMPAIRMENT PROVISIONS FOR FINANCING	64
SECTION 11	
RISK MANAGEMENT	67
11.1 OVERVIEW.....	67
11.2 OBJECTIVES.....	67
11.3 RISK GOVERNANCE	67
11.4 RISK MANAGEMENT ORGANISATION STRUCTURE.....	68
11.5 KEY AREAS OF RISK MANAGEMENT	68
11.6 CAPITAL ADEQUACY FRAMEWORK FOR ISLAMIC BANKS.....	69
SECTION 12	
REGULATORY AND SUPERVISORY FRAMEWORK GOVERNING BANK RAKYAT	70
12.1 DEVELOPMENT FINANCIAL INSTITUTIONS IN MALAYSIA	70
12.2 CO-OPERATIVE SOCIETIES IN MALAYSIA.....	71
12.3 BANK KERJASAMA RAKYAT MALAYSIA BERHAD (SPECIAL PROVISIONS) ACT 1978 AND BY-LAWS	72
12.4 APPLICATION OF LAWS	73
SECTION 13	
INDUSTRY OVERVIEW	74
13.1 ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE FIRST QUARTER OF 2016	74
13.2 THE ISLAMIC BANKING INDUSTRY	76
SECTION 14	
OTHER MATERIAL INFORMATION	78
14.1 MATERIAL CONTRACTS.....	78
14.2 MATERIAL LITIGATION.....	78
14.3 MATERIAL CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES	78
14.4 POTENTIAL CONFLICT OF INTEREST AND APPROPRIATE MITIGATING MEASURES	79
APPENDIX 1	
AUDITED FINANCIAL STATEMENTS OF BANK RAKYAT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015	

DEFINITIONS AND ABBREVIATIONS

In this Information Memorandum, unless the subject of context otherwise requires, the following words and expressions shall have the following meanings:

“AmInvestment”	AmInvestment Bank Berhad (Company No. 23742-V);
“Bank Rakyat” or “Bank”	Bank Kerjasama Rakyat Malaysia Berhad (Co-operative Society Registration No. 2192);
“Bank Rakyat Act”	Bank Kerjasama Rakyat Malaysia Berhad (Special Provisions) Act 1978 (Act 202);
“BNM”	Bank Negara Malaysia;
“By-Laws”	By-Laws of the Bank, registered under Section 7 of the Co-operative Societies Act;
“CAFIB”	BNM’s Capital Adequacy Framework for Islamic Banks (Capital Components) issued on 13 October 2015 and effective on 1 January 2016;
“Cagamas”	Cagamas Berhad (Company No.157931-A);
“CCR”	core capital ratio;
“CMSA”	Capital Markets and Services Act 2007 (Act 671);
“Commission”	Malaysia Co-operative Societies Commission;
“Companies Act”	Companies Act 1965 (Act 125);
“Co-operative Societies Act”	Co-operative Societies Act 1993 (Act 502);
“Development Financial Institutions Act”	Development Financial Institutions Act 2002 (Act 618);
“DFIs”	the development financial institutions;
“Facility Agent”	Maybank IB, the facility agent for the Subordinated Sukuk Programme;
“FAST”	the Fully Automated System for Issuing and Tendering, a centralised system for the origination of the debt securities and governed by the rules on MyClear Procedures;
“Financial Services Act”	the Financial Services Act 2013 (Act 758);
“FYE”	financial year ended/ending, as the case may be;
“Government”	the Government of Malaysia;
“Group”	Bank Rakyat and its subsidiaries (direct and indirect);
“Islamic Financial Services Act”	the Islamic Financial Services Act 2013 (Act 759);
“Issuer”	Mumtaz Rakyat Sukuk Berhad (Company No.1143951-X);

“Joint Lead Managers”	Maybank IB and AmlInvestment;
“Lead Arranger”	Maybank IB;
“LOLA Guidelines”	Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework issued by the SC on 9 March 2015 and effective from 15 June 2015;
“Malaysia Co-operative Societies Commission Act”	Malaysia Co-operative Societies Commission Act 2007 (Act 665);
“Maybank IB”	Maybank Investment Bank Berhad (Company No.15938-H);
“MODTCC”	Ministry of Domestic Trade, Co-operatives and Consumerism, Malaysia and references made to “Minister of MODTCC” shall mean the Minister for the time being charged with the responsibility for co-operative development;
“MOF”	Ministry of Finance, Malaysia and references made to “Minister of Finance” shall mean the Minister for the time being charged with the responsibility for finance;
“MyClear”	Malaysian Electronic Clearing Corporation Sdn Bhd (Company No. 836743-D);
“MyClear Procedures”	the operational procedures to govern the operation of securities services in FAST and RENTAS, issued by MyClear;
“MyClear Rules”	the Participation and Operation Rules for Payment and Securities Services, issued by MyClear;
“MyClear Rules and Procedures”	collectively, MyClear Rules and MyClear Procedures;
“Obligor”	Bank Rakyat, in its capacity as the obligor for the Subordinated Sukuk Programme;
“RAM”	RAM Rating Services Berhad, the credit rating agency for the Subordinated Sukuk Programme;
“RENTAS”	the Real Time Electronics Transfer of Funds and Securities, a system operated by MyClear on behalf of BNM;
“RM”, “Ringgit” and “sen”	Ringgit Malaysia and sen respectively, the lawful currency of Malaysia;
“RWCR”	risk-weighted capital ratio;
“SC”	Securities Commission Malaysia;
“Shariah Adviser”	Maybank Islamic Berhad (Company No.787435-M);
“SMEs”	small and medium enterprises;
“Subordinated Sukuk Murabahah”	the Tier 2 subordinated Sukuk Murabahah to be issued under the Subordinated Sukuk Programme;
“Subordinated Sukuk Programme”	the subordinated Sukuk Murabahah programme of up to RM5.0 billion in nominal value based on the Shariah principle of Murabahah (via Tawarruq arrangement);

“Sukuk Trustee”	AmTrustee Berhad (Company No.163032-V);
“TMF Trustees”	TMF Trustees Malaysia Berhad (Company No.610812-W); and
“Transaction Documents”	the transaction documents in relation to the Subordinated Sukuk Programme specified in item 34 of Section 2 of this Information Memorandum.

Words denoting (a) the singular shall, where applicable, include the plural and vice versa; (b) one gender only shall include the other gender; and (c) a person includes any individual, company, unincorporated association, government, state agency, international organisation or other entity.

Unless otherwise indicated, any reference in this Information Memorandum to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation), rule, statute or statutory provision shall be construed as a reference to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under any such modification or re-enactment.

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SECTION 1

EXECUTIVE SUMMARY

This summary below aims to provide an overview of the information contained in this Information Memorandum and must be read in conjunction with the detailed information and statements appearing elsewhere in this Information Memorandum. Each investor should read this entire Information Memorandum carefully, including the appendices.

1.1 THE ISSUER

The Issuer was incorporated in Malaysia on 12 May 2015 as a public company limited by shares under the Companies Act, with the company number 1143951-X. The Issuer is a special purpose company established to undertake the issuance of Subordinated Sukuk Murabahah under the Subordinated Sukuk Programme on behalf of Bank Rakyat.

For further background information of the Issuer, please refer to Section 5 of this Information Memorandum.

1.2 BANK RAKYAT

Bank Rakyat was registered as a co-operative society with limited liability under the Co-operative Societies Ordinance, 1948*, with the registration number 2192, on 28 September 1954, under the name of “**Federation of Malaya Rural Co-operative Apex Bank Limited**” which was later changed to “**Bank Kerjasama Malaysia Berhad**” in 1967 and subsequently to its present name “**Bank Kerjasama Rakyat Malaysia Berhad**” on 6 January 1973.

The principal activities of Bank Rakyat are those of a co-operative that carries out banking activities based on Shariah principles through accepting deposits and providing financial services for retail and commercial needs.

For further background information of Bank Rakyat, please refer to Section 6 of this Information Memorandum.

Note:

* *The Co-operative Societies Ordinance 1948 has been revised as the Co-operatives Societies Act 1958 and later repealed by the Co-operative Societies Act 1993.*

1.3 THE ISSUE

The Issuer proposes to establish the Subordinated Sukuk Programme and issue Subordinated Sukuk Murabahah there under.

Brief description of the structure of the Subordinated Sukuk Programme

1. (a) Pursuant to a service agency agreement entered into by Mumtaz Rakyat and the Sukuk Trustee (acting on behalf of the Sukukholders), Mumtaz Rakyat will be appointed by the Sukuk Trustee (acting on behalf of the Sukukholders) as the agent (“**Agent**”) to purchase and sell Shariah-compliant Commodities (as defined below).
- (b) The Agent will then enter into a Facility Agency Agreement to appoint the Facility Agent as the sub-agent (in such capacity, the “**Sub Agent**”) for the purchase and sale of Commodities under the Subordinated Sukuk Murabahah.

2. Pursuant to the Commodity Murabahah Master Agreement between Bank Rakyat (as the **"Purchaser"**), Mumtaz Rakyat (as Agent) and the Facility Agent (as Sub Agent), Bank Rakyat (as the Purchaser) will issue a purchase order to the Agent and the Sub Agent. In the Purchase Order, the Purchaser will request the Agent and the Sub Agent to purchase the Commodities and will irrevocably undertake to purchase the Commodities from the Sukuk Trustee (acting on behalf of the Sukukholders) via the Sub Agent at the Deferred Sale Price (as defined below).
3.
 - (a) Based on the Purchase Order, the Sub Agent (pursuant to the CTP Purchase Agreement entered into between the Sub Agent (acting on behalf of the Agent as agent of the Sukukholders) and the Commodity Trading Participant (**"CTP"**)), will purchase on a spot basis the Commodities from a commodity supplier (**"Commodity Supplier"**) in the Bursa Suq Al-Sila' commodity market through a CTP at a purchase price (**"Purchase Price"**) which shall be an amount equivalent to the Subordinated Sukuk Murabahah proceeds.
 - (b) The Commodities shall pass from the Commodity Supplier to the CTP, held for the benefit of the Sukukholders.
 - (c) The Purchase Price of the Commodities shall be in accordance with the Asset Pricing Requirements stipulated under the LOLA Guidelines.
4.
 - (a) Mumtaz Rakyat (acting as the Issuer) shall then issue Subordinated Sukuk Murabahah which evidences the Sukukholders' ownership in the Commodities and subsequently once the Commodities are sold to the Purchaser, the entitlement to receive the Deferred Sale Price which shall be equivalent to the Purchase Price plus the aggregate periodic profits (**"Periodic Profits"**).
 - (b) The proceeds received from the Sukukholders shall be used by the Agent to pay the Purchase Price.
5. Thereafter, pursuant to the sale and purchase agreement (**"Sale and Purchase Agreement"**), the Sub Agent (on behalf of the Agent as the agent of the Sukuk Trustee) will sell the Commodities to the Purchaser at a Deferred Sale Price.
6.
 - (a) Upon completion of such purchase, the Purchaser (pursuant to the CTP Sale Agreement entered into between the Purchaser and the CTP) shall sell the Commodities to Bursa Malaysia Islamic Services Sdn. Bhd. (**"BMIS"**) through the CTP on a spot basis. The CTP Sale Agreement will provide for the CTP to directly sell the Commodities to BMIS upon notice by the Sub Agent that the Sale and Purchase Agreement has been completed and executed.
 - (b) The sale to BMIS shall be in consideration of an amount equal to the Purchase Price.
 - (c) The Commodities shall pass from the CTP (acting on behalf of the Purchaser) to BMIS.
7. Bank Rakyat as the Purchaser shall (i) make periodic payments on each Periodic Payment Date (as defined below) and final payment of the Deferred Sale Price at the maturity date of the Subordinated Sukuk Murabahah to the Sukukholders; and (ii) pay the outstanding Deferred Sale Price (subject to Ibra') as final settlement of the same to the Sukukholders upon declaration of an Event of Default (as defined below).

Upon an early settlement pursuant to the Call Option (as defined below), the Tax Redemption (as defined below) or the Regulatory Redemption (as defined below), Bank Rakyat as Obligor shall pay the outstanding Deferred Sale Price (subject to Ibra') as final settlement of the same to the Sukukholders.

“Call Date” is defined as any Periodic Payment Date after a minimum period of five (5) years from the date of issue of that tranche of Subordinated Sukuk Murabahah;

“Call Option” means a callable option to allow the Issuer/Obligor to redeem (in whole or in part) a tranche of Subordinated Sukuk Murabahah prior to maturity on the Call Date at the Redemption Amount subject to the Redemption Conditions being satisfied;

“Commodities” refers to Shariah-compliant commodities (excluding ribawi items in the category of medium of exchange such as currency, gold and silver) which will be identified at or around the time of issuance of the Subordinated Sukuk Murabahah as approved by the Shariah Adviser;

“Deferred Sale Price” refers to the price which shall be equivalent to the Purchase Price of the relevant tranche of the Subordinated Sukuk Murabahah plus the aggregate periodic profits on a deferred payment basis;

“Event of Default” means the following:

- (a) If the Issuer defaults in payment of any principal or profits or any other amount under the Subordinated Sukuk Programme or the Obligor/Purchaser defaults in its payment obligation, under any of the Transaction Documents (including the Deferred Sale Price under the Sale and Purchase Agreement) on the due date or, if so payable on demand, the Sukuk Trustee may subject to the terms of the Trust Deed, institute proceedings to enforce the payment obligations under the Subordinated Sukuk Murabahah and may institute proceedings in Malaysia for the winding-up of the Issuer and/or the Obligor/Purchaser, provided that neither the Sukuk Trustee nor any of the Sukukholders shall have the right to accelerate payment of the Subordinated Sukuk Murabahah in the case of such default in the payment of amount payable under the Subordinated Sukuk Murabahah or any default in the performance of any condition, provision or covenant under the Subordinated Sukuk Programme or the Transaction Documents.
- (b) If:
 - (i) a court or an agency or regulatory authority in Malaysia having jurisdiction in respect of the same shall have instituted any proceeding or entered a decree or order for the appointment of a receiver or liquidator in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities, or similar arrangements involving the Issuer and/or the Obligor/Purchaser or all or substantially all of its property, or for the winding up of or liquidation of its affairs and such proceeding, decree or order shall not have been vacated or shall have remained in force, undischarged or unstayed for a period of sixty (60) days; or
 - (ii) the Issuer and/or the Obligor/Purchaser shall file a petition to take advantage of any insolvency statute (which for this purpose includes under any insolvency related provisions in any companies statute),

and the Sukuk Trustee may enforce its rights under the Transaction Documents to require the Obligor/Purchaser to make payment (including the outstanding Deferred Sale Price under the Sale and Purchase Agreement) subject to any agreed Ibra’.

For the avoidance of doubt, the occurrence of Event of Default (a) above for any tranche of the Subordinated Sukuk Murabahah will not trigger the Event of Default for other tranches of the Subordinated Sukuk Murabahah outstanding. However, occurrence of Event of Default (b) above will trigger an Event of Default for all tranches of the Subordinated Sukuk Murabahah outstanding;

“Periodic Payment Date” is the last day of a particular Periodic Payment Period;

“Periodic Payment Period” refers to the period of semi-annual intervals whereby the Sukukholders will receive Periodic Profits at semi-annual intervals in arrears with the first payment commencing six (6) months from the relevant issue date of the Subordinated Sukuk Murabahah and the last ending on the date falling on the maturity date or upon the early redemption of the Subordinated Sukuk Murabahah, whichever is earlier;

“Redemption Amount” means the nominal value of the Subordinated Sukuk Murabahah plus accrued but unpaid Periodic Profits subject to Ibra'. Wherein the Ibra' shall be the unearned Periodic Profits due to Sukukholders from the date of redemption of the Subordinated Sukuk Murabahah up to the maturity of the Subordinated Sukuk Murabahah. The Redemption Amount payable by the Issuer and/or Obligor/Purchaser on the declaration of an Event of Default or on a Call Date (if applicable) or redeemed pursuant to a Regulatory Event or a Tax Event, is an amount as determined by the Facility Agent, which shall be calculated in accordance with the above formula;

“Redemption Conditions” of the Subordinated Sukuk Murabahah means:

- (a) the Issuer and the Obligor must have received a written approval from BNM prior to redemption of the tranche of any of the Subordinated Sukuk Murabahah;
- (b) the Issuer and the Obligor is solvent at the time of redemption of such tranche of the Subordinated Sukuk Murabahah and immediately thereafter;
- (c) the Issuer and the Obligor is not in breach of BNM's minimum capital adequacy requirements and capital buffer requirements which shall apply to the Issuer and/or Obligor as if the Issuer and the Obligor are governed by BNM's minimum capital adequacy requirements after redemption of such tranche of the Subordinated Sukuk Murabahah; and
- (d) in respect of a Call Option only, the Issuer and/or the Obligor shall:
 - (i) replace the called or redeemed tranche of the Subordinated Sukuk Murabahah with capital of the same or better quality and the replacement of this capital shall be done at conditions which are sustainable for the income capacity of the Issuer and/or the Obligor, or
 - (ii) demonstrate to BNM that its capital position is well above the minimum capital adequacy and capital buffer requirements which shall apply to the Issuer and/or Obligor as if the Issuer and the Obligor are governed by BNM's minimum capital adequacy and capital buffer requirements after redemption of such tranche of the Subordinated Sukuk Murabahah;

“Regulatory Event” means any time there is more than an insubstantial risk, as determined by the Issuer and the Obligor, that:

- (a) all or any part of the Subordinated Sukuk Murabahah will, either immediately or with the passage of time or upon either the giving of notice or fulfilment of a condition, no longer qualify as Tier 2 capital of the Obligor for the purposes of BNM's capital adequacy requirements under any applicable regulations; or
- (b) changes in law will make it unlawful for the Issuer or the Obligor to continue performing its obligations under all or any part of the Subordinated Sukuk Murabahah;

“Regulatory Redemption” means the Issuer or the Obligor may, at its option, redeem the Subordinated Sukuk Murabahah (in whole or in part) at the Redemption Amount, subject to the Redemption Conditions being satisfied if a Regulatory Event occurs;

“Tax Redemption” means if there is more than an insubstantial risk as determined by the Issuer or the Obligor that:

- (a) the Issuer or the Obligor has or will become obliged to pay any additional taxes, duties, assessments or government charges of whatever nature in relation to the Subordinated Sukuk Murabahah;
- (b) the Issuer or the Obligor would no longer obtain tax deductions for the purposes of Malaysian corporation tax for any payment in respect of the Subordinated Sukuk Murabahah;

as a result of a change in, or amendment to, the laws or regulations of Malaysia or any political subdivision or any authority thereof or therein having power to tax, or change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the issue date and the Issuer or the Obligor cannot, by taking reasonable measures available to it, avoid such obligations (**“Tax Event”**), then the Issuer or the Obligor may, at its option, redeem the Subordinated Sukuk Murabahah (in whole or in part) at the Redemption Amount, subject to the Redemption Conditions being satisfied.

In the case of a partial redemption of Subordinated Sukuk Murabahah of a tranche pursuant to the Regulatory Redemption or Tax Redemption, the selection of the Subordinated Sukuk Murabahah to be redeemed will be made by the Sukuk Trustee on a pro rata basis, by lot or by such other method as the Sukuk Trustee (with the agreement of the Issuer and the Obligor) will deem to be fair and appropriate, although no Subordinated Sukuk Murabahah of RM10.0 million in original nominal value or less will be redeemed in part.

1.4 UTILISATION OF PROCEEDS

The proceeds from the Subordinated Sukuk Murabahah to be issued under the Subordinated Sukuk Programme shall be utilised as follows:

- (a) by the Issuer, for the commodity murabahah transaction; and
- (b) by the Purchaser, for the Purchaser’s Shariah-compliant business expansion programme, general banking, working capital and general corporate purposes.

1.5 CREDIT RATING

The Subordinated Sukuk Programme has been accorded an initial credit rating of AA₃(s) by RAM.

1.6 REGULATORY APPROVALS REQUIRED

Pursuant to the LOLA Guidelines, SC’s approval under Section 214(1) and authorisation under Section 256(C)(1) of the CMSA is no longer required for the establishment of the Subordinated Sukuk Programme.

SC has acknowledged the lodgement of the Subordinated Sukuk Programme pursuant to the LOLA Guidelines on 19 April 2016.

The following approvals and/or authorisation have been sought for the establishment of the Subordinated Sukuk Programme:

- (i) Commission for the establishment of the Subordinated Sukuk Programme. A letter of no objection dated 1 July 2015 has been issued by the Commission;

- (ii) MODTCC for the establishment of the Subordinated Sukuk Programme. The approval from MODTCC for the above has been obtained by the Obligor vide MODTCC's letter dated 18 November 2015, with the concurrence of the MOF vide its letter dated 31 October 2015; and
- (iii) BNM for the establishment of the Subordinated Sukuk Programme and the classification of the Subordinated Sukuk Murabahah raised under the Subordinated Sukuk Programme as Tier 2 capital of the Obligor. The approval from BNM for the above has been obtained vide its letter dated 8 March 2016.

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SECTION 2

DETAILS OF THE SUBORDINATED SUKUK PROGRAMME

Words and expressions used and defined in this Section 2 shall, in the event of any inconsistency with the definition section of this Information Memorandum, only be applicable for this Section 2.

- (1) **Name of facility** : Subordinated Sukuk Murabahah programme of up to RM5.0 billion in nominal value.
- (2) **One-time issue or programme** : Programme.
- (3) **Shariah principles** : Murabahah (via Tawarruq arrangement).
- (4) **Facility description** : A subordinated Sukuk Murabahah ("**Subordinated Sukuk Murabahah**") programme of up to RM5.0 billion in nominal value ("**Subordinated Sukuk Programme**"). The Subordinated Sukuk Murabahah shall comply with BNM's Capital Adequacy Framework for Islamic Banks (Capital Components) issued on 13 October 2015 and effective on 1 January 2016 (as amended from time to time) ("**CAFIB**") in relation to the requirements of a Tier 2 capital instrument.

The Subordinated Sukuk Murabahah shall be issued from time to time under the Shariah principle of Murabahah (via Tawarruq arrangement) which is one of the Shariah principles and concepts approved by the SAC.

Underlying Transaction

Murabahah (via Tawarruq arrangement)

1. (a) Pursuant to a service agency agreement entered into by Mumtaz Rakyat and the Sukuk Trustee (acting on behalf of the Sukukholders), Mumtaz Rakyat will be appointed by the Sukuk Trustee (acting on behalf of the Sukukholders) as the agent ("**Agent**") to purchase and sell Shariah compliant Commodities (as defined in item (4) of the section entitled "Other terms and conditions").

(b) The Agent will then enter into a Facility Agency Agreement to appoint the Facility Agent as the sub-agent (in such capacity, the "**Sub Agent**") for the purchase and sale of Commodities under the Subordinated Sukuk Murabahah.
2. Pursuant to the Commodity Murabahah Master Agreement between Bank Rakyat (as the "**Purchaser**"), Mumtaz Rakyat (as Agent) and the Facility Agent (as Sub Agent), Bank Rakyat (as the Purchaser) will issue a purchase order to the Agent and the Sub Agent. In the Purchase Order, the Purchaser will request the Agent and the Sub Agent to purchase the Commodities and will irrevocably undertake to purchase the Commodities from the Sukuk Trustee (acting on behalf of the Sukukholders) via the Sub Agent at the Deferred Sale Price (as defined

hereinafter).

3. (a) Based on the Purchase Order, the Sub Agent (pursuant to the CTP Purchase Agreement entered into between the Sub Agent (acting on behalf of the Agent as agent of the Sukukholders) and the Commodity Trading Participant ("**CTP**")), will purchase on a spot basis the Commodities from a commodity supplier ("**Commodity Supplier**") in the Bursa Suq Al-Sila' commodity market through a CTP at a purchase price ("**Purchase Price**") which shall be an amount equivalent to the Subordinated Sukuk Murabahah proceeds.
- (b) The Commodities shall pass from the Commodity Supplier to the CTP, held for the benefit of the Sukukholders.
- (c) The Purchase Price of the Commodities shall be in accordance with the Asset Pricing Requirements stipulated under the LOLA Guidelines (as defined in item (5) of the section entitled "Other terms and conditions").
4. (a) Mumtaz Rakyat (acting as the Issuer) shall then issue Subordinated Sukuk Murabahah which evidences the Sukukholders' ownership in the Commodities and subsequently once the Commodities are sold to the Purchaser, the entitlement to receive the Deferred Sale Price which shall be equivalent to the Purchase Price plus the aggregate periodic profits ("**Periodic Profits**").
- (b) The proceeds received from the Sukukholders shall be used by the Agent to pay the Purchase Price.
5. Thereafter, pursuant to the sale and purchase agreement ("**Sale and Purchase Agreement**"), the Sub Agent (on behalf of the Agent as the agent of the Sukuk Trustee) will sell the Commodities to the Purchaser at a Deferred Sale Price.
6. (a) Upon completion of such purchase, the Purchaser (pursuant to the CTP Sale Agreement entered into between the Purchaser and the CTP) shall sell the Commodities to Bursa Malaysia Islamic Services Sdn Bhd ("**BMIS**") through the CTP on a spot basis. The CTP Sale Agreement will provide for the CTP to directly sell the Commodities to BMIS upon notice by the Sub Agent that the Sale and Purchase Agreement has been completed and executed.
- (b) The sale to BMIS shall be in consideration of an amount equal to the Purchase Price.
- (c) The Commodities shall pass from the CTP

(acting on behalf of the Purchaser) to BMIS.

7. Bank Rakyat as the Purchaser shall (i) make periodic payments on each Periodic Payment Date (as defined in item (7) of the section entitled “Other terms and conditions”) and final payment of the Deferred Sale Price at the maturity date of the Subordinated Sukuk Murabahah to the Sukukholders and (ii) pay the outstanding Deferred Sale Price (subject to Ibra’) as final settlement of the same to the Sukukholders upon declaration of an Event of Default (as defined in the section entitled “Events of defaults or enforcement events, where applicable, including recourse available to investors”).

Upon an early settlement pursuant to the Call Option (as defined in item (24) of the section entitled “Other terms and conditions”), the Tax Redemption (as described in the section entitled “Provisions on buy-back, if applicable”) or the Regulatory Redemption (as defined in the section entitled “Provisions on buy-back, if applicable”), Bank Rakyat as Obligor shall pay the outstanding Deferred Sale Price (subject to Ibra’ (as defined in item (17) of the section entitled “Other terms and conditions”)) as final settlement of the same to the Sukukholders.

- | | | | |
|------|---|-------|--|
| (5) | Currency | : | Ringgit |
| (6) | Expected facility / programme size | : | Up to RM5.0 billion. |
| (7) | Option to upsize | : | Yes. |
| (8) | Tenure of the facility / programme | : | 20 years, 0 months, 0 days. |
| (9) | Availability period of sukuk programme | : | The Subordinated Sukuk Programme is available upon completion of the Transaction Documents (as defined in item (12) of the section entitled “Other terms and conditions”) and compliance of all relevant conditions precedent to the satisfaction of PA/LA, until the expiry of the tenure of the Subordinated Sukuk Programme. The first Subordinated Sukuk Murabahah shall be issued within sixty (60) business days from the date of lodgement of the required information and documents relating to the Subordinated Sukuk Programme with the SC (the “ Lodgement ”). |
| (10) | Clearing settlement platform(s) | and : | MyClear. |
| (11) | Mode of issue | : | Book building, direct placement, private placement, bought deal. |
| (12) | Selling restrictions | : | <div style="margin-left: 20px;">(i) Part I of Schedule 6 of the Capital Markets and Services Act, 2007 (“CMSA”)</div> <div style="margin-left: 20px;">(ii) Part I of Schedule 7 of the CMSA</div> |

- (iii) Read together with Schedule 9 of CMSA

Other

Selling Restrictions

The Subordinated Sukuk Murabahah may only be issued, offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to subscribe to the Subordinated Sukuk Murabahah and to whom the Subordinated Sukuk Murabahah are issued would:

- (a) at the point of issuance of the Subordinated Sukuk Murabahah fall within:
 - (i) Part I of Schedule 6 (or Section 229(1)(b)) of the CMSA; and
 - (ii) Part I of Schedule 7 (or Section 230(1)(b)) of the CMSA; read together with
 - (iii) Schedule 9 (or Subsection 257(3)) of the CMSA.
- (b) after the issuance of the Subordinated Sukuk Murabahah fall within:
 - (i) Part I of Schedule 6 (or Section 229(1)(b)) of CMSA; read together with
 - (ii) Schedule 9 (or Subsection 257(3)) of the CMSA.

(13) Tradability and transferability : Tradable and transferable.

(14) Details of security / collateral pledged, if applicable : Unsecured.

(15) Details of guarantee, if applicable : Not guaranteed.

(16) Convertibility of issuance and details of the convertibility : Non-convertible.

(17) Exchangeability of issuance and details of the exchangeability : Non-exchangeable.

(18) Call option and details, if applicable : Call option, details as follows.

The Issuer or the Obligor may, at its option and subject to the Redemption Conditions being satisfied, redeem in whole or in part the Subordinated Sukuk Murabahah prior to the maturity on the Call Date at the Redemption Amount (as defined in item (26) of the section entitled "Other Terms and Conditions") (where Call Option is applicable).

In the case of a partial redemption of Subordinated Sukuk Murabahah of a tranche pursuant to the Call Option, the selection of the Subordinated Sukuk Murabahah to be

redeemed will be made by the Sukuk Trustee on a pro rata basis, by lot or by such other method as the Sukuk Trustee (with the agreement of the Issuer and the Obligor) will deem to be fair and appropriate, although no Subordinated Sukuk Murabahah of RM10.0 million in original nominal value or less will be redeemed in part.

(19) Put option and details, if applicable : No put option.

(20) Positive Covenant : Positive covenants, details as follows.

The applicable covenants as may be advised by the PA/LA Solicitor and/or which are required in order to comply with the SC's Trust Deeds Guidelines, including but not limited to the following:

- (a) the Issuer and the Obligor shall maintain in full force and effect all relevant authorisations, consents, rights, licences, approvals and permits (governmental and otherwise), promptly comply with all applicable laws relating to the ownership of its assets, and the entry into and performance by the Issuer and the Obligor of their respective obligations under the agreements to which they are a party, including the provisions of the CMSA and/or the Subordinated Sukuk Murabahah, circulars, conditions or guidelines issued by the SC, BNM, MOF (as defined in item (1) of the section entitled "Other terms and conditions"), the Commission (as defined in the section entitled "Conditions Precedent") and/or MODTCC (as defined in item (1) of the section entitled "Other terms and conditions") from time to time (as the case may be) and will promptly obtain any further authorisations, consents, rights, licences, approvals and permits (governmental and otherwise) which is or may become necessary to enable them to own their respective assets, to carry on their business or for the Issuer or the Obligor to enter into or perform its obligations under the Transaction Documents or to ensure the validity, enforceability, admissibility in evidence of the obligations of the Issuer or the Obligor or rights of the Sukukholders under the Transaction Documents and the Issuer and the Obligor shall comply with the same;
- (b) The Issuer and the Obligor/Purchaser shall at all times comply with the provisions of the Trust Deed and the terms and conditions of the Transaction Documents;
- (c) The Issuer shall redeem in full or in part outstanding Subordinated Sukuk Murabahah in accordance with the terms and conditions of the Transaction Documents;
- (d) Each of the Issuer and the Obligor shall at all times maintain a paying agent in Malaysia;

- (e) The Issuer and/or the Obligor shall procure that the Paying Agent shall notify the Sukuk Trustee in the event that the Paying Agent does not receive payment from the Issuer and/or the Obligor/Purchaser on the due dates as required under the Transaction Documents;
- (f) The Issuer and the Obligor shall at all times keep proper books and accounts and prepare their financial statements on a basis consistently applied in accordance with approved accounting standards in Malaysia and those financial statements shall give true and fair view of the results of the operations of the Issuer and the Obligor for the period to which the financial statements are made up and shall disclose or provide against all liabilities (actual or contingent) of the Issuer and the Obligor and shall provide the Sukuk Trustee and any person appointed by it access to such books and accounts to the extent permitted by law;
- (g) The Issuer and the Obligor shall exercise reasonable diligence in carrying out their business in a proper and efficient manner which shall ensure, among others, that all necessary approvals or relevant licences are obtained and maintained;
- (h) The Issuer and the Obligor shall ensure that the Trust Deed and the information memorandum do not contain any matter or information which is inconsistent between them; and
- (i) such other covenants as may be mutually agreed between the Issuer, the Obligor and the PA/LA.

(21) Negative Covenant : No negative covenant.

(22) Financial Covenant : No financial covenant.

(23) Information Covenant : Information Covenants, details as follows.

The applicable covenants as may be advised by the PA/LA Solicitor and/or which are required in order to comply with the SC's Trust Deeds Guidelines, including but not limited to the following:

- (a) The Issuer and the Obligor shall at all times provide the Sukuk Trustee such information as it may reasonably require in order to discharge its duties and obligations under the Trust Deed relating to the affairs of the Issuer and the Obligor to the extent as permitted by law;
- (b) The Issuer and the Obligor shall notify the Sukuk Trustee immediately in the event that the Issuer and/or the Obligor becomes aware of the following:
 - (i) any Event of Default or the occurrence of any event that has caused or could cause one or more of the following: (a) any amount

payable under the Subordinated Sukuk Murabahah become immediately payable; (b) the Subordinated Sukuk Murabahah become immediately enforceable; or (c) any other rights or remedies under the terms and conditions of the Subordinated Sukuk Murabahah or the Trust Deed to become immediately enforceable;

- (ii) any circumstance that has occurred that would materially prejudice the Issuer and/or the Obligor;
 - (iii) any substantial change in the nature of the business of the Issuer and/or the Obligor;
 - (iv) any change in the utilisation of proceeds from the Subordinated Sukuk Murabahah other than for the purpose stipulated in the information memorandum and the Transaction Documents;
 - (v) of any other matter that may materially prejudice the interest of the holders of the Subordinated Sukuk Murabahah; and
 - (vi) any change in the Issuer's and/or the Obligor's withholding tax position;
- (c) The Issuer and the Obligor shall deliver to the Sukuk Trustee a copy of their annual audited financial statements within one hundred eighty (180) days after the end of each financial year, its semi-annual unaudited financial statements within ninety (90) days after the end of each half of its financial year and any other accounts, reports, notices, statements or circulars issued to shareholders;
- (d) The Issuer and the Obligor shall deliver to the Sukuk Trustee annually a certificate within one hundred eighty (180) days after the end of each financial year that the Issuer and the Obligor has complied with their obligations under the Trust Deed and the terms and conditions of the Subordinated Sukuk Murabahah and that there did not exist or had not existed, from the date the Subordinated Sukuk Murabahah was issued or from the date of the last certificate, any Event of Default and if such is not the case, to specify the same; and
- (e) such other covenants as may be mutually agreed between the Issuer, the Obligor and the PA/LA.

(24) Details of designated accounts, if applicable : No designated account.

(25) Name of credit rating agency, credit rating (state whether final or : Rated as follows:
Credit Rating Agency

indicative) and
amount rated, if
applicable

RAM Rating Services Berhad (“**RAM Ratings**”).

Credit Rating

AA₃(s).

Final/Indicative

Indicative rating

Amount Rated

RM5,000,000,000.00.

(26) **Conditions precedent** : To include conditions precedent customary for transactions of this nature and for the first issuance under the Subordinated Sukuk Programme including, but not limited to the following:

A. Main Documentation

The relevant Transaction Documents in relation to the Subordinated Sukuk Programme have been duly executed, and where applicable stamped (unless otherwise exempted) and presented for registration.

B. Issuer and Obligor

- (a) Certified true copies of the Certificate of Incorporation and the Memorandum and Articles of Association of the Issuer and the Certificate of Registration of Co-operative Society, and the latest by-laws of the Obligor;
- (b) Certified true copies of the latest Forms 24 and 49 of the Issuer and the latest statement of shareholdings and notification in the Gazette order by the MODTCC on appointment of Chairman and other members of the Board of Directors of the Obligor;
- (c) Certified true copies of the board resolutions of the Issuer and the Obligor authorising, among others, the establishment of the Subordinated Sukuk Programme, the issuance of the Subordinated Sukuk Murabahah thereunder and the execution of all the Transaction Documents;
- (d) A list of the Issuer’s and the Obligor’s authorised signatories and their respective specimen signatures;
- (e) A report of the relevant search of the Issuer conducted at the Companies Commission of Malaysia and on the Obligor as provided by the Malaysia Co-operative Societies Commission (“**Commission**”); and
- (f) A report of the relevant winding up search on the Issuer and a report provided by the Commission that there are no dissolution orders made against the Obligor.

C. General

- (a) Acknowledgement by the SC in respect of the Lodgement has been obtained and, where applicable, approvals in relation to the establishment of the Subordinated Sukuk Programme from all other regulatory authorities, including but not limited to BNM, MOF, and MODTCC have been obtained for the Obligor to enter into and perform its obligations under the Transaction Documents in connection with the Subordinated Sukuk Programme to which it is a party;
- (b) Confirmation from the rating agency that the Subordinated Sukuk Programme has obtained a minimum rating of AA₃(s) by the rating agency;
- (c) Evidence of confirmation from the Shariah Adviser that the structure, mechanism and the transaction documents of the Subordinated Sukuk Programme are in compliance with Shariah has been obtained;
- (d) Satisfactory legal opinion from the PA/LA Solicitor confirming with respect to the legality, validity and enforceability of the Transaction Documents and confirmation that all conditions precedent thereto have been fulfilled;
- (e) Evidence that all transaction fees, costs and expenses have been paid in full; and
- (f) Such other conditions precedent to be advised by the PA/LA Solicitor and agreed by the Issuer/Obligor.

Conditions for subsequent issuance

- (a) Evidence that the approval or authorisation from government/regulatory authorities has been obtained (if applicable); and
- (b) Such other conditions to the subsequent issuance customary for transaction of this nature, as may be advised by the PA/LA Solicitor and agreed by the Issuer/Obligor.

(27) Representations and warranties

Representations and warranties usual and customary for an issuance of such nature, which shall include but are not limited to the following:

- (a) each of the Issuer and the Obligor is duly established and existing under Malaysian laws and has the power and authority to carry out its business;
- (b) each of the Issuer and the Obligor has the power to enter into, exercise its rights under and perform its respective obligations under the Transaction Documents;
- (c) all necessary authorisations, licences (if applicable), and consents required for the performance by the Issuer and the Obligor of their respective obligations

under the Transaction Documents have been obtained, renewed, fulfilled and remain in full force and effect;

- (d) The Subordinated Sukuk Murabahah have been duly authorised, and when issued and delivered pursuant to the Transaction Documents will have been duly executed, authenticated, issued and delivered and will constitute valid and binding obligations of the Issuer and the Obligor entitled to the benefits provided by the Transaction Documents;
- (e) no registration and no payment of any duty or tax or other action is necessary to ensure the validity, enforceability or admissibility in evidence in Malaysia of the Transaction Documents;
- (f) the entry by the Issuer and the Obligor into, exercise of their respective rights under, and performance of the Transaction Documents, do not and will not violate any law or agreement to which they are a party;
- (g) no litigation or arbitration is current or, to its knowledge, is threatened, which if adversely determined may have a Material Adverse Effect (as defined in item (26) of the section entitled "Other terms and conditions");
- (h) each of the Transaction Documents is or will when executed and/or issued, be in full force and effect and constitutes, or will when executed or issued, constitute the Issuer's and/or the Obligor's/Purchaser's (as the case may be) valid and legally binding obligations enforceable in accordance with its terms;
- (i) the audited financial statements of the Issuer and the Obligor have been prepared in accordance with approved accounting standards in Malaysia and in accordance with all procedures required by their memorandum and articles of association and by-laws (as the case may be) and the laws of Malaysia and have been audited and certified by qualified auditors;
- (j) the information furnished by each of the Issuer and the Obligor in connection with the Subordinated Sukuk Programme and the Transaction Documents does not contain any false or misleading statements or any material omission and any opinions contained therein were honestly made on reasonable grounds after due and careful enquiry;
- (k) each of the Issuer and the Obligor is subject to civil and commercial law with respect to their obligations under the Transaction Documents, the transactions contemplated hereby and thereby constitute private and commercial acts done for private and commercial purposes and it is not entitled to immunity on the grounds of sovereignty or otherwise from any legal action or proceeding (which may include, without limitation, suits, attachment prior to judgment,

execution or other enforcement in Malaysia);

- (l) No event has occurred which would constitute an Event of Default (as defined below) under the Subordinated Sukuk Murabahah or which with the giving of notice or the lapse of time or other condition would constitute an Event of Default; and
- (m) Such other representations or warranties as may be mutually agreed between the Issuer, the Obligor and the PA/LA.

(28) Events of default or enforcement events, where applicable, including recourse available to investors

The events of default ("**Events of Default**") means the following:-

- (a) If the Issuer defaults in payment of any principal or profits or any other amount under the Subordinated Sukuk Programme or the Obligor/Purchaser defaults in its payment obligation, under any of the Transaction Documents (including the Deferred Sale Price under the Sale and Purchase Agreement) on the due date or, if so payable on demand, the Sukuk Trustee may subject to the terms of the Trust Deed, institute proceedings to enforce the payment obligations under the Subordinated Sukuk Murabahah and may institute proceedings in Malaysia for the winding-up of the Issuer and/or the Obligor/Purchaser, provided that neither the Sukuk Trustee nor any of the Sukukholders shall have the right to accelerate payment of the Subordinated Sukuk Murabahah in the case of such default in the payment of amount payable under the Subordinated Sukuk Murabahah or any default in the performance of any condition, provision or covenant under the Subordinated Sukuk Programme or the Transaction Documents.
- (b) If:
 - (i) a court or an agency or regulatory authority in Malaysia having jurisdiction in respect of the same shall have instituted any proceeding or entered a decree or order for the appointment of a receiver or liquidator in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities, or similar arrangements involving the Issuer and/or the Obligor/Purchaser or all or substantially all of its property, or for the winding up of or liquidation of its affairs and such proceeding, decree or order shall not have been vacated or shall have remained in force, undischarged or unstayed for a period of sixty (60) days; or
 - (ii) the Issuer and/or the Obligor/Purchaser shall file a petition to take advantage of any insolvency statute (which for this purpose includes under any insolvency related provisions in any companies statute),

then, the Sukuk Trustee may enforce its rights under the Transaction Documents to require the Obligor/Purchaser to make payment (including the outstanding Deferred Sale Price under the Sale and Purchase Agreement) subject to any agreed Ibra'.

For the avoidance of doubt, the occurrence of Event of Default (a) above for any tranche of the Subordinated Sukuk Murabahah will not trigger the Event of Default for other tranches of the Subordinated Sukuk Murabahah outstanding. However, occurrence of Event of Default (b) above will trigger an Event of Default for all tranches of the Subordinated Sukuk Murabahah outstanding.

(29) Governing laws : Laws of Malaysia.

(30) Provisions on buy-back, if applicable : Provisions on buy-back, details as follows:

Purchase and Cancellation

The Issuer, the Obligor or any of the Issuer's or the Obligor's subsidiaries or related corporations or agents of the Issuer or the Obligor may at any time purchase, subject to items (i) and (ii) below the Subordinated Sukuk Murabahah at any price in the open market or by private treaty provided no Non-Viability Event (as defined in item (14) of the section entitled "Other terms and conditions") has occurred prior to the date of such purchase. If purchase is made by tender, such tender must (subject to any applicable rules and regulations) be made available to all Sukukholders equally.

- (a) Subject to prior approval by BNM (but which approval shall not be required for a purchase done in the ordinary course of business), the Subordinated Sukuk Murabahah purchased by the Issuer, the Obligor or the Issuer's or the Obligor's subsidiaries or by agents of the Issuer or the Obligor (save for those purchased in the ordinary course of business) shall be cancelled and shall not be resold.
- (b) The Subordinated Sukuk Murabahah purchased by other related corporations (other than the Issuer's or the Obligor's subsidiaries) or any interested person of the Issuer or the Obligor, which includes the directors, major shareholders and chief executive officer, need not be cancelled but they will not entitle such related corporations or interested person of the Issuer or the Obligor to vote under the terms of the Subordinated Sukuk Murabahah subject to any exceptions in the Trust Deeds Guidelines.

For the avoidance of doubt, the Subordinated Sukuk Murabahah held by related corporations and any interested person of the Issuer or the Obligor shall not be counted for the purposes of voting subject to any exceptions in the Trust Deeds Guidelines.

For the purpose of this clause, the term "related corporation" has the meaning given to it in the Companies Act, 1965 and the term "ordinary course of business" includes those activities performed by the Issuer and the Obligor, any of the

Issuer's and the Obligor's subsidiaries or any other related corporations of the Issuer and the Obligor for third parties (such as clients of the Issuer and/or the Obligor, the Issuer's and/or the Obligor's subsidiaries' and the Issuer's and/or the Obligor's related corporations) and excludes those performed for the own account of the Issuer, the Obligor or such related corporation of the Issuer and/or the Obligor.

For the avoidance of doubt, subject always to the requirement of the Trust Deeds Guidelines, neither the Issuer and/or the Obligor nor an affiliated party over which it exercises control or significant influence can purchase the Subordinated Sukuk Murabahah, nor can the Issuer and/or the Obligor directly or indirectly have financed its purchase, failing which the Subordinated Sukuk Murabahah shall no longer qualify as Tier 2 capital of the Obligor.

Redemption on Maturity

Unless previously redeemed on the Call Date (if applicable) or redeemed pursuant to a Regulatory Event (as defined below) or a Tax Event (as defined below) or purchased from the market and cancelled, the Subordinated Sukuk Murabahah will be redeemed by the Issuer or the Purchaser at the Redemption Amount upon their respective maturity date(s).

Tax Redemption

If there is more than an insubstantial risk as determined by the Issuer or the Obligor that:

- (a) the Issuer or the Obligor has or will become obliged to pay any additional taxes, duties, assessments or government charges of whatever nature in relation to the Subordinated Sukuk Murabahah;
- (b) the Issuer or the Obligor would no longer obtain tax deductions for the purposes of Malaysian corporation tax for any payment in respect of the Subordinated Sukuk Murabahah;

as a result of a change in, or amendment to, the laws or regulations of Malaysia or any political subdivision or any authority thereof or therein having power to tax, or change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the issue date and the Issuer or the Obligor cannot, by taking reasonable measures available to it, avoid such obligations ("**Tax Event**"), then the Issuer or the Obligor may, at its option, redeem the Subordinated Sukuk Murabahah (in whole or in part) at the Redemption Amount, subject to the Redemption Conditions being satisfied.

Regulatory Redemption

The Issuer or the Obligor may, at its option, redeem the Subordinated Sukuk Murabahah (in whole or in part) at the Redemption Amount, subject to the Redemption Conditions being satisfied if a Regulatory Event occurs.

“Regulatory Event” means any time there is more than an insubstantial risk, as determined by the Issuer and the Obligor, that:

- (a) all or any part of the Subordinated Sukuk Murabahah will, either immediately or with the passage of time or upon either the giving of notice or fulfillment of a condition, no longer qualify as Tier 2 capital of the Obligor for the purposes of BNM’s capital adequacy requirements under any applicable regulations; or
- (b) changes in law will make it unlawful for the Issuer or the Obligor to continue performing its obligations under all or any part of the Subordinated Sukuk Murabahah.

In the case of a partial redemption of Subordinated Sukuk Murabahah of a tranche pursuant to the Regulatory Redemption or Tax Redemption, the selection of the Subordinated Sukuk Murabahah to be redeemed will be made by the Sukuk Trustee on a pro rata basis, by lot or by such other method as the Sukuk Trustee (with the agreement of the Issuer and the Obligor) will deem to be fair and appropriate, although no Subordinated Sukuk Murabahah of RM10.0 million in original nominal value or less will be redeemed in part.

- | | | | |
|------|--|---|--|
| (31) | Provisions on early redemption, if applicable | : | No provision on early redemption. |
| (32) | Voting | : | Sukukholders will not be entitled to receive notice of or attend or vote at any meeting of the ordinary shareholders of the Issuer and/or the Obligor or participate in the management of the Issuer or the Obligor. No company-shareholder relationship is intended or has been contemplated between the Issuer/the Obligor and the Sukukholders and as such the relationship between the Issuer /the Obligor and the Sukukholders shall not be governed by the Memorandum and Articles of Association of the Issuer or by-laws of the Obligor. |
| (33) | Permitted investments, if applicable | : | No permitted investments. |
| (34) | Other terms and conditions | : | <p>1. Other regulatory approvals required in relation to the issue, offer or invitation to subscribe or purchase Sukuk, and whether or not obtained</p> <p>A letter of no objection dated 1 July 2015 in relation to the establishment of the Subordinated Sukuk Programme has been issued by the Commission to the Obligor, approval from the Minister of Domestic Trade, Co-operatives and Consumerism (“MODTCC”) has been obtained by the Obligor vide MODTCC’s letter dated 18 November 2015, with the concurrence of the Minister of Finance (“MOF”) vide it’s letter dated 31 October 2015 and approval from BNM has been obtained by the Obligor on 8 March 2016 for the establishment of the Subordinated Sukuk Programme of up to RM5.0 billion in nominal value and classification of</p> |

- Subordinated Sukuk Murabahah raised under the Subordinated Sukuk Programme as Tier 2 capital of the Obligor.
2. **Listing status and types of listing** : The Subordinated Sukuk Murabahah may be listed on Bursa Malaysia Securities Berhad under the Exempt Regime.
3. **Details on utilisation of proceeds by the Issuer / Obligor** : **Issuer**
- The proceeds from the Subordinated Sukuk Murabahah issued under the Subordinated Sukuk Programme shall be used for the commodity murabahah transaction.
- Purchaser**
- The proceeds from the commodity murabahah transaction shall be utilised for the Purchaser's Shariah-compliant business expansion programme, general banking, working capital and general corporate purposes.
4. **Identified Assets** : Shariah-compliant commodities (excluding ribawi items in the category of medium of exchange such as currency, gold and silver) which will be identified at or around the time of issuance of the Subordinated Sukuk Murabahah as approved by the Shariah Adviser ("**Commodities**").
5. **Purchase and selling price / rental** : **Purchase Price**
- The Purchase Price in relation to each purchase of the Commodities shall be equal to the proceeds of the Subordinated Sukuk Murabahah. The Purchase Price shall comply with the SAC's Asset Pricing Requirements as provided in the Section C of the SC's Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework ("**LOLA Guidelines**").
- Sale Price**
- The Deferred Sale Price shall comprise the Purchase Price of the relevant tranche of the Subordinated Sukuk Murabahah plus the aggregate Periodic Profits on a deferred payment basis and will be determined prior to the sale of the Commodities to the Purchaser.
6. **Profit / coupon / rental rate** : The fixed profit rate ("**Profit Rate**") will be determined prior to issuance of the Subordinated Sukuk Murabahah and the rate shall be applicable throughout the tenure of each issue of the Subordinated Sukuk Murabahah.
- The Profit Rate shall be applicable from the issue date of the respective Subordinated Sukuk Murabahah up to (but excluding) the date of early redemption or the maturity date of that tranche of Subordinated Sukuk Murabahah, whichever is earlier.
- For avoidance of doubt, there is no step-up Profit Rate after the Call Date of the Subordinated Sukuk Murabahah, in the event the Call Option is not exercised by the Issuer.
7. **Profit / coupon /** : The Sukukholders will receive Periodic Profits at semi-annual

rental payment frequency		intervals (“ Periodic Payment Period ”) in arrears with the first payment commencing six (6) months from the relevant issue date of the Subordinated Sukuk Murabahah and the last ending on the date falling on the maturity date or upon the early redemption of the Subordinated Sukuk Murabahah, whichever is earlier.
		“ Periodic Payment Date ” is the last day of a particular Periodic Payment Period.
8. Profit / coupon / rental payment basis	:	Actual/365 days
9. Issue Price	:	<p>The Subordinated Sukuk Murabahah shall be issued at par or at a premium (but not at a discount) to nominal value and the issue price shall be calculated in accordance with MyClear Rules and Procedures (as defined in item (26) of the section entitled “Other terms and conditions”).</p> <p>The issue price of the Subordinated Sukuk Murabahah shall be determined prior to each issuance of the Subordinated Sukuk Murabahah.</p>
10. Yield to Maturity (%)	:	To be determined prior to the issue date of the Subordinated Sukuk Murabahah.
11. Form and Denomination	:	The Subordinated Sukuk Murabahah shall be issued in accordance with MyClear Rules and Procedures. The Subordinated Sukuk Murabahah shall be represented by a global certificate to be deposited with BNM, and is exchanged for a definitive bearer form only in certain limited circumstances. The denomination of the Subordinated Sukuk Murabahah shall be RM1,000 or in multiples of RM1,000 at the time of issuance.
12. Transaction Documents	:	The terms and conditions of the Subordinated Sukuk Programme shall be set out in various agreements, including but not limited to the Trust Deed, Programme Agreement and any other relevant documents agreed between the parties that may be required for transactions of this nature as advised by the PA/LA Solicitor and agreed by such parties in form and substance acceptable to the parties to the Transaction Documents, including the Sukuk Trustee, the PA/LA and the Issuer and the Obligor.
13. Status of the Sukuk	:	<p>The Subordinated Sukuk Murabahah will constitute direct, unconditional, unsecured and subordinated obligations of the Issuer ranking pari passu without any preference among themselves and at least pari passu with all other present and future unsecured and subordinated obligations of the Issuer, except those preferred by law and the Transaction Documents.</p> <p>The obligations of the Obligor/Purchaser pursuant to the relevant Transaction Documents (including the Deferred Sale Price) in connection with the Subordinated Sukuk Murabahah shall constitute unconditional, unsecured and subordinated obligations of the Obligor/Purchaser and shall at all times rank pari passu, without discrimination, preference and</p>

priority among themselves. The Subordinated Sukuk Murabahah will be subordinated in right and priority of payment, to the extent and in the manner provided for in the Subordinated Sukuk Murabahah, to all deposit liabilities and other liabilities of the Obligor except liabilities of the Obligor which by their terms rank pari passu in right and priority of payment with or which are subordinated to the Subordinated Sukuk Murabahah. The Subordinated Sukuk Murabahah will, in the event of a winding-up or liquidation of the Obligor, be subordinated in right of payments to the claims of Senior Creditors (as defined below). The Subordinated Sukuk Murabahah will rank pari passu with all subordinated debt issued.

“Senior Creditors” means depositors and all other creditors of the Obligor other than those creditors whose claims are expressed to rank pari passu with or junior to the claims of the holders of the Subordinated Sukuk Murabahah.

14. Non-Viability event

: A Non-Viability Event refers to the earlier occurrence of:

- (a) BNM notifies the Issuer and/or the Obligor in writing that BNM is of the opinion that a write-off is necessary, without which the Issuer and/or the Obligor and the Obligor’s subsidiaries (**“Bank Rakyat Group”**) would cease to be viable; or
- (b) BNM publicly announces that a decision has been made by BNM or any other federal or state government in Malaysia, to provide a capital injection or an equivalent support to the Issuer and/or the Obligor, without which the Issuer and/or the Bank Rakyat Group would cease to be viable.

15. Non-Viability loss absorption

: At the point of a Non-Viability Event, the Issuer/Obligor shall irrevocably, without the consent of the Sukukholders, write-off the Subordinated Sukuk Murabahah in whole or in part thereof, if so required by BNM at its full discretion.

In the event the Subordinated Sukuk Murabahah are written-off, any written-off amount shall be irrevocably lost and the Sukukholders of such Subordinated Sukuk Murabahah will cease to have any claims for any principal, accrued but unpaid Periodic Profits or any other amount due in respect of such Subordinated Sukuk Murabahah which have been written-off.

Upon the occurrence of a Non-Viability Event, the Issuer and/or the Obligor is required to give notice to the Sukukholders and RAM Ratings in accordance with the terms of the Subordinated Sukuk Murabahah, then as of the relevant write-off date, the write-off shall extinguish the claim of the Subordinated Sukuk Murabahah, in liquidation, which will mean that the Sukukholders written off will be automatically deemed to irrevocably waive their right to receive, and no longer have any rights against the Issuer and/or the Obligor/Purchaser with respect to, payment of the aggregate principal amount of the respective Subordinated Sukuk Murabahah written off, the amount paid when a Call Option is exercised and payment of the Periodic Profits on

the Subordinated Sukuk Murabahah written off. The write-off shall be permanent and the full principal amount of the Subordinated Sukuk Murabahah together with all unpaid Periodic Profits thereon that are or would be payable upon the relevant maturity date, an early redemption or the occurrence of an Event of Default under the section entitled "Events of defaults or enforcement events, where applicable, including recourse available to investors" will automatically be written off and such Subordinated Sukuk Murabahah and unpaid Periodic Profits will be immediately and fully cancelled as of such write-off date.

For the avoidance of doubt, BNM shall have the option to require the entire principal amount of the Subordinated Sukuk Murabahah outstanding, or a part thereof, and all other amount payable under the Subordinated Sukuk Programme, be written-off.

No Conversion into Equity

For avoidance of doubt, the Subordinated Sukuk Murabahah will under no circumstances be converted into equity of the Obligor and Sukukholders will have to absorb losses pursuant to the terms specified herein.

No Event of Default or Cross Default

For the avoidance of doubt, the exercise of the loss absorption at the point of non-viability shall not constitute an Event of Default or trigger cross-default clauses.

16. Compensation (Ta'widh) : Ta'widh shall be payable in the event of delay in payment of the Deferred Sale Price due and payable to the Sukukholders.

The rate of the Ta'widh for the Subordinated Sukuk Murabahah is based on the rate and manner as prescribed by the SAC from time to time.

17. Ibra' : Ibra' refers to an act of releasing absolutely or conditionally one's rights and claims on any obligation against another party which would result in the latter being discharged of his/its obligation or liabilities towards the former. The release may be either partially or in full. For the avoidance of doubt, the Sukukholders in subscribing or purchasing the Subordinated Sukuk Murabahah consent to grant Ibra' (if any) in the following situations:

- (a) If the Subordinated Sukuk Murabahah is redeemed before the maturity date, upon the declaration of an Event of Default, exercise of Call Option, occurrence of Regulatory Redemption or occurrence of Tax Redemption (whichever is applicable). In case of declaration of an Event of Default, exercise of Call Option, occurrence of Tax Redemption or occurrence of Regulatory Redemption (whichever is applicable) the Ibra' shall be the unearned profit due to the Sukukholders from the date of redemption of the Subordinated Sukuk Murabahah upon the

declaration of an Event of Default, exercise of Call Option, occurrence of Tax Redemption or occurrence of Regulatory Redemption (whichever is applicable) up to the maturity of the Subordinated Sukuk Murabahah.

- (b) In respect of a write-off at the point of a Non-Viability Event, the Sukukholders relinquish their rights (Ibra') to the payment of the outstanding Deferred Sale Price due from the Obligor/Purchaser, such amount corresponding to the aggregate principal amount and the Periodic Profits of the Subordinated Sukuk Murabahah to be written off.

18. Taxation : All payments in respect of the Subordinated Sukuk Murabahah and the Transaction Documents by the Issuer and the Obligor/Purchaser shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of any authority having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In such event, the Issuer and the Obligor/Purchaser shall pay additional amounts so that the full amount which otherwise would have been due and payable under the Subordinated Sukuk Murabahah is received by parties entitled thereto.

19. Sukuk Trustee's Reimbursement Account : The Sukuk Trustee shall open and maintain a Shariah compliant account designated as "Sukuk Trustee's Reimbursement Account for Sukukholders' Actions" (as required under the SC's Trust Deeds Guidelines revised on 12 July 2011 and effective on 12 August 2011 ("**Trust Deeds Guidelines**")), in which a sum of RM30,000.00 is to be deposited ("**Sukuk Trustee's Reimbursement Account**"). The Sukuk Trustee's Reimbursement Account shall be operated by the Sukuk Trustee and the monies shall only be used strictly by the Sukuk Trustee in carrying out its duties in relation to the declaration of an Event of Default which are provided in the Trust Deed.

The moneys in the Sukuk Trustee's Reimbursement Account may be invested in Shariah compliant bank deposits or Shariah compliant instruments or securities in the manner as provided in the Trust Deed, with profit from the investment to be accrued to the Issuer. The moneys in the Sukuk Trustee's Reimbursement Account shall be returned to the Issuer upon full redemption of the Subordinated Sukuk Murabahah in the event there is no declaration of an Event of Default.

20. No further Rights to Participate in Profits and Assets : The Sukukholders of the Subordinated Sukuk Murabahah shall have no right or claim and not be conferred any right or claim as regards to participation in the profits and assets of the Issuer and/or the Obligor.

21. Voting by the Sukukholders : Voting by the Sukukholders under the Subordinated Sukuk Programme shall be carried out as follows:-

Prior to approval for upsizing of the Subordinated Sukuk Programme:

All matters/resolutions (save for resolutions for the purposes of the upsizing of the Subordinated Sukuk Programme) which require the Sukukholders' consent under the Subordinated Sukuk Programme shall be carried out on a collective basis;

Approval for upsizing of the Subordinated Sukuk Programme:

Resolutions to be passed for the purposes of the upsizing of the Subordinated Sukuk Programme shall be voted by the Sukukholders under the Subordinated Sukuk Programme on a "per series" basis; and

Post upsizing of the Subordinated Sukuk Programme:

All matters/resolutions which require the Sukukholders' consent under the Subordinated Sukuk Programme shall be carried out on a "per series" basis.

- 22. Subordination of Payment :** The Sukukholders agree to the subordination of payment of the Deferred Sale Price to the Sukukholders to be consistent with the ranking of the Subordinated Sukuk Murabahah against the Senior Creditors of the Obligor.
- 23. Jurisdiction :** Exclusive jurisdiction of the courts of Malaysia.
- 24. Minimum tenure of Subordinated Sukuk Murabahah :** Subordinated Sukuk Murabahah
- Each Subordinated Sukuk Murabahah issued under the Subordinated Sukuk Programme shall have a tenure of at least five (5) years and up to twenty (20) years from the date of issue subject to the Call Option as described below, if applicable, and provided that the Subordinated Sukuk Murabahah mature prior to the expiry of the Subordinated Sukuk Programme.

Call Option

Each issuance of Subordinated Sukuk Murabahah under the Subordinated Sukuk Programme may have a callable option ("**Call Option**") to allow the Issuer/Obligor to redeem (in whole or in part) that tranche of Subordinated Sukuk Murabahah prior to maturity on the Call Date (as defined below) at the Redemption Amount subject to the Redemption Conditions (as defined in item (26) of the section entitled "Other terms and conditions") being satisfied.

"**Call Date**" is defined as any Periodic Payment Date after a minimum period of five (5) years from the date of issue of that tranche of Subordinated Sukuk Murabahah.

- 25. Other Conditions :** The Subordinated Sukuk Murabahah shall at all times be governed by the guidelines issued and to be issued from time to time by the SC, BNM and MyClear over matters pertaining to the Subordinated Sukuk Murabahah and the Subordinated Sukuk Programme.

26. Definitions:

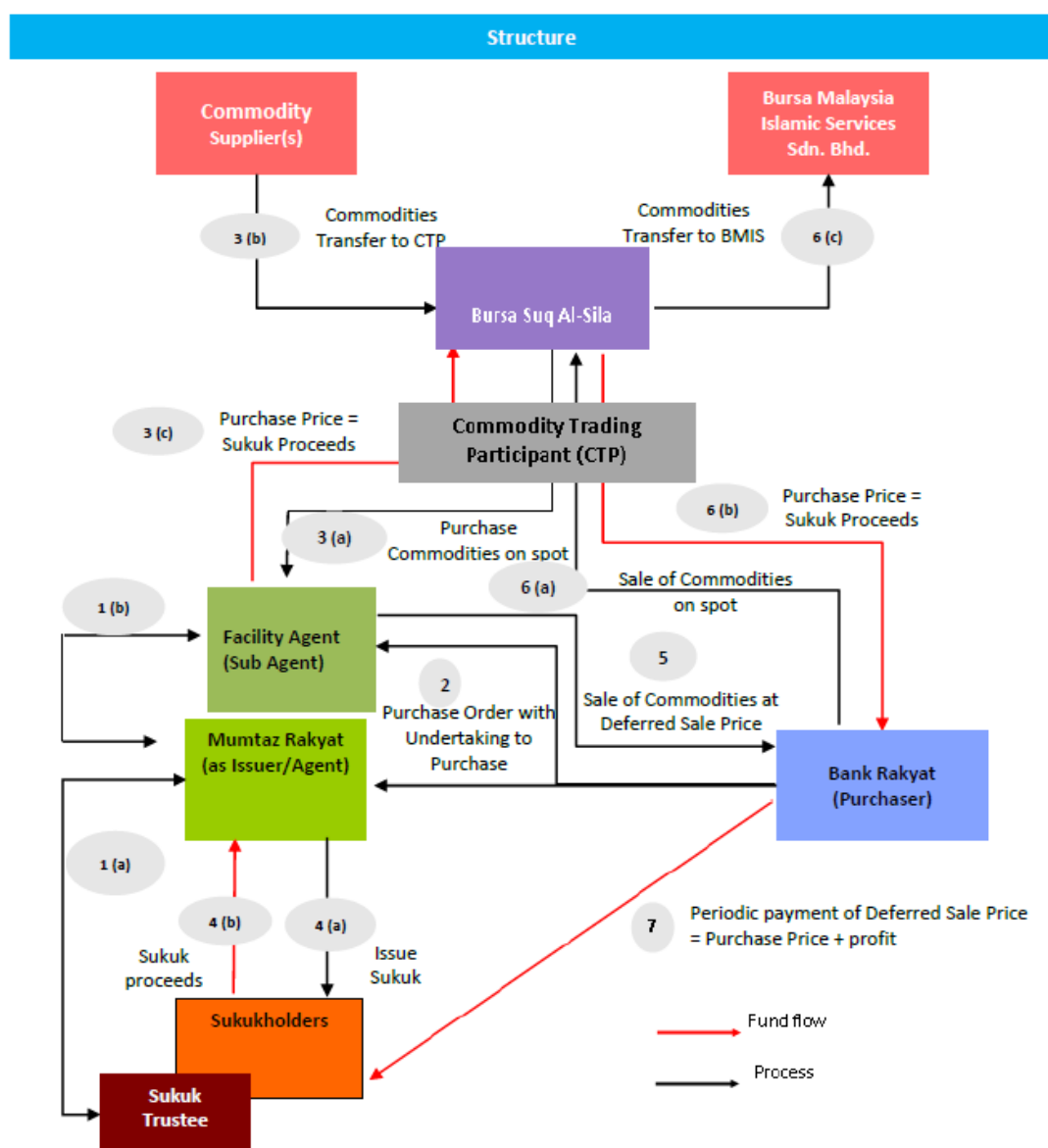
- Material Adverse Effect** : Means an event, the occurrence of which materially and adversely affects the ability of the Issuer and/or the Obligor/Purchaser to perform any of their obligations under any of the Transaction Documents or which materially and adversely affects the business, financial position, shareholders' funds or results of the operations of the Issuer and/or the Obligor.
- MyClear Rules and Procedures** : (i) the Participation and Operation Rules for Payment and Securities Services issued by MyClear;
- (ii) the Operational Procedures for Securities Services issued by MyClear; and
- (iii) the Operational Procedures for Malaysian Ringgit (MYR) Settlement in RENTAS issued by MyClear;
- or their replacement thereof (collectively, the "**MyClear Rules and Procedures**") applicable from time to time.
- Redemption Conditions** : Redemption Conditions of the Subordinated Sukuk Murabahah means:
- (a) the Issuer and the Obligor must have received a written approval from BNM prior to redemption of the tranche of any of the Subordinated Sukuk Murabahah;
- (b) the Issuer and the Obligor is solvent at the time of redemption of such tranche of the Subordinated Sukuk Murabahah and immediately thereafter;
- (c) the Issuer and the Obligor is not in breach of BNM's minimum capital adequacy requirements and capital buffer requirements which shall apply to the Issuer and/or Obligor as if the Issuer and the Obligor are governed by BNM's minimum capital adequacy requirements after redemption of such tranche of the Subordinated Sukuk Murabahah; and
- (d) in respect of a Call Option only, the Issuer and/or the Obligor shall:
- (i) replace the called or redeemed tranche of the Subordinated Sukuk Murabahah with capital of the same or better quality and the replacement of this capital shall be done at conditions which are sustainable for the income capacity of the Issuer and/or the Obligor, or
- (ii) demonstrate to BNM that its capital position is well above the minimum capital adequacy and capital buffer requirements which shall apply to the Issuer and/or Obligor as if the Issuer and the Obligor are governed by BNM's minimum capital adequacy and capital buffer requirements after redemption

of such tranche of the Subordinated Sukuk Murabahah.

- Redemption Amount** : Means the nominal value of the Subordinated Sukuk Murabahah plus accrued but unpaid Periodic Profits subject to Ibra'. Wherein the Ibra' shall be the unearned Periodic Profits due to Sukukholders from the date of redemption of the Subordinated Sukuk Murabahah up to the maturity of the Subordinated Sukuk Murabahah.
- The Redemption Amount payable by the Issuer and/or Obligor/Purchaser on the declaration of an Event of Default or on a Call Date (if applicable) or redeemed pursuant to a Regulatory Event or a Tax Event, is an amount as determined by the Facility Agent, which shall be calculated in accordance with the above formula.
- Ringgit or RM** : The lawful currency of Malaysia.
- 27. Option to Upsize** : The Issuer shall have the option to upsize the Subordinated Sukuk Programme limit provided that (a) there is no adverse impact on the rating of the Subordinated Sukuk Programme; and (b) the relevant approvals have been obtained from the Sukukholders (prior to each upsizing by the Issuer) where the voting for the purposes of each upsizing under the Subordinated Sukuk Programme shall be carried out on a "per series" basis, and (c) the regulatory approvals have been obtained (which include but not limited to from BNM).
- 28. Disclosure** : Neither the Issuer, the Obligor nor their respective board members have been convicted or charged with any offence under any securities laws, corporation laws or other laws involving fraud or dishonesty in a court of law and no action has been initiated against either the Issuer or its board members for breaches of the same for the past ten years prior to the Lodgement.

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Transaction Structure of the Subordinated Sukuk Murabahah



1. (a) Pursuant to a service agency agreement entered into by Mumtaz Rakyat Sukuk Berhad ("**Mumtaz Rakyat**") and the Sukuk Trustee (acting on behalf of the Sukukholders), Mumtaz Rakyat will be appointed by the Sukuk Trustee (acting on behalf of the Sukukholders) as the agent ("**Agent**") to purchase and sell of Shariah compliant Commodities.
- (b) The Agent will then enter into a Facility Agency Agreement to appoint the Facility Agent as the sub-agent (in such capacity, the "**Sub Agent**") for the purchase and sale of Commodities under the Subordinated Sukuk Murabahah.
2. Pursuant to the Commodity Murabahah Master Agreement between Bank Rakyat (as the "**Purchaser**"), Mumtaz Rakyat (as Agent) and the Facility Agent (as Sub Agent), Bank Rakyat (as the Purchaser) will issue a purchase order to the Agent and the Sub Agent. In the Purchase Order, the Purchaser will request the Agent and the Sub Agent to purchase the Commodities and will irrevocably undertake to purchase the Commodities from the Sukuk Trustee (acting on behalf of the Sukukholders) via the Sub Agent at the Deferred Sale Price (as defined hereinafter).

3.
 - (a) Based on the Purchase Order, the Sub Agent (pursuant to the CTP Purchase Agreement entered into between the Sub Agent (acting on behalf of the Agent as agent of the Sukukholders) and the Commodity Trading Participant ("**CTP**")), will purchase on a spot basis the Commodities from a commodity supplier ("**Commodity Supplier**") in the Bursa Suq Al-Sila' commodity market through a CTP at a purchase price ("**Purchase Price**") which shall be an amount equivalent to the Subordinated Sukuk Murabahah proceeds.
 - (b) The Commodities shall pass from the Commodity Supplier to the CTP, held for the benefit of the Sukukholders.
 - (c) The Purchase Price of the Commodities shall be in accordance with the Asset Pricing Requirements stipulated under the LOLA Guidelines (as amended from time to time).
4.
 - (a) Mumtaz Rakyat (acting as the Issuer) shall then issue Subordinated Sukuk Murabahah which evidences the Sukukholders' ownership in the Commodities and subsequently once the Commodities are sold to the Purchaser the entitlement to receive the Deferred Sale Price which shall be equivalent to the Purchase Price plus the aggregate periodic profits ("**Periodic Profits**").
 - (b) The proceeds received from the Sukukholders shall be used by the Agent to pay the Purchase Price.
5. Thereafter, pursuant to the sale and purchase agreement ("**Sale and Purchase Agreement**") the Sub Agent (on behalf of the Agent as the agent of the Sukuk Trustee) will sell the Commodities to the Purchaser at a Deferred Sale Price.
6.
 - (a) Upon completion of such purchase, the Purchaser (pursuant to the CTP Sale Agreement entered into between the Purchaser and the CTP) shall sell the Commodities to Bursa Malaysia Islamic Services Sdn. Bhd. ("**BMIS**") through the CTP on a spot basis. The CTP Sale Agreement will provide for the CTP to directly sell the Commodities to BMIS upon notice by the Sub Agent that the Sale and Purchase Agreement has been completed and executed.
 - (b) The sale to BMIS shall be in consideration of an amount equal to the Purchase Price.
 - (c) The Commodities shall pass from the CTP (acting on behalf of the Purchaser) to BMIS.
7. Bank Rakyat as the Purchaser shall (i) make periodic payments on each Periodic Payment Date and final payment of the Deferred Sale Price at the maturity date of the Subordinated Sukuk Murabahah to the Sukukholders and (ii) pay the outstanding Deferred Sale Price (subject to Ibra') as final settlement of the same to the Sukukholders upon declaration of an Event of Default.

Upon an early settlement pursuant to the Call Option, the Tax Redemption or the Regulatory Redemption, Bank Rakyat as the Obligor shall pay the outstanding Deferred Sale Price (subject to Ibra') as final settlement of the same to the Sukukholders.

SECTION 3 SELLING RESTRICTIONS

The Subordinated Sukuk Murabahah are tradable, subject to the following selling restrictions:

(a) Selling restrictions at issuance

The Subordinated Sukuk Murabahah may only be issued, offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to subscribe to the Subordinated Sukuk Murabahah and to whom the Subordinated Sukuk Murabahah are issued would fall within Part I of Schedule 6 or Section 229(1)(b) and Part I of Schedule 7 or Section 230(1)(b) of the CMSA, read together with Schedule 9 or Section 257(3) of the CMSA.

(b) Selling restrictions thereafter

The Subordinated Sukuk Murabahah may only be issued, offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to subscribe to the Subordinated Sukuk Murabahah and to whom the Subordinated Sukuk Murabahah are issued would fall within Part I of Schedule 6 or Section 229(1)(b) of the CMSA, read together with Schedule 9 or Section 257(3) of the CMSA.

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SECTION 4

INVESTMENT CONSIDERATIONS

An investment in the Subordinated Sukuk Murabahah involves certain risks. Prospective investors of the Subordinated Sukuk Murabahah should consider carefully, in the light of their own financial circumstances and investment objectives, the following factors, in addition to the matters set forth elsewhere in this Information Memorandum, prior to investing in the Subordinated Sukuk Murabahah. Each of the Issuer and Bank Rakyat believes that the factors described below represent the principal risks inherent in investing in the Subordinated Sukuk Murabahah. However, neither the Issuer, Bank Rakyat, the Lead Arranger nor the Joint Lead Managers represent that the statements below regarding the risks of investing in any of the Subordinated Sukuk Murabahah are complete or exhaustive. Prospective investors are strongly encouraged to undertake their own investigations and analysis on the Issuer and/or Bank Rakyat, its business and risks associated with the Subordinated Sukuk Programme.

Prospective investors should read the detailed information set out elsewhere in this Information Memorandum and reach their own views prior to making any investment decision. Words and expressions defined elsewhere in this Information Memorandum, in particular Section 2, shall have the same meanings in this Section 4.

4.1 INVESTMENT CONSIDERATIONS RELATING TO THE SUBORDINATED SUKUK PROGRAMME

4.1.1 ***The Subordinated Sukuk Murabahah may be written-off upon the occurrence of Non-Viability Event of the Issuer/Obligor***

Pursuant to the terms of the Subordinated Sukuk Programme, upon the occurrence of a Non-Viability Event (as defined in item 34 of the Details of the Subordinated Sukuk Programme in Section 2 of this Information Memorandum), the Issuer/Obligor shall irrevocably, without the consent of the Sukukholders, write-off the Subordinated Sukuk Murabahah in whole or in part thereof, if so required by BNM at its full discretion. In the event the Subordinated Sukuk Murabahah are written-off, any written-off amount shall be irrevocably lost and the Sukukholders of such Subordinated Sukuk Murabahah will cease to have any claims for any principal, accrued but unpaid Periodic Profits (as defined in item 4 of the Details of the Subordinated Sukuk Programme in Section 2 of this Information Memorandum) or any other amount due in respect of such Subordinated Sukuk Murabahah which have been written-off.

Based on CAFIB, in assessing whether the Issuer and/or Bank Rakyat Group would cease to be viable, BNM may consider, amongst others, any of the following circumstances exist in respect of the Issuer and/or Bank Rakyat Group:

- (1) the Issuer and/or the Obligor fails to follow any directive of compliance issued by BNM, which is necessary to preserve or restore its and/or Bank Rakyat Group financial soundness; or
- (2) the Issuer and/or the Obligor fails to meet all or any of its financial obligations as they fall due, that may significantly impair its ability to meet regulatory capital requirements on a continuing basis; or
- (3) the capital of the Issuer and/or Bank Rakyat Group has reached a level or is eroding in a manner that may detrimentally affect its depositors, creditors or the public, and the Issuer and/or Bank Rakyat Group are unable to recapitalise on its own; or
- (4) the Issuer's and/or the Obligor's assets are insufficient to provide protection to its depositors and creditors; or

- (5) any other state of affairs exist in respect of the Issuer and/or Bank Rakyat Group that would put the interest of the depositors or creditors at risk, including the loss of confidence of depositors and the public.

Upon the occurrence of a Non-Viability Event, the Issuer and/or the Obligor is required to give a notice to the Sukukholders and RAM Ratings in accordance with the terms of the Subordinated Sukuk Murabahah, then as of the relevant write-off date:

- (i) the write-off shall extinguish:
 - a) the claim of the Subordinated Sukuk Murabahah in liquidation, which will mean that the Sukukholders written off will be automatically deemed to irrevocably waive their right to receive, and no longer have any rights against the Issuer and/or the Obligor/Purchaser with respect to, payment of the aggregate principal amount of the respective Subordinated Sukuk Murabahah written off;
 - b) the amount paid when a Call Option is exercised; and
 - c) payments of the Periodic Profits on the Subordinated Sukuk Murabahah written off;
- (ii) the write-off shall be permanent and the full principal amount of the Subordinated Sukuk Murabahah together with all unpaid Periodic Profits thereon that are or would be payable upon the relevant maturity date, an early redemption or the occurrence of an Event of Default (as defined in item 28 of the Details of the Subordinated Sukuk Programme in Section 2 of this Information Memorandum) will automatically be written off and such Subordinated Sukuk Murabahah and unpaid Periodic Profits will be immediately and fully cancelled as of such write-off date.

For the avoidance of doubt, BNM shall have the option to require the entire principal amount of the Subordinated Sukuk Murabahah outstanding, or a part thereof, and all other amount owing under the Subordinated Sukuk Programme, be written-off.

For the avoidance of doubt, the Subordinated Sukuk Murabahah will under no circumstances be converted into equity of the Obligor and the Sukukholders will have to absorb losses pursuant to the terms specified herein.

For the avoidance of doubt, the exercise of the loss absorption at the point of non-viability shall not constitute an Event of Default or trigger cross-default clauses.

As there is no precedent for the application of such write-off requirement in respect of a financial institution in Malaysia, there is uncertainty as to the manner in which such requirement would be applied and the results thereof. By subscribing to the Subordinated Sukuk Murabahah, the investors in Subordinated Sukuk Murabahah agree to such write-off requirements. Accordingly, there is a potential risk that an investor in Subordinated Sukuk Murabahah will lose all or some of his investment and will not receive a full return of the principal amount or any unpaid amounts due under the Subordinated Sukuk Murabahah should the requirement be applied. The Issuer, the Lead Arranger, the Joint Lead Managers and the Sukuk Trustee are not liable for any liabilities arising upon the occurrence of a Non-Viability Event.

4.1.2 Limited Events of Default, No Rights to Accelerate and Subordinated Obligations

There are only two (2) events of default prescribed under the terms of the Subordinated Sukuk Murabahah:

- (a) If the Issuer defaults in payment of any principal or profits or any other amount under the Subordinated Sukuk Programme or the Obligor/Purchaser defaults in its payment obligation, under any of the Transaction Documents (including the Deferred Sale Price under the Sale and Purchase Agreement) on the due date or, if so payable on demand, the Sukuk Trustee may subject to the terms of the Trust Deed, institute proceedings to enforce the payment obligations under the Subordinated Sukuk Murabahah and may institute proceedings in Malaysia for the winding-up of the Issuer and/or the Obligor/Purchaser, provided that neither the Sukuk Trustee nor any of the Sukukholders shall have the right to accelerate payment of the Subordinated Sukuk Murabahah in the case of such default in the payment of amount payable under the Subordinated Sukuk Murabahah or any default in the performance of any condition, provision or covenant under the Subordinated Sukuk Programme or the Transaction Documents; or
- (b) if:
 - (i) a court or an agency or regulatory authority in Malaysia having jurisdiction in respect of the same shall have instituted any proceeding or entered a decree or order for the appointment of a receiver or liquidator in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities, or similar arrangements involving the Issuer and/or the Obligor/Purchaser or all or substantially all of its property, or for the winding up of or liquidation of its affairs and such proceeding, decree or order shall not have been vacated or shall have remained in force, undischarged or unstayed for a period of sixty (60) days; or
 - (ii) the Issuer and/or the Obligor/Purchaser shall file a petition to take advantage of any insolvency statute (which for this purpose includes under any insolvency related provisions in any companies statute).

The Sukuk Trustee may enforce its rights under the Transaction Documents relating to the Subordinated Sukuk Programme to require Bank Rakyat in its capacity as the Obligor/Purchaser (as defined in the Details of the Subordinated Sukuk Programme in Section 2 of this Information Memorandum) to make payment (including the outstanding Deferred Sale Price under the Sale and Purchase Agreement) subject to any agreed *Ibra'*.

For the avoidance of doubt, the occurrence of an event of default (a) above for any tranche of the Subordinated Sukuk Murabahah will not trigger the Event of Default for other tranches of the Subordinated Sukuk Murabahah outstanding. However, occurrence of Event of Default (b) above will trigger an event of default for all tranches of the Subordinated Sukuk Murabahah outstanding.

In the event of a winding-up or liquidation of Bank Rakyat, the Subordinated Sukuk Murabahah will be subordinated in right of payment to the claims of Senior Creditors (as defined in item 34 of the Details of the Subordinated Sukuk Programme in Section 2 of this Information Memorandum). The Subordinated Sukuk Murabahah will rank *pari passu* with all subordinated debt issued.

Although the Subordinated Sukuk Murabahah may pay a higher rates than comparable securities which are not subordinated, there is a real risk that an investor in Subordinated Sukuk Murabahah will lose all or some of his investment should Bank Rakyat become insolvent and is wound-up.

4.1.3 Subordinated Sukuk Murabahah may be Subject to Early Redemption by the Issuer Under Certain Circumstances

Call Option

Each issuance of Subordinated Sukuk Murabahah under the Subordinated Sukuk Programme may have a Call Option to allow the Issuer/Obligor to redeem (in whole or in part) that tranche of Subordinated Sukuk Murabahah prior to maturity on the Call Date at the Redemption Amount subject to the Redemption Conditions being satisfied.

Regulatory Redemption

The Issuer or the Obligor may, at its option, redeem the Subordinated Sukuk Murabahah (in whole or in part) at the Redemption Amount, subject to the Redemption Conditions being satisfied if a Regulatory Event occurs.

Tax Redemption

If there is more than an insubstantial risk as determined by the Issuer or the Obligor that:

- (a) the Issuer or the Obligor has or will become obliged to pay any additional taxes, duties, assessments or government charges of whatever nature in relation to the Subordinated Sukuk Murabahah;
- (b) the Issuer or the Obligor would no longer obtain tax deductions for the purposes of Malaysian corporation tax for any payment in respect of the Subordinated Sukuk Murabahah;

as a result of a change in, or amendment to, the laws or regulations of Malaysia or any political subdivision or any authority thereof or therein having power to tax, or change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the issue date and the Issuer or the Obligor cannot, by taking reasonable measures available to it, avoid such obligations, then the Issuer or the Obligor may, at its option, redeem the Subordinated Sukuk Murabahah (in whole or in part) at the Redemption Amount, subject to the Redemption Conditions being satisfied.

In the case of a partial redemption of Subordinated Sukuk Murabahah of a tranche pursuant to the Regulatory Redemption or Tax Redemption, the selection of the Subordinated Sukuk Murabahah to be redeemed will be made by the Sukuk Trustee on a pro rata basis, by lot or by such other method as the Sukuk Trustee (with the agreement of the Issuer and the Obligor) will deem to be fair and appropriate, although no Subordinated Sukuk Murabahah of RM10.0 million in original nominal value or less will be redeemed in part.

4.1.4 No limitation on issuing further Sukuk or Islamic securities or incur further financing or indebtedness

The Obligor may from time to time without the consent of the Sukukholders create or issue further Sukuk or Islamic securities or incur further financing or indebtedness howsoever designated either ranking senior, pari passu or subordinated in all respects to the Subordinated Sukuk Murabahah and/or upon such terms as to the rates of return, conversion, redemption or otherwise as the Obligor may at the time of the issue thereof determine. In line with BNM's guidelines which state that there should be no restrictive covenants for the Subordinated Sukuk Murabahah, there will be no limitation imposed on the Obligor under the Subordinated Sukuk Murabahah to issue further securities or incur further financing or indebtedness. Having said that,

the Issuer was incorporated solely to undertake the issuance of the Subordinated Sukuk Murabahah under the Subordinated Sukuk Programme and as such may not issue further securities or incur further financing or indebtedness.

4.1.5 *Liquidity of the Subordinated Sukuk Murabahah*

The Subordinated Sukuk Murabahah comprise a new issue of securities for which there is currently no established secondary market. There is no assurance that a secondary market for the Subordinated Sukuk Murabahah will develop or, if it does develop, that it will provide the Sukukholders with liquidity of investment or that it will continue for the life of the Subordinated Sukuk Murabahah.

The market value of the Subordinated Sukuk Murabahah may fluctuate, and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Subordinated Sukuk Murabahah. An investor in the Subordinated Sukuk Murabahah must be prepared to hold the Subordinated Sukuk Murabahah for an indefinite period of time until the maturity date or the early redemption date of the Subordinated Sukuk Murabahah.

4.1.6 *The credit rating of the Subordinated Sukuk Programme*

The Subordinated Sukuk Programme has been accorded an initial credit rating of AA₃(s) by RAM.

A credit rating addresses the likelihood of full and timely payment of profit and principal to the holders of the Subordinated Sukuk Murabahah. A credit rating is not a recommendation to buy, hold or sell the Subordinated Sukuk Murabahah and there can be no assurance that such a credit rating will not be revised on a periodic review basis by the said credit rating agency during the tenure of the Subordinated Sukuk Programme or that such a credit rating will not be withdrawn entirely if circumstances in the future so warrant.

Such credit rating is also not a guarantee of payment or that there will be no default by the Issuer and/or Bank Rakyat under the Subordinated Sukuk Murabahah and the Transaction Documents. In the event that the credit ratings assigned to the Subordinated Sukuk Programme are subsequently lowered or withdrawn for any reason, no person or entity will be obligated to provide any additional credit enhancement with respect to the Subordinated Sukuk Programme. Any downgrade or withdrawal of a credit rating will not in itself constitute an event of default/dissolution event under the Subordinated Sukuk Programme or an event obliging the Issuer and/or Bank Rakyat to redeem the Subordinated Sukuk Murabahah but may have an adverse effect on the liquidity and the market price of the Subordinated Sukuk Murabahah.

4.1.7 *Profit rate risks*

Investment in the Subordinated Sukuk Murabahah involves the risk of subsequent changes in the market conditions, profit rates, Government's policies and regulations concerning, *inter alia*, monetary and fiscal issues, which may adversely affect the value of the Subordinated Sukuk Murabahah. Sukukholders may suffer unforeseen losses due to fluctuations in profit rates. The Subordinated Sukuk Murabahah are fixed income Islamic securities and therefore their prices may fluctuate due to movements in profit rates. Generally, a rise in profit rates may cause a fall in the prices of Sukuk. The Subordinated Sukuk Murabahah may be similarly affected resulting in a capital loss for the Sukukholders. Conversely, when profit rates fall, Sukuk prices and the prices at which the Subordinated Sukuk Murabahah trade may

rise. Sukukholders may enjoy a capital gain but the profit received may be reinvested for lower returns.

4.1.8 Ability of the Issuer and Bank Rakyat to meet their respective obligations

The Subordinated Sukuk Murabahah constitute direct, unconditional, unsecured and subordinated obligations of the Issuer; whilst the obligations of Bank Rakyat in its capacity as the Purchaser/Obligor pursuant to the relevant Transaction Documents (including the Deferred Sale Price) in connection with the Subordinated Sukuk Murabahah constitute unconditional, unsecured and subordinated obligations of the Purchaser/Obligor. All payments under the Subordinated Sukuk Murabahah will not be the obligations or responsibilities of any other person other than the Issuer and Bank Rakyat, in particular the Subordinated Sukuk Murabahah will not be the obligations or responsibilities of the Lead Arranger, the Joint Lead Managers, the Facility Agent, the Sukuk Trustee and/or any subsidiary or affiliate thereof, and any other person involved or interested in the transactions envisaged under the Subordinated Sukuk Murabahah.

4.1.9 Suitability of Investment

The Subordinated Sukuk Murabahah issued under the Subordinated Sukuk Programme may not be a suitable investment for all investors. Each potential investor in the Subordinated Sukuk Murabahah must determine the suitability of the investment in light of its own circumstances.

In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Subordinated Sukuk Murabahah, the merits and risks of investing in the Subordinated Sukuk Murabahah and the information contained in this Information Memorandum;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Subordinated Sukuk Murabahah and the impact the Subordinated Sukuk Murabahah will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Subordinated Sukuk Murabahah, including where the currency of payment is different from the potential investor's currency;
- (d) understand thoroughly the terms of the Subordinated Sukuk Murabahah and be familiar with the behaviour of any relevant indices and financial markets; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

4.1.10 Shariah compliance

The Shariah Adviser has issued a pronouncement confirming amongst others that, the structure and mechanism of the Subordinated Sukuk Murabahah are Shariah-compliant as of the date of such pronouncements. Potential investors should obtain their own independent Shariah advice as to the Shariah compliance of the structure and mechanism, and tradability of the Subordinated Sukuk Murabahah.

4.1.11 *Change of law*

The structure of the transaction and the issue of the Subordinated Sukuk Murabahah are based on the SC's and BNM's guidelines and requirements, Malaysian law, tax and administrative practices in effect as at the date hereof and having due regard to the expected tax treatment of all relevant statutes under such law and practices. No assurance can be given that the SC's and BNM's guidelines and requirements, Malaysian laws, tax or administrative practices will not change after the date of issue of the Subordinated Sukuk Murabahah or that such change will not adversely impact the structure of the transaction and the treatment of the Subordinated Sukuk Murabahah.

4.2 INVESTMENT CONSIDERATIONS RELATING TO THE ISSUER

4.2.1 *The Issuer is a newly established special purpose company*

The Issuer is a newly established special purpose company. The Issuer will not be engaged in any business activity other than to undertake the issuance of Subordinated Sukuk Murabahah under the Subordinated Sukuk Programme on behalf of Bank Rakyat.

4.2.2 *Regulatory compliance*

Changes in laws and regulations are unpredictable and beyond the Issuer's control and may affect the way the Issuer conducts its business. Such changes may be more restrictive or result in higher costs than current requirements or otherwise materially impact the Issuer's business, results of operations or financial condition.

4.3 INVESTMENT CONSIDERATIONS RELATING TO BANK RAKYAT AND ITS BUSINESS

4.3.1 *Adequacy of the insurance/Takaful coverage*

The members of the Board of Bank Rakyat believe that Bank Rakyat's business and assets are adequately insured against unforeseen events such as fire and accidents by employees. Although Bank Rakyat has taken the necessary measures to ensure that its business and assets are adequately covered by insurance/Takaful, there can be no assurance that the insurance/Takaful coverage would be adequate for the replacement cost of all its assets, business or any consequential costs arising therefrom. In addition, such insurance/Takaful policies may no longer be available or the policy cost may significantly increase in the future.

4.3.2 *Financing portfolio*

Bank Rakyat's financing portfolios are concentrated on personal financing, which are, mainly granted to civil servants in Malaysia. Notwithstanding this, it is the intention of Bank Rakyat to diversify its financing portfolio. Currently, Bank Rakyat has a range of other Shariah-compliant financing products to cater for individual consumers, businesses and co-operatives (for example, pawn broking, mortgage financing, hire purchase, credit card and debit card) and corporations (for example, term financing). Further, being an agency under the purview of the MODTCC, Bank Rakyat also supports Government projects under the Economic Transformation Programme by providing working capital financing to entrepreneurs and co-operatives in Malaysia.

4.3.3 Availability of funding

Bank Rakyat sources its deposits from individuals and co-operative members as well as individual and corporate depositors to fund its assets growth. Currently, Bank Rakyat's deposit base mainly comprises deposits from the government/statutory bodies and corporates.

Notwithstanding the above, the funding risk is mitigated since Bank Rakyat's key depositors are entities which have long-standing relationships with Bank Rakyat and their deposit placements have been stable over the years. In addition, Bank Rakyat has also taken steps to augment its retail deposits by reaching out to its sizeable member base. Amongst Bank Rakyat's on-going marketing initiatives are the Customer Get Customer campaign, Deposit and Win campaign as well as the offering of attractive returns to its members.

In addition to the above, Bank Rakyat is also actively raising funds on its own to fund its business activities via the capital markets. For instance, in 2012, Bank Rakyat launched its first Sukuk issuance pursuant to its Sukuk programme of RM1.0 billion in nominal value, which has further diversified its access to funding. In 2013, Bank Rakyat launched its Sukuk programme of up to RM9.0 billion in nominal value.

4.3.4 Financing impairment

Bank Rakyat will determine whether any of its financing and investment debt securities show objective evidence of impairment. The evidence of impairment means that Bank Rakyat does not expect to collect the entire amount due as per contracted terms.

When such impairment losses occur, the carrying amount is reduced through an allowance account. Impairment allowances may be assessed and created for accounts individually or on a collective basis. Policy dictates that allowances are made promptly and consistently and the adequacy of such allowances to be reviewed in detail regularly. Impaired assets are normally written-off, either partially or in full, when there is no realistic prospect of further collection after the realisation of security held, negotiations and application of all practical legal action.

As at 15 April 2016, Bank Rakyat's net impairment ratio stands at 2.00%. Moving forward, Bank Rakyat does not expect its financing impairment to materially affect its financial and operational conditions.

4.3.5 Compliance with accounting standards

As per the announcement by the Malaysian Accounting Standards Board (MASB), all financial reporting in Malaysia for interim and annual financial statements beginning on and after 1 January 2012 will comply with Malaysian Financial Reporting Standards.

BNM has also issued a circular to all Islamic banks advising them to prepare financial statements in accordance with the financial reporting standards approved by MASB to the extent that the standards are consistent with Shariah principles and subject to any specific directions prescribed by BNM for prudential reasons.

Bank Rakyat will ensure that the aforementioned requirements are met.

4.4 INVESTMENT CONSIDERATIONS RELATING TO THE INDUSTRY

4.4.1 *Regulatory environment*

Bank Rakyat's principal business activities are highly regulated and supervised by various Malaysian government authorities and statutory bodies/agencies.

Bank Rakyat, as a DFI, is regulated by BNM and the MOF which have extensive powers under the Development Financial Institutions Act in relation to the licensing and regulation of the DFIs and the banking industry, including the imposition of measures in furtherance of certain social and economic objectives. Bank Rakyat is also regulated under the Co-operative Societies Act, the Bank Rakyat Act and its By-Laws and is placed under the purview of the MODTCC. The MODTCC and the Commission have certain powers as prescribed under the Co-operative Societies Act which provide for the laws of control and regulation of the co-operative societies while the Bank Rakyat Act and the By-Laws set out the laws and regulations to ensure the proper management and administration of Bank Rakyat. Any changes in the regulatory and legal framework are beyond Bank Rakyat's control and may affect the way Bank Rakyat conducts its business. Such changes may be more restrictive to Bank Rakyat or result in higher costs than the current requirements or may materially impact Bank Rakyat's business, results of operations or financial condition.

4.4.2 *Banking industry specific risks*

Potential investors should be aware of the specific risks of the banking industry which are peculiar in nature as compared to other industries. These risks include but are not limited to, profit rate risks, liquidity risks and credit risks. Potential investors should refer to Section 11 of this Information Memorandum for a more detailed description of the nature of these risks and the measures put in place by Bank Rakyat to mitigate such risks.

4.4.3 *Competition*

Given that Bank Rakyat's financing portfolios predominantly comprise personal financing, its position is subject to any adverse industry developments. As commercial banks have also been active in this financing segment, there is no assurance that Bank Rakyat's business position will not be challenged moving forward.

Notwithstanding the above, Bank Rakyat's strong foothold in the personal financing segments are supported by its status as a co-operative bank, which provides Bank Rakyat with access to direct salary deduction schemes.

4.5 GENERAL INVESTMENT CONSIDERATIONS

4.5.1 *Political and economic considerations*

The development and performance of the Issuer or Bank Rakyat may be affected by economic and political uncertainties, which are beyond the control of the Issuer and Bank Rakyat, such as change in government, risk of war, risk of terrorist attacks, expropriation and renegotiations or nullification of existing contracts.

Investors should note that whilst the Issuer and Bank Rakyat strive to continue to take effective measures such as prudent financial management and efficient operating procedures, there can be no assurance that adverse political and economic factors will not materially affect the Issuer and/or Bank Rakyat's operations and financial results.

4.5.2 Force majeure

An event of force majeure is an event which is not within the control of the party affected, which that party is unable to prevent, avoid or remove and includes war and acts of terrorism, riot and disorders and natural catastrophes. The occurrence of a force majeure event may have a material impact on the Issuer's and/or Bank Rakyat's business or operations.

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SECTION 5

BACKGROUND INFORMATION OF THE ISSUER

5.1 INTRODUCTION

The Issuer was incorporated in Malaysia on 12 May 2015 as a public company limited by shares under the Companies Act, with the company number 1143951-X. The Issuer is established as a special purpose company to undertake the issuance of Subordinated Sukuk Murabahah under the Subordinated Sukuk Programme on behalf of Bank Rakyat.

The Issuer's registered address is located at 10th Floor, Menara Hap Seng. No. 1 & 3 Jalan P. Ramlee, 50250 Kuala Lumpur, Wilayah Persekutuan.

5.2 SHARE CAPITAL AND SHAREHOLDING STRUCTURE

As at 15 April 2016, the Issuer had an authorised share capital of RM400,000.00 comprising 400,000 ordinary shares of RM1.00 each and an issued and paid-up capital of RM2.00 comprising two (2) ordinary shares of RM1.00 each.

Details of the Issuer's shareholding structure as at 15 April 2016 are summarised as follows:

Name of shareholder	No. of shares		
	Ordinary shares of RM1.00 each in the share capital of the Issuer	Total (RM)	(%)
TMF Trustees Malaysia Berhad	2	2.00	100
TOTAL			100

5.3 PROFILE OF DIRECTORS

The profiles of the Board of Directors of the Issuer as at 15 April 2016 are as follows:

(a) **SOH CHIN NAN**
Director

Soh Chin Nan is currently the Director of Accounting & Payroll Service in TMF Group, Kuala Lumpur office. In the early years of his career, he has worked as an analyst in an American bank and subsequently in a data system management firm. He has more than ten years of experience in leading the finance and accounting related departments in business process outsourcing firms in Malaysia.

He is a graduate of the University of Louisiana at Monroe, Louisiana, United States where he was awarded a bachelor degree in accounting and master degree in finance.

(b) **LIM LEE KUAN**
Director

Lim Lee Kuan is a qualified company secretary under Section 139A of the Companies Act, 1965 and an associate of The Malaysian Institute of Chartered Secretaries and Administrators.

She started her career in a public listed company in 1995 and subsequently entered a secretarial firm prior to becoming the head of corporate secretarial in TMF Administrative Services Malaysia Sdn. Bhd. in 2012.

During her twenty (20) years of experience in company secretarial practice, she has served in various capacities including but not limited to corporate restructuring exercises, initial public offering and submitting applications to various regulatory authorities. She is experienced in providing such services to multinational companies, public listed companies, investment banks, private limited companies and various other organisations.

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SECTION 6

BACKGROUND INFORMATION OF BANK RAKYAT

6.1 INTRODUCTION

Bank Rakyat was established in September 1954 under the Co-operative Societies Ordinance, 1948 following an expansion of the cooperative movement in Peninsular Malaysia. To facilitate the expansion of the cooperative movement, the co-operatives set up their respective union banks to meet the financial needs of their members. On 28 September 1954, 11 of these union banks decided to merge and form Federation of Malaya Rural Co-operative Apex Bank Limited.

In 1967, Bank Kerjasama Malaysia Berhad opened its membership not only to the cooperatives, but also to individuals. Subsequent changes in the By-Laws also allowed the setting up of subsidiary companies and the opening of branches to serve Bank Rakyat's customers as well as members.

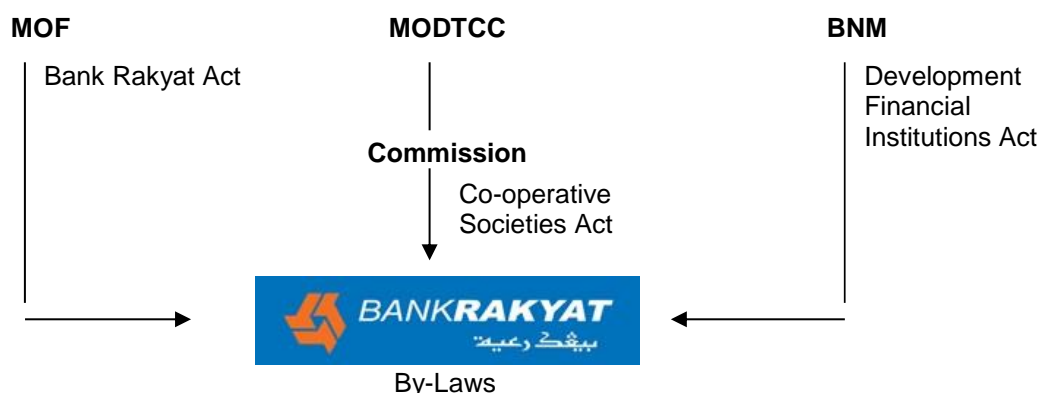
On 6 January 1973, Bank Kerjasama Malaysia Berhad changed its name to Bank Kerjasama Rakyat Malaysia Berhad, better known as Bank Rakyat. Apart from being governed by the Co-operative Societies Act and its By-Laws, Bank Rakyat is also governed by the Bank Rakyat Act, which allows Bank Rakyat to provide financing to non-members. Since commencement of the Bank Rakyat Act in 1978, Bank Rakyat was placed under the supervision of the Minister of Finance and the Minister charged with the responsibility of co-operative development.

On 8 May 1993, Bank Rakyat introduced Islamic banking products at four of its branches and became a full-fledged Islamic cooperative bank in 2002. Pursuant to this, Bank Rakyat became the third financial institution to offer total Islamic banking products in Malaysia.

On 15 February 2002, Bank Rakyat together with six other financial and development institutions were placed directly under the supervision of BNM under the Development Financial Institutions Act.

Regulatory bodies governing Bank Rakyat

The diagram below provides an overview of the regulatory bodies governing Bank Rakyat and its operations:



Source: Bank Rakyat's 2014 Annual Report.

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6.2 CORPORATE INFORMATION

Bank Rakyat was registered as a co-operative society with limited liability under the Co-operative Societies Ordinance, 1948, with the registration number 2192 on 28 September 1954, under the name of “**Federation of Malaya Rural Co-operative Apex Bank Limited**” which was later changed to “**Bank Kerjasama Malaysia Berhad**” in 1967 and subsequently to its present name “**Bank Kerjasama Rakyat Malaysia Berhad**” on 6 January 1973.

The registered address of Bank Rakyat is Level 35, Menara Kembar Bank Rakyat, No. 33, Jalan Travers 50470, Kuala Lumpur.

The principal activities of Bank Rakyat are those of a co-operative that carries out banking activities based on Shariah principles through accepting deposits and providing financial services for retail and commercial needs.

6.3 SHARE CAPITAL AND SHAREHOLDING STRUCTURE

As at 31 March 2016, the authorised share capital of Bank Rakyat was RM3,000,000,000.00 divided into 3,000,000,000 shares of RM1.00 each, of which RM2,984,696,205.00 comprising 2,984,696,205 shares had been issued and fully paid or credited as fully paid.

Bank Rakyat had in total, 906,219 shareholders comprising individuals and co-operative societies as at 31 March 2016 as follows:

Category	No. of Shareholders	Amount (RM)
Individuals	904,081	2,815,738,562.00
Co-operatives	2,138	168,957,643.00
Total	906,219	2,984,696,205.00

6.4 PROFILE OF DIRECTORS

The profiles of the Board of Directors of Bank Rakyat as at 15 April 2016 are as follows:

(a) **GENERAL TAN SRI DATO' SRI ABDUL AZIZ ZAINAL (R)**

AGE: 64

EDUCATION

Honorary Doctorate in Management from Universiti Malaysia Sabah
Honorary Doctorate in Management from Universiti Tun Abdul Razak
Masters in Management, Asian Institute of Management, Philippines
Graduate in Defence Studies, Defence College Malaysia
Graduate of Armed Forces Staff College Malaysia

APPOINTED AS DIRECTOR

First appointment : 16 July 2015 – 15 July 2017
Tenure as Director : 2 years

OTHER POSITIONS HELD IN THE BANK RAKYAT GROUP

Chairman, Nomination Committee
Chairman, Investment Committee
Chairman, Tender Board
Chairman, Financing Committee

Chairman, Rakyat Holdings Sdn Bhd
Chairman, Rakyat Hartanah Sdn Bhd
Chairman, Rakyat Facility Management Sdn Bhd

PREVIOUS POSITIONS HELD

Ambassador of Malaysia to France, accredited Monaco and Portugal
Chairman of Perwira Harta at Lembaga Tabung Angkatan Tentera Asset Development
Chief of Defence Forces Malaysia (General)
Chief of Malaysian Army (General)
Corps Commander, Malaysian Army (Lieutenant General)
3rd Army Division Commander (Lieutenant General)
4th Mechanized Brigade Commander (Brigade General)
Chief of Staff Army Headquarters (Brigade General)

(b) **DATO' MUSTAFHA HJ. ABD. RAZAK**

AGE: 47

EDUCATION

Chartered Banker, Asian Institute of Chartered Bankers
Certificate in Internal Auditing for Financial Institutions (CIAFIN), Institute of Bankers Malaysia
Divisional Councillor, Malaysia CPA Australia
Registered Accountant, Malaysian Institute of Accountants
Member, FCPA Australia
Certified Practising Accountant, Australian Society of Certified Practising Accountants
Bachelor of Commerce (Accounting), University of Wollongong, Australia

APPOINTED AS DIRECTOR

First appointment	:	1 April 2013 - 31 March 2014
Reappointments	:	1 April 2014 - 31 March 2015 1 April 2015 - 31 March 2016 1 April 2016 - 31 March 2018
Tenure as Director	:	5 years

OTHER POSITIONS HELD IN THE BANK RAKYAT GROUP

Member, Nomination Committee
Member, Investment Committee
Member, Tender Board
Member, Board of Directors, Rakyat Holdings Sdn Bhd
Member, Board of Directors, Rakyat Hartanah Sdn Bhd
Member, Board of Directors, Rakyat Management Services Sdn Bhd
Member, Board of Trustees, Yayasan Bank Rakyat

OTHER POSITIONS HELD

Managing Director / President, Bank Rakyat
Director, Malaysia Electronic Payment System Sdn Bhd
Board of Management, Perbadanan Tabung Pendidikan Tinggi Nasional
Member, Audit Committee, Perbadanan Tabung Pendidikan Tinggi Nasional
Chairman, Investment and Insurance Committee, Perbadanan Tabung Pendidikan Tinggi Nasional
Board Member, Maktab Koperasi Malaysia

PREVIOUS POSITIONS HELD IN BANK RAKYAT

Senior General Manager, Banking Operations, Bank Rakyat
General Manager, Finance / Bank Secretary, Bank Rakyat
Head, Accounts and Information Management, Bank Rakyat

(c) DATO' SRI ALIAS HAJI AHMAD

AGE: 57

EDUCATION

Masters in Strategic Studies and Defence, Universiti Malaya
Bachelor of Arts (Hons.), Arts and Social Sciences, Universiti Malaya
Diploma in Intelligence and Security, Taiwan Military College, Taipei
Certificate in Emergency Responses, College Of Emergency and Disasters
Responses, Yorkshire, United Kingdom

APPOINTED AS DIRECTOR

First appointment	:	7 January 2015 - 6 January 2017
Tenure as Director	:	2 years

OTHER POSITIONS HELD IN THE BANK RAKYAT GROUP

Chairman, Remuneration Committee
Member, Nomination Committee
Chairman, Board of Directors, Rakyat Niaga Sdn Bhd

OTHER POSITIONS HELD

Secretary, National Security Division, Prime Minister's Department
Chairman, Companies Commission of Malaysia (SSM)

PREVIOUS POSITIONS HELD

Secretary General, Ministry of Domestic Trade, Co-operatives and Consumerism
General Director, Immigration Department
Divisional Secretary, Security and Public Order Division, Ministry of Home Affairs
Divisional Secretary, Immigration Affairs Division, Ministry of Internal Affairs
Divisional Secretary, Human Resource Management Division, Ministry of Internal Affairs
Director, Gerak Saraf Perang Saraf, National Security Council, Putrajaya
Director, National Security Division (Kuala Lumpur), Prime Minister's Department
Director, National Security Division (Terengganu), Prime Minister's Department
Assistant Director, Prison Department of Malaysia, Ministry of Home Affairs
Assistant Director, Cabinet Division, Prime Minister's Department
Assistant Director, Development and Supply Division, Ministry of Education Malaysia

(d) DATUK HJ. ABDUL RAHMAN KASIM

AGE: 62

EDUCATION

Bachelor of Science (Hons.) Chemical Engineering, Loughborough University of
Technology, United Kingdom.
'A' Levels, Newark Technical College, United Kingdom
Royal Military College

APPOINTED AS DIRECTOR

First appointment	:	15 April 2014 - 14 April 2016 15 April 2016 - 4 April 2018
Tenure as Director	:	4 years

OTHER POSITIONS HELD IN THE BANK RAKYAT GROUP

Member, Investment Committee
Member, Nomination Committee
Member, Tender Board
Member, Board of Directors, Rakyat Holdings Sdn Bhd
Member, Board of Directors, Rakyat Asset Management Sdn Bhd
Chairman, Board of Trustees, Yayasan Bank Rakyat

PREVIOUS POSITIONS HELD

Business Development Director, Veolia Water (Malaysia) Holdings Sdn Bhd
Chief Operating Officer, UEM Group Subsidiaries
Chief Operating Officer, UEM Environment Sdn Bhd
Managing Director, Alam Sekitar Malaysia Sdn Bhd
General Manager, Brand, Communication, Customer Services and Motorsport, Shell Companies Malaysia

(e) **TAN SRI DR. ALIES ANOR ABDUL**

AGE: 60

EDUCATION

Honorary Doctorate in Islamic Jurisprudence, Sultan Sherif Kassim Islamic University, Pekan Baru, Indonesia
Training for Trainers, Centre of Advance Studies, Universiti Putra Malaysia
Training of Trainers, Conrad Adenauer Stiftung, Germany
Survey Research Course, Public Administration Institute
Entrepreneurial Study, Cranfield School of Management, United Kingdom
Arabic Language, King Saud University, Riyadh, Kingdom of Saudi Arabia
B.Ed. (Mathematics), IKIP NEG, Medan, Indonesia
Diploma in MBO, ICS, London
Diploma in Woodtech, MARA University of Technology (UiTM)

APPOINTED AS DIRECTOR

First appointment	:	16 July 2014 - 15 July 2016
Tenure as Director	:	2 years

OTHER POSITIONS HELD IN THE BANK RAKYAT GROUP

Member, Audit and Examination Committee
Member, Risk Management Committee
Member, Tender Board
Member, Financing Committee
Chairman, Board of Directors, Rakyat Management Services Sdn Bhd
Member, Board of Directors, Rakyat Holdings Sdn Bhd
Member, Board of Directors, Rakyat Facility Management Sdn Bhd

OTHER POSITIONS HELD

Chairman, Putra World Trade Centre
Chairman, Simbol Prima Sdn Bhd
Director, AAA Consult & Resources Sdn Bhd
Director Centre for Global Concerns
Director, Pan Asiatic Technologies Sdn Bhd
Director, Billion Prima Sdn Bhd
Director, Jutajaya Sistem Sdn Bhd
Director, Putrade Media Marketing Sdn Bhd
Director, Yayasan Usahawan Bumiputra
Director, Yayasan Pembangunan Ummah
Director, Yayasan Sumber Maklumat

PREVIOUS POSITIONS HELD

Director / Executive, Polygraphic Press
Director / Assistant Manager, DEB, Jilid Sdn Bhd
Executive Secretary, Malaysian Council for Child Welfare
Senior Assistant Director (Research), National Civics Bureau, Prime Minister's Department
Political Secretary to the Ministry of Defence, Malaysia
Political Secretary to the Minister of Education, Malaysia
Political Secretary to the Deputy Prime Minister of Malaysia

(f) **DATUK HJ. MOHD IDRIS BIN HJ. MOHD ISA**

AGE: 64

EDUCATION

Bachelor of Economics (Accounting), Universiti Malaya.

APPOINTED AS DIRECTOR

First appointment : 1 October 2014 - 30 September 2016
Tenure as Director : 2 years

OTHER POSITIONS HELD IN THE BANK RAKYAT GROUP

Chairman, Audit and Examination Committee
Member, Remuneration Committee
Member, Nomination Committee
Member, Financing Committee
Member, Board of Directors, Rakyat Holdings Sdn Bhd
Member, Board of Directors, Rakyat Travel Sdn Bhd
Member, Board of Directors, Rakyat Management Services Sdn Bhd

OTHER POSITIONS HELD

Director, Samalaju Komunikasi Sdn Bhd
Adviser, Rasma Corporation Sdn Bhd

PREVIOUS POSITIONS HELD

Executive Director, Yayasan Wilayah Persekutuan
Director, AmTrustee Berhad
Senior Associate, Malaysia Industry Group for High Technology (MIGHT)
Executive Director, Arab Malaysian Merchant Bank Bhd
Group of Managing Director, Shapadu Holdings Sdn Bhd
Board of Trustees, Yayasan Pembangunan Ekonomi Islam
Board of Trustees, Amanah Ikhtiar Malaysia
Chief Executive, Credit Guarantee Corporation
Head, Internal Audit, MBF Group
Manager, Bank Negara Malaysia

(g) **DATO' ABDULLAH HJ. ABAS**

AGE: 70

EDUCATION

Masters in Education, University of Toledo, United States of America
Bachelor in Education, (Magna cum Laude), University of Toledo, United States of America
Certificate in Education, Technical Teacher's Training College, Kuala Lumpur

APPOINTED AS DIRECTOR

First appointment : 27 October 2014 - 26 October 2016
Tenure as Director : 2 years

OTHER POSITIONS HELD IN THE BANK RAKYAT GROUP

Member, Audit and Examination Committee
Member, Tender Board
Chairman, Board of Director, Rakyat Travel Sdn Bhd
Member, Board of Directors, Rakyat Asset Management Sdn Bhd
Member, Board of Directors, Rakyat Niaga Sdn Bhd

OTHER POSITIONS HELD

General Manager, Shahsin Sdn Bhd
Chairman, Koperasi Permodalan dan Perusahaan Melayu Negeri Sembilan Berhad
Chairman, Koperasi Gabungan Melayu Negeri Sembilan Berhad
Chairman, Koperasi Kariah Masjid Bandar Springhill Lukut Port Dickson Berhad
Member, National Co-operative Organisation of Malaysia (**ANGKASA**) State Relations Committee (Negeri Sembilan)
Guest Speaker, National Civics Bureau, Prime Minister's Department (since 1986)

PREVIOUS POSITIONS HELD

Private Secretary to DYMM Yang DiPertuan Besar Negeri Sembilan, Tuanku Muhriz Ibni Almarhum Tuanku Munawir
Private Secretary to DYMM Yang DiPertuan Besar Negeri Sembilan Almarhum Tuanku Ja'afar Ibni Almarhum Tuanku Abdul Rahman
Chief Executive Officer, Institut Teknologi MIDAS
Senior Assistant Director, Negeri Sembilan Education Department
Assistant Director, Technical and Vocational Education, Negeri Sembilan Education Department
Supervisor, Technology Education, Negeri Sembilan Education Department Assistant
School Supervisor, Kelantan Education Department
Technical Teacher, SM Dato' Abdul Samad, Tanjong Ipoh, Negeri Sembilan and SM Tuanku Muhammad Kuala Pilah

(h) **DATO' SITI ZAUYAH MD. DESA**

AGE: 56

EDUCATION

Masters in Business Administration (International Banking) (Board of Directors' List), University of Manchester, United Kingdom
Bachelor of Science (Hons) in Quantity Surveying, University of Reading, United Kingdom
Diploma in Public Administration (Excellent), Nat. Ins. Of Public Admin (INTAN) Malaysia
GCE 'A' Levels Aston College, Wrexham, Wales, United Kingdom

APPOINTED AS DIRECTOR

First appointment : 1 July 2015 – 30 June 2017
Tenure as Director : 2 years

OTHER POSITIONS HELD IN THE BANK RAKYAT GROUP

Member, Investment Committee
Member, Risk Management Committee
Member, Financing Committee
Member, Board of Directors, Rakyat Management Services Sdn Bhd

OTHER POSITIONS HELD

Director, Malaysia Debt Ventures Berhad
Director, KWAP Investment Panel
Director, EPF Investment Panel
Non-Independent and Non-Executive Director, DanaInfra Nasional Berhad)
Alternate Director, Employees Provident Fund

PREVIOUS POSITIONS HELD

Director, National Budget Office, Ministry of Finance, Malaysia
Under Secretary, Government Investment Company Division, Ministry of Finance, Malaysia
Under Secretary, Loan Management, Financial Market and Actuarial Division, Ministry of Finance, Malaysia
Deputy Secretary (Economy), Investment, MOF (Inc) & Privatisation Division, Ministry of Finance, Malaysia
Deputy Secretary (Infrastructure), Investment, MOF (Inc) & Privatisation Division Ministry of Finance, Malaysia
Head of Section (External Funding), Loan Management, Financial Markets & Actuary Division, Ministry of Finance, Malaysia
Principal Assistant Secretary (Multilateral Unit), Loan Management, Financial Markets & Actuarial Division, Ministry of Finance, Malaysia
Director's Advisor to the constituency belonging to Malaysia, Myanmar, Nepal, Singapore and Thailand, Asian Development Bank, Manila

(i) **DATO' HAJI ISMAIL NORDIN**

AGE: 61

EDUCATION

Bachelor Science in Electrical Engineering & Electronics, University of Manchester
Post Graduate Diploma in Administration Studies, Leeds Metropolitan University
Diploma in Telecommunications, Bailbrook College, United Kingdom
Advanced Human Resource Executive Program, Michigan Business School, United States of America
Senior Management Development Program, Harvard Business School

APPOINTED AS DIRECTOR

First appointment	:	1 July 2015 – 30 June 2017
Tenure as Director	:	2 years

OTHER POSITIONS HELD IN THE BANK RAKYAT GROUP

Member, Nomination Committee
Member, Remuneration Committee
Member, Board of Directors, Rakyat Travel Sdn Bhd
Member, Board of Directors, Rakyat Hartanah Sdn Bhd
Member, Board of Directors, Rakyat Niaga Sdn Bhd

OTHER POSITIONS HELD

Chairman, Koperasi Telekom Malaysia Berhad
Chairman, MKM Global Holdings Sdn Bhd
Director, Kota Mas Travel & Tours Sdn Bhd
Director, Kota Mas Trading & Services Sdn Bhd

Director, Kota Mas Trading & Consultancy Sdn Bhd

PREVIOUS POSITIONS HELD

Vice President, Transformation and Human Resource Development, Telekom Malaysia

Vice President, Change Management Office, Telekom Malaysia

General Manager, Human Resource, Telekom Malaysia

General Manager, Telekom Training College

(j) **RAZALEE AMIN**

AGE: 62

EDUCATION

Certified Financial Planner, Financial Planning Association of Malaysia

Certified Public Accountant, the Malaysian Institute of Certified Public Accountants

Bachelor of Economics (Hons) Accounting, Universiti Malaya

Diploma in Accounting (Postgraduate), Universiti Malaya

APPOINTED AS DIRECTOR

First appointment : 1 July 2015 – 30 June 2017

Tenure as Director : 2 years

OTHER POSITIONS HELD IN THE BANK RAKYAT GROUP

Member, Audit and Examination Committee

Member, Risk Management Committee

Member, Financing Committee

Member, Board of Directors, Rakyat Travel Sdn Bhd

Member, Board of Directors, Rakyat Hartanah Sdn Bhd

Member, Board of Directors, Rakyat Facility Management Sdn Bhd

OTHER POSITIONS HELD

Managing Partner, Razalee & Co (Chartered Accountants)

Director, UMW Oil & Gas Corporation Berhad

Director, RCO Management & Consulting Services Sdn Bhd

Director, MP Capital Advisory Sdn Bhd

Director, Accountants Online Sdn Bhd

Director, Information System Enterprise Solutions Sdn Bhd

Director, Agensi Pekerjaan RZA Executive Search Sdn Bhd

PREVIOUS POSITION HELD

General Manager, International Bank Malaysia Berhad

Senior General Manager, Damansara Realty Berhad

Senior Vice President, Investment and Acquisitions, MBf Finance Berhad

Group Financial Controller, Sasteras Resources (Malaysia) Berhad

Audit Manager, Hanafiah Raslan & Mohammad, Chartered Accountants

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6.5 SUBSIDIARIES

As at 15 April 2016, the subsidiaries of Bank Rakyat (direct and indirect) are as follows:

Name of Company	Nature of Business	Equity Interest as at 15 April 2016
<u>Subsidiary of the Bank</u>		
Rakyat Holdings Sdn. Bhd. (Company No. 12695-P)	Property investment, property management.	100.0% [#]
<u>Subsidiaries of Rakyat Holdings Sdn. Bhd.</u>		
Rakyat Hartanah Sdn. Bhd. (Company No. 15461-K)	Property development and project management.	100.0%
Rakyat Facility Management Sdn. Bhd. (Company No. 782755-T)	Building management and building maintenance.	100.0%
Rakyat Travel Sdn. Bhd. (Company No. 14727-X)	Operation of inbound and outbound tours, car and coaches rental, car rental and air ticketing agent, Umrah services and Hajj services, visa application to Saudi Arabia and any other countries.	100.0%
Rakyat Nominees Sdn. Bhd. (Company No. 366679-D)	Dormant.	100.0%
Rakyat Niaga Sdn. Bhd. (Company No. 26108-D)	General trading and supplies.	100.0%
Rakyat Management Services Sdn Bhd (Company No. 25253-P)	Ar-Rahnu X'change Franchise & Gold Management.	100.0%
Rakyat Asset Management Sdn Bhd (Company No. 452759-X)	Cooperatives Acquisition & Liquidation Management.	100.0%

Note:

[#] The entire issued and paid-up ordinary share capital of Rakyat Holdings Sdn Bhd is held by Bank Rakyat, save for one (1) ordinary share which is held by Dato' Mustafha Abd. Razak.

6.6 MANAGEMENT COMMITTEE

As at 15 April 2016, the management committee of Bank Rakyat comprises the following:

Name	Position
1. Dato' Mustafha Hj. Abd. Razak	Managing Director / President
2. Md Khairuddin Arshad	Chief Operating Officer
3. Mohd Shahril Isa	Chief Retail Banking Officer
4. Mohd Farid Shah Mohd Basir	Chief Human Capital Officer
5. Md Ali Abd Aziz	Chief Information Technology Officer
6. Nor Haimee Zakaria	Chief Financial Officer
7. Abdul Razak Abu Bakar	Senior Vice President, Corporate Banking
8. Dr Mohammad Hanis Osman	Senior Vice President, Treasury
9. Muzamir Omar	Chief Strategy & Transformation Officer (Acting)
10. Zainal 'Amini Haji Sulaiman	Chief Corporate Services Officer (Acting)
11. Khadijah Iskandar	Chief Risk Officer (Acting)

6.7 SHARIAH COMMITTEE

As at 15 April 2016, the members of the Shariah committee of Bank Rakyat are as follows:

1. Dato' Setia Haji Mohd. Tamyas Abd Wahid (Chairman)
2. Prof. Madya Dr. Siti Salwani Razali
3. Md. Yunus Abd. Aziz
4. Wan Rumaizi Wan Husin
5. Abdullaah Jalil
6. Prof. Madya Dr. Azman Mohd Noor
7. Prof. Madya Dr. Aznan Hasan

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SECTION 7

SELECTED FINANCIAL INFORMATION

The following table presents a summary of the audited financial information of Bank Rakyat for each of FYE 31 December 2015 and 2014. The financial information set out below has been derived from (adjusted for rounding effects), and should be read in conjunction with, the audited financial statements of Bank Rakyat set out in **Appendix 1** of this Information Memorandum.

		← Audited →	
No.	Selected Financial Information of Bank Rakyat	FYE 31 December 2015 (RM'000)	FYE 31 December 2014 (RM'000)
1.	Total assets	92,285,928	89,176,654
2.	Total shareholders' fund	13,690,506	12,444,119
3.	Financing & Advances	63,137,184	60,482,549
4.	Deposits from customers	70,981,772	68,522,973
5.	Profit before taxation and zakat	1,959,573	2,160,185
6.	Profit after taxation and zakat	1,779,005	1,957,705
7.	Return on assets (ROA)	2.16%	2.52%
8.	Return on equity (ROE)	14.99%	18.21%
9.	Financing-to-deposits ratio (FDR)	88.95%	88.27%
10.	Risk-weighted capital ratio (RWCR)	20.13%	19.00%
11.	Core capital ratio (CCR)	18.92%	17.60%

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SECTION 8

LIABILITIES AND CAPITALISATION

The following table sets out the audited liabilities and shareholders' funds of Bank Rakyat for each of FYE 31 December 2015 and 2014. This table is derived from, and should be read in conjunction with, the audited financial statements of Bank Rakyat set out in **Appendix 1** of this Information Memorandum.

	← Audited FYE 31 December 2015 (RM '000)	→ FYE 31 December 2014 (RM '000)
<u>Liabilities</u>		
Deposits from customers	70,981,772	68,522,973
Deposits and placements from banks and financial institutions	1,940,000	1,800,000
Recourse obligations on financing sold to Cagamas	1,478,659	1,777,618
Debt securities issued	2,718,871	3,020,571
Other liabilities	1,476,120	1,592,597
Provision for taxation	-	-
Profit equalisation reserve (Investor)	-	18,776
Total liabilities	78,595,422	76,732,535
<u>Shareholders' funds</u>		
Share capital	2,983,923	2,973,677
Share redemption fund	53,671	52,800
Reserves	10,652,912	9,387,777
Profit equalisation reserve (Bank)	-	29,865
Total shareholders' funds	13,690,506	12,444,119
Total liabilities and shareholders' funds	92,285,928	89,176,654
Commitment and contingencies	2,600,935	2,633,804

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SECTION 9

FUNDING AND CAPITAL ADEQUACY

9.1 FUNDING STRUCTURE OF THE BANK

The Bank's liquidity and funding position is supported mainly by its deposit base which comprises retail and corporate deposits from customers. In monitoring the liquidity risk, the Bank applies a maturity mismatch analysis showing the relative concentration of these funding. Liquidity positions are reported to the Asset and Liability Committee (ALCO) of the Bank on a monthly basis. In addition, the Bank has emplaced policies to facilitate the prudent management of assets to boost liquidity, apart from the daily monitoring of future cash flows and liquidity.

The Bank maintains a certain liquidity level to comply with the relevant guidelines as prescribed by BNM. The Bank's daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and severe market conditions.

The Bank relies on deposits from customers and corporations, and from the sale of the Bank's eligible financing assets with recourse to Cagamas as sources of funding. The Bank actively manages the risk of unexpected significant withdrawals by its depositors through competitive pricing of its deposit products and the constant monitoring of market trends.

The following tables illustrate the profile of Bank Rakyat's customer deposits and the maturity structure of these deposits, for each of FYE 31 December 2015 and 2014.

Breakdown of the deposits from customers by type of deposit:

	← FYE 31 December 2015 (RM '000)	Audited FYE 31 December 2014 (RM '000) →
<u>Non-Mudharabah fund</u>		
Term deposits	58,114,929	52,494,140
Savings deposits	3,750,568	3,585,232
Negotiable Islamic debt certificate	9,116,119	10,633,679
	70,981,615	66,713,051
<u>Mudharabah fund</u>		
Savings deposits	-	-
General investment deposits	156	1,627,722
Special investment deposits	-	182,200
	156	1,809,922
Total	70,981,772	68,522,973

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Breakdown of the deposits from customers by type of customers:

	← Audited FYE 31 December 2015 (RM '000)	→ FYE 31 December 2014 (RM '000)
Government	30,251,363	30,692,105
Business enterprises	27,743,606	24,086,611
Co-operatives	943,212	1,220,504
Individuals	10,774,077	11,290,827
Others	1,269,514	1,232,926
Total	70,981,772	68,522,973

Deposits and placements from banks and financial institutions:

	← Audited FYE 31 December 2015 (RM '000)	→ FYE 31 December 2014 (RM '000)
Licensed Islamic banks	1,940,000	1,800,000
Total		

Breakdown of the maturity structure of deposits from the Bank's customers:

	← Audited FYE 31 December 2015 (RM '000)	→ FYE 31 December 2014 (RM '000)
Maturity within six months	49,636,311	56,791,442
More than six months to one year	18,141,585	8,765,853
More than one year to five years	3,203,876	2,965,678
Total	70,981,772	68,522,973

9.2 CAPITAL ADEQUACY

9.2.1 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- i. To comply with the capital requirements set by the regulators of the banking markets where the entities within the Bank operate;
- ii. To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- iii. To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines under the New Liquidity Framework developed by BNM. The required information is filed with BNM on a monthly basis.

The Bank maintains a ratio of total regulatory capital to its risk-weighted assets above a minimum level agreed with BNM which takes into account the risk profile of the Bank. The regulatory capital requirements are strictly observed when managing economic capital.

The Bank's regulatory capital comprises two tiers:

- i. Tier 1 capital: share capital, statutory reserve, capital reserve and retained profits; and
- ii. Tier 2 capital: collective impairment allowances on non-impaired financing and regulatory reserve.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and exposures not recognised in the statement of financial position.

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

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9.2.2 Capital adequacy

Bank Rakyat is required to comply with the core capital ratio and risk-weighted capital adequacy ratio prescribed by BNM. Bank Rakyat has complied with all the prescribed capital ratios to-date.

	← FYE 31 December 2015	Audited FYE 31 December 2014 →
Before proposed dividend		
Core capital ratio	19.48%	18.26%
Risk-weighted capital adequacy ratio	20.70%	19.66%
After proposed dividend		
Core capital ratio	18.92%	17.60%
Risk-weighted capital adequacy ratio	20.13%	19.00%

The above ratios are derived by taking into account the core capital and capital base of the Bank against its risk weighted asset.

The breakdown of the components of the Bank's capital is as follows:

	← FYE 31 December 2015 (RM '000)	Audited FYE 31 December 2014 (RM '000) →
Tier 1 capital		
Paid-up share capital	2,983,923	2,973,677
Retained earnings	5,699,785	4,915,527
Other reserves	4,758,185	4,304,098
Total Tier 1 capital (core)	13,441,893	12,193,302
Tier 2 capital		
Collective impairment	642,077	731,757
Regulatory reserve	258,653	245,566
Total Tier 2 capital	900,730	977,323
Total capital	14,342,623	13,170,625
Less: Investment in subsidiaries	(61,976)	(43,500)
Less: Investment in fixed assets	-	-
Total capital base	14,280,647	13,127,125

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The breakdown of the Bank's assets based on its respective risk-weight categories is as follows:

	← FYE 31 December 2015 (RM '000)	Audited FYE 31 December 2014 (RM '000) →
Total assets assigned 20% risk-weight	482,475	541,768
Total assets assigned 50% risk-weight	1,520,233	1,352,334
Total assets assigned 100% risk-weight	65,830,370	63,521,927
Off-Balance Sheet claims assigned 100% risk-weighted	1,158,093	1,356,114
Total	68,991,171	66,772,143

9.2.3 *Capital allocation*

The allocation of capital between the Bank's specific operations and activities is, to a large extent, driven by optimisation of the returns achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, adjusted accordingly to reflect risk profiles unique to the Bank. This is subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes.

The process of allocating capital to the Bank's specific operations and activities is currently within the parameters of CAFIB issued by BNM, which the Bank is observing as a best practice. Notwithstanding this, the Bank maintains the principle of optimizing the return on risk-adjusted capital as a basis for its capital allocation.

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SECTION 10

ASSET QUALITY

10.1 FINANCING PORTFOLIO

Financing and advances are initially recognised at fair value – which is the cash consideration to originate the financing and advances, including any transaction costs – and measured subsequently at amortised cost using the effective profit rate method.

Profit on financing is reported as 'Income from financing and advances' in the Bank's financial statements.

10.2 FINANCING AND ADVANCES BY TYPE

The following table sets out the breakdown of Bank Rakyat's financing and advances analysed by type for each of FYE 31 December 2015 and 2014:

	← FYE 31 December 2015 (RM '000)	Audited FYE 31 December 2014 (RM '000) →
At amortised cost		
Term financing	4,561,134	4,739,780
Personal financing	52,974,151	50,551,046
Revolving credit	408,233	525,226
House financing	2,879,608	2,637,902
Hire-purchase receivables	693,219	536,556
Pawn broking	1,556,226	1,662,191
Bridging	402,442	557,446
Syndicated financing	200,983	134,526
Credit card	476,799	468,833
Staff financing	310,856	286,115
Gross financing and advances, net of unearned income	64,463,651	62,099,621
Allowance for impairment on financing and advances		
Individual assessment impairment	(316,652)	(492,436)
Collective assessment impairment	(1,009,815)	(1,124,636)
	(1,326,467)	(1,617,072)
Net financing and advances	63,137,184	60,482,549

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10.3 FINANCING AND ADVANCES BY ISLAMIC PRINCIPLE

The following table sets out the breakdown of Bank Rakyat's financing and advances analysed by Islamic principle for each of FYE 31 December 2015 and 2014:

	← FYE 31 December 2015 (RM '000)	Audited FYE 31 December 2014 (RM '000) →
Bai' 'Inah	34,319,083	38,617,340
Al-Tarkhis	-	-
Al-Ijarah	-	-
Bai' Bithaman Ajil	2,512,766	2,957,581
Ar-Rahn	1,556,226	1,662,191
Qard	167	221
Ijarah Thumma Al-Bai	693,219	536,563
Murabahah	4,828,067	5,341,542
Musharakah	51,621	51,351
Tawarruq	20,502,502	12,932,832
Total	64,463,651	62,099,621

10.4 FINANCING AND ADVANCES BY SECTOR

The following table sets out the breakdown of Bank Rakyat's financing and advances analysed by sector, for each of FYE 31 December 2015 and 2014:

	← FYE 31 December 2015 (RM '000)	Audited FYE 31 December 2014 (RM '000) →
Purchase of securities	71,482	67,180
Purchase of landed property	1,930,704	2,370,866
Consumption credit	58,021,238	54,339,439
Agriculture	365,995	437,215
Mining and quarrying	-	87,259
Manufacturing	189,274	598,011
Electricity, gas and water	100,341	100,074
Construction	1,139,670	1,399,162
Wholesale & retail trade	117,907	165,101
Transportation & communication	155,563	297,254
Financial, insurance and business services	2,342,040	2,197,824
Community, social and personal services	29,437	40,236
Total	64,463,651	62,099,621

10.5 CLASSIFICATION AND IMPAIRMENT PROVISIONS FOR FINANCING

The Bank reviews its financing and advances portfolio to determine whether impairment losses should be recorded in profit or loss.

Financing and advances are considered as impaired when there is objective evidence of impairment as a result of a loss event that has affected future estimated cash flows of the financing and advances subsequent to its initial recognition.

There are two components of impairment allowance:

(i) **Individual impairment**

Where an account has exceeded certain number of arrears or when the account has fulfilled certain criteria that indicates credit weaknesses, the account is individually assessed for impairment.

Individual allowance is measured as the difference between the carrying amount of the financing and advances and the present value of estimated future cash flows from the financing and advances that are discounted at the effective profit rate.

Expectation on future cash flows is established by applying the best estimate formed on reliable and objective evidence. This process involves significant and reasonable judgement.

(ii) **Collective impairment**

Collective impairment is applicable to a group of financing and advances with similar credit risk characteristics, and which is not classified under individual impairment as described above.

Collective allowance takes into account the probability of the financing and advances turning into default (or probability of default) and the estimated loss on default (or loss given default) of any particular financing and advances.

Probability of default is the resultant of cumulative trend of default for a specified period, whereas loss given default is measured by considering the value of collateral to the financing and advances and the estimated recovery period from the collateral.

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10.5.1 *Impaired financing and advances analysed by economic sector*

The following table sets out the breakdown of Bank Rakyat's impaired financing and advances analysed by economic sector, for each of FYE 31 December 2015 and 2014:

	← FYE 31 December 2015 (RM '000)	Audited FYE 31 December 2014 (RM '000) →
Purchase of securities	595	345
Purchase of landed property	143,240	127,240
Consumption credit	419,767	344,204
Agriculture	99	71,532
Mining and quarrying	-	87,259
Manufacturing	17,745	137,078
Electricity, gas and water	-	9
Construction	282,901	348,588
Wholesale & retail trade	30,296	37,858
Transportation & communication	20	322
Financial, insurance, property and business services	305,956	109,676
Community, social and personal services	17,266	3,196
Total	1,217,885	1,267,307

10.5.2 *Movements in impaired financing and advances*

The following table sets out the breakdown of Bank Rakyat's movements in impaired financing and advances, for each of FYE 31 December 2015 and 2014:

	← FYE 31 December 2015 (RM '000)	Audited FYE 31 December 2014 (RM '000) →
Opening balance	1,267,307	1,305,119
Classified as impaired during the year	1,819,529	1,794,281
Amount written-back in respect of recoveries	(1,104,141)	(1,256,871)
Amount written-off during the year	(764,810)	(575,222)
	(49,422)	(37,812)
Closing balance	1,217,885	1,267,307
Gross impaired financing and advances as a percentage of gross financing and advances	1.89%	2.04%

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10.5.3 **Movements in allowance for individual assessment impairment on financing and advances**

The following table sets out the breakdown of Bank Rakyat's movements in allowance for individual assessment impairment on financing and advances, for each of FYE 31 December 2015 and 2014:

	← Audited →	
	FYE 31 December 2015	FYE 31 December 2014
	(RM '000)	(RM '000)
Opening balance	492,436	212,222
Allowance made during the year	272,273	497,265
Amount written-back in respect of recoveries	(166,882)	(210,463)
Amount written-off during the year	(281,175)	(6,588)
	(175,784)	280,214
Closing balance	316,652	492,436

10.5.4 **Movements in allowance for collective assessment impairment on financing and advances**

The following table sets out the breakdown of Bank Rakyat's movements in allowance for collective assessment impairment on financing and advances, for each of FYE 31 December 2015 and 2014:

	← Audited →	
	FYE 31 December 2015	FYE 31 December 2014
	(RM '000)	(RM '000)
Opening balance	1,124,636	1,292,556
Allowance made during the year	1,445,218	1,316,981
Amount written back in respect of recoveries	(1,095,656)	(920,416)
Allowance written off during the year	(464,383)	(564,485)
	(114,821)	(167,920)
Closing balance	1,009,815	1,124,636
Collective impairment as a percentage of gross financing and advances after deduction of individual assessment impairment	1.98%	2.22%

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SECTION 11

RISK MANAGEMENT

11.1 OVERVIEW

Bank Rakyat takes proactive measures in managing the various risks inherent in its business which include credit, market, liquidity, operational and also compliance risks posed by rapid changes in business and market environment. Enterprise Risk Management (ERM) is a strategic initiative developed to ensure that the risk management functions and processes are integrated and embedded throughout Bank Rakyat's businesses and operations.

11.2 OBJECTIVES

Risk management is a systematic process of identifying and assessing potential risks and setting up strategies that will either avoid the risk, control or minimise its impact, or cope with its impact.

At Bank Rakyat, the primary objectives of risk management are:

- To identify, measure, monitor and manage risk exposures inherent in all activities of Bank Rakyat;
- To ensure that Bank Rakyat retains adequate capital against risk exposures and that the capital is adequately compensated for the risks assumed;
- To ensure that Bank Rakyat achieves its financial objectives through its strategic business plan, which shall be developed within Bank Rakyat's risk tolerance level; and
- To ensure all relevant personnel clearly understand Bank Rakyat's approach in managing risk.

11.3 RISK GOVERNANCE

Bank Rakyat's risk management process is governed by its risk management frameworks, policies and procedures, and organisational structure that are closely aligned with the overall operations of Bank Rakyat. Risk management is done at all hierarchy levels with oversight by the Board of Directors.

The Risk Management Committee (RMC) was established by the Board of Directors in 2003 to oversee the management of risks associated with Bank Rakyat's operations and activities. The RMC is responsible:

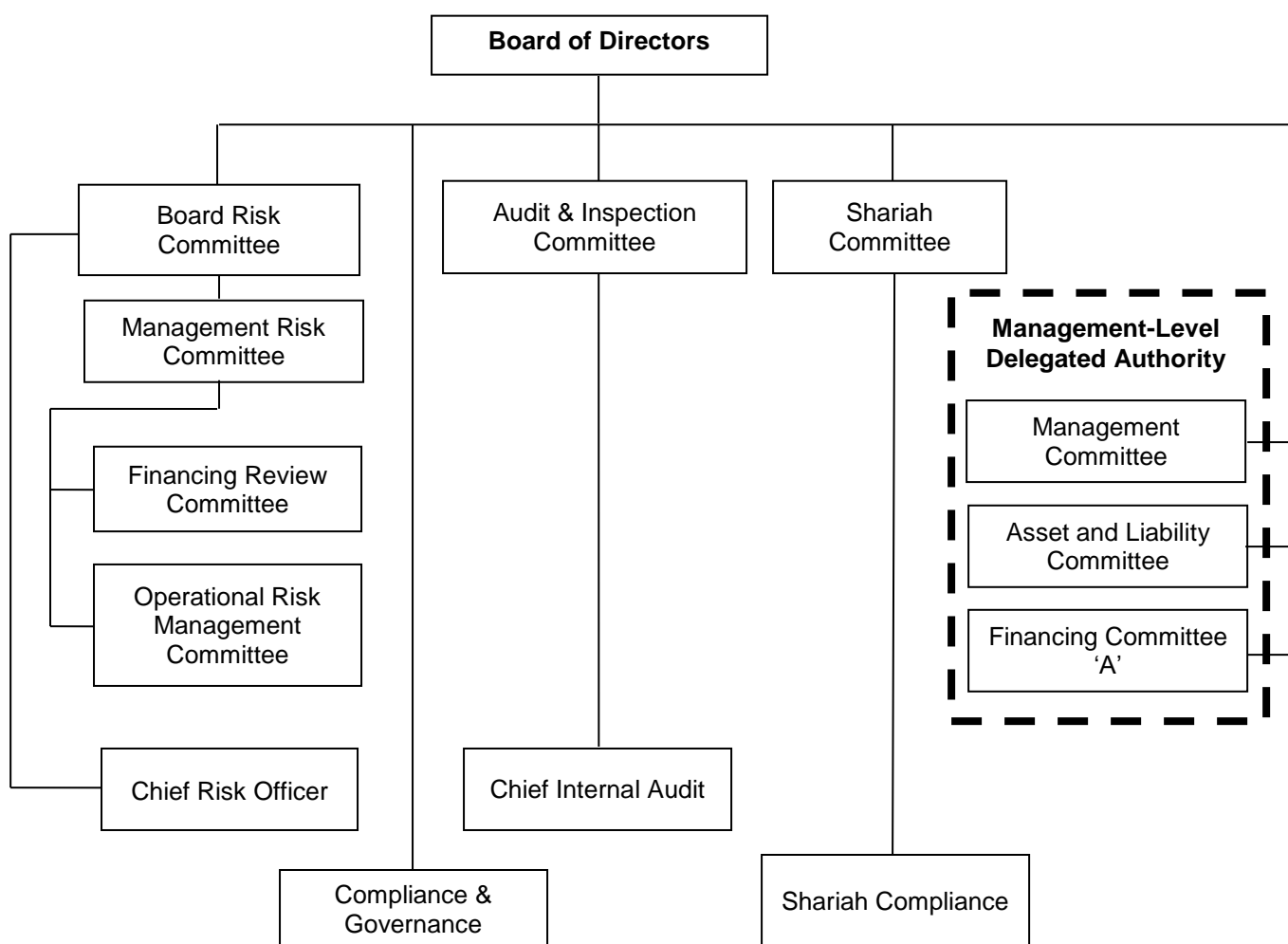
- To review and to implement sound risk management policies, strategies, policies and risk tolerances for approval by the Board;
- To review and to assess the adequacy of risk management policies and frameworks in identifying, quantifying, monitoring, and controlling risks as well as to determine the effectiveness of these policies and frameworks;
- To ensure that the infrastructure, resources, and systems for risk management are in place, and to ensure that the relevant personnel tasked with the implementation of Bank Rakyat's risk management systems are able to discharge their duties independently; and
- To review all periodic management reports on the Bank's risk exposure, risk profile composition, and risk management activities.

Bank Rakyat's management, through various committees such as the Risk Management Committee (Management Level) and the ALCO, actively ensures that Bank Rakyat's risks are adequately identified, measured and managed in line with Bank Rakyat's risk management objectives.

11.4 RISK MANAGEMENT GOVERNANCE STRUCTURE

Bank Rakyat adopts a culture of corporate governance to ensure the interests of the various stakeholders are protected. The governance framework adopted by Bank Rakyat is guided by BNM's Guidelines on Corporate Governance for Development Financial Institutions.

Governance structure for Risk Management of the Bank is as follows:



11.5 KEY AREAS OF RISK MANAGEMENT

The key areas of risk management of Bank Rakyat are as follows:

(i) Credit Risk

Credit risk arises from the inability or unwillingness of Bank Rakyat's customers to repay and fulfil their financing and contractual obligations as agreed in the financing agreements. The major distinguishing factor of the Bank from other financial institution is its leading position in personal financing to public sector employees by way of salary deduction via ANGKASA that dominates its portfolio. Notwithstanding

such a captive market with a long history of good quality, the Bank continues instilling robust credit culture at all levels within the Bank.

(ii) Market Risk

Market risk arises from the uncertainty in market prices and rates (including profit rates, equity prices and foreign exchange rates), the correlations among them and their effects on the Bank's banking and trading books. The Bank's banking book position is also exposed to the rate of return risk, caused by unexpected changes in market rate of return or benchmark rate.

(iii) Liquidity Risk

Liquidity risk refers to the risk of not being able to meet Bank Rakyat's obligation as and when they become due and to fund increases in the Bank's asset portfolios.

(iv) Operational Risk

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk and Shariah compliance risk but excludes strategic and reputational risks.

(v) Compliance Risk

Compliance risk is the risk of impairment to Bank Rakyat's business model, reputation and financial conditions resulting from the failure to comply with the relevant laws, regulations, internal standards and policies, and expectations of key stakeholders such as customers, employees and society as a whole.

(vi) Shariah Non-Compliance Risk

Shariah non-compliance risk arises from the failure to comply with Shariah rules and principles.

11.6 CAPITAL ADEQUACY FRAMEWORK FOR ISLAMIC BANKS

Bank Rakyat is governed under the Development Financial Institutions Act which requires the Bank to comply with the requirements of Basel I. Notwithstanding this, Bank Rakyat also proactively manages and maintains strong capital ratios to observe the measures required under Capital Adequacy Framework for Islamic Banks' Standardised Approach. Bank Rakyat's goal is to optimise its capital usage and structure whilst providing support for its business units and generate better returns for its shareholders as well as its depositors.

As part of Bank Rakyat's capital management framework, the Bank is setting its internal capital targets and defining its strategies to achieve those targets consistent with Bank Rakyat's risk appetite, business plans and operating environment. Bank Rakyat is committed to establish an effective capital management approach internally and to review its capital adequacy ratio target regularly in line with market practices.

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SECTION 12

REGULATORY AND SUPERVISORY FRAMEWORK GOVERNING BANK RAKYAT

Bank Rakyat, as a DFI, is regulated by BNM and the MOF and is also placed under the supervision of the MODTCC. In addition to the Co-operative Societies Act, Bank Rakyat also has to comply with the Development Financial Institutions Act, the Malaysia Co-operative Societies Commission Act, the Bank Rakyat Act, the By-Laws and relevant directives, guidelines, circulars or notices issued by the Commission and BNM from time to time.

12.1 DEVELOPMENT FINANCIAL INSTITUTIONS IN MALAYSIA

- **Introduction**

DFIs in Malaysia are specialised financial institutions established by the Government with a specific mandate to develop and promote key sectors that are considered of strategic importance to the overall socio-economic development objectives of the country. These strategic sectors include agriculture, SMEs, infrastructure, maritime, export-oriented sector as well as capital-intensive and high-technology industries.

As specialised institutions, DFIs provide a range of specialised financial products and services to suit the specific needs of the targeted strategic sectors. Ancillary services in the form of consultation and advisory services are also provided by DFIs to nurture and develop the identified sectors. DFIs therefore complement the banking institutions and act as a strategic conduit to bridge the gaps in the supply of financial products and services to the identified strategic areas for the purpose of long-term economic development. The DFIs have, to a large extent, contributed to the development and growth of the targeted sectors.

Source: BNM's official website.

- **The regulatory requirements of DFIs**

DFIs in Malaysia come within the purview of BNM, which supervises and regulates the DFIs and their operations.

Presently, BNM requires the DFIs to maintain an absolute minimum capital of RM300.0 million at all times, to ensure that DFIs have sufficient financial capacity to sustain their business operations on an on-going basis.

DFIs are required to maintain a minimum RWCR of 8% at all times at the entity level, subject further that the SPI* DFIs are required to observe a minimum capital adequacy requirement for Islamic banking portfolios in addition to the existing compliance on a consolidated basis, through a separate compliance requirement for the Islamic banking portfolio that involves the reallocation of current capital funds into the Islamic Banking Fund ("IBF"). These DFIs are required to observe a minimum CCR of 4% and a minimum RWCR of 8% for Islamic banking portfolios, subject to a minimum IBF or whichever is higher. In addition, DFIs are required to disclose separately CCR and RWCR of Islamic banking portfolios in the institution's financial statements in addition to the consolidated CCR and RWCR.

Other key prudential measures applicable to the DFIs include:

- BNM may require the DFIs to maintain capital funds, unimpaired by losses, in such ratio to all or any of its assets or to all or any of its liabilities.

- BNM may require the DFIs to maintain a reserve fund and before declaring any dividends from their net profit of each year, transfer to its reserve fund out of the net profits of each year.
- BNM's prior approval must be obtained for the appointment of directors and Chief Executive Officer.
- The Minister of Finance's approval must be obtained prior to the DFIs selling, disposing of, or transferring its whole or any part of its business, including all property derived from, or used in or for the purpose of such business.
- The DFIs shall not pay any dividend on its shares until all its capitalised expenditure has been written-off. In addition, BNM's approval must be obtained prior to the DFIs declaring any dividend.

Note:

- * *SPI refers to the Islamic banking scheme provided by DFIs to conduct banking business based on Islamic principles.*

Source: BNM's guidelines and circulars relevant to the DFIs.

A DFI shall, for each financial year, submit to BNM, within such period as BNM may specify such statement of corporate intent as may be approved by the Minister charged with the responsibility for that DFI, and an annual funding requirement for the Minister of Finance's approval. The statement of corporate intent shall be in such form as BNM may specify and shall include the DFI's strategic plans and manner of sourcing for funds for the following financial year.

Source: Development Financial Institutions Act.

Please refer to Section 1.6 of this Information Memorandum for a more detailed description of the approvals granted by the Minister of MODTCC and the Minister of Finance in relation to the Subordinated Sukuk Programme.

- ***BNM's notice of approval to Bank Rakyat to carry on Islamic banking business or Islamic financial business pursuant to Section 129(1) of the Development Financial Institutions Act***

Notwithstanding the Islamic Financial Services Act governing the regulation and supervision of Islamic financial institutions under the purview of BNM has come into operation on 30 June 2013, BNM has confirmed that Bank Rakyat is approved, pursuant to Section 129(1) of the Development Financial Institutions Act, to continue to carry on the Islamic banking business or Islamic financial business that Bank Rakyat has been carrying on to date subject to any condition, requirement or restriction that BNM has imposed.

Source: BNM's notice to Bank Rakyat dated 13 June 2013.

12.2 CO-OPERATIVE SOCIETIES IN MALAYSIA

- ***Introduction***

Cooperatives with financial and banking functions have pioneered the development of cooperative movement since the 1920s. These cooperatives conduct financial activities such as providing loans to members at reasonable interest rates. Other activities under this function are Ar-Rahnu, investment and insurance services. The

members comprise those with regular salary income, especially in the public sector, statutory and private bodies. Currently there are two specific cooperatives which are carrying out banking functions, namely Bank Rakyat and Bank Persatuan Malaysia Berhad.

Source: The Commission's official website.

- ***The regulatory requirements of co-operative societies***

The salient provisions under the Co-operative Societies Act governing the constitution, control and regulation of a co-operative, include the following:

- No member or delegate of members of any co-operative society shall have more than one vote in the conduct of the affairs of the co-operative society.
- The share, subscription, return or interest of a member of a co-operative society shall not be liable to attachment or sale under any decree or order of a court in respect of any debt or liability incurred by such member, and neither his assignee in insolvency nor a receiver duly appointed shall be entitled to, or have any claim on, such share or subscription or interest.
- Any borrowing of the funds from persons who are not members of that co-operative society shall be approved by the general meeting of that co-operative society.
- The transactions of a co-operative society with persons other than its members shall be subject to such prohibitions and restrictions as may be set out by its by-laws.
- In the event the Commission is satisfied that the co-operative society is contravening the provision of the Co-operative Societies Act or the Malaysia Co-operatives Societies Commission Act, the Commission may require it to take or refrain from taking any steps or any actions, prohibit the co-operative society from extending any further Islamic financing or credit facility or remove any officer from the co-operative society.

Source: Co-operative Societies Act.

12.3 **BANK KERJASAMA RAKYAT MALAYSIA BERHAD (SPECIAL PROVISIONS) ACT 1978 AND BY-LAWS**

Bank Rakyat is also required to comply with the Bank Rakyat Act and By-Laws for the proper management and administration of Bank Rakyat.

Under the By-Laws, the Board of Directors of Bank Rakyat shall have the powers and duties to obtain loans or financing subject to certain limits determined by the general meeting and by the Commission.

Upon the commencement of the Bank Rakyat Act, the Minister of MODTCC may, amongst others, in his absolute discretion, from time to time direct that any function, power or duty exercisable by the general meeting of Bank Rakyat shall not be exercised subject to such directions as the Minister of MODTCC may, with the concurrence of Minister of Finance, give, or that it shall instead be exercised, with the concurrence of Minister of Finance, by himself or by such other person or authorise as he may specify.

Source: Bank Rakyat Act.

Based on the provisions specified above, Bank Rakyat had accordingly sought and obtained the approval from the Minister of MODTCC to direct any function, power or duty exercisable by a general meeting of Bank Rakyat to be exercised by the Minister of MODTCC, with the concurrence of the Minister of Finance, to increase its maximum limit of indebtedness to RM20.0 billion vide their letter dated 10 July 2012. Bank Rakyat had also sought and obtained the approval from the Commission to undertake the Subordinated Sukuk Programme.

Please refer to Section 1.6 of this Information Memorandum for more detailed description on the approvals granted by the Minister of MODTCC and concurred by the Minister of Finance and the Commission in relation to the Subordinated Sukuk Programme.

12.4 APPLICATION OF LAWS

Where there is a conflict or inconsistency between the provisions of the Development Financial Institutions Act and that of, amongst others, the Bank Rakyat Act, the Co-operative Societies Act or the constituent documents of a DFI, the provisions of the Development Financial Institutions Act shall prevail.

Source: Development Financial Institutions Act

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SECTION 13

INDUSTRY OVERVIEW

The information below is included for information purposes only and has not been independently verified by the Lead Arranger or the Joint Lead Managers. All data and information below have been obtained from publicly available official sources of Malaysia.

13.1 ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE FIRST QUARTER OF 2016

OVERVIEW

In the first quarter of 2016, the global economy expanded moderately against a backdrop of high financial market volatility. The advanced economies continued to register modest improvements, as the pace of growth remained constrained by crisis-related legacies, including high indebtedness and labour market slack. In Asia, economic activity expanded at a more moderate pace due in part to the weakness in exports. Amid these developments, several economies adopted more stimulus to support growth.

The Malaysian economy grew by 4.2% in the first quarter of 2016

The Malaysian economy expanded by 4.2% in the first quarter of 2016 (4Q 2015: 4.5%). The slight moderation in growth mainly reflected external shocks to the economy and cautious spending by the private sector. On the supply side, growth continued to be driven by the major economic sectors. On a quarter-on-quarter seasonally-adjusted basis, the economy recorded a growth of 1.0% (4Q 2015: 1.2%).

Private sector activity remained the key driver of growth, although the pace of expansion moderated amid on-going adjustments in the economy. Private consumption expanded by 5.3% (4Q 2015: 4.9%), supported by continued wage and employment growth. Private investment grew at a slower rate of 2.2% (4Q 2015: 4.9%). This was mainly attributable to the cautious business sentiments and lower investments in the upstream mining sector. Growth of public consumption improved to 3.8% in the first quarter (4Q 2015: 3.3%) due to higher spending on emoluments. On the other hand, public investment declined by 4.5% (4Q 2015: 0.4%), due to lower spending on fixed assets by the public corporations.

On the supply side, the major economic sectors registered a moderate growth performance. The services sector recorded a sustained growth on account of the continued expansion in domestic demand. In the manufacturing sector, growth was supported by the continued expansion in both export- and domestic-oriented industries, although at a slower pace. The agriculture sector registered a contraction, as adverse weather conditions led to lower production of palm oil. The mining sector turned around to record a marginally positive growth following an improvement in the production of natural gas.

Inflation, as measured by the annual change in the Consumer Price Index (CPI), was higher at 3.4% in the first quarter of 2016 due to the reduction in electricity tariff rebates in January 2016 and the base effect from the larger decline in domestic fuel prices in the first quarter of 2015.

The trade surplus amounted to RM23.9 billion in the first quarter of 2016 (4Q 2015: RM30.6 billion). Gross exports continued to increase (1.0%; 4Q 2015: 8.1%), supported mainly by the continued expansion in manufactured exports, despite a larger contraction in commodity exports. Meanwhile, gross imports contracted marginally by 0.4% (4Q 2015: 3.5%), reflecting mainly the lower imports of capital and intermediate goods.

The international reserves of BNM amounted to RM381.6 billion (equivalent to USD97.0 billion) as at 31 March 2016. This reserves level has taken into account the quarterly adjustment for foreign exchange revaluation changes. As at 29 April 2016, the reserves

position amounted to RM381.4 billion (equivalent to USD97.0 billion). The international reserves remain ample to facilitate international transactions. It is sufficient to finance 7.9 months of retained imports, significantly higher than the 3-month international threshold. The reserves level is also adequate to meet external obligations with the reserves to short-term external debt coverage of 1.2 times. It is important to note that not all short-term external debt creates an immediate claim on reserves given the external assets and export earnings of borrowers.

Interest rates remained stable

The Monetary Policy Committee (MPC) maintained the Overnight Policy Rate (OPR) at 3.25% during the first quarter of 2016. At the prevailing level of the OPR, monetary conditions remained supportive of economic activity. Interbank rates of longer maturities continued to be elevated in January, reflecting continued competition for stable funding and the uneven distribution of liquidity among banks. The reduction in the Statutory Reserve Requirement (SRR) effective 1 February 2016 provided a broad-based increase in the level of liquidity in the banking system. This resulted in greater interbank lending activity in the money market and reduced some of the pressure on the Kuala Lumpur Interbank Offered Rates (KLIBOR). The average base rate (BR) of banks at the end of the quarter increased slightly, reflecting the upward revision to the BR following the higher KLIBOR at the end of 2015.

M3, or broad money, increased by RM9.8 billion on a quarter-on-quarter basis to grow at an annual rate of 0.9% as at end-March (end-December 2015: 2.6%). The slower increase in M3 mainly reflected the moderation in credit extended to the private sector by the banking system. The level of surplus liquidity placed with BNM remained ample and was relatively stable during the quarter.

During the quarter, total gross financing raised by the private sector through the banking system and the capital market amounted to RM286.6 billion (4Q 2015: RM331.4 billion). On a net basis, outstanding banking system loans and PDS expanded by 7.6% as at end-March (end-December 2015: 8.6%). Outstanding business loans grew at a slower annual pace of 5.2% as at end-March (end-December 2015: 8.0%) due to the stronger growth in loan repayments relative to disbursements. The level of loans disbursed to businesses grew by 1.1% on an annual basis to RM191 billion during the quarter (4Q 2015: RM189 billion). Outstanding household loans growth moderated to 6.4% as at end-March (end-December 2015: 7.7%), reflecting mainly the moderation in loans for the purchase of securities, purchase of non-residential property and credit card facility. Net funds raised in the capital market moderated to RM25.4 billion in the first quarter (4Q 2015: RM51.4 billion), as higher public sector issuances were offset by lower private sector financing in both the debt and equity markets.

The ringgit and other regional currencies appreciated against the US dollar during the quarter, due to weaker-than-expected economic performance in the US, resulting in expectations of a slower pace of interest rate normalisation by the Federal Reserve. The ringgit, however, appreciated significantly more compared to other major and regional currencies. This is attributable to the release of positive domestic economic data, the recovery of Brent crude oil prices and the 2016 Budget Recalibration announcement. These factors lifted investor sentiments on the Malaysian economy and led to increased demand for ringgit financial assets.

Overall, the ringgit appreciated by 9.4% against the US dollar during the quarter. The ringgit also appreciated against the pound sterling (13.1%), the euro (5.7%), the Australian dollar (4.4%), and the Japanese yen (2.2%). Against all regional currencies, the ringgit also appreciated by between 4.6% and 9.0%.

Domestic financial stability continued to be preserved

The Malaysian financial system remained resilient against potential risks related to spillovers from the weaker global growth and continued volatility in the international financial and

commodity markets. Domestic risks more broadly have continued to moderate. However, more challenging business conditions and rising costs will likely weigh on the revenue and loan performance of financial institutions in the period ahead, requiring higher vigilance. The sound underwriting practices observed by financial institutions will continue to lend firm support to domestic financial intermediation. Ample liquidity in the banking system has continued to support credit growth and orderly market conditions. Debt servicing capacity of most borrowers remained intact, with net impaired loans remaining steady at 1.2% of total bank loans.

The capitalisation of financial institutions remained strong and is sufficient to absorb potential losses from adverse developments in financial and economic conditions. For banks, the common equity tier-1 capital, tier-1 capital and total capital ratios of banks were sustained well above the minimum regulatory levels at 13.0%, 13.9% and 16.5%, respectively. The capital adequacy ratio for the insurance and takaful sectors remained healthy at 242.6% (4Q 2015: 245.4%). Financial institutions are well-positioned to withstand any adverse macroeconomic and financial shocks, with combined capital buffers of RM170.4 billion as at end first quarter of 2016 (banks: RM121.9 billion; insurers and takaful operators: RM48.5 billion).

Domestic demand will remain the key driver of growth

Overall, downside risks to the global economy remain elevated. Cyclical and structural economic weaknesses continue to weigh on growth in the major economies, in addition to uncertainty in the direction of energy prices and rising geopolitical risks. Looking ahead, although the global economy is projected to improve, the pace of expansion is expected to be moderate and uneven. In most of Asia, growth will be underpinned by domestic demand with continued policy support.

Going forward, the Malaysian economy is expected to remain on a sustained growth path of 4-4.5%, despite the challenging economic environment globally and domestically. Domestic demand will continue to be the principal driver of growth, sustained primarily by private sector spending. However, domestic consumption is expected to grow at a moderate pace as households continue to adjust to the higher cost of living. Overall investment is also expected to grow at a slower pace but will remain supported by the implementation of infrastructure development projects and capital spending in the manufacturing and services sectors. Uncertainties in the external environment and the on-going adjustments in the domestic economy pose downside risks to growth.

Source: BNM's Quarterly Bulletin First Quarter 2016.

13.2 THE ISLAMIC BANKING INDUSTRY

Malaysia continues to strengthen its reputation as an international Islamic finance marketplace. Total foreign currency assets of Islamic banks grew by 10.1% in 2015 to RM30.5 billion (2014: RM27.7 billion), reflecting increased cross-border transactions in Islamic finance. Following Agrobank's successful transition into a full-fledged Islamic bank, the total number of Islamic banks operating in Malaysia stands at 27, including 11 banks currently operating as Islamic windows.

In the sukuk market, Malaysia retained its position as the leading destination for issuances, with a sizeable share of 53% or USD34.8 billion of global new sukuk issuances in 2015. Among the key highlights during the year were two issuances of 'Emas' sukuk by the Government and PETRONAS, bringing the total number of 'Emas' sukuk issued since 2009 to 22. Of these, the inaugural 30-year sukuk issuance amounting to USD500 million by the Government in April 2015 was of particular significance, being the longest tenure sukuk issued by a sovereign to date and serving as a long-dated benchmark Islamic yield curve for other sovereigns. The sukuk set a landmark pricing level for Islamic papers with a yield of

4.2% at issuance where it was priced higher than the conventional bonds of better rated corporates such as PETRONAS. The sukuk was also the first to adopt a structure that utilises nonphysical income generating assets in the form of rights to participate in the provision of services.

The year also saw the launch of Malaysia's first sustainable and responsible investment sukuk in May 2015 by Khazanah Nasional Berhad.

The RM100 million sukuk constitutes the first issuance under a RM1 billion programme which will be channelled towards socially and ethically responsible causes, including the financing of educational projects. In addition, the Bank successfully completed the pilot issuance of RM50 million three-month Islamic Monetary Notes based on the globally accepted profit sharing concept of Mudarabah. This issuance is expected to widen the investor base and increase the depth and vibrancy of Malaysia's Islamic financial markets.

The Bank remains active in promoting the sustainable development of Islamic finance at the global level, drawing on its considerable experience. In April 2015, the International Monetary Fund ("IMF") and the G-20 economies co-organised an Islamic finance seminar in conjunction with the annual Spring Meetings of the IMF and the World Bank, the first time that Islamic finance has been featured at an event at this level. The Bank supported the event as an expert resource, helping to promote the recognition of Islamic finance as a viable form of financing for infrastructure investment and reinforce its importance in supporting economic growth. Islamic finance has additionally gained further acceptance among ASEAN member states with the adoption of a resolution by the ASEAN Inter-Parliamentary Assembly during the year to promote diverse sources of funding, including Islamic finance, to boost inter- and intra-regional trade.

Source: BNM's Financial Stability and Payment Systems Report 2015.

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SECTION 14

OTHER MATERIAL INFORMATION

14.1 MATERIAL CONTRACTS

(a) **The Issuer**

As at 15 April 2016, the Issuer has not entered into any material contract since its incorporation.

(b) **Bank Rakyat**

As at 15 April 2016, Bank Rakyat has not entered into any material contracts within the last two (2) years.

14.2 MATERIAL LITIGATION

(a) **The Issuer**

As at 15 April 2016, the Issuer is not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, and the Board of Directors of the Issuer is not aware of any proceedings pending or threatened against the Issuer or of any fact likely to give rise to any proceedings which may adversely affect the Issuer.

(b) **Bank Rakyat**

As at 15 April 2016, Bank Rakyat is not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, which have a material adverse effect on Bank Rakyat, and the Board of Directors of Bank Rakyat is not aware of any proceedings pending or threatened against Bank Rakyat or of any fact likely to give rise to any proceedings which may materially and adversely affect Bank Rakyat.

14.3 MATERIAL CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

(a) **The Issuer**

As at 15 April 2016, the Issuer has no material capital commitments and contingent liabilities.

(b) **Bank Rakyat**

In normal course of business, Bank Rakyat makes various commitments and incurs certain contingent liabilities. The Board of Directors does not anticipate any losses which may materially and adversely impact Bank Rakyat as a result of these transactions.

**Audited FYE
31 December 2015
(RM '000)**

Contingent liabilities

Bank guarantee given in respect of banking facilities granted to customers	236,015
Claims for damages from litigation taken against Bank Rakyat	28,586

Commitments

Undrawn financing	2,336,334
Contribution to Central Liquidity Monetary Fund	-
Total	2,600,935

14.4 POTENTIAL CONFLICT OF INTEREST AND APPROPRIATE MITIGATING MEASURES**(a) In relation to the Lead Arranger and the Joint Lead Managers****Maybank IB**

Save as disclosed below, after making enquiries as were reasonable in the circumstances, Maybank IB is not aware of any circumstances that would give rise to a conflict of interest or potential conflict of interest situation, arising from its roles as the principal adviser, lead arranger, joint lead manager and facility agent in relation to the Subordinated Sukuk Programme, whereby:

- (a) Maybank Islamic Berhad is the Shariah Adviser of the Subordinated Sukuk Programme;
- (b) Maybank IB and Maybank Islamic Berhad are wholly owned subsidiaries of Malayan Banking Berhad.

In view of the above, there may be a potential conflict of interest arising from the roles assumed by Maybank IB in relation to the Subordinated Sukuk Programme. As a mitigating measure and to address the potential conflict of interest set out above, the following measures have been taken:

- (a) Maybank IB, as a licensed investment bank, believes in maintenance of the highest standard of professional responsibility and will ensure that it discharges its professional duty accordingly in relation to the Subordinated Sukuk Programme;
- (b) Maybank Islamic Berhad is a licensed Islamic bank and its appointment as the Shariah Adviser for the Subordinated Sukuk Programme is in its ordinary course of business;
- (c) Maybank IB and Maybank Islamic Berhad (as the case may be) will ensure that each of the above-mentioned roles are governed by separate and legally binding agreements specifying the respective functions, responsibilities, procedures and priorities;
- (d) A due diligence review pursuant to the Subordinated Sukuk Programme has been or will be undertaken together with other independent professional advisers;
- (e) Maybank IB undertakes each of its roles on an arm's length basis and its conduct is regulated by BNM and the SC and governed under, inter alia, the Financial Services Act, the CMSA and internal controls and checks.

The Boards of the Issuer and the Obligor acknowledged and confirmed that they have been informed and are aware of the situations as described above. Notwithstanding the above, the Boards of the Issuer and the Obligor approve the above said arrangement and are agreeable to proceed with the establishment of the Subordinated Sukuk Programme and any issuance(s) of Subordinated Sukuk Murabahah thereunder, in accordance with the present arrangement and terms therein.

AmlInvestment

AmlInvestment has been appointed as a Joint Lead Manager for the Subordinated Sukuk Programme whilst the Sukuk Trustee has been appointed as the trustee in relation to the Subordinated Sukuk Programme. AmlInvestment has a twenty percent (20%) shareholding in the Sukuk Trustee.

However, as at the date hereof and after making enquiries as were reasonable in the circumstances, both AmlInvestment and the Sukuk Trustee are of the view that the various roles assumed by them in relation to the Subordinated Sukuk Programme would not give rise to a conflict of interest situation or a potential conflict of interest situation arising from their relationship with each other.

(b) In relation to the solicitors

(i) Adnan Sundra & Low

After making enquiries as were reasonable in the circumstances, Adnan Sundra & Low has confirmed that it is not aware of any circumstances that would give rise to a conflict-of-interest situation or potential conflict-of-interest situation in its capacity as the solicitor of the principal adviser, lead arranger and joint lead managers in relation to the Subordinated Sukuk Programme.

(ii) Shook Lin & Bok

After making enquiries as were reasonable in the circumstances, Shook Lin & Bok has confirmed that it is not aware of any circumstances that would give rise to a conflict-of-interest situation or potential conflict-of-interest situation in its capacity as the solicitor of the Obligor in relation to the Subordinated Sukuk Programme.

(c) In relation to the Shariah Adviser

Maybank Islamic Berhad

Maybank Islamic Berhad as the Shariah Adviser for the Subordinated Sukuk Programme, has provided the confirmation that the Subordinated Sukuk Programme's structure is in compliance with the approved Shariah principles as stated in the LOLA Guidelines.

Prof. Madya Dr. Aznan bin Hasan who is the chairman of Maybank Islamic Berhad's Shariah committee is also a member of Bank Rakyat's Shariah committee.

However, this should not result in any conflict-of-interest situation arising as Maybank Islamic Berhad's Shariah committee, which comprises of independent Shariah scholars from various jurisdictions, is an independent Shariah committee by virtue that none of the members of Maybank Islamic Berhad's Shariah committee is an executive officer or a member of the Board of Directors of Bank Rakyat. Maybank Islamic Berhad's Shariah committee's role does not result in any conflict of interest or potential conflict of interest as any Shariah decision is free from any commercial considerations.

The Boards of the Issuer and the Obligor acknowledged and confirmed that they have been informed and are aware of the situations as described above.

The Boards of the Issuer and the Obligor approve the above said arrangement and are agreeable to proceed with the establishment of the Subordinated Sukuk

Programme and any issuance(s) of Subordinated Sukuk Murabahah thereunder, in accordance with the present arrangement and terms therein.

(d) **In relation to the Sukuk Trustee**

AmTrustee Berhad

After making enquiries as were reasonable in the circumstances, AmTrustee Berhad has confirmed that it is not aware of any circumstances that would give rise to a conflict-of-interest situation or potential conflict-of-interest situation in its capacity as the sukuk trustee in relation to the Subordinated Sukuk Programme.

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APPENDIX 1

Audited Financial Statements of Bank Rakyat for the Financial Year Ended 31 December 2015



**REPORT OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
BANK KERJASAMA RAKYAT MALAYSIA BERHAD
FOR THE YEAR ENDED 31 DECEMBER 2015**

**KETUA AUDIT NEGARA
MALAYSIA**



**REPORT OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
BANK KERJASAMA RAKYAT MALAYSIA BERHAD
FOR THE YEAR ENDED 31 DECEMBER 2015**

Report on the Financial Statements

The financial statements of Bank Kerjasama Rakyat Malaysia Berhad and the Group have been audited by my representative which comprise the Statements of Financial Position as at 31 December 2015 and the Statements of Profit or Loss and Other Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for the year then ended, a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with approved financial reporting standards in Malaysia, guidelines issued by Bank Negara Malaysia, the requirements of the Bank Kerjasama Rakyat Malaysia Berhad (Special Provisions) Act 1978 (Act 202), the Cooperative Societies Act 1993 (Act 502) and the Development Financial Institutions Act 2002 (Act 618). The directors are also responsible for such internal control as the management determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit. The audit has been carried out in accordance with the Audit Act 1957 and in conformity with approved standards on auditing in Malaysia. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

I believe that the audit evidence that I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements give a true and fair view of the financial position of Bank Kerjasama Rakyat Malaysia Berhad and the Group as at 31 December 2015 and their financial performance as well as cash flows for the year then ended in accordance with approved financial reporting standards in Malaysia.

I have considered the financial statements and the auditors' reports of the subsidiary companies of which I have not acted as auditor as indicated in the notes to the financial statements. I am satisfied that the financial statements of the subsidiary companies that have been consolidated with Bank Kerjasama Rakyat Malaysia Berhad's financial statements are in appropriate form and content for the purpose in the preparation of the financial statements. I have received satisfactory information and explanations required for those purposes. The auditors' reports on the financial statements of the subsidiary companies were not subjected to any observations that could affect the financial statements.


Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Cooperative Societies Act 1993 (Act 502) in Malaysia, I also report that in our opinion:

- i. The accounting and other records have been properly kept in accordance with Section 58 of the Act;
- ii. The receipt, expenditure and investment of monies and the acquisition and disposal of assets by the Bank Kerjasama Rakyat Malaysia Berhad during the year ended 31 December 2015 are in accordance with the Act, the provision of Bank Kerjasama

Rakyat Malaysia Berhad (Special Provisions) Act 1978 (Act 202) and the by-laws of Bank Kerjasama Rakyat Malaysia Berhad; and

- iii. The assets and liabilities, in all material respects, are fairly stated in accordance with the accounting policies.



(TAN SRI HAJI AMBRIN BIN BUANG)
KETUA AUDIT NEGARA
MALAYSIA

PUTRAJAYA
29 FEBRUARY 2016



STATEMENT BY DIRECTORS

We, **GENERAL TAN SRI DATO' SRI (DR.) ABDUL AZIZ HJ. ZAINAL (R)** and **DATO' MUSTAFHA HJ. ABD. RAZAK**, being two of the Directors of Bank Kerjasama Rakyat Malaysia Berhad, do hereby state that:

- (i) The financial statements of the Bank have been prepared in accordance with the provisions of Bank Kerjasama Rakyat Malaysia Berhad (Special Provisions) Act 1978 (Act 202), the Co-operative Societies Act 1993 (Act 502), Development Financial Institutions Act 2002 (Act 618) and the applicable Malaysian Financial Reporting Standards ("MFRS") with modifications based on guidelines issued by Bank Negara Malaysia ("BNM") and in compliance with the principles of Shariah as well as International Financial Reporting Standards ("IFRS");
- (ii) The financial statements of the subsidiary companies of the Bank have been prepared in accordance with MFRS, IFRS and the provisions of the Companies Act, 1965 in Malaysia.

In the opinion of the Directors, the financial statements are drawn up so as to give true and fair view of state of affairs as at 31 December 2015 and of the results of the operations and cash flows for the year ended on that date.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors,

GENERAL TAN SRI DATO' SRI (DR.) ABDUL AZIZ HJ. ZAINAL (R)
Chairman


DATO' MUSTAFHA HJ. ABD. RAZAK
Managing Director/President

Kuala Lumpur
Date: 23 FEB 2016



Annual Report of Shariah Committee of Bank Rakyat 2015



In the name of Allah, the most Beneficent, the most Merciful

In carrying out the roles and responsibilities of Shariah Committee of Bank Rakyat, we hereby submit the following report on Shariah compliance of Bank Rakyat's business activities and operations for the financial year ended 31st December 2015.

1. We have reviewed the principles and the contracts relating to the following products introduced by Bank Rakyat in a year of 2015 as below :
 - i. Electronic Current Account-i (eCA-i) based on *Wadi'ah* launched on 1st January 2015.
 - ii. Credit Card-i Platinum based on *Tawarruq* launched on 10th March 2015.
 - iii. Takaful Family Care via telemarketing channel based on *Wakalah bil Ujrah* launched on 5th May 2015.
2. We have reviewed the transactions, applications and dealings entered into by Bank Rakyat through the following processes :
 - i. Shariah review on products and departmental policies and procedures.
 - ii. Shariah review on legal documents, Product Disclosure Sheet (PDS), notices and marketing materials prior to publishment.
 - iii. Shariah review on Shariah compliance status of commercial banking customers prior to approval of financing.
 - iv. Shariah review on product operations at the level of branches, related departments and Bank's subsidiaries which involve review on legal documents executed and *akad* sequence.
 - v. Shariah review on system application related to banking products.
 - vi. Shariah review on bank activities including rental activities of Bank Rakyat and it subsidiaries' assets to 3rd parties and sponsorship.
 - vii. Shariah risk assessment on new products or enhancement to the existing products, processes and procedures, business activities and operations.
 - viii. Shariah audit on operations, documentations and system application of departments, branches and subsidiaries of Bank Rakyat.
3. The management of Bank Rakyat is responsible for ensuring that Bank Rakyat conducts its business in accordance with Shariah principles. It is our responsibility to form an independent opinion, based on our review of the operations of Bank Rakyat and to report to you.



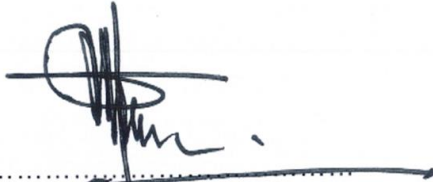
4. We have assessed the work carried out by Shariah Research and Consultation Department, Shariah Review Department and Shariah Audit Department which included examining on a sample basis, each type of transaction, the relevant documentations and procedures adopted by Bank Rakyat.
5. We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that Bank Rakyat has not violated the Shariah principles.

In our opinion:

1. the principles and the contracts implemented on products listed above are in compliance with the Shariah principles and Shariah resolutions issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions made by us.
2. the transactions, applications and dealings entered into by Bank Rakyat that we have reviewed are in compliance with the Shariah principles and Shariah resolutions issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions made by us.
3. all confirmed Shariah Non-Compliant events have been rectified accordingly.
4. the transactions, applications and dealings which are subjected to further investigation and rectification will be carried out on an on-going basis.
5. the allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles.
6. all earnings that have been realized from sources or by means prohibited with the Shariah principles have been considered for disposal to charitable causes. The distributed amount of Shariah non-compliance income within 2015 was RM 8,525.39 and balance as at 31st December 2015 to be distributed is RM 10,709.81.
7. the calculation of zakat is in compliance with Shariah principles. The distributed amount of Bank Rakyat zakat on business within 2015 was RM 42,543,329.32.

We, the members of the Shariah Committee of Bank Rakyat, to the best of our knowledge, do hereby confirm that the operations of Bank Rakyat, to the best of its effort, for the year ended 31st December 2015 have been conducted in conformity with the Shariah principles.

Annual Report of Shariah Committee of Bank Rakyat 2015



**DATUK ABU HASAN L. DIN
AL HAFIZ**
Member of Shariah Committee



**PROF. MADYA DR. SITI SALWANI
RAZALI**
Member of Shariah Committee



USTAZ MD. YUNUS ABD. AZIZ
Member of Shariah Committee



USTAZ WAN RUMAIZI WAN HUSIN
Member of Shariah Committee



USTAZ ABDULLAAH JALIL
Member of Shariah Committee



**PROF. MADYA DR. AZMAN
MOHD NOOR**
Member of Shariah Committee



SS DATO' SETIA HJ. MOHD TAMYES ABD WAHID
Chairman of Shariah Committee

23 FEB 2016

STATUTORY DECLARATION

I, **NOR HAIMEE ZAKARIA**, being the officer primarily responsible for the financial management of Bank Kerjasama Rakyat Malaysia Berhad, do solemnly and sincerely declare that the financial statements are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur on **23 FEB 2016**


NOR HAIMEE ZAKARIA

Before me:



Lot 1.08, Tingkat 1,
Bangunan KWSP, Jln Raja Laut,
50350 Kuala Lumpur.
Tel: 019-6680745

DIRECTORS' REPORT

The Directors of Bank Kerjasama Rakyat Malaysia Berhad ("the Bank") have pleasure in submitting their report and the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are those of a co-operative that carries out banking activities based on Shariah principles through accepting deposits and providing financial services for retail and commercial needs.

The principal activities of the subsidiaries are disclosed in Note 14 to the financial statements.

There have been no significant changes in the nature of these principal activities of the Bank and of its subsidiary companies during the year.

RESULTS OF OPERATIONS

	Group RM'000	Bank RM'000
Profit before taxation and zakat	2,011,723	1,959,573
Taxation	(148,292)	(143,225)
Zakat	(39,310)	(37,343)
Profit after taxation and zakat	1,824,121	1,779,005
Statutory appropriations	(527,793)	(527,793)
Profit for the year after statutory appropriations	1,296,328	1,251,212
Other comprehensive income	(26,622)	(26,622)
Total comprehensive income for the year	1,269,706	1,224,590
Profit for the year attributable to:		
Equity holders of the Bank	1,269,706	1,224,590

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

RESERVES AND PROVISION

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

DIVIDENDS

During the financial year, the Bank paid a final cash dividend of 15% amounting to RM443 million in respect of the previous financial year.

In respect of the current financial year, the Board of Directors has proposed a cash dividend of 13% amounting to RM390 million. The proposed dividend is subject to the approval by the relevant authorities and have not been included as liabilities in the financial statements.

OTHER STATUTORY INFORMATION

In the opinion of the Directors, the financial statements set out on pages 4 to 137 have been drawn up so as to give a true and fair view of the state of affairs of the Group and of the Bank as of 31 December 2015 and of the results of their operations and cash flows for the year ended on that date.

The Directors are satisfied that before the statements of financial position and the statements of profit or loss and other comprehensive income of the Group and of the Bank were made out, reasonable steps has been taken on the following matters:

- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of impairment provisions and allowance for doubtful debts and had satisfied themselves that all known bad financing and bad debts had been written off and that adequate impairment provisions for impaired financing and allowance had been made for doubtful debts; and
- (ii) to ensure that any current assets which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.

At the date of this report, within the knowledge of the Directors, they are not aware of any circumstances that would cause the following:

- (i) the amount written off for bad financing and bad debts or the amount of the impairment provisions and allowance for doubtful debts in the financial statements of the Group and of the Bank inadequate to any substantial extent; or
- (ii) the values attributed to the current assets in the financial statements of the Group and of the Bank misleading; or
- (iii) the amount reported in the financial statements of the Group and of the Bank misleading; and
- (iv) any adherence to the existing method of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate.

OTHER STATUTORY INFORMATION (CONTINUED)

At the date of this report, there does not exist:

- (i) any charge on the assets of the Group and of the Bank which has arisen since the end of the financial year which secures the liability of any other person; and
- (ii) any contingent liability of the Group and of the Bank which has arisen since the end of the financial year.

No contingent or other liability which has not been discharged has been undertaken by the Group and the Bank, except as disclosed in Note 37 to the financial statements. No contingent or other liability has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Bank to meet their obligations as and when they fall due.

In the opinion of the Directors, no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of operations of the Group and of the Bank for the succeeding financial year.

The Directors do solemnly and sincerely declare that there were no other matters, within their knowledge, that are not disclosed in accordance with Section 59, Co-operative Societies Act 1993.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors,

GENERAL TAN SRI DATO' SRI (DR.) ABDUL AZIZ HJ. ZAINAL (R)

DATO' MUSTAFFA HJ. ABD. RAZAK

Kuala Lumpur
Date: 23 FEB 2016

**STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015**

	Note	Group		Bank	
		2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
ASSETS					
Cash and short-term funds	5	1,899,146	3,080,554	1,897,976	3,078,779
Deposits and placements with financial institutions	6	933,286	185,838	908,750	160,099
Financial assets available-for-sale	7	13,296,973	11,962,018	13,295,819	11,958,602
Financial assets held-to-maturity	8	10,718,843	11,131,717	10,718,843	11,131,717
Financing and advances	9	63,137,184	60,482,549	63,137,184	60,482,549
Trade receivables	10	8,416	6,484	-	-
Other assets	11	808,703	908,730	770,321	851,118
Inventories	12	4,946	9,484	-	-
Investment in subsidiaries	14	-	-	61,976	43,500
Property and equipment	15	747,301	765,413	689,656	739,321
Goodwill on consolidation		13,185	13,185	-	-
Investment properties	16	708,590	539,288	685,145	524,179
Prepaid lease payments	17	65,258	80,674	65,258	66,790
Deferred tax assets	18	54,598	139,221	55,000	140,000
TOTAL ASSETS		92,396,429	89,305,155	92,285,928	89,176,654

**STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015 (CONTINUED)**

		Group		Bank	
	Note	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
LIABILITIES					
Deposits from customers	19	70,981,772	68,522,973	70,981,772	68,522,973
Deposits and placements from banks and financial institutions	20	1,940,000	1,800,000	1,940,000	1,800,000
Trade payables		3,582	3,348	-	-
Recourse obligations on financing sold to Cagamas	21	1,478,659	1,777,618	1,478,659	1,777,618
Debt securities issued	22	2,718,871	3,020,571	2,718,871	3,020,571
Other liabilities	23	1,251,329	1,431,012	1,476,120	1,592,597
Provision for taxation		929	1,073	-	-
Profit equalisation reserve (Investor)	24	-	18,776	-	18,776
TOTAL LIABILITIES		78,375,142	76,575,371	78,595,422	76,732,535
SHAREHOLDERS' FUND					
Share capital	25	2,983,923	2,973,677	2,983,923	2,973,677
Share redemption fund		53,671	52,800	53,671	52,800
Reserves	26	10,983,693	9,673,442	10,652,912	9,387,777
Profit equalisation reserve (Bank)	24	-	29,865	-	29,865
TOTAL SHAREHOLDERS' FUND		14,021,287	12,729,784	13,690,506	12,444,119
TOTAL LIABILITIES AND SHAREHOLDERS' FUND		92,396,429	89,305,155	92,285,928	89,176,654
COMMITMENTS AND CONTINGENCIES					
	37	2,600,935	2,633,804	2,600,935	2,633,804

**STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Note	Group		Bank	
		2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Income	27	5,686,287	5,486,299	5,618,618	5,409,643
Expenditure	28	(2,918,040)	(2,222,911)	(2,846,960)	(2,151,521)
Net income		2,768,247	3,263,388	2,771,658	3,258,122
Allowances for impairment	29	(473,436)	(708,907)	(473,436)	(708,907)
Other operating income	30	745,038	577,152	707,362	571,562
Operating expenses	31	(1,028,126)	(946,600)	(1,046,011)	(960,592)
Profit before taxation and zakat		2,011,723	2,185,033	1,959,573	2,160,185
Taxation	32	(148,292)	(169,478)	(143,225)	(163,480)
Zakat	33	(39,310)	(39,710)	(37,343)	(39,000)
Profit after taxation and zakat		1,824,121	1,975,845	1,779,005	1,957,705

**STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

		Group		Bank	
	Note	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
<u>Statutory appropriations</u>	34				
Transfer to statutory reserve: 25% (2014: 25%)		(454,087)	(499,177)	(454,087)	(499,177)
Contribution to the Co-operative Education Trust Fund: 2% (2014: 2%)		(39,191)	(43,204)	(39,191)	(43,204)
Contribution to the Co-operative Development Provident Fund: 1% (2014: 1%)		(19,596)	(21,602)	(19,596)	(21,602)
Contribution to Bank Rakyat Foundation		(14,919)	(9,246)	(14,919)	(9,246)
		(527,793)	(573,229)	(527,793)	(573,229)
Profit for the year		1,296,328	1,402,616	1,251,212	1,384,476
<u>Other comprehensive income</u>					
Items that may be reclassified subsequently to profit or loss:					
Net gain/(loss) on revaluation of financial assets available-for-sale	26	13,703	(55,565)	13,703	(55,565)
Utilisation of profit equalisation reserve (Bank)		(29,865)	(224,629)	(29,865)	(224,629)
Item that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plan	11(iii)	(10,460)	(791)	(10,460)	(791)
		(26,622)	(280,985)	(26,622)	(280,985)
Total comprehensive income for the year		1,269,706	1,121,631	1,224,590	1,103,491
Earnings per share (RM)					
Basic	35	0.61	0.66		

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015**

Group	Note	Non-distributable			Distributable		Total RM'000
		Share capital RM'000	Share redemption fund RM'000	Profit equalisation reserve (Bank) RM'000	Other reserves RM'000	Retained profits RM'000	
At 1 January 2014		2,973,677	53,671	254,494	3,782,331	4,486,576	11,550,749
Profit after taxation and zakat		-	-	-	-	1,975,845	1,975,845
Transfer to statutory reserve		-	-	-	-	(499,177)	(499,177)
Contribution to the Co-operative Education Trust Fund		-	-	-	-	(43,204)	(43,204)
Contribution to the Co-operative Development Provident Fund		-	-	-	-	(21,602)	(21,602)
Contribution to Bank Rakyat Foundation		-	-	-	-	(9,246)	(9,246)
Profit for the year		-	-	-	-	1,402,616	1,402,616
Other comprehensive income		-	-	(224,629)	(55,565)	(791)	(280,985)
Total comprehensive income for the year		-	-	(224,629)	(55,565)	1,401,825	1,121,631
Transfer from retained profits		-	-	-	499,177	-	499,177
Issuance to new members		4,581	-	-	-	-	4,581
Transfer to other liabilities		(5,452)	-	-	-	-	(5,452)
Transfer to share capital		871	(871)	-	-	-	-
Transfer to regulatory reserve		-	-	-	245,566	(245,566)	-
Dividends	36	-	-	-	-	(441,053)	(441,053)
Overprovision in contribution to Bank Rakyat Foundation		-	-	-	-	151	151
At 31 December 2014		2,973,677	52,800	29,865	4,471,509	5,201,933	12,729,784
		Note 25		Note 24	Note 26	Note 26	

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

Group	Note	Non-distributable			Distributable		Total RM'000
		Share capital RM'000	Share redemption fund RM'000	Profit equalisation reserve (Bank) RM'000	Other reserves RM'000	Retained profits RM'000	
At 1 January 2015		2,973,677	52,800	29,865	4,471,509	5,201,933	12,729,784
Profit after taxation and zakat		-	-	-	-	1,824,121	1,824,121
Transfer to statutory reserve		-	-	-	-	(454,087)	(454,087)
Contribution to the Co-operative Education Trust Fund		-	-	-	-	(39,191)	(39,191)
Contribution to the Co-operative Development Provident Fund		-	-	-	-	(19,596)	(19,596)
Contribution to Bank Rakyat Foundation		-	-	-	-	(14,919)	(14,919)
Profit for the year		-	-	-	-	1,296,328	1,296,328
Other comprehensive income		-	-	(29,865)	13,703	(10,460)	(26,622)
Total comprehensive income for the year		-	-	(29,865)	13,703	1,285,868	1,269,706
Transfer from retained profits		-	-	-	454,087	-	454,087
Issuance to new Members		11,117	-	-	-	-	11,117
Transfer to share capital		(871)	871	-	-	-	-
Transfer to regulatory reserve		-	-	-	13,087	(13,087)	-
Dividends	36	-	-	-	-	(443,502)	(443,502)
Overprovision in contribution to Bank Rakyat Foundation		-	-	-	-	95	95
At 31 December 2015		2,983,923	53,671	-	4,952,386	6,031,307	14,021,287
		Note 25		Note 24	Note 26	Note 26	

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

Bank	Note	← Non-distributable			→ Distributable		
		Share capital RM'000	Share redemption fund RM'000	Profit equalisation reserve (Bank) RM'000	Other reserves RM'000	Retained profits RM'000	Total RM'000
At 1 January 2014		2,973,677	53,671	254,494	3,783,072	4,218,310	11,283,224
Profit after taxation and zakat		-	-	-	-	1,957,705	1,957,705
Transfer to statutory reserve		-	-	-	-	(499,177)	(499,177)
Contribution to the Co-operative Education Trust Fund		-	-	-	-	(43,204)	(43,204)
Contribution to the Co-operative Development Provident Fund		-	-	-	-	(21,602)	(21,602)
Contribution to Bank Rakyat Foundation		-	-	-	-	(9,246)	(9,246)
Profit for the year		-	-	-	-	1,384,476	1,384,476
Other comprehensive income		-	-	(224,629)	(55,565)	(791)	(280,985)
Total comprehensive income for the year		-	-	(224,629)	(55,565)	1,383,685	1,103,491
Transfer from retained profits		-	-	-	499,177	-	499,177
Issuance to new members		4,581	-	-	-	-	4,581
Transfer to other liabilities		(5,452)	-	-	-	-	(5,452)
Transfer to share capital		871	(871)	-	-	-	-
Transfer to regulatory reserve		-	-	-	245,566	(245,566)	-
Dividends	36	-	-	-	-	(441,053)	(441,053)
Overprovision in contribution to Bank Rakyat Foundation		-	-	-	-	151	151
At 31 December 2014		2,973,677	52,800	29,865	4,472,250	4,915,527	12,444,119
		Note 25		Note 24	Note 26	Note 26	

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

Bank	Note	← Non-distributable			→ Distributable		
		Share capital RM'000	Share redemption fund RM'000	Profit equalisation reserve (Bank) RM'000	Other reserves RM'000	Retained profits RM'000	Total RM'000
At 1 January 2015		2,973,677	52,800	29,865	4,472,250	4,915,527	12,444,119
Profit after taxation and zakat		-	-	-	-	1,779,005	1,779,005
Transfer to statutory reserve		-	-	-	-	(454,087)	(454,087)
Contribution to the Co-operative Education Trust Fund		-	-	-	-	(39,191)	(39,191)
Contribution to the Co-operative Development Provident Fund		-	-	-	-	(19,596)	(19,596)
Contribution to Bank Rakyat Foundation		-	-	-	-	(14,919)	(14,919)
Profit for the year		-	-	-	-	1,251,212	1,251,212
Other comprehensive income		-	-	(29,865)	13,703	(10,460)	(26,622)
Total comprehensive income for the year		-	-	(29,865)	13,703	1,240,752	1,224,590
Transfer from retained profits		-	-	-	454,087	-	454,087
Issuance to new members		11,117	-	-	-	-	11,117
Transfer from share capital		(871)	871	-	-	-	-
Transfer to regulatory reserve		-	-	-	13,087	(13,087)	-
Dividends	36	-	-	-	-	(443,502)	(443,502)
Overprovision in contribution to Bank Rakyat Foundation		-	-	-	-	95	95
At 31 December 2015		2,983,923	53,671	-	4,953,127	5,699,785	13,690,506
		Note 25		Note 24	Note 26	Note 26	

**STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM/(USED IN)				
OPERATING ACTIVITIES				
Profit for the year	1,296,328	1,402,616	1,251,212	1,384,476
Adjustments for:				
Transfer to statutory reserve	454,087	499,177	454,087	499,177
Contribution to the Co-operative Education Trust Fund	39,191	43,204	39,191	43,204
Contribution to the Co-operative Development Provident Fund	19,596	21,602	19,596	21,602
Contribution to Bank Rakyat Foundation	14,919	9,246	14,919	9,246
Taxation	148,292	169,478	143,225	163,480
Zakat	39,310	39,710	37,343	39,000
Profit expense on debt securities issued	127,701	98,663	127,701	98,663
Allowance for impairment on financing and advances	463,366	698,875	463,366	698,875
Allowance for impairment on financial assets available-for-sale	10,070	10,032	10,070	10,032
Depreciation of property and equipment	98,831	84,064	96,400	82,516
Amortisation of prepaid lease payment	1,532	1,994	1,532	1,662
Property and equipment written off	3,750	525	3,439	525
Gain on disposal of property and equipment	(5)	(39)	(5)	(1)
Gain on disposal of asset classified as held-for-sale	-	(4,568)	-	-
Loss on financing written off	26,541	9,212	26,541	9,212
Provision for defined benefit plan	(21,134)	24,270	(21,134)	24,270
Allowance for doubtful debts	1,084	5,219	94	5,228
Finance cost	-	839	-	-
Gain on revaluation of investment properties	(73,983)	(186,741)	(66,236)	(187,077)
Allowance for doubtful debts no longer required	(322)	(106)	(18,480)	(106)
Allowance for impairment loss on financial assets held-to-maturity no longer required	(745)	(4,388)	(745)	(4,388)
Net gain on disposal of financial assets available-for-sale	(22,599)	(20,210)	(22,599)	(20,210)
Net gain on disposal of financial assets held for trading	(83)	(139)	(83)	(139)
Transfer to profit equalisation reserve	(48,641)	(357,998)	(48,641)	(357,998)
Profit expense on financing sold with recourse to Cagamas	65,736	62,526	65,736	62,526
Operating profit before working capital changes	2,642,822	2,607,063	2,576,529	2,583,775

**STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
(Increase)/Decrease in assets:				
Deposits and placements with financial institutions	(747,448)	761,548	(748,651)	782,196
Financing and advances	(3,144,542)	(3,886,459)	(3,144,542)	(3,886,459)
Trade receivables	(2,604)	1,186	-	-
Other assets	61,470	4,488	40,709	10,613
Inventories	4,538	2,884	-	-
Increase/(Decrease) in liabilities:				
Deposits from customers	2,458,799	3,225,206	2,458,799	3,225,206
Deposits and placements from banks and financial institutions	140,000	180,000	140,000	180,000
Trade payables	234	(3,552)	-	-
Recourse obligations on financing sold to Cagamas	(364,695)	186,396	(364,695)	186,396
Other liabilities	(254,655)	(162,917)	(190,028)	(132,574)
Cash generated from operations	793,919	2,915,843	768,121	2,949,153
Income tax paid	(14,756)	(104,122)	(7,552)	(97,220)
Tax refunded	84	107	-	-
Zakat paid	(42,136)	(41,685)	(41,591)	(41,111)
Payment for retirement benefits	-	(106,270)	-	(106,270)
Net cash from operating activities	737,111	2,663,873	718,978	2,704,552
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES				
Purchases of financial assets held-for-trading	(232,500)	(225,000)	(232,500)	(225,000)
Proceeds from disposal of financial assets held for trading	232,583	225,139	232,583	225,139
Purchases of financial assets available-for-sale	(3,442,350)	(2,697,000)	(3,442,350)	(2,697,000)
Proceeds from disposal of financial assets available-for-sale	2,133,627	1,152,692	2,131,365	1,150,918
Purchases of financial assets held-to-maturity	(488,270)	(1,640,640)	(488,270)	(1,640,640)
Proceeds from disposal of financial assets held-to-maturity	901,889	654,760	901,889	654,760
Purchase of investment properties	(16,081)	(51)	(16,081)	-
Proceeds from disposal of investment properties	4,369	-	4,035	-
Purchase of property and equipment	(169,445)	(141,743)	(144,476)	(135,477)
Proceeds from disposal of property and equipment	15,258	524	11,623	264
Proceeds from disposal of asset classified as held-for-sale	-	85,000	-	-
Net cash used in investing activities	(1,060,920)	(2,586,319)	(1,042,182)	(2,667,036)

**STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

		Group		Bank	
	Note	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES					
Proceeds from issue of shares to members		11,117	4,581	11,117	4,581
Dividend paid		(443,502)	(441,053)	(443,502)	(441,053)
Fund received from government		4,187	157,250	4,187	157,250
Proceeds from debt securities issued		-	1,500,000	-	1,500,000
Payment of profit expenses on debt securities issued		(429,401)	(85,180)	(429,401)	(85,180)
Repayment of financing from other financial institutions		-	(34,746)	-	-
Net cash (used in)/from financing activities		(857,599)	1,100,852	(857,599)	1,135,598
Net (decrease)/increase in cash and cash equivalents		(1,181,408)	1,178,406	(1,180,803)	1,173,114
Cash and cash equivalents at beginning of year		3,080,554	1,902,148	3,078,779	1,905,665
Cash and cash equivalents at end of year	5	1,899,146	3,080,554	1,897,976	3,078,779

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

1. GENERAL INFORMATION

The Bank was established under the Co-operative Societies Act 1993 with the registered office address at 35th Floor, Menara 1, Menara Kembar Bank Rakyat, No. 33, Jalan Rakyat, 50470 Kuala Lumpur.

The principal activities of the Bank are those of a co-operative that carries out banking activities based on Shariah principles through accepting deposits and providing financial services for retail and commercial needs.

The principal activities of the subsidiaries are disclosed in Note 14.

There have been no significant changes in the nature of these principal activities of the Bank and its subsidiary companies during the year.

The Bank has a total of 148 branches as of 31 December 2015 (2014: 147)

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Bank have been prepared in accordance with the provisions of Bank Kerjasama Rakyat Malaysia Berhad (Special Provisions) Act 1978 (Act 202), the Co-operative Societies Act 1993 (Act 502), Development Financial Institutions Act 2002 (Act 618) and the applicable Malaysian Financial Reporting Standards ("MFRS") with modifications based on guidelines issued by Bank Negara Malaysia ("BNM") and in compliance with the principles of Shariah as well as International Financial Reporting Standards ("IFRS").

The financial statements of the subsidiary companies of the Bank have been prepared in accordance with MFRS, IFRS and the provisions of the Companies Act, 1965 in Malaysia.

The financial statements are presented in Ringgit Malaysia ("RM") and are rounded to the nearest thousand ("000"), unless otherwise stated.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

Amendments to MFRSs that are mandatorily effective for the current year

In current year, the Group and the Bank have applied a number of amendments to MFRSs and a new Interpretation issued by the Malaysian Accounting Standards Board (MASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2015.

Amendments to MFRS 119 Defined Benefits Plans: Employee Contributions

The Group and the Bank have applied the amendments for the first time in the current year. Prior to the amendments, the Group accounted for discretionary employee contributions to defined benefits plans as a reduction of the service cost when contributions were paid to the plans, and accounted for employee contributions specified in the defined benefit plans as a reduction of the service cost when services are rendered. The amendments require the Group and the Bank to account for employee contributions as follows:

- Discretionary employee contributions are accounted for as reduction of the service cost upon payments to the plans.
- Employee contributions specified in the defined benefits plans are accounted for as reduction of the service cost, only if such contributions are linked to services. Specifically, when the amount of such contribution depends on the number of years of service, the reduction to service cost is made by attributing the contributions to periods of service in the same manner as the benefit attribution. On the other hand, when such contributions are determined based on a fixed percentage of salary (i.e. independent on the number of years of service), the Group and the Bank recognises the reduction in the service cost in the period in which the related services are rendered.

These amendments have been applied retrospectively. The application of these amendments has had no material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

Annual Improvements to MFRSs 2010 - 2012 Cycle and 2011 - 2013 Cycle

The Group and the Bank have applied the amendments to MFRSs included in the *Annual Improvements to MFRSs 2010-2012 Cycle* and *2011-2013 Cycle* for the first time in the current year. The application of the amendments has had no impact on the disclosures or amounts recognised in the Group's consolidated financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

New and revised standards in issue but not yet effective

The Directors anticipate that the following Standards will be adopted in the annual financial statements of the Group and of the Bank when they become mandatorily effective for adoption. The adoption of these Standards is not expected to have a material impact on the financial statements of the Group and of the Bank except as further discussed below.

- MFRS 9: Financial Instruments²
- MFRS 15: Revenue from Contracts with Customers²
- Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception¹
- Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³
- Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations¹
- Amendments to MFRS 101: Disclosure Initiative¹
- Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation¹
- Amendments to MFRSs: Annual Improvements to MFRSs 2012-2014 Cycle¹

¹ Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

³ Effective date deferred to a date to be determined and announced, with earlier application still permitted.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

New and revised standards in issue but not yet effective (continued)

MFRS 9 Financial Instruments

MFRS 9 (IFRS 9 issued by International Accounting Standards Board ("IASB") in November 2009) introduced new requirements for the classification and measurement of financial assets. MFRS 9 (IFRS 9 issued by IASB in October 2010) include requirements for the classification and measurement of financial liabilities and for derecognition, and in February 2014, the new requirements for general hedge accounting was issued by MASB. Another revised version of MFRS 9 was issued by MASB - MFRS 9 (IFRS 9 issued by IASB in July 2014) mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt instruments.

Key requirements of MFRS 9:

- all recognised financial assets that are within the scope of MFRS 139 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and profit on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under MFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, MFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under MFRS 139, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- in relation to the impairment of financial assets, MFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under MFRS 139. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at the end of each reporting period to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

New and revised standards in issue but not yet effective (continued)

MFRS 9 Financial Instruments (continued)

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in MFRS 139. Under MFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors of the Group and of the Bank anticipate that the application of MFRS 9 in the future may have a material impact on amounts reported in respect of the Group's and the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of MFRS 9 until the Group completes a detailed review.

Amendments to MFRS 10, MFRS 12 and MFRS 128 Investment Entities: Applying the Consolidation Exception

The amendments to MFRS 10, MFRS 12 and MFRS 128 address issues that have arisen in the context of applying the consolidation exception for investment entities. The amendments make changes aimed at clarifying the following aspects:

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by MFRS 12.

As the Group and the Bank are not an investment entity (assessed based on the criteria set out in MFRS 10) and not an investor in an investment entity, the application of these amendments is not expected to have any impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

New and revised standards in issue but not yet effective (continued)

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

The amendments to MFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in MFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in MFRS 3 and other standards (e.g. MFRS112 *Income Taxes* regarding the recognition of deferred taxes at the time of acquisition and MFRS 136 *Impairment of Assets* regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by MFRS 3 and other standards for business combinations.

The Directors do not anticipate that the application of these amendments to MFRS 11 will have a material impact on the Group's consolidated financial statements.

Amendments to MFRS 101 Disclosure Initiative

The amendments to MFRS 101 aim at clarifying MFRS 101 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The amendments make the following changes:

- They clarify that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to the all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply.
- They introduce a clarification that the list of line items to be presented in the statement of financial position and the statement of profit or loss and other comprehensive income can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarify that an entity's share of other comprehensive income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.
- They add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and removed guidance and examples with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful.

The Directors do not anticipate that the application of these amendments to MFRS 101 will have a material impact on the Group's consolidated financial statements as these amendments deal with the presentation of financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

New and revised standards in issue but not yet effective (continued)

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

The amendments to MFRS 116 prohibit entities from using a revenue-based depreciation method for items of property and equipment. The amendments to MFRS 138 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a. when the intangible asset is expressed as a measure of revenue; or
- b. when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

Currently, the Group uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively. The Directors believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the Directors do not anticipate that the application of these amendments to MFRS 116 and MFRS 138 will have a material impact on the Group's consolidated financial statements.

Annual Improvements to MFRSs 2012-2014 Cycle

The Annual Improvements to MFRSs 2012-2014 Cycle include a number of amendments to various MFRSs, which are summarised below.

The amendments to MFRS 5 *Non-current Assets Held for Sale and Discontinued Operation* adds specific guidance in MFRS 5 for cases in which an entity reclassifies an asset from held-for-sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

The amendments to MFRS 7 *Financial Instruments: Disclosures* clarify the applicability of the amendments to MFRS 7 on offsetting disclosures to condensed interim financial statements.

The amendments to MFRS 119 *Employee Benefits* clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).

The amendments to MFRS 134 *Interim Financial Reporting* clarify the meaning of 'elsewhere in the interim report' and require a cross-reference.

The Directors do not anticipate that the application of these amendments will have a significant impact on the Group's consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The financial statements of the Group and of the Bank have been prepared on the historical cost basis, except for certain assets and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration involved in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of MFRS 2, leasing transactions that are within the scope of MFRS 117 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in MFRS 102 or value-in-use in MFRS 136.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3.2 Subsidiaries and basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank has the power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its return.

The Bank reassesses 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 stated above.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Subsidiaries and basis of consolidation (continued)

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policy.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Bank.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Subsidiaries and basis of consolidation (continued)

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 139, when applicable, the cost on initial recognition of an investment in an associate or joint venture.

3.3 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At acquisition date, the identifiable assets acquired and liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with MFRS 112 *Income Taxes* and MFRS 119 *Employee Benefits* respectively;
- liabilities or equity instruments related to the share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with MFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held-for-sale in accordance with MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Business combinations (continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another MFRS.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with MFRS 139 *Financial Instruments: Recognition and Measurement* or MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held equity interests in the acquiree are remeasured to fair value at the acquisition date (i.e. the date when the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised at that date.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Goodwill on consolidation

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see 3.3 above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.5 Financial instruments

Financial assets and financial liabilities are recognised when, and only when the Group and the Bank become a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Effective profit method

The effective profit method is a method of calculating the amortised cost of a financial asset or liability and of allocating profit income or expense over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' or financial assets 'held-for-trading', 'held-to-maturity' investments, 'available-for-sale' financial assets and 'financing and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3.5.1.1 Financial assets held-for-trading or at fair value through profit or loss

A financial asset is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. They are recognised in the statements of financial position as 'Financial assets held-for-trading'.

Financial instruments included in this category are recognised initially at fair value; transaction costs are recognised in profit or loss. Gains and losses arising from changes in fair value are recognised in profit or loss and are reported as 'Gains/(losses) on revaluation of financial assets held-for-trading'. Profit income on financial assets held-for-trading are included in 'Income from financial assets'.

3.5.1.2 Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in profit rates, exchange rates or equity prices or that are not classified as financing and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value at the end of the reporting period. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in other reserves, with the exception of impairment losses and profit calculated using the effective profit method which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the other reserves is classified to profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.2 Available-for-sale financial assets (continued)

Available-for-sale equity instruments that do not have a quoted market price in an active market whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less any identified impairment losses at the end of the reporting period.

Dividend from available-for-sale equity investments are recognised in profit or loss when the Group's and the Bank's right to receive the dividend is established.

3.5.1.3 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's and the Bank's management have the positive intent and ability to hold to maturity.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective profit method less any impairment.

Profit on financial assets held-to-maturity is included in profit or loss and reported as 'Income from financial assets'. In the case of an impairment, the impairment loss is been reported as a deduction from the carrying value of the financial asset and recognised in profit or loss as 'Allowance for impairment on financial assets'.

3.5.1.4 Financing and receivables

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

Financing and receivables are initially recognised at fair value, including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective profit method, less any impairment. Regular way recognition of financing and advances is recorded on settlement date, when all the conditions under financing contract have been fulfilled.

Profit on financing is recognised in profit or loss by applying the effective profit rate.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.2 Impairment of financial assets

3.5.2.1 Financing and advances

Financing and advances ("financing") of the Group and of the Bank are classified as impaired when they fulfil any of the following criteria:

- (i) Principal or profits or both are past due for three (3) months or more;
- (ii) Where a financing is in arrears for less than three (3) months, the financing exhibits indications of credit weaknesses; or
- (iii) Where an impaired financing has been rescheduled or restructured, the financing will continue to be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for certain period of months.

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

The Group and the Bank first assess individually whether objective evidence of impairment exists individually for financing which are individually significant, or collectively for financing which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financing, the financing is then included in a group of financing with similar credit risk characteristics and collectively assessed for impairment. Financing that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in collective assessment for impairment.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.2 Impairment of financial assets (continued)

3.5.2.1 Financing and advances (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financing's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financing's original effective profit rate. The carrying amount of the financing is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Where appropriate, the calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financing are grouped on the basis of similar credit risk characteristics. Impairment for this group is assessed based on the historical financing loss experience in terms of default rate and estimated recovery rate.

Future cash flows of the financing are evaluated depending on the availability of security for the financing. For unsecured financing, the fraction of exposure at default that will not be recovered following the default is taken in full.

For financing secured with collateral pledged to the Group and the Bank, the fraction of exposure at default would take into account value of the security discounted based on the expected period of recovery of the security using the effective profit rate.

The likelihood that the financing would fall into default is computed based on average default rates for the latest number of years using historical data of outstanding balance that flow through to the following month. Similar rate of the likelihood of default is applied to the group of financing with similar credit risk characteristics.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.2 Impairment of financial assets (continued)

3.5.2.1 Financing and advances (continued)

In conjunction with the convergence of the FRSs in Malaysia with the IFRSs, BNM's guideline on Classification and Impairment Provisions for Loans/Financing was revised on 9 November 2011 to align the requirements on the determination of collective assessment allowance with that of the Malaysian Financial Reporting Standard 139: Financial Instruments: Recognition and Measurement ["MFRS 139"]. Based on the revised guideline, the transitional arrangement on collective assessment is removed with effect from 1 January 2012. Thereafter, the Bank applies the basis for collective assessment impairment allowance by grouping of these financing with similar credit risk characteristics as explained above. On 4 February 2014, BNM issued letter requiring banking institutions to maintain, in aggregate, collective impairment provisions and regulatory reserves at minimum rate of 1.2% of total outstanding financing, net of individual impairment provisions. This move is to further strengthen buffers against potential credit losses.

When a financing is uncollectible, it is written off against the related allowance for financing impairment. Such financing are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to financing and advances to customers are classified in financing impairment charges.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.2 Impairment of financial assets (continued)

3.5.2.2 Available-for-sale financial assets

The Group and the Bank assess at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, cumulative gain or losses previously recognised in other comprehensive income are classified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of other reserves. In respect of available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3.5.2.3 Held-to-maturity investments

The Group and the Bank assess at the end of each reporting period whether objective evidence of impairment of financial investments held-to-maturity 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.

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

If held to maturity investments have a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract. As a practical expedient, the Group and the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.2 Impairment of financial assets (continued)

3.5.2.4 Rescheduled and restructured financing

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

3.5.3 Derecognition of financial assets

Financial assets are derecognised when the contractual rights to the cash flows from the assets expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the assets to another entity. If the Group and the Bank neither transfer nor retain substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group and the Bank recognise their retained profit in the asset and an associated liability for amounts it may have to pay. If the Group and the Bank retain substantially all the risks and rewards of ownership of a transferred financial asset, the Group and the Bank continue to recognise the financial asset and also recognise a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated under the heading of other reserves is recognised in profit or loss.

3.5.4 Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instruments.

3.5.5 Equity instruments

An equity instrument is any contract that evidences a residual profit in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.5 Equity instruments (continued)

Repurchase of the Group's and of the Bank's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's and of the Bank's own equity instruments.

3.5.6 Financial liabilities

Financial liabilities are initially recognised at the fair value of consideration received less directly attributable transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective profit method. The Group and the Bank do not have any non-derivative financial liabilities designated at fair value through profit or loss. Financial liabilities at amortised cost include deposits from customers, deposits and placements from banks and financial institutions, trade and other payables, recourse obligation on financing sold to Cagamas, debt securities issued and other borrowed funds.

The effective profit method is a method of calculating the amortised cost of a financial liability and of allocating profit expense over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period to the net carrying amount on initial recognition.

3.5.7 Derecognition of financial liabilities

The Group and the Bank derecognise financial liabilities when, and only when, the Group's and the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liabilities derecognised and the consideration paid or payable is recognised in profit or loss.

3.5.8 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on Bursa Malaysia and broker quotes from Bond Pricing Agency.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.8 Determination of fair value (continued)

For all other financial instruments, fair value is determined using valuation techniques. Under these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, and using inputs existing at the end of the reporting period.

In cases when the fair value of unquoted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment.

The fair value for financing and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

3.6 Cash and cash equivalents

Cash and cash equivalents, which comprise cash and balances with banks and other financial institutions and money at call and deposit placements maturing within one month, are short term, highly liquid investments with maturities of one month or less from the date of acquisition and are readily convertible to cash with insignificant risks of changes in value.

3.7 Leases

Leases comprise operating lease. Lease of assets is classified as operating lease where a significant portion of the risks and rewards of ownership is retained by the lessor.

a) Group as lessor

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Leases (continued)

b) Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.8 Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the entities in the Group and the Bank, are classified as investment properties. Investment properties are measured initially at cost, including transaction costs.

Subsequent to initial recognition, investment properties are measured at fair value, which reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss in the year in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between net disposal proceeds and the carrying amount of the assets), is included in profit or loss in the period which the property is derecognised.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Property and equipment

Land and buildings comprise mainly branches and offices. All property and equipment used by the Group and the Bank are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Freehold land has unlimited useful life and therefore is not depreciated. Construction work-in-progress is not depreciated as this asset is also not available for use.

Depreciation of other property and equipment are calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	2%
Leasehold land and buildings	2%
Renovation	2% - 20%
Furniture, fittings and office equipment	20%
Motor vehicles	20%

The assets' residual values, useful lives and depreciation method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gains and losses arising on disposals are determined as the difference between sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3.10 Prepaid lease payments

Leasehold land that has an indefinite economic life which title is not expected to pass to the Group by end of the lease period is classified as operating lease.

The upfront payments for right to use the leasehold land over a predetermined period are accounted for as prepaid lease payments and are stated at cost less amount amortised. The prepaid lease payments are amortised on a straight-line basis over the remaining lease terms, ranging from 16 to 94 years (2014: 17 to 95 years).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Assets classified as held-for-sale

Assets 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 groups) is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Any differences are included in profit or loss.

3.12 Provisions

Provisions are recognised when the Group and the Bank have a present obligation (legal or constructive) as a result of past events, when it is probable that the Group and the Bank will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of time value of money is material).

3.13 Inventories

Inventories are valued at the lower of cost (determined using the first-in, first out method) and net realisable value. The cost of inventories comprises the original cost of purchase plus the incidental cost incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less selling and distribution costs and all other estimated costs to completion. In arriving at net realisable value, due allowance is made for damaged, obsolete or slow-moving inventories.

Completed property units for sale are valued at the lower of cost and net realisable value. Cost is determined using the 'specific identification' method.

3.14 Property development

Property development costs comprise costs associated with the acquisition of land and all costs that are directly attributable to development activities or that can be allocated on a reasonable basis to such activities.

Property development costs not recognised as an expense is recognised as an asset and is stated at the lower of cost and net realisable value.

The Group considers the portion of land and development expenditure on which development work has commenced and is expected to be completed within the normal operating cycle as current assets.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Profit income and expense

For all financial instruments measured at amortised cost and profit-bearing financial assets classified as held-for-trading and available-for-sale, income and expense are recognised under “Income” and “Expenditure” respectively using the effective profit method.

The effective profit method is a method of calculating the amortised cost of a financial asset or liability and of allocating the profit income or expense over the relevant period. The effective profit rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instruments or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

The calculation takes into account all contractual terms of the financial instruments (for example, prepayment options) but does not consider future credit losses. Significant fees and transaction costs integral to the effective profit rate, as well as premiums or discounts are also considered.

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

3.16 Fee and commission income

Financing arrangement fees are recognised as income based on contractual arrangements. Guarantee fee is recognised as income upon issuance of the guarantee. Fees from advisory and corporate finance activities are recognised net of goods and services tax and discounts on completion of each stage of the assignment.

Fees and commissions are generally recognised on an accrual basis when the service has been provided.

3.17 Dividend income

Dividends are recognised in profit or loss as ‘dividend income’ when the Group’s right to receive payment is established.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Income tax

3.18.1 Current income tax

Current income tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years.

3.18.2 Deferred income tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that sufficient future taxable profits will be available against which those deductible temporary differences, unused tax losses and unused tax credits can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group and the Bank expect, at the end of the reporting period, to recover or settle the carrying amount of their assets and liabilities.

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Employee benefits

3.19.1 Defined benefit plan

A defined benefit plan is a post-employment plan that defines an amount of retirement benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The Bank provides lump sum benefit at retirement for its employees who have completed at least 10 years of services. The retirement benefit payable is based on last drawn salary and years of service.

The Bank established a trust fund to provide such benefits to its eligible members. The trust fund is managed by Amanah Raya Berhad.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contribution.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit actuarial cost method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding profit), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained profits and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net profit is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements)
- net profit expense or income; and
- remeasurement.

The Group and the Bank present the first two components of defined benefit costs in profit or loss in the line item of personnel expenses. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the consolidated statement of financial position represent value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restricting costs.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Employee benefits (continued)

3.19.1 Defined benefit plan (continued)

The plan exposes the Bank to actuarial risks as follows:

i. Investment

Present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields. If the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively steady return from investment in fixed deposits.

ii. Profit

A decrease in the bond profit rate will increase the plan liability. This is not partially offset since return on the plan asset in fixed deposits is relatively stable.

iii. Longevity

Present value of the defined benefit plan liability is calculated by reference to the best estimate of mortality of the plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

iv. Salary

Present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

3.19.2 Defined contribution plan

For defined contribution plan, the Group and the Bank pay contributions to Employees Provident Fund (EPF) on a mandatory basis. The Group and the Bank have no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

3.19.3 Short-term employee benefits

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Impairment of non-financial assets

At the end of each reporting period, the Group and the Bank review the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group and the Bank estimate the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.21 Profit equalisation reserve (PER)

PER is a mechanism to enable the Bank to mitigate the downside risk of income reduction and to maintain competitive rates of returns or deposit rates in line with "Guidelines on Profit Equalisation Reserve" as prescribed by Bank Negara Malaysia.

PER is created by setting aside an amount out of total gross income before distribution to depositors and the Bank.

PER is segregated between the portion belonging to the depositors and the Bank based on the contractual profit sharing ratio at the point of creation. PER for depositors is classified as other liability and PER for the Bank is classified as a separate reserve in equity.

Utilisation of PER shall be appropriated from both the depositors' and the Bank's portion based on the contractual profit sharing ratio at the point of utilisation.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Profit equalisation reserve (PER) (continued)

In line with the transition plan for implementation of classification of Islamic deposits and investment accounts under Islamic Financial Services Act 2013 (IFSA 2013), banks are required to replace all deposit products applying Shariah concepts of which non-principal contract is guaranteed, for example Mudarabah and Wakalah, with products that comply with the new requirements under IFSA.

In this respect, the Bank has taken steps by offering term deposits under concept Tawarruq which is in line with the requirements of the transition plan. In effect, deposit products under Mudarabah contract has not being offered and PER has been fully utilise in accordance with guidelines on PER.

3.22 Zakat

In computing for zakat, the Group and the Bank have been applying the growth capital method based on the rate of 2.5%. This method applies the rate on owners' equity, long term liability, net of fixed assets and non-current assets, and subjected to allowable adjustments.

It is an obligatory amount payable on the business on behalf of the shareholders and/or business entity depending on the ownership characteristics.

Zakat is distributed according to Shariah principal and being extended through Islamic Religious Council of the respective states and other rightful beneficiaries or asnaf.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's and the Bank's financial statements and financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Group and the Bank make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with MFRS are best estimates undertaken in accordance with the applicable standard.

Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgements for certain items are especially critical for the Group's and the Bank's results and financial situation due to their materiality.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 Impairment losses on financing and advances

The Group and the Bank review their financing and advances portfolio to determine whether impairment losses should be recognised in profit or loss.

Financing is considered as impaired when there is objective evidence of impairment as a result of loss event that has affected future estimated cash flows of the financing subsequent to its initial recognition.

Components of impairment allowance are as follows:

(i) Individual impairment

Where an account has exceeded certain number of arrears or when the account has fulfilled certain criteria that indicates credit weaknesses, the account is individually assessed for impairment.

Individual allowance is measured as the difference between carrying amount of the financing and present value of estimated future cash flows that are discounted at the effective profit rate.

Expectation on future cash flows is established by applying the best estimate formed on reliable and objective evidence. This process involves significant and reasonable judgement.

(ii) Collective impairment

Collective impairment is applicable to a group of financing with similar credit risk characteristics, and which is not classified under individual impairment as described above.

Collective allowance takes into account probability of financing turning into default (or probability of default) and estimated loss on default (or loss given default) of any particular financing.

Probability of default is the resultant of cumulative trend of default for a specified period, whereas loss given default is measured by considering value of collateral to the financing and estimated recovery period from the collateral.

Probability of default is reflective of business sectors for the financing and is refined to the extent of gravity in terms of defaults shown by the financing. Derivation of the rate for probability of default takes into account risk aspect of the business sector.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.2 Impairment of financial assets available-for-sale

At the end of each reporting period, management will assess if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the investment.

(i) Impairment for debt securities

A debt security is impaired if there is an indication that a loss event has occurred since initial recognition. This normally has a negative impact on the estimated future cash flows in relation to the repayment of the securities.

(ii) Impairment for equity securities

For equity instrument, impairment is not identified based on analysis of projected cash flows similar to debt instrument above. It arises due to establishment of the following events:

- a) significant decline in fair value of the securities below original cost (30%); or
- b) prolonged decline in fair value of the securities below original cost (9 months)

The above is considered objective evidence for provision of impairment on the equity securities.

4.3 Financial assets held-to-maturity

The Group and the Bank classify some non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement.

In making this judgement, the Group and the Bank evaluate their intention and ability to hold such investments to maturity. If the Group and the Bank were to fail to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - the Group and the Bank are required to reclassify the entire category as available for sale. Accordingly, the investments would be measured at fair value instead of amortised cost.

4.4 Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profit together with future tax planning strategies.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

5. CASH AND SHORT-TERM FUNDS

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	1,082,437	956,994	1,081,267	955,219
Money at call and deposit placements maturing within one month	816,709	2,123,560	816,709	2,123,560
	1,899,146	3,080,554	1,897,976	3,078,779

For the purpose of the statements of cash flows, cash and cash equivalents comprise the following:

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	1,899,146	3,080,554	1,897,976	3,078,779
	1,899,146	3,080,554	1,897,976	3,078,779

6. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Licensed banks	933,286	185,838	908,750	160,099

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

7. FINANCIAL ASSETS AVAILABLE-FOR-SALE

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
At fair value				
Islamic debt securities	2,736,259	2,652,177	2,736,259	2,652,177
Government investment issues	7,384,890	6,793,223	7,384,890	6,793,223
Government bonds	2,521,156	2,162,419	2,521,156	2,162,419
Khazanah bonds	100,117	85,259	100,117	85,259
Cagamas bonds	310,530	53,627	310,530	53,627
Quoted shares	234,304	203,347	234,304	203,347
Unit trust shares	1,730	1,717	1,730	1,717
At cost, net of impairment loss				
Unquoted shares	7,987	10,249	6,833	6,833
Net carrying amount	13,296,973	11,962,018	13,295,819	11,958,602

8. FINANCIAL ASSETS HELD-TO-MATURITY

	Group and Bank	
	2015	2014
	RM'000	RM'000
At amortised cost		
Islamic debt securities	513,405	767,814
Government investment issues	8,289,353	8,673,072
Government bonds	1,096,603	1,078,786
Khazanah bonds	467,356	449,742
Cagamas bonds	177,946	122,835
Negotiable Islamic debt certificates	198,440	248,719
Islamic commercial papers	-	57,036
	10,743,103	11,398,004
Less: accumulated impairment losses		
Islamic debt securities	(24,260)	(209,251)
Islamic commercial papers	-	(57,036)
	(24,260)	(266,287)
Net carrying amount	10,718,843	11,131,717

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

8. FINANCIAL ASSETS HELD-TO-MATURITY (CONTINUED)

Movement of accumulated impairment losses for financial assets held-to-maturity is as follows:

	Group and Bank	
	2015	2014
	RM'000	RM'000
As of 1 January	266,287	270,675
Recoveries of impairment loss during the year (Note 30(ii))	(745)	(4,388)
Amount written off during the year	(241,282)	-
As of 31 December	24,260	266,287

The maturity structures of the instruments are as follows:

	Group and Bank	
	2015	2014
	RM'000	RM'000
Maturity within one year	1,077,026	1,005,642
More than one year to five years	7,380,637	6,846,551
More than five years	2,285,440	3,545,811
	10,743,103	11,398,004

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

9. FINANCING AND ADVANCES

(i) Financing and advances analysed by type and concept

Group and Bank 2015	Bai' `Inah RM'000	Bai' Bithaman Ajil RM'000	Ar-Rahn RM'000	Qard RM'000	Murabahah RM'000	Ijarah Thumma Al-Bai' RM'000	Musharakah RM'000	Tawarruq RM'000	Total RM'000
At amortised cost									
Term financing	141,137	524,542	-	167	3,606,482	-	-	288,806	4,561,134
Personal financing	34,177,876	-	-	-	-	-	-	18,796,275	52,974,151
Revolving credit	68	-	-	-	408,165	-	-	-	408,233
House financing	-	1,760,636	-	-	261,616	-	-	857,356	2,879,608
Hire-purchase receivables	-	-	-	-	-	693,219	-	-	693,219
Pawn broking	-	-	1,556,226	-	-	-	-	-	1,556,226
Bridging financing	-	-	-	-	402,442	-	-	-	402,442
Syndicated financing	-	-	-	-	149,362	-	51,621	-	200,983
Credit card	-	-	-	-	-	-	-	476,799	476,799
Staff financing	2	227,588	-	-	-	-	-	83,266	310,856
	34,319,083	2,512,766	1,556,226	167	4,828,067	693,219	51,621	20,502,502	64,463,651
Allowance for impairment on financing and advances:									
Individual assessment impairment									(316,652)
Collective assessment impairment									(1,009,815)
Net financing and advances									63,137,184

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

9. FINANCING AND ADVANCES (CONTINUED)

(i) Financing and advances analysed by type and concept (continued)

Group and Bank 2014	Bai' Inah RM'000	Bai' Bithaman Ajil RM'000	Ar-Rahn RM'000	Qard RM'000	Murabahah RM'000	Ijarah Thumma Al-Bai' RM'000	Musharakah RM'000	Tawarruq RM'000	Total RM'000
At amortised cost									
Term financing	150,215	680,532	-	213	3,908,813	7	-	-	4,739,780
Personal financing	38,466,958	-	-	8	-	-	-	12,084,080	50,551,046
Revolving credit	165	-	-	-	525,061	-	-	-	525,226
House financing	-	1,990,936	-	-	267,047	-	-	379,919	2,637,902
Hire-purchase receivables	-	-	-	-	-	536,556	-	-	536,556
Pawn broking	-	-	1,662,191	-	-	-	-	-	1,662,191
Bridging financing	-	-	-	-	557,446	-	-	-	557,446
Syndicated financing	-	-	-	-	83,175	-	51,351	-	134,526
Credit card	-	-	-	-	-	-	-	468,833	468,833
Staff financing	2	286,113	-	-	-	-	-	-	286,115
	38,617,340	2,957,581	1,662,191	221	5,341,542	536,563	51,351	12,932,832	62,099,621
Allowance for impairment on financing and advances:									
Individual assessment impairment									(492,436)
Collective assessment impairment									(1,124,636)
Net financing and advances									60,482,549

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

9. FINANCING AND ADVANCES (CONTINUED)

(ii) Financing and advances analysed by geographical distribution

	Group and Bank	
	2015	2014
	RM'000	RM'000
Central Region	26,726,373	26,151,058
Southern Region	9,302,359	8,772,193
Eastern Region	9,703,878	8,958,123
Northern Region	7,676,331	7,857,861
East Malaysia Region	11,054,710	10,360,386
	64,463,651	62,099,621

(iii) Financing and advances analysed by economic sector

	Group and Bank	
	2015	2014
	RM'000	RM'000
Purchase of securities	71,482	67,180
Purchase of property	1,930,704	2,370,866
Consumption credit	58,021,238	54,339,439
Agriculture	365,995	437,215
Mining and quarrying	-	87,259
Manufacturing	189,274	598,011
Electricity, gas and water	100,341	100,074
Construction	1,139,670	1,399,162
Wholesale and retail trade	117,907	165,101
Transportation and communication	155,563	297,254
Financial, takaful and business services	2,342,040	2,197,824
Community, social and personal services	29,437	40,236
	64,463,651	62,099,621

(iv) Financing and advances analysed by remaining contractual maturity

	Group and Bank	
	2015	2014
	RM'000	RM'000
Maturity within one year	3,370,212	3,617,726
More than one year to three years	1,935,878	1,901,949
More than three years to five years	3,122,138	3,287,345
More than five years	56,035,423	53,292,601
	64,463,651	62,099,621

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

9. FINANCING AND ADVANCES (CONTINUED)

(v) Financing and advances analysed by customer type

	Group and Bank	
	2015	2014
	RM'000	RM'000
Individuals	59,603,949	56,724,284
Business enterprises	2,918,535	3,366,931
Non-bank financial institutions:		
Co-operatives	1,828,831	1,869,353
Others	47,354	51,279
Foreign entities	1,404	36,566
Other entities	63,564	51,174
Banking institutions	14	34
	64,463,651	62,099,621

(vi) Financing and advances analysed by profit rate sensitivity

	Group and Bank	
	2015	2014
	RM'000	RM'000
Fixed rate		
Personal financing	39,478,010	39,286,310
House financing	1,759,920	1,620,286
Others	3,973,189	4,296,655
Floating rate		
Personal financing	13,496,141	11,264,736
House financing	1,119,688	1,017,616
Others	4,636,703	4,614,018
	64,463,651	62,099,621

(vii) Impaired financing and advances analysed by geographical distribution

	Group and Bank	
	2015	2014
	RM'000	RM'000
Central Region	1,027,733	1,034,558
Southern Region	62,112	70,459
Eastern Region	44,519	50,756
Northern Region	45,774	74,865
East Malaysia Region	37,747	36,669
	1,217,885	1,267,307

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

9. FINANCING AND ADVANCES (CONTINUED)

(viii) Impaired financing and advances analysed by economic sector

	Group and Bank	
	2015	2014
	RM'000	RM'000
Purchase of securities	595	345
Purchase of property	143,240	127,240
Consumption credit	419,767	344,204
Agriculture	99	71,532
Mining and quarrying	-	87,259
Manufacturing	17,745	137,078
Electricity, gas and water	-	9
Construction	282,901	348,588
Wholesale and retail trade	30,296	37,858
Transportation and communication	20	322
Financial, takaful and business services	305,956	109,676
Community, social and personal services	17,266	3,196
	1,217,885	1,267,307

(ix) Movement in impaired financing and advances are as follows:

	Group and Bank	
	2015	2014
	RM'000	RM'000
As of 1 January	1,267,307	1,305,119
Classified as impaired during the year	1,819,529	1,794,281
Amount written back in respect of recoveries	(1,104,141)	(1,256,871)
Amount written off during the year	(764,810)	(575,222)
	(49,422)	(37,812)
As of 31 December	1,217,885	1,267,307
Gross impaired financing and advances as a percentage of gross financing and advances	1.89%	2.04%

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

9. FINANCING AND ADVANCES (CONTINUED)

- (x) Movement in allowance for individual assessment impairment losses on financing and advances are as follows:

	Group and Bank	
	2015	2014
	RM'000	RM'000
Individual assessment impairment		
As of 1 January	492,436	212,222
Allowance made during the year (Note 29(i))	272,273	497,265
Amount written back in respect of recoveries (Note 29(i))	(166,882)	(210,463)
Amount written off during the year	(281,175)	(6,588)
	(175,784)	280,214
As of 31 December	316,652	492,436

- (xi) Movement in allowance for collective assessment impairment on financing and advances are as follows:

	Group and Bank	
	2015	2014
	RM'000	RM'000
Collective assessment impairment		
As of 1 January	1,124,636	1,292,556
Allowance made during the year (Note 29(i))	1,445,218	1,316,981
Amount written back in respect of recoveries (Note 29(i))	(1,095,656)	(920,416)
Amount written off during the year	(464,383)	(564,485)
	(114,821)	(167,920)
As of 31 December	1,009,815	1,124,636
Collective impairment (inclusive of regulatory reserve) as a percentage of gross financing and advances after deduction of individual assessment impairment	1.98%	2.22%

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

10. TRADE RECEIVABLES

	Group	
	2015	2014
	RM'000	RM'000
At amortised cost		
Trade receivables	10,507	7,983
Less: Allowance for doubtful debts	(2,091)	(1,499)
	8,416	6,484

Trade receivables are classified as financing and receivables and are therefore measured at amortised cost. The credit period granted for sale of goods is 30 days (2014: 30 days). No profit is charged on trade receivables. Allowance for doubtful debts is recognised against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

The Group has trade receivables totalling RM7,155,000 (2014: RM4,348,000) that are past due at the end of the reporting period for which the Group has not recognised allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

The table below is an analysis of trade receivables at the end of the reporting period:

	Group	
	2015	2014
	RM'000	RM'000
Neither past due nor impaired		
1 day to less than 1 month	1,261	2,136
Past due but not impaired		
2 months to less than 3 months	1,552	1,558
3 months to less than 4 months	719	699
4 months and above	4,884	2,091
	7,155	4,348
Past due and impaired	2,091	1,499
	10,507	7,983

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

10. TRADE RECEIVABLES (CONTINUED)

Movement in the allowance for doubtful debts are as follows:

	Group	
	2015	2014
	RM'000	RM'000
As of 1 January	1,499	121
Impairment losses recognised during the year (Note 31(ii))	990	1,378
Amount recovered during the year (Note 30(ii))	(318)	-
Amount written off during the year	(80)	-
As of 31 December	2,091	1,499

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated.

11. OTHER ASSETS

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Amount due from subsidiaries (i)	-	-	4,089	1,325
Other receivables, deposits and prepayments (ii)	413,474	475,034	372,787	416,350
Defined benefit plan (iii)	284,820	274,146	284,820	274,146
Tax recoverable	110,409	159,550	108,625	159,297
	808,703	908,730	770,321	851,118

(i) Amount due from subsidiaries

The amount due from subsidiaries is non-trade in nature, not subject to financing charges and has no fixed terms of repayment.

	Bank	
	2015	2014
	RM'000	RM'000
Outstanding balances	5,596	21,308
Less: Allowance for doubtful debts	(1,507)	(19,983)
	4,089	1,325

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

11. OTHER ASSETS (CONTINUED)

(i) Amount due from subsidiaries (continued)

Movement in the allowance for doubtful debts are as follows:

	2015	Bank
	RM'000	2014
		RM'000
As of 1 January	19,983	18,596
Impairment losses recognised during the year (Note 31(ii))	-	1,387
Amount recovered during the year (Note 30(ii))	(18,476)	-
As of 31 December	1,507	19,983

(ii) Other receivables, deposits and prepayments

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Other receivables	162,961	206,213	156,198	201,514
Allowance for doubtful debts *	(15,399)	(15,371)	(15,288)	(15,260)
Refundable deposits	42,642	59,389	9,697	9,344
Prepayments	23,270	24,803	22,180	20,752
Contribution to Central Liquidity Monetary Fund **	200,000	200,000	200,000	200,000
	413,474	475,034	372,787	416,350

* Movement in the allowance for doubtful debts are as follows:

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
As of 1 January	15,371	17,688	15,260	17,577
Impairment losses recognised during the year (Note 31(ii))	94	3,841	94	3,841
Amount recovered during the year (Note 30(ii))	(4)	(106)	(4)	(106)
Amount written off during the year	(62)	(6,052)	(62)	(6,052)
As of 31 December	15,399	15,371	15,288	15,260

** This contribution is required under sub-section 42(i) of Malaysian Co-operatives Commission Act 2007 (Act 665) either at a rate of 1% on the qualifying liability or RM200 million, whichever is lower, commencing in the financial period beginning on or after 1 January 2012.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

11. OTHER ASSETS (CONTINUED)

(iii) Defined benefit plan

The Bank sponsors a funded defined benefit plan for all of its qualifying employees. The defined benefit plan is administrated by a separate Fund that is legally separated from the Bank. Under the Fund, the eligible employees are entitled to compensation based on last drawn salary and years of service with the Bank upon their retirement.

The principal assumptions used for the purposes of the actuarial valuation are as follows:

	Group and Bank	
	2015	2014
Normal retirement age: Male and Female (years)	60	60
Discount rate	5.75%	5.75%
Rate of salary increases	8-9%	8-9%

Amounts recognised in comprehensive income in respect of these defined benefit plans are as follows:

	Group and Bank	
	2015	2014
	RM'000	RM'000
Service cost:		
Current service cost	35,816	34,881
Past service cost	(40,522)	-
Net profit income	(16,428)	(10,611)
Components of defined benefit costs recognised in profit or loss (Note 31(i))	(21,134)	24,270
Remeasurement on the net defined benefit liability:		
Actuarial gain arising from changes in financial assumptions	-	1,245
Actuarial loss arising from changes in experience adjustments	(2,051)	(6,937)
Net return on plan assets	12,511	6,483
Components of defined benefit costs recognised in other comprehensive income	10,460	791
Total	(10,674)	25,061

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

11. OTHER ASSETS (CONTINUED)

(iii) Defined benefit plan (continued)

Amount recognised in the statements of financial position arising from the Bank's obligation in respect of its defined benefit plan is as follows:

	Group and Bank	
	2015	2014
	RM'000	RM'000
Present value of funded obligations	(513,023)	(501,195)
Fair value of plan assets	797,843	775,341
Net assets	284,820	274,146

Movement in the present value of funded obligations are as follows:

	Group and Bank	
	2015	2014
	RM'000	RM'000
As of 1 January	501,195	454,879
Current service cost	35,816	34,881
Past service cost	(40,522)	-
Finance cost	27,969	24,896
Actuarial gain arising from changes in financial assumptions	-	1,245
Actuarial loss arising from changes in experience adjustments	(2,051)	(6,937)
Benefits paid	(9,384)	(7,769)
As of 31 December	513,023	501,195

Movement in the fair value of plan assets are as follows:

	Group and Bank	
	2015	2014
	RM'000	RM'000
As of 1 January	775,341	647,816
Profit income	44,397	35,507
Contributions paid during the year	-	106,270
Benefits paid from defined benefit plan	(9,384)	(7,769)
Net return on plan assets	(12,511)	(6,483)
As of 31 December	797,843	775,341

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

11. OTHER ASSETS (CONTINUED)

(iii) Defined benefit plan (continued)

The fair value of the plan assets at the end of the reporting period is as follows:

	Group and Bank	
	2015	2014
	RM'000	RM'000
Term deposits	797,843	775,341
	797,843	775,341

The actual return on plan assets was RM31,886,000 (2014: RM29,024,000).

Sensitivity analysis on defined benefit plan

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analysis below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate reduces (increases) by 1%, the defined benefit obligation would increase by 14% (decrease by 12%);
- If the expected salary growth rate increases (decreases) by 1%, the defined benefit obligation would increase by 13% (decrease by 11%);

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statements of financial position.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

12. INVENTORIES

Inventories consist of the following:

	Group	
	2015	2014
	RM'000	RM'000
Trading inventories, at cost	4,358	5,140
Completed property units	588	4,344
	4,946	9,484

13. ASSET CLASSIFIED AS HELD-FOR-SALE

	Group	
	2015	2014
	RM'000	RM'000
As of 1 January	-	80,432
Disposal	-	(80,432)
As of 31 December	-	-

On 3 December 2013, a subsidiary entered into a sale and purchase agreement with a third party for the disposal of a freehold land and building for a cash consideration of RM85,000,000. Accordingly, the said freehold land and building was classified as asset held-for-sale as of 31 December 2013. The said disposal was completed 31 July 2014 upon the surrender of vacant possession to the purchaser. The gain arising from the said disposal is disclosed in Note 30(ii).

14. INVESTMENT IN SUBSIDIARIES

	Bank	
	2015	2014
	RM'000	RM'000
Unquoted shares, at cost	61,976	43,500

During the year, the Bank has acquired additional interest in the wholly owned subsidiary company, Rakyat Holdings Sdn Bhd by capitalising of amount due from subsidiary amounting to RM18,476,000. Subsequent to that, the investment in subsidiary company recorded at cost amounts to RM61,976,000.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

14. INVESTMENT IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries, all incorporated in Malaysia, are as follows:

Name	Proportion of ownership interest and voting power held by the Group		Principal activities
	2015	2014	
	%	%	
Directly owned			
Rakyat Holdings Sdn Bhd *	100	100	Investment and property management
Indirectly owned through Rakyat Holdings Sdn Bhd			
Rakyat Hartanah Sdn Bhd *	100	100	Property development and project management
Rakyat Management Services Sdn Bhd *	100	100	Management of Ar-Rahnu business and franchise
Rakyat Asset Management Sdn Bhd *	100	100	Management services and co-operative administrator
Rakyat Facility Management Sdn Bhd *	100	100	Building management and maintenance
Rakyat Travel Sdn Bhd *	100	100	Transportation and travelling services
Rakyat Nominees Sdn Bhd *	100	100	Dormant
Rakyat Niaga Sdn Bhd *	100	100	Trading and supply of goods

* The financial statements of these subsidiary companies were not audited by the Auditor General of Malaysia.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

14. INVESTMENT IN SUBSIDIARIES (CONTINUED)

Composition of the Group

Information about the composition of the Group at the end of the reporting period is as follows:

Principal activities	Place of Incorporation and Operation	Number of directly owned subsidiary		Number of indirectly owned subsidiaries	
		2015	2014	2015	2014
Investment and property management	Malaysia	1	1	-	-
Property development and project management	Malaysia	-	-	1	1
Management of Ar-Rahnu business and franchise	Malaysia	-	-	1	1
Management services and co-operative administrator	Malaysia	-	-	1	1
Building management and maintenance	Malaysia	-	-	1	1
Transportation and travelling services	Malaysia	-	-	1	1
Trading and supply of goods	Malaysia	-	-	1	1
Dormant	Malaysia	-	-	1	1
		1	1	7	7

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

15. PROPERTY AND EQUIPMENT

Group 2015	Freehold land RM'000	Buildings RM'000	Long- term leasehold land and buildings RM'000	Short- term leasehold land and buildings RM'000	Work-in progress RM'000	Renovation RM'000	Furniture, fittings and office equipment RM'000	Motor vehicles RM'000	Total RM'000
At cost									
At 1 January	51,941	420,250	97,715	868	5,085	219,740	499,229	8,502	1,303,330
Additions	-	28,978	5,087	60	37,681	23,888	72,364	1,387	169,445
Disposals	(10,420)	(865)	(3,325)	-	-	(125)	(564)	(710)	(16,009)
Write-offs	-	(498)	-	-	-	(714)	(4,537)	-	(5,749)
Reclassifications	-	1,479	-	-	(17,378)	15,899	-	-	-
Transfer to investment properties (Note 16)	-	(84,434)	(20,616)	-	(9,062)	(1,139)	(765)	-	(116,016)
Transfer from investment properties (Note 16)	-	12,598	28,678	-	-	-	-	-	41,276
At 31 December	41,521	377,508	107,539	928	16,326	257,549	565,727	9,179	1,376,277
Accumulated depreciation									
At 1 January	-	15,037	12,541	302	-	153,465	351,988	4,584	537,917
Charge for the year	-	7,406	4,250	39	-	29,897	56,162	1,077	98,831
Disposals	-	(15)	-	-	-	(125)	(549)	(67)	(756)
Write-offs	-	(50)	-	-	-	(374)	(1,575)	-	(1,999)
Transfer to investment properties (Note 16)	-	(1,750)	(1,956)	-	-	(686)	(625)	-	(5,017)
At 31 December	-	20,628	14,835	341	-	182,177	405,401	5,594	628,976
Net book value									
At 31 December	41,521	356,880	92,704	587	16,326	75,372	160,326	3,585	747,301

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

15. PROPERTY AND EQUIPMENT (CONTINUED)

Group 2014	Freehold land RM'000	Buildings RM'000	Long- term leasehold land and buildings RM'000	Short- term leasehold land and buildings RM'000	Work-in progress RM'000	Renovation RM'000	Furniture, fittings and office equipment RM'000	Motor vehicles RM'000	Total RM'000
At cost									
At 1 January	50,553	60,631	124,176	868	497,941	198,651	433,676	7,990	1,374,486
Additions	-	-	-	-	68,632	8,037	63,900	1,174	141,743
Disposals	-	-	-	-	-	-	(250)	(662)	(912)
Write-offs	-	(510)	-	-	-	-	(2,004)	-	(2,514)
Reclassifications	-	360,129	1,405	-	(378,493)	13,052	3,907	-	-
Transfer to prepaid lease payments (Note 17)	-	-	(8,343)	-	-	-	-	-	(8,343)
Transfer to investment properties (Note 16)	-	-	(22,848)	-	(182,995)	-	-	-	(205,843)
Transfer from investment properties (Note 16)	1,388	-	3,325	-	-	-	-	-	4,713
At 31 December	51,941	420,250	97,715	868	5,085	219,740	499,229	8,502	1,303,330
Accumulated depreciation									
At 1 January	-	10,292	24,844	286	-	129,070	302,510	3,832	470,834
Charge for the year	-	4,764	2,262	16	-	24,395	51,695	932	84,064
Disposals	-	-	-	-	-	-	(247)	(180)	(427)
Write-offs	-	(19)	-	-	-	-	(1,970)	-	(1,989)
Transfer to prepaid lease payments (Note 17)	-	-	(77)	-	-	-	-	-	(77)
Transfer to investment properties (Note 16)	-	-	(14,488)	-	-	-	-	-	(14,488)
At 31 December	-	15,037	12,541	302	-	153,465	351,988	4,584	537,917
Net book value									
At 31 December	51,941	405,213	85,174	566	5,085	66,275	147,241	3,918	765,413

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

15. PROPERTY AND EQUIPMENT (CONTINUED)

Bank 2015	Freehold land RM'000	Buildings RM'000	Long- term leasehold land and buildings RM'000	Short- term leasehold land and buildings RM'000	Work-in progress RM'000	Renovation RM'000	Furniture, fittings and office equipment RM'000	Motor vehicles RM'000	Total RM'000
At cost									
At 1 January	50,421	420,250	73,776	868	7,631	217,500	495,772	1,729	1,267,947
Additions	-	28,978	5,087	60	17,073	22,070	70,870	338	144,476
Disposals	(10,420)	(865)	-	-	-	(125)	(564)	(338)	(12,312)
Write-offs	-	(498)	-	-	-	(167)	(3,836)	-	(4,501)
Reclassifications	-	1,479	-	-	(17,378)	15,899	-	-	-
Transfer to investment properties (Note 16)	-	(84,434)	-	-	-	-	-	-	(84,434)
At 31 December	40,001	364,910	78,863	928	7,326	255,177	562,242	1,729	1,311,176
Accumulated depreciation									
At 1 January	-	15,037	10,587	302	-	152,072	349,440	1,188	528,626
Charge for the year	-	7,125	3,590	39	-	29,634	55,823	189	96,400
Disposals	-	(15)	-	-	-	(125)	(549)	(5)	(694)
Write-offs	-	(50)	-	-	-	(51)	(961)	-	(1,062)
Transfer to investment properties (Note 16)	-	(1,750)	-	-	-	-	-	-	(1,750)
At 31 December	-	20,347	14,177	341	-	181,530	403,753	1,372	621,520
Net book value									
At 31 December	40,001	344,563	64,686	587	7,326	73,647	158,489	357	689,656

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

15. PROPERTY AND EQUIPMENT (CONTINUED)

Bank 2014	Freehold land RM'000	Buildings RM'000	Long- term leasehold land and buildings RM'000	Short- term leasehold land and buildings RM'000	Work-in progress RM'000	Renovation RM'000	Furniture, fittings and office equipment RM'000	Motor vehicles RM'000	Total RM'000
At cost									
At 1 January	50,421	60,631	96,679	868	500,003	196,523	430,429	1,729	1,337,283
Additions	-	-	-	-	63,602	7,925	63,690	260	135,477
Disposals	-	-	-	-	-	-	(250)	(260)	(510)
Write-offs	-	(510)	-	-	-	-	(2,004)	-	(2,514)
Reclassifications	-	360,129	-	-	(377,088)	13,052	3,907	-	-
Transfer to prepaid lease payments (Note 17)	-	-	(1,680)	-	-	-	-	-	(1,680)
Transfer to investment properties (Note 16)	-	-	(21,223)	-	(178,886)	-	-	-	(200,109)
At 31 December	50,421	420,250	73,776	868	7,631	217,500	495,772	1,729	1,267,947
Accumulated depreciation									
At 1 January	-	10,292	22,776	286	-	127,842	300,200	1,005	462,401
Charge for the year	-	4,764	1,866	16	-	24,230	51,457	183	82,516
Disposals	-	-	-	-	-	-	(247)	-	(247)
Write-offs	-	(19)	-	-	-	-	(1,970)	-	(1,989)
Transfer to investment properties (Note 16)	-	-	(14,055)	-	-	-	-	-	(14,055)
At 31 December	-	15,037	10,587	302	-	152,072	349,440	1,188	528,626
Net book value									
At 31 December	50,421	405,213	63,189	566	7,631	65,428	146,332	541	739,321

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

15. PROPERTY AND EQUIPMENT (CONTINUED)

Land titles of certain freehold land of the Bank with carrying amount of RM3,531,519 (2014: RM3,611,933) have not been issued by the relevant authorities.

16. INVESTMENT PROPERTIES

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
At fair value				
As of 1 January	539,288	160,474	524,179	148,448
Additions	16,081	51	16,081	-
Gain on revaluation (Note 30(ii))	73,983	186,741	66,236	187,077
Disposal	(4,369)	-	(4,035)	-
Transfer from property and equipment (Note 15)	110,999	191,355	82,684	186,054
Transfer from prepaid lease payments (Note 17)	13,884	5,380	-	2,600
Transfer to property and equipment (Note 15)	(41,276)	(4,713)	-	-
As of 31 December	708,590	539,288	685,145	524,179

Investment properties include the following:

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Freehold land	7,448	5,539	7,568	6,845
Buildings	464,682	305,880	455,952	291,844
Leasehold land and buildings	236,460	227,869	221,625	225,490
	708,590	539,288	685,145	524,179

Investment properties of the Group and of the Bank are stated at fair value and are situated in Malaysia.

The fair values of the Group's and of the Bank's investment properties as at 31 December 2015 and 31 December 2014 have been arrived at on the basis of a valuation carried out by independent valuers who have appropriate qualification and recent experience in the valuation of properties in the relevant locations. The fair value was arrived at by reference to current prices in an active market for similar properties in the same location and condition. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

16. INVESTMENT PROPERTIES (CONTINUED)

Details of the Group's and the Bank's investment properties and information about the fair value hierarchy are as follows:

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group					
As of 31 December 2015	708,590	708,590	-	708,590	-
As of 31 December 2014	539,288	539,288	-	539,288	-
Bank					
As of 31 December 2015	685,145	685,145	-	685,145	-
As of 31 December 2014	524,179	524,179	-	524,179	-

Land titles for certain freehold land and leasehold land of the Bank with fair value amounting to RM950,000 (2014: RM950,000) have not been issued to the Bank by the relevant authorities.

The investment properties held by the Bank are let under operating leases to third parties, from which rental income of RM15,482,733 (2014: RM6,993,431) has been earned during the year.

17. PREPAID LEASE PAYMENTS

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Cost				
As of 1 January	93,682	96,772	76,680	82,642
Transfer from property and equipment (Note 15)	-	8,343	-	1,680
Transfer to investment properties (Note 16)	(17,002)	(11,433)	-	(7,642)
As of 31 December	76,680	93,682	76,680	76,680
Accumulated amortisation				
As of 1 January	13,008	16,990	9,890	13,270
Charge for the year (Note 31 (ii))	1,532	1,994	1,532	1,662
Transfer from property and equipment (Note 15)	-	77	-	-
Transfer to investment properties (Note 16)	(3,118)	(6,053)	-	(5,042)
As of 31 December	11,422	13,008	11,422	9,890
	65,258	80,674	65,258	66,790

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

17. PREPAID LEASE PAYMENTS (CONTINUED)

Prepaid lease payments include:

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Long-term leasehold land	50,562	51,745	50,562	51,745
Short-term leasehold land	14,696	28,929	14,696	15,045
	65,258	80,674	65,258	66,790

The remaining period of the leasehold land of the Group and of the Bank ranges from 18 to 91 years (2014: 17 to 95 years) and 18 to 91 years (2014: 19 to 92 years) respectively.

The land titles of certain leasehold land of the Bank amounting to RM12,882,032 (2014: RM16,926,226) have not been issued to the Bank by the relevant authorities.

18. DEFERRED TAX ASSETS

Deferred tax assets of the Group and of the Bank are as follows:

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
As of 1 January	139,221	265,032	140,000	266,000
Transfer to/(from) profit or loss (Note 32)				
Property and equipment	15,231	(2,027)	15,000	(2,000)
Financing and advances	(52,000)	(6,000)	(52,000)	(6,000)
Provision for retirement benefits	(7,000)	3,000	(7,000)	3,000
Other payables	(29,000)	(31,000)	(29,000)	(31,000)
Profit equalisation reserve	(12,000)	(90,000)	(12,000)	(90,000)
Trade receivables	146	216	-	-
	(84,623)	(125,811)	(85,000)	(126,000)
As of 31 December	54,598	139,221	55,000	140,000

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

18. DEFERRED TAX ASSETS (CONTINUED)

Deferred tax assets/(liabilities) presented in the statements of financial position are in respect of the tax effects of the following:

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Deferred tax assets				
Temporary differences arising from:				
Financing and advances	66,000	118,000	66,000	118,000
Provision for retirement benefits	11,000	18,000	11,000	18,000
Other payables	44,000	73,000	44,000	73,000
Profit equalisation reserve	-	12,000	-	12,000
Trade receivables	362	216	-	-
	121,362	221,216	121,000	221,000
Offsetting	(66,764)	(81,995)	(66,000)	(81,000)
Deferred tax assets (after offsetting)	54,598	139,221	55,000	140,000
Deferred tax liabilities				
Temporary differences arising from:				
Property and equipment	66,764	81,995	66,000	81,000
Offsetting	(66,764)	(81,995)	(66,000)	(81,000)
Deferred tax liabilities (after offsetting)	-	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

19. DEPOSITS FROM CUSTOMERS

	Group and Bank	
	2015	2014
	RM'000	RM'000
Savings deposits		
Wadiah	3,750,568	3,585,232
Term deposits		
Tawarruq	58,114,929	52,494,140
General investment deposits		
Mudarabah	156	1,627,722
Special investment deposits		
Mudarabah	-	182,200
Negotiable Islamic debt certificate	9,116,119	10,633,679
	70,981,772	68,522,973

Deposits from customers are sourced from the following type of customers:

	Group and Bank	
	2015	2014
	RM'000	RM'000
Government	30,251,363	30,692,105
Business enterprises	27,743,606	24,086,611
Co-operatives	943,212	1,220,504
Individuals	10,774,077	11,290,827
Others	1,269,514	1,232,926
	70,981,772	68,522,973

Maturity structure of deposits from customers is as follows:

	Group and Bank	
	2015	2014
	RM'000	RM'000
Maturity within six months	49,636,311	56,791,442
More than six months to one year	18,141,585	8,765,853
More than one year to five years	3,203,876	2,965,678
	70,981,772	68,522,973

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

20. DEPOSITS AND PLACEMENTS FROM BANKS AND FINANCIAL INSTITUTIONS

	Group and Bank	
	2015	2014
	RM'000	RM'000
Licensed Islamic banks	1,940,000	1,800,000
	1,940,000	1,800,000

21. RECOURSE OBLIGATIONS ON FINANCING SOLD TO CAGAMAS

This represents proceeds received from financing sold directly to Cagamas Berhad with recourse to the Bank. Types of financing involved are personal financing and house financing. Under these agreements, the Bank undertakes to administer the financing on behalf of Cagamas Berhad and to replace any financing which are regarded as defective based on prudential criteria set by Cagamas Berhad.

Recourse obligations on financing sold to Cagamas are stated at amortised cost.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

22. DEBT SECURITIES ISSUED

		Group and Bank	
		2015	2014
		RM'000	RM'000
Issued under the RM1.0 billion IMTN Programme:			
First tranche:			
RM300 million IMTN due in 2015	(i)	-	301,896
Second tranche:			
RM700 million IMTN due in 2017	(i)	704,775	704,683
Issued under the RM9.0 billion IMTN Programme:			
First tranche:			
RM200 million IMTN due in 2016	(ii)(a)	200,190	200,220
Second tranche:			
RM300 million IMTN due in 2018	(ii)(a)	300,453	300,330
Third tranche:			
RM575 million IMTN due in 2017	(ii)(b)	581,551	581,589
Fourth tranche:			
RM425 million IMTN due in 2019	(ii)(b)	430,128	430,188
Fifth tranche:			
RM150 million IMTN due in 2019	(ii)(c)	150,519	150,484
Sixth tranche:			
RM350 million IMTN due in 2021	(ii)(c)	351,255	351,181
		2,718,871	3,020,571

- (i) On 26 September 2012, the Bank obtained the approval from the Securities Commission for the establishment of a Senior Islamic Medium Term Notes (IMTNs) Programme to issue a Sukuk Musharakah of up to RM1.0 billion. The issuance was made via a Special Purpose Vehicle (SPV), Imtiaz Sukuk Berhad. The Senior IMTNs Programme has a tenor of up to 10 years from the date of the first issuance and shall be issued for a maturity of up to 10 years provided that the Senior IMTNs mature prior to the expiry of the Senior IMTNs Programme.

On 23 November 2012, the Bank issued its inaugural RM1.0 billion Sukuk Musharakah made in two tranches. The first tranche of RM300 million in nominal value of Senior IMTNs for a tenor of 3 years with profit distribution rate at 3.88% and maturity date at 23 November 2015. The second tranche of RM700 million in nominal value of Senior IMTN for a tenor of 5 years with profit distribution rate at 4.08% and maturity date at 23 November 2017. In November 2015, the first tranche of RM300 million notes were fully redeemed upon maturity.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

22. DEBT SECURITIES ISSUED (CONTINUED)

- (ii) On 25 October 2013, the Bank established a RM9.0 billion Senior IMTNs Programme to issue Sukuk Musharakah via Imtiaz Sukuk (II) Berhad with a programme tenor of 10 years.
- (a) On 20 December 2013, the Bank issued the first tranche and second tranche of Senior IMTNs of RM200 million and RM300 million respectively. The first tranche has a tenor of 3 years with profit distribution rate at 4.30%, maturing in December 2016 and the second tranche has a tenor of 5 years with profit distribution rate at 4.45%, maturing in December 2018. The profit is payable semi-annually each year commencing 20 June 2013.
- (b) On 24 March 2014, the Bank issued the third tranche and forth tranche of RM575 and RM425 million of the Senior IMTNs. The third tranche has a tenor of 3 years with profit distribution rate at 4.30% and the fourth tranche has a tenor of 5 years with profit distribution rate at 4.60%. The notes will mature on 24 March 2017 and 22 March 2019 respectively. The profit is payable semi-annually each year commencing 24 September 2013.
- (c) On 24 November 2014, the Bank issued the fifth tranche and the sixth tranche of RM150 million and RM350 million. The fifth tranche bears a profit distribution rate at 4.50% and matures on 22 November 2019. The sixth tranche bears a profit distribution rate at 4.65% maturing on 24 November 2021. The profit is payable semi-annually each year commencing 25 May 2015.

The proceeds from the issuances were utilised by the Bank for Shariah-compliant working capital and general corporate purposes.

The Sukuk Musharakah constitute direct, unconditional and unsecured obligations of the Issuer and shall at all times rank paripassu without discrimination, preference or priority among themselves and at least paripassu with all other unsecured and unsubordinated obligations of the Issuer, subject to the provisions of the Transaction Documents and those preferred by law.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

23. OTHER LIABILITIES

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Amount due to subsidiaries (i)	-	-	249,781	194,846
Sundry creditors	194,322	243,138	171,734	217,804
Income payable	487,537	421,314	487,537	421,314
Other liabilities and accruals	349,544	520,576	349,190	513,275
Government fund	177,571	200,803	177,571	200,803
Zakat payable	42,355	45,181	40,307	44,555
	1,251,329	1,431,012	1,476,120	1,592,597

(i) Amount due to subsidiaries

	Bank	
	2015	2014
	RM'000	RM'000
Term deposits	235,499	189,410
Savings deposits	14,282	5,436
	249,781	194,846

The amount due to subsidiaries of RM249,781,000 (2014: RM194,846,000) represents deposits placed with the Bank. The average profit rate paid/payable to subsidiaries is 3.74% (2014: 3.49%) per annum.

24. PROFIT EQUALISATION RESERVE

	Group and Bank	
	2015	2014
	RM'000	RM'000
As of 1 January	48,641	406,639
Net utilisation during the year (Note 28)	(48,641)	(357,998)
As of 31 December	-	48,641
Apportioned between:		
Investor	-	18,776
Bank	-	29,865
	-	48,641

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

25. SHARE CAPITAL

	Group and Bank	
	2015	2014
	RM'000	RM'000
Authorised		
3,000,000,000 ordinary shares of RM1 each	3,000,000	3,000,000
Issued and fully paid - Ordinary shares of RM1 each		
As of 1 January	2,973,677	2,973,677
Net issuance during the year	11,117	4,581
Transfer to other liabilities	-	(5,452)
Transfer (to)/from share redemption fund	(871)	871
As of 31 December	2,983,923	2,973,677

Membership as of 31 December is as follows:

	Group and Bank	
	2015	2014
Individual	905,790	922,452
Co-operative	2,128	2,099
	907,918	924,551

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

26. RESERVES

Group	Non-distributable					Distributable	
	Capital reserve RM'000	Statutory reserve RM'000	Fair value reserve RM'000	Regulatory reserve RM'000	Total other reserves RM'000	Retained profits RM'000	Total RM'000
At 1 January 2014	14,617	3,789,563	(21,849)	-	3,782,331	4,486,576	8,268,907
Profit after taxation and zakat	-	-	-	-	-	1,975,845	1,975,845
Transfer from retained profits	-	499,177	-	245,566	744,743	(744,743)	-
Contribution to the Co-operative Education Trust Fund	-	-	-	-	-	(43,204)	(43,204)
Contribution to the Co-operative Development Provident Fund	-	-	-	-	-	(21,602)	(21,602)
Contribution to Bank Rakyat Foundation	-	-	-	-	-	(9,095)	(9,095)
Remeasurement of defined benefit plan	-	-	-	-	-	(791)	(791)
Unrealised net loss on revaluation of financial assets available-for-sale	-	-	(55,565)	-	(55,565)	-	(55,565)
Dividends	-	-	-	-	-	(441,053)	(441,053)
At 31 December 2014	14,617	4,288,740	(77,414)	245,566	4,471,509	5,201,933	9,673,442
At 1 January 2015	14,617	4,288,740	(77,414)	245,566	4,471,509	5,201,933	9,673,442
Profit after taxation and zakat	-	-	-	-	-	1,824,121	1,824,121
Transfer from retained profits	-	454,087	-	13,087	467,174	(467,174)	-
Contribution to the Co-operative Education Trust Fund	-	-	-	-	-	(39,191)	(39,191)
Contribution to the Co-operative Development Provident Fund	-	-	-	-	-	(19,596)	(19,596)
Contribution to Bank Rakyat Foundation	-	-	-	-	-	(14,824)	(14,824)
Remeasurement of defined benefit plan	-	-	-	-	-	(10,460)	(10,460)
Unrealised net gain on revaluation of financial assets available-for-sale	-	-	13,703	-	13,703	-	13,703
Dividends	-	-	-	-	-	(443,502)	(443,502)
At 31 December 2015	14,617	4,742,827	(63,711)	258,653	4,952,386	6,031,307	10,983,693

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

26. RESERVES (CONTINUED)

Bank	Non-distributable					Distributable	
	Capital reserve RM'000	Statutory reserve RM'000	Fair value reserve RM'000	Regulatory reserve RM'000	Total other reserves RM'000	Retained profits RM'000	Total RM'000
At 1 January 2014	15,358	3,789,563	(21,849)	-	3,783,072	4,218,310	8,001,382
Profit after taxation and zakat	-	-	-	-	-	1,957,705	1,957,705
Transfer from retained profits	-	499,177	-	245,566	744,743	(744,743)	-
Contribution to the Co-operative Education Trust Fund	-	-	-	-	-	(43,204)	(43,204)
Contribution to the Co-operative Development Provident Fund	-	-	-	-	-	(21,602)	(21,602)
Contribution to Bank Rakyat Foundation	-	-	-	-	-	(9,095)	(9,095)
Remeasurement of defined benefit plan	-	-	-	-	-	(791)	(791)
Unrealised net loss on revaluation of financial assets available-for-sale	-	-	(55,565)	-	(55,565)	-	(55,565)
Dividends	-	-	-	-	-	(441,053)	(441,053)
At 31 December 2014	15,358	4,288,740	(77,414)	245,566	4,472,250	4,915,527	9,387,777
At 1 January 2015	15,358	4,288,740	(77,414)	245,566	4,472,250	4,915,527	9,387,777
Profit after taxation and zakat	-	-	-	-	-	1,779,005	1,779,005
Transfer from retained profits	-	454,087	-	13,087	467,174	(467,174)	-
Contribution to the Co-operative Education Trust Fund	-	-	-	-	-	(39,191)	(39,191)
Contribution to the Co-operative Development Provident Fund	-	-	-	-	-	(19,596)	(19,596)
Contribution to Bank Rakyat Foundation	-	-	-	-	-	(14,824)	(14,824)
Remeasurement of defined benefit plan	-	-	-	-	-	(10,460)	(10,460)
Unrealised net gain on revaluation of financial assets available-for-sale	-	-	13,703	-	13,703	-	13,703
Dividends	-	-	-	-	-	(443,502)	(443,502)
At 31 December 2015	15,358	4,742,827	(63,711)	258,653	4,953,127	5,699,785	10,652,912

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

26. RESERVES (CONTINUED)

(i) Statutory reserve

The statutory reserve is maintained in compliance with Development Financial Institutions Act 2002 (Act 618) and is not distributable as dividend.

(ii) Capital reserve

This is a reserve required to be maintained under Co-operative Societies Act 1993 and consists of capital gain from disposal of land or building, or both, under non-current assets.

(iii) Fair value reserve

This reserve relates to unrealised fair value gains and losses on financial assets available-for-sale.

(iv) Regulatory reserve

The regulatory reserve is maintained as an additional credit risk buffer to ensure the robustness of the financing impairment assessment methodology.

(v) Retained profits

Included in retained profits is an amount of RM925,000,000 (2014: RM400,000,000) earmarked to improve the Rate of Return Risk (ROR) exposure as part of asset and liability management strategies.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

27. INCOME

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of depositors' fund (i)	4,436,480	4,308,216	4,436,480	4,308,216
Income derived from investment of shareholders' fund (ii)	1,182,138	1,101,427	1,182,138	1,101,427
Income generated by subsidiary companies (iii)	67,669	76,656	-	-
	5,686,287	5,486,299	5,618,618	5,409,643

(i) Income derived from investment of depositors' fund

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Income from financing and advances *	3,667,767	3,611,173	3,667,767	3,611,173
Income from deposits and placements with banks and financial institutions	65,657	49,226	65,657	49,226
Income from financial assets	703,056	647,817	703,056	647,817
	4,436,480	4,308,216	4,436,480	4,308,216

(ii) Income derived from investment of shareholders' fund

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Income from financing and advances *	977,308	923,223	977,308	923,223
Income from deposits and placements with banks and other financial institutions	17,495	12,585	17,495	12,585
Income from financial assets	187,335	165,619	187,335	165,619
	1,182,138	1,101,427	1,182,138	1,101,427

* Included in income from financing and advances for the current year is profit accrued on impaired financing of RM66,427,853 (2014: RM67,307,561)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

27. INCOME (CONTINUED)

(iii) Income generated by subsidiary companies

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Agency income	15,722	14,812	-	-
Pawning income	36,999	45,474	-	-
Rental income	2,046	6,377	-	-
Management fee	12,072	9,993	-	-
Sale of goods	393	-	-	-
Other charges	437	-	-	-
	67,669	76,656	-	-

28. EXPENDITURE

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Income attributable to depositors (i)	2,694,941	2,342,563	2,702,164	2,348,330
Profit expense on financing sold with recourse to Cagamas	65,736	62,526	65,736	62,526
Transfer from profit equalisation reserve (Note 24)	(48,641)	(357,998)	(48,641)	(357,998)
Profit expense on debt securities issued	127,701	98,663	127,701	98,663
Cost of sales	78,303	77,157	-	-
	2,918,040	2,222,911	2,846,960	2,151,521

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

28. EXPENDITURE (CONTINUED)

(i) Income attributable to depositors

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Deposits from customers				
Mudarabah	26,752	372,238	33,975	378,005
Non-Mudarabah	2,596,043	1,920,119	2,596,043	1,920,119
Deposits and placements from banks and other financial institutions				
Mudarabah	36,981	50,022	36,981	50,022
Non-Mudarabah	35,165	184	35,165	184
	2,694,941	2,342,563	2,702,164	2,348,330

29. ALLOWANCES FOR IMPAIRMENT

	Group and Bank	
	2015	2014
	RM'000	RM'000
Allowance for impairment on financing and advances (i)	463,366	698,875
Allowance for impairment on financial assets (ii)	10,070	10,032
	473,436	708,907

(i) Allowance for impairment on financing and advances

	Group and Bank	
	2015	2014
	RM'000	RM'000
Individual impairment (Note 9(x))	105,391	286,802
Individual impairment on rescheduled financing *	8,413	15,508
Collective impairment (Note 9(xi))	349,562	396,565
	463,366	698,875

* This refers to individual impairment on rescheduled accounts during the year that was adjusted against balance of financing and advances.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

29. ALLOWANCES FOR IMPAIRMENT (CONTINUED)

(ii) Allowance for impairment on financial assets

	Group and Bank	
	2015	2014
	RM'000	RM'000
Financial assets available-for-sale	10,070	10,032
	10,070	10,032

30. OTHER OPERATING INCOME

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Fees and commission (i)	63,600	63,036	63,600	63,036
Other income (ii)	681,438	514,116	643,762	508,526
	745,038	577,152	707,362	571,562

(i) Fees and commission

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Takaful commission	17,199	14,789	17,199	14,789
ATM service fees	12,454	11,474	12,454	11,474
Wasiat commission	2,626	5,366	2,626	5,366
Other commission	18,106	12,634	18,106	12,634
Processing fees	492	937	492	937
MEPS fees	8,831	8,439	8,831	8,439
Guarantee fees	1,083	5,753	1,083	5,753
Other fees	2,809	3,644	2,809	3,644
	63,600	63,036	63,600	63,036

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

30. OTHER OPERATING INCOME (CONTINUED)

(ii) Other income

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Other income from financial instruments				
Dividend from financial assets available-for-sale	9,057	8,481	9,057	8,481
Net gain on disposal of financial assets held-for-trading	83	139	83	139
Net gain on disposal of financial assets available-for-sale	22,599	20,210	22,599	20,210
Others				
Rental income	13,978	7,007	15,483	6,994
Compensation for late payment	3,332	6,810	3,332	6,810
Charges from credit card services	15,532	18,035	15,532	18,035
Other service charges	9,042	10,789	9,042	10,789
Recoveries on financing written off	415,354	205,916	415,354	205,916
Allowance for doubtful debts no longer required				
Trade receivables (Note 10)	318	-	-	-
Amount due from subsidiaries (Note 11(i))	-	-	18,476	-
Other receivables (Note 11(ii))	4	106	4	106
Allowance for impairment loss on financial assets held-to-maturity no longer required (Note 8)	745	4,388	745	4,388
Gain on disposal of property and equipment	5	39	5	1
Gain on disposal of asset classified as held-for-sale (Note 13)	-	4,568	-	-
Other income	67,406	40,887	65,978	39,580
Gain on revaluation of investment properties (Note 16)	73,983	186,741	66,236	187,077
Dividend from subsidiary	-	-	1,836	-
Compensation from legal case	50,000	-	-	-
	681,438	514,116	643,762	508,526

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

31. OPERATING EXPENSES

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Personnel expenses (i)	466,602	483,681	451,441	474,980
Other overheads and expenditure (ii)	561,524	462,919	594,570	485,612
	1,028,126	946,600	1,046,011	960,592

(i) Personnel expenses

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Salaries and wages	277,118	235,504	267,949	229,813
Allowances, compensation and bonuses	104,752	107,281	100,570	105,558
Defined benefit plan (Note 11(iii))	(21,134)	24,270	(21,134)	24,270
Defined contribution plan - EPF	71,121	65,429	69,981	64,711
Social security contributions - SOCSO	2,992	2,725	2,873	2,666
Other staff related costs	31,753	48,472	31,202	47,962
	466,602	483,681	451,441	474,980

Total number of staffs (excluding the Board of Directors) for the Group is 5,459 persons (2014: 4,790) and for the Bank is 5,135 persons (2014: 4,640).

(ii) Other overheads and expenditure

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Establishment				
Rental	23,240	20,458	28,781	24,346
Depreciation of property and equipment	98,831	84,064	96,400	82,516
Amortisation of prepaid lease payments	1,532	1,994	1,532	1,662
Repair and maintenance	97,935	85,293	97,601	85,098
Takaful	9,041	8,149	8,930	7,981
	230,579	199,958	233,244	201,603

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

31. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Promotion				
Advertisement and publicity	68,580	40,098	67,698	38,537
	68,580	40,098	67,698	38,537
General expenses				
Legal and professional fees	15,719	6,506	12,640	6,341
Auditors' remuneration	1,120	606	1,000	421
Communication expenses	18,299	26,116	18,027	25,884
Utilities expenses	7,972	24,962	7,731	24,788
Printing and stationery	20,247	15,207	19,955	15,001
Postage and courier	15,305	14,383	15,274	14,348
Security expenses	26,650	20,258	26,590	20,158
Service charges	25,486	38,746	56,335	50,195
Loss on financing written off	26,541	9,212	26,541	9,212
Property and equipment written off	3,750	525	3,439	525
Commission expenses	60,696	40,681	60,696	40,681
Travelling and transportation	2,082	4,460	8,954	14,340
Others	38,498	21,201	36,446	23,578
	262,365	222,863	293,628	245,472
	561,524	462,919	594,570	485,612

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

31. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

The above expenditure includes the following statutory disclosures:

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Impairment losses on:				
Trade receivables (Note 10)	990	1,378	-	-
Amount due from subsidiaries (Note 11(i))	-	-	-	1,387
Other receivables, deposits and prepayments (Note 11(ii))	94	3,841	94	3,841
Auditors' remuneration:				
Current year:				
Statutory audit fees	888	820	720	660
Other services	295	366	280	341
Overprovision in prior year	(63)	(580)	-	(580)
Amortisation of prepaid lease payment (Note 17)	1,532	1,994	1,532	1,662
Depreciation of property and equipment (Note 15)	98,831	84,064	96,400	82,516
Property and equipment written off	3,750	525	3,439	525
Finance cost on financing from other financial institutions	-	839	-	-
Rental of premises	23,198	20,432	28,781	24,346
Rental of equipment	42	26	-	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

31. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

Included in general expenses are the following Directors' remuneration:

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Executive Director				
Salary and other remuneration	966	926	966	926
Bonuses	879	682	879	682
EPF contributions	314	274	314	274
Other emoluments	47	7	47	7
	2,206	1,889	2,206	1,889
Non-Executive Directors				
Fees	2,431	1,060	1,822	808
Other emoluments	874	217	874	217
	3,305	1,277	2,696	1,025
	5,511	3,166	4,902	2,914

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

31. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

Total remuneration of the Directors is as follows:

	Remuneration received from Bank				Remuneration received from Subsidiary Companies			Group
2015	Salary and Bonus RM'000	Fees RM'000	Other Emolu- ments RM'000	Total RM'000	Fees RM'000	Other Emolu- ments RM'000	Total RM'000	Total RM'000
Executive Director								
Dato' Mustafha Hj. Abd Razak	2,159	-	47	2,206	85	-	85	2,291
	2,159	-	47	2,206	85	-	85	2,291
Non-Executive Directors								
General Tan Sri Dato' Sri (Dr.) Abdul Aziz Hj. Zainal (R)	-	152	13	165	71	-	71	236
Dato' Sri Alias Hj. Ahmad	-	169	2	171	37	-	37	208
Dato' Abdul Mutalib Alias	-	163	4	167	-	-	-	167
Dato' Dr. Roselan Baki	-	175	16	191	44	-	44	235
Datuk Hj. Abdul Rahman Kasim	-	188	12	200	48	-	48	248
Tan Sri Datuk Seri Dr. Alies Anor Abdul	-	178	1	179	77	-	77	256
Datuk Hj. Mohd Idris Hj. Mohd Isa	-	203	4	207	41	-	41	248
Dato' Hj. Abdullah Hj. Abas	-	177	9	186	72	-	72	258
Dato' Siti Zauyah Md. Desa	-	79	2	81	8	-	8	89
Dato' Hj. Ismail Nordin	-	83	2	85	21	-	21	106
Razalee Amin	-	83	2	85	22	-	22	107
	-	1,650	67	1,717	441	-	441	2,158
Former Non-Executive Directors								
Datuk Mat Noor Nawi	-	172	131	303	83	-	83	386
Tan Sri Sabbaruddin Chik	-	-	106	106	-	-	-	106
Dato' Mangsor Saad	-	-	124	124	-	-	-	124
Datuk Seri Hj. Saripuddin Kasim	-	-	118	118	-	-	-	118
Dato' Zuraidah Atan	-	-	116	116	-	-	-	116
Dato' Hj. Amirul Rahman Abdul Rahim	-	-	106	106	-	-	-	106
Dato' Dr. Syed Hussain Syed Husman	-	-	106	106	-	-	-	106
	-	172	807	979	83	-	83	1,062
	2,159	1,822	921	4,902	609	-	609	5,511

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

31. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

	Remuneration received from Bank				Remuneration received from Subsidiary Companies			Group
2014	Salary and Bonus RM'000	Fees RM'000	Other Emolu- ments RM'000	Total RM'000	Fees RM'000	Other Emolu- ments RM'000	Total RM'000	Total RM'000
Executive Director								
Dato' Mustafha Hj. Abd Razak	1,882	-	7	1,889	47	-	-	1,936
	1,882	-	7	1,889	47	-	-	1,936
Non-Executive Directors								
Datuk Mat Noor Nawi	-	154	9	163	41	-	-	204
Dato' Abdul Mutalib Alias	-	71	9	80	-	-	-	80
Dato' Mangsor Saad	-	124	52	176	42	-	-	218
Datuk Seri Hj. Saripuddin Kasim	-	108	27	135	-	-	-	135
Dato' Dr. Roselan Baki	-	70	9	79	10	-	-	89
Datuk Hj. Abdul Rahman Kasim	-	75	10	85	21	-	-	106
Tan Sri Datuk Seri Dr. Alies Anor Abdul	-	41	2	43	-	-	-	43
Datuk Hj. Mohd Idris Hj. Mohd Isa	-	22	2	24	-	-	-	24
Dato' Hj. Abdullah Hj. Abas	-	16	11	27	3	-	-	30
	-	681	131	812	117	-	-	929
Former Non-Executive Directors								
Tan Sri Sabbaruddin Chik	-	45	15	60	68	-	-	128
Dato' Zuraidah Atan	-	82	21	103	20	-	-	123
Dato' Hj. Amirul Rahman Abdul Rahim	-	-	50	50	-	-	-	50
	-	127	86	213	88	-	-	301
	1,882	808	224	2,914	252	-	-	3,166

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

32. TAXATION

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Malaysian income tax				
Current year	84,607	63,782	78,762	57,468
Overprovision in prior years	(20,938)	(20,115)	(20,537)	(19,988)
	63,669	43,667	58,225	37,480
Deferred tax (Note 18)				
Current year	84,723	115,841	85,000	116,000
(Over)/Underprovision in prior years	(100)	9,970	-	10,000
	84,623	125,811	85,000	126,000
Total	148,292	169,478	143,225	163,480

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:

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Profit before taxation and zakat	2,011,723	2,185,033	1,959,573	2,160,185
Tax expense at statutory tax rate of 24% (2014: 25%)	482,814	546,258	470,298	540,046
Effect of different tax rates of subsidiaries	731	-	-	-
Non-taxable income	(66,119)	(57,127)	(55,018)	(55,747)
Non-deductible expenses	103,324	30,948	99,873	29,625
Tax exempt under Section 65(A)	(351,391)	(340,456)	(351,391)	(340,456)
Effect of deferred tax due to reduction in tax rate	(29)	-	-	-
(Over)/Underprovision in prior years:				
Current tax	(20,938)	(20,115)	(20,537)	(19,988)
Deferred tax	(100)	9,970	-	10,000
	148,292	169,478	143,225	163,480

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

33. ZAKAT

In computing for zakat, the Group and the Bank have been applying the growth capital method based on the rate of 2.5%. This method applies the rate on owners' equity, long term liability, net of fixed assets and non-current assets, and subjected to allowable adjustments.

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Provision for current year	39,315	41,626	37,343	41,000
Overprovision in prior years	(5)	(1,916)	-	(2,000)
	39,310	39,710	37,343	39,000

34. STATUTORY APPROPRIATIONS

Maintenance of statutory reserve fund is required under Development Financial Institutions Act 2002 (Act 618), whereas contributions to Co-operative Education Trust Fund and Co-operative Development Provident Funds are made in compliance with Co-operative Societies Act 1993 (Act 502).

Contribution to Bank Rakyat Foundation is made under paragraph 65(ii) of Undang-Undang Kecil Bank Kerjasama Rakyat Malaysia Berhad, which states that net profit for the year can be utilised towards a fund meant for welfare and benefits of members.

35. EARNINGS PER SHARE

Basic earnings per ordinary share have been calculated based on the Group's profit after taxation and zakat of RM1,824,121,000 (2014: RM1,975,845,000) divided by the weighted average number of ordinary shares of 2,978,814,000 (2014: 2,974,681,000) of RM1 each in issue during the financial year.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

36. DIVIDENDS

	Group and Bank	
	2015	2014
	RM'000	RM'000
Cash dividend of 15% for the year ended 31 December 2014 (2013: 15%)	443,502	441,053
	443,502	441,053

During the financial year, the Bank paid a final cash dividend of 15% amounting to RM443 million in respect of the previous financial year.

In respect of the current financial year, the Board of Directors has proposed a cash dividend of 13% amounting to RM390 million. The proposed dividend are subject to the approval by the relevant authorities and have not been included as liabilities in the financial statements.

37. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group and the Bank make various commitments and incur certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions.

	Group and Bank	
	2015	2014
	RM'000	RM'000
Contingent liabilities		
Bank guarantee given in respect of banking facilities granted to customers	236,015	509,375
Claims for damages from litigation taken against the Bank	28,586	7,594
Commitments		
Undrawn financing	2,336,334	2,116,835
	2,600,935	2,633,804

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

38. CAPITAL COMMITMENTS

Capital expenditure approved but not provided for in the financial statements are as follows:

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Capital expenditure				
- approved and contracted for	16,988	13,337	4,360	467
- approved but not contracted for	315,709	30,372	301,475	-
	332,697	43,709	305,835	467

39. OPERATING LEASES

The Bank leases a number of premises under operating leases. None of the leases include contingent rentals. Total future minimum lease payments under these non-cancellable operating leases are as follows:

	Bank	
	2015	2014
	RM'000	RM'000
Within one year	930	684
Between one and two years	159	153
Between two to three years	86	-
	1,175	837

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

40. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or if one other party controls both.

The related parties of the Group and of the Bank are:

40.1 Subsidiary Companies

Details of the subsidiary companies are shown in Note 14.

40.2 Key Management Personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and of the Bank either directly or indirectly. The key management personnel of the Group and of the Bank includes Executive Director and Non-Executive Directors of the Bank and certain members of senior management of the Bank and heads of major subsidiary companies of the Group.

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

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Short-term employee benefits				
Fees	2,431	1,153	1,822	808
Salary	3,760	3,393	3,247	2,935
Allowances	398	300	398	300
EPF contribution	1,081	943	947	868
Bonuses	2,362	2,211	2,032	1,860
Other emoluments	4,325	289	4,229	224
	14,358	8,289	12,675	6,995

Included in the total compensation for key management personnel are the following items:

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Directors' remuneration				
Bank's directors	4,903	2,914	4,903	2,914
Subsidiary companies' directors	609	252	-	-
	5,512	3,166	4,903	2,914

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

40. RELATED PARTY TRANSACTIONS (CONTINUED)

40.3 Transactions with subsidiaries

All related party transactions within the Bank Rakyat group are conducted on normal commercial terms which are not more favourable than those generally available to the public.

	Bank	
	2015	2014
	RM'000	RM'000
Income earned		
Rental income	(1,538)	-
Expenditure incurred		
Profit expenses	7,223	5,767
Management fee expenses	29,428	9,467
Rental expenses	4,894	4,293
Purchase of goods and services	6,183	8,261
Travelling and transportation	7,154	9,287
	53,344	37,075

41. FINANCIAL RISK MANAGEMENT

41.1 Overview

The Bank's business activities involve the use of financial instruments that expose the Bank to a variety of financial risks with the following as the primary risks:

- i) Credit risk
- ii) Liquidity risk
- iii) Market risk
- iv) Operational risk

41.2 Risk management framework

Risk Management Framework articulates the objectives, guiding principles and governance structure for risk management processes in the Bank. This enables the identification, assessment and measurement control and continuous monitoring of all material risks on a group-and bank-wide basis, supported by robust management information system that facilitates timely and reliable reporting of risks and the integration of information across the bank.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.2 Risk management framework (continued)

Risk Management within the Bank is guided by the following principles:

- Alignment of risk taking activities with the Bank's risk appetite;
- Risk aware decision making with clear understanding of risks and their impacts on profitability and sustainability;
- Accountability through ownership of risks, controls, and profitability inherent in the Bank's business and support functions
- Integration of risk management, compliance and ethical business practices into the culture of the Bank.

The Bank Risk Appetite Statement is as follows:

"The Bank's business strategy and risk-taking activities should always be within the capacity of the Bank. This is achieved by strengthening the following six dimensions - Risk Governance; Capital Adequacy and Shareholders' Value; Reputation as Islamic Bank; Asset Quality; Liquidity; and Operational Resilience."

41.2.1 Risk governance

The Bank manages its risks in accordance with the "Three Lines of Defence Model", which places accountability and ownership to the source of risk, whilst ensuring sufficient level of independent oversight.

The "Three Lines of Defence" consists of the following components:

(i) First Line of Defence - Informed Decision Making by Business Units

The Business Units are responsible to identify, manage and report their own risks. At this stage risk awareness is instilled starting at risk taking units so that Risk Management is incorporated into every aspect of work conducted.

(ii) Second Line of Defence - Oversight by Risk Management and Compliance

Risk Management and Compliance supports business units, as well as review and report key risks to the Management and Board of Directors. In doing so, Risk Management and Compliance provides support to Management and Board of Directors in fulfilling their oversight functions.

(iii) Third Line of Defence - Independent Assurance by Internal Audit

Internal Audit conducts quality assurance review, to ensure that the risk-taking activities are in line with established standards. Internal Audit provides recommendations for improvement where necessary. Its functions complement the support extended to the Management and Board Audit Committee in the risk oversight functions.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.2 Risk management framework (continued)

41.2.1 Risk governance (continued)

Roles and responsibilities oversight Committee:

Roles and responsibilities of the Board Risk Committee (BRC):

- a) The BRC shall be responsible to review and recommend risk management strategies, policies, appetite and tolerance for Board's approval.
- b) The BRC with the recommendation of Management Risk Committee periodically reviews the Risk Management Framework.
- c) The BRC shall be responsible to assess the adequacy of risk management policies, processes and infrastructure to manage various types of risks is comprehensive and recommend to the Board for approval.
- d) Review management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

Roles and responsibilities of Management Risk Committee:

- a) Assess whether the Bank's corporate objectives are supported by a sound risk strategy and an effective risk management framework that is appropriate to the nature, scale and complexity of its activities.
- b) Establish, review and implement Board approved risk management framework and policies.
- c) Communicate approved policies to employees and monitor as well as enforce compliance with these policies.
- d) Periodically review Risk Management Framework and recommend to Management Risk Committee for escalation to BRC and Board.

Roles and responsibilities of Operational Risk Management Committee:

- a) Review and recommend operational risk management strategies, policies, guidelines and procedures.
- b) Review and assess adequacy of operational risk management framework, policies, guidelines and procedures in identifying, assessing, controlling and monitoring of operational risk and the extent to which these are operating effectively.
- c) Ensure that infrastructure, resources and systems are in place to effectively manage operational risks.
- d) Review operational risk profiles and periodic reports, including progress and follow-up actions.
- e) Monitor the identified operational risks, key risk indicators and loss incidents in the business and functional units' operations.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.2 Risk management framework (continued)

41.2.1 Risk governance (continued)

Roles and responsibilities of Financing Review Committee:

- a) Direct, monitor, review and consider such issues as may materially impact on the present and future quality of the Bank's financing book.
- b) Conduct post-mortem on impaired financing and to learn weaknesses in existing credit policies and processes.
- c) Ensure the procedures and resources are effective to identify and manage irregular and problem credits, minimize credit loss and maximize recoveries.
- d) Review and recommend any enhancement of credit related policies, process and procedures.

41.3 Credit risk

Credit risk is the risk of suffering financial or non-financial loss should any of the customers, clients or market counterparties fail to fulfil their contractual obligations through the Bank's financing, hedging, trading and investing activities.

The Bank's retail and corporate credit exposures are governed by credit policies and stringent underwriting criteria. The Bank credit processes are in line with industry best practices which emphasizes on individual accountability with clear lines of responsibility where credit administration, early monitoring and recovery is independent from Business Unit.

41.3.1 Management of credit risk

The Bank's credit risk management includes establishment of comprehensive credit risk policies, guidelines and procedures that document financing standards, credit risk rating, acceptable collateral and valuation, and compliance with regulatory and statutory requirements. The policies are periodically reviewed to ensure their continuous relevance.

Risk Management is responsible to formulate and review the credit risk policies, guidelines and procedures as well as credit portfolio monitoring. Risk Management also conducts independent credit assessment to evaluate quality of credit proposal by Business Units for corporate customer.

Risk Management also prepares reports to be presented to Board and Senior Management. The reports contain information on identified credit risk factors. With this information, Board and Senior Management are able to effectively identify adverse credit risk trends, take corrective actions and formulate business strategies accordingly.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.3 Credit risk (continued)

41.3.2 Financing to retail customers

Financing granted to retail customers is individually underwritten by assessing historical payment track record and payment capacity of the customer. This process is governed by Retail Credit Risk Policy, Product Policies and assessed using credit scorecard. Both Retail Credit Risk Policy and credit scorecard are developed by Risk Management while Product Policies are developed by Product Division within Retail Banking and are independently reviewed by Risk Management.

The credit approving authority and credit approving officers have the responsibility to ensure that credit risk is properly assessed and all crucial credit information of the customer is included in the financing application.

Risk Management is also responsible to assess new/variation of financing product or program to ensure that the product/program offered to customers is beneficial to both customers and Bank whilst mitigating the inherent risks.

41.3.3 Financing to corporate customers

Granting of credit to corporate customers is individually underwritten as guided by the Bank's risk appetite and policies. In its oversight role, Risk Management conducts independent assessment on all credit proposals to corporate customers prior to approval.

41.3.4 Purchase of investment securities

Credit qualities of financial instruments are assessed based on ratings from external credit ratings agencies.

Portfolio review and monitoring is frequently conducted in ensuring the exposures are effectively managed and concentration risk is observed at all times.

41.3.5 Impaired financing and investment debt securities

Individually impaired financing and investment securities are financing and advances and investment securities (other than those carried at fair value through profit or loss) for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and profits due according to the contractual terms of the financing/investment security agreement(s).

41.3.6 Neither past due nor impaired financing and investment securities

These are financing and investment securities from which contractual payment of profit or principal have not defaulted and therefore are not impaired since there is no objective evidence of impairment.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.3 Credit risk (continued)

41.3.7 Past due but not impaired financing and investment securities

Past due but not impaired financing and investment securities, other than those carried at fair value through profit or loss, are those for which contractual profits or principal payments are past due, but it is believed that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank.

41.3.8 Financing with renegotiated terms

Financing with renegotiated terms are financing that have been restructured due to deterioration in the borrower's financial position. Once the financing is restructured it remains in this category independent of satisfactory performance after restructuring.

41.3.9 Allowances for impairment

The Bank establishes an allowance for impairment losses on assets carried at amortised cost that represents estimate of incurred losses in its financing and investment security portfolio.

The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective financing loss allowance established for the group of homogeneous assets as well as for individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

Assets carried at fair value through profit or loss are not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

41.3.10 Write-off policy

The Bank writes-off a financing or an investment security, and any related allowances for impairment losses, when the Bank determines that the financing or investment security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.3 Credit risk (continued)

41.3.11 Collateral on financing and advances

In mitigating credit risk on financing and advances granted to customers, collaterals are obtained as follows:

- i) House financing - charges over residential properties.
- ii) Commercial property financing - charges over the properties being financed.
- iii) Vehicle financing - ownership claims over the vehicles being financed.
- iv) Other financing and advances - charges over business assets such as premises, trade receivables or deposits.

41.3.12 Credit grading for investment securities

Credit qualities of financial instruments are assessed based on ratings from external credit ratings agencies.

At the end of the reporting period, instruments rated with "Grade D" are those that have defaulted beyond their maturity period.

41.3.13 Maximum exposure to credit risk

The following table presents the Bank's credit exposure of on-balance sheet and off-balance sheet financial instruments.

For on-balance sheet assets, the exposure to credit risk equals the carrying amount.

For credit commitments, maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.3 Credit risk (continued)

41.3.13 Maximum exposure to credit risk (continued)

	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Assets				
Cash and short-term funds	1,899,146	3,080,554	1,897,976	3,078,779
Deposits and placements with financial institutions	933,286	185,838	908,750	160,099
Financial assets available-for-sale	13,296,973	11,962,018	13,295,819	11,958,602
Financial assets held-to-maturity	10,718,843	11,131,717	10,718,843	11,131,717
Financing and advances	63,137,184	60,482,549	63,137,184	60,482,549
Trade receivables	8,416	6,484	-	-
Other receivables	147,562	190,842	144,998	187,579
	90,141,410	87,040,002	90,103,570	86,999,325
Commitments				
Undrawn financing	2,336,334	2,116,835	2,336,334	2,116,835
Total maximum exposure to credit risk	92,477,744	89,156,837	92,439,904	89,116,160

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.3 Credit risk (continued)

41.3.14 Credit risk exposure on financing and advances

	Group and Bank	
	2015	2014
	RM'000	RM'000
At amortised cost		
Neither past due nor impaired		
0 month	60,401,701	57,646,752
	60,401,701	57,646,752
Past due but not impaired		
1 month	1,878,677	2,086,642
2 months	656,124	667,764
3 months	308,751	430,193
More than 3 months	513	963
	2,844,065	3,185,562
Past due and impaired		
Less than 4 months	306,852	190,414
4 months to 6 months	334,810	324,076
7 months to 9 months	132,675	300,995
More than 9 months	443,548	451,822
	1,217,885	1,267,307
Gross financing and advances	64,463,651	62,099,621

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.3 Credit risk (continued)

41.3.15 Credit risk exposure on investment securities

Group 2015	Financial assets available- for-sale RM'000	Financial assets held- to-maturity RM'000	Total RM'000
Rated securities			
Islamic debt securities			
Grade AA	-	-	-
Grade AA+	9,932	85,897	95,829
Grade AAA	2,356,475	298,364	2,654,839
Grade AA1	289,808	35,753	325,561
Grade AA2	55,645	-	55,645
Grade AA3	24,399	69,131	93,530
	2,736,259	489,145	3,225,404
Cagamas bonds			
Grade AAA	310,530	177,946	488,476
Negotiable Islamic debt certificates			
Grade AA1	-	198,440	198,440
	3,046,789	865,531	3,912,320
Unrated securities			
Government investment issues	7,384,890	8,289,353	15,674,243
Government bonds	2,521,156	1,096,603	3,617,759
Khazanah bonds	100,117	467,356	567,473
	10,006,163	9,853,312	19,859,475
Shares			
Quoted and unit trust shares	236,034	-	236,034
Unquoted shares	7,987	-	7,987
	244,021	-	244,021
	13,296,973	10,718,843	24,015,816

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.3 Credit risk (continued)

41.3.15 Credit risk exposure on investment securities (continued)

Bank 2015	Financial assets available- for-sale RM'000	Financial assets held- to-maturity RM'000	Total RM'000
Rated securities			
Islamic debt securities			
Grade AA	-	-	-
Grade AA+	9,932	85,897	95,829
Grade AAA	2,356,475	298,364	2,654,839
Grade AA1	289,808	35,753	325,561
Grade AA2	55,645	-	55,645
Grade AA3	24,399	69,131	93,530
	2,736,259	489,145	3,225,404
Cagamas bonds			
Grade AAA	310,530	177,946	488,476
Negotiable Islamic debt certificates			
Grade AA1	-	198,440	198,440
	3,046,789	865,531	3,912,320
Unrated securities			
Government investment issues	7,384,890	8,289,353	15,674,243
Government bonds	2,521,156	1,096,603	3,617,759
Khazanah bonds	100,117	467,356	567,473
	10,006,163	9,853,312	19,859,475
Shares			
Quoted and unit trust shares	236,034	-	236,034
Unquoted shares	6,833	-	6,833
	242,867	-	242,867
	13,295,819	10,718,843	24,014,662

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.3 Credit risk (continued)

41.3.15 Credit risk exposure on investment securities (continued)

Group 2014	Financial assets available- for-sale RM'000	Financial assets held- to-maturity RM'000	Total RM'000
Rated securities			
Islamic debt securities			
Grade AA	-	-	-
Grade AA+	-	-	-
Grade AAA	2,292,341	456,444	2,748,785
Grade AA1	299,387	30,743	330,130
Grade AA2	35,424	-	35,424
Grade AA3	25,025	71,376	96,401
	2,652,177	558,563	3,210,740
Cagamas bonds			
Grade AAA	53,627	122,835	176,462
Negotiable Islamic debt certificates			
Grade AA1	-	248,719	248,719
	2,705,804	930,117	3,635,921
Unrated securities			
Government investment issues	6,793,223	8,673,072	15,466,295
Government bonds	2,162,419	1,078,786	3,241,205
Khazanah bonds	85,259	449,742	535,001
	9,040,901	10,201,600	19,242,501
Shares			
Quoted and unit trust shares	205,064	-	205,064
Unquoted shares	10,249	-	10,249
	215,313	-	215,313
	11,962,018	11,131,717	23,093,735

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.3 Credit risk (continued)

41.3.15 Credit risk exposure on investment securities (continued)

Bank 2014	Financial assets available- for-sale RM'000	Financial assets held- to-maturity RM'000	Total RM'000
Rated securities			
Islamic debt securities			
Grade AA	-	-	-
Grade AA+	-	-	-
Grade AAA	2,292,341	456,444	2,748,785
Grade AA1	299,387	30,743	330,130
Grade AA2	35,424	-	35,424
Grade AA3	25,025	71,376	96,401
	2,652,177	558,563	3,210,740
Cagamas bonds			
Grade AAA	53,627	122,835	176,462
Negotiable Islamic debt certificates			
Grade AA1	-	248,719	248,719
	2,705,804	930,117	3,635,921
Unrated securities			
Government investment issues	6,793,223	8,673,072	15,466,295
Government bonds	2,162,419	1,078,786	3,241,205
Khazanah bonds	85,259	449,742	535,001
	9,040,901	10,201,600	19,242,501
Shares			
Quoted and unit trust shares	205,064	-	205,064
Unquoted shares	6,833	-	6,833
	211,897	-	211,897
	11,958,602	11,131,717	23,090,319

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.4 Liquidity risk

Liquidity risk arises from mismatches in the timing of cash flows due to the inability to meet maturing or regulatory obligations and customers' demands for funds when required, which may adversely affect daily operations, Bank's reputation and incur unacceptable losses.

41.4.1 Management of liquidity risk

The management of liquidity risk is subject to Bank Negara Malaysia's Liquidity Framework and Liquidity Coverage Ratio requirements as well as the Bank's liquidity risk management framework.

The Bank adopts various liquidity risk measurement tools in managing the cash flows for daily movement as well as medium and long-term positions to ensure sufficient funding sources to meet obligations.

It is important for the Bank to maintain diversification strategy of funding sources and providers to ensure stability of funding structure and adequate standby facilities while managing excessive concentration towards key depositors. The Bank maintains sufficient high-quality liquid assets to withstand against any unforeseen liquidity stress.

In addition, a liquidity stress testing is conducted based on sensitivity analysis for various stress scenarios covering the Bank's specific and market-wide crisis scenario. The stress scenarios would provide valuable assessment on the impact from adverse liquidity environment and the Bank's vulnerable portfolios.

The Bank has established liquidity contingency funding plan which entails the early warning indicators as well as strategies and actions to be taken by the liquidity crisis management team arising from different liquidity crisis scenarios.

The Bank's liquidity risk management framework, policies and procedures are reviewed periodically which are endorsed by Asset and Liability Committee (ALCO) and approved by the Board. ALCO meets on a monthly basis and is responsible to monitor the liquidity risk position against the Bank's risk appetite and approved limits.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.4 Liquidity risk (continued)

41.4.2 Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers.

For this purpose, net liquid assets are considered as including cash and cash equivalents and investment grade securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month.

Details of the reported Bank ratio of net liquid assets to deposits from customers at the end of the reporting period and during the year were as follows:

	Bank	
	2015	2014
At 31 December	32.78%	33.33%
Average for the year	33.56%	32.21%
Maximum for the year	35.75%	33.89%
Minimum for the year	32.56%	30.63%

41.4.3 Liquidity risk of assets and liabilities

The main thrust of liquidity management is the projection of up to one year of the maturity profile of the Bank's assets, liabilities and off-balance sheet commitments from a given position.

The focus is on the ability of the Bank to match its short-term liquidity requirement arising from maturing obligations with maturing assets, followed by a medium-term assessment of liquidity up to one year.

The primary basis for determining the appropriate time bands is the contractual maturity, which is when the cash flows crystallise.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.4 Liquidity risk (continued)

41.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities

Bank 2015	Up to 1 week RM'000	More than 1 week - 1 month RM'000	More than 1 month - 3 months RM'000	More than 3 months -6 months RM'000	More than 6 months -1 year RM'000	More than 1 year RM'000	No specific maturity RM'000	Total RM'000
Assets								
Cash, deposits and placements with financial institutions	1,545,403	352,574	908,749	-	-	-	-	2,806,726
Investment securities	242,867	71,936	868,680	281,915	1,355,720	21,193,544	-	24,014,662
Financing and advances	1,354,768	43,439	504,036	845,664	622,305	59,766,972	-	63,137,184
Other assets	-	-	-	-	-	-	2,327,356	2,327,356
	3,143,038	467,949	2,281,465	1,127,579	1,978,025	80,960,516	2,327,356	92,285,928
Liabilities								
Deposits from customers	11,114,998	16,457,420	19,463,484	11,066,735	9,675,259	3,203,876	-	70,981,772
Deposits and placements from banks and financial institutions	805,000	700,000	435,000	-	-	-	-	1,940,000
Recourse obligations on financing sold to Cagamas	-	-	-	429,371	287,059	762,229	-	1,478,659
Debt securities issued	-	-	-	-	200,190	2,518,681	-	2,718,871
Other liabilities	-	-	-	-	-	-	1,476,120	1,476,120
	11,919,998	17,157,420	19,898,484	11,496,106	10,162,508	6,484,786	1,476,120	78,595,422
Shareholders' fund	-	-	-	-	-	13,690,506	-	13,690,506
	-	-	-	-	-	13,690,506	-	13,690,506
Net maturity mismatch	(8,776,960)	(16,689,471)	(17,617,019)	(10,368,527)	(8,184,483)	60,785,224	851,236	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.4 Liquidity risk (continued)

41.4.4 Liquidity risk of contingent liabilities and commitment by remaining contractual maturities

Bank 2015	Up to 1 week RM'000	More than 1 week - 1 month RM'000	More than 1 month - 3 months RM'000	More than 3 months -6 months RM'000	More than 6 months -1 year RM'000	More than 1 year RM'000	No specific maturity RM'000	Total RM'000
Commitment and contingencies								
Bank guarantee given in respect of banking facilities granted to customers	-	-	14,477	7,792	15,177	198,569	-	236,015
Claims for damages from litigation taken against the Bank	-	-	-	-	-	28,586	-	28,586
Undrawn financing	-	-	-	-	-	2,336,334	-	2,336,334
	-	-	14,477	7,792	15,177	2,563,489	-	2,600,935

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.4 Liquidity risk (continued)

41.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (continued)

Bank 2014	Up to 1 week RM'000	More than 1 week - 1 month RM'000	More than 1 month - 3 months RM'000	More than 3 months -6 months RM'000	More than 6 months -1 year RM'000	More than 1 year RM'000	No specific maturity RM'000	Total RM'000
Assets								
Cash, deposits and placements with financial institutions	1,807,326	1,271,453	160,099	-	-	-	-	3,238,878
Investment securities	211,897	5,084	263,920	318,078	977,085	21,314,255	-	23,090,319
Financing and advances	1,523,048	181,744	681,470	1,023,253	208,211	56,864,823	-	60,482,549
Other assets	-	-	-	-	-	-	2,364,908	2,364,908
	3,542,271	1,458,281	1,105,489	1,341,331	1,185,296	78,179,078	2,364,908	89,176,654
Liabilities								
Deposits from customers	9,246,607	17,214,757	18,280,967	11,646,593	9,123,276	3,010,773		68,522,973
Deposits and placements from banks and financial institutions	1,400,000	400,000	-	-	-	-		1,800,000
Recourse obligations on financing sold to Cagamas	-	-	-	-	599,565	1,178,053		1,777,618
Debt securities issued	-	-	-	-	301,896	2,718,675		3,020,571
Other liabilities	-	-	-	-	-	-	1,611,373	1,611,373
	10,646,607	17,614,757	18,280,967	11,646,593	10,024,737	6,907,501	1,611,373	76,732,535
Shareholders' fund	-	-	-	-	-	12,444,119	-	12,444,119
	-	-	-	-	-	12,444,119	-	12,444,119
Net maturity mismatch	(7,104,336)	(16,156,476)	(17,175,478)	(10,305,262)	(8,839,441)	58,827,458	753,535	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.4 Liquidity risk (continued)

41.4.4 Liquidity risk of contingent liabilities and commitment by remaining contractual maturities (continued)

Bank 2014	Up to 1 week RM'000	More than 1 week - 1 month RM'000	More than 1 month - 3 months RM'000	More than 3 months -6 months RM'000	More than 6 months -1 year RM'000	More than 1 year RM'000	No specific maturity RM'000	Total RM'000
Commitment and contingencies								
Bank guarantee given in respect of banking facilities granted to customers	-	2,730	-	41,317	240,502	224,826	-	509,375
Claims for damages from litigation taken against the Bank	-	-	-	-	-	7,594	-	7,594
Undrawn financing	-	-	-	-	-	2,116,835	-	2,116,835
	-	2,730	-	41,317	240,502	2,349,255	-	2,633,804

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.5 Market risk

Market risk is defined as the risk of financial loss due to changes in equity prices, benchmark rates, credit spreads, foreign-exchange rates, commodity prices, and other indicators whose values are set in a public market. Changes in market rates can affect the Bank's net earnings and also the economic value of Bank's equity.

The function of Market Risk and Asset Liability Management (ALM) is to manage and control market risk exposure in order to optimize return on risk while maintaining a market profile consistent with the Bank's strategic plan.

The Bank has established the market risk policy, strategy and processes which are periodically reviewed and updated to take into account changes in activities and market structure to ensure effective implementation of risk management policies.

41.5.1 Management of market risk

The Bank manages market risk by segregating exposure to market risk between trading and non-trading portfolios. Trading portfolios are held by treasury department which consist of financial assets that are managed on fair value basis.

The risk measurement techniques employed by the Bank to measure and quantify the market value changes and the level of market risk comprise of Value-at-Risk (VaR), Modified Duration and Present Value of One Basis Point (PV01).

Exposure of the Bank to the foreign exchange rates is minimal since operation of foreign currency unit is limited to remittance services only.

41.5.2 Profit rate risk

Investment in debt securities and financing are exposed to risk of change in profit rates that would result in changes in cash flows. On the other hand, investment in equity securities and other short-term receivables and payables are not significantly exposed to profit rate risk.

Among other efforts in mitigating this risk is by diversifying investment mainly in fixed-income securities with different duration. The Bank has not engaged in hedging through derivative instruments during the year.

The sensitivity of the Bank's financial assets and liabilities to the profit rate risk is measured and monitored proactively using multiple measurement techniques such as Gap Analysis, Duration and Simulation Model.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.5 Market risk (continued)

41.5.2 Profit rate risk (continued)

The following shows the Bank's sensitivity to an increase or decrease in market profit rates, assuming no asymmetrical movement in yield curves and constant financial position.

Bank				
Sensitivity of projected net profit income	Increase by 100 bp RM'000	Decrease by 100 bp RM'000	Increase by 50 bp RM'000	Decrease by 50 bp RM'000
2015				
Year ended 31 December	(327,092)	325,234	(163,562)	163,593
Average for the year	(297,078)	271,351	(148,544)	136,067
Maximum for the year	(344,208)	342,279	(172,119)	172,148
Minimum for the year	(251,146)	193,024	(125,576)	96,508
2014				
Year ended 31 December	(274,546)	274,578	(137,277)	137,285
Average for the year	(312,270)	299,190	(156,141)	149,589
Maximum for the year	(354,741)	326,484	(177,377)	163,238
Minimum for the year	(270,619)	269,053	(135,317)	134,519

41.5.3 Exposure to profit rate

Among other controls to ensure that market risk exposures remain within tolerable levels include stress testing, new product approval procedures and listing of permissible instruments that can be traded.

Periodic stress testing and control assessment are conducted to address the plausible market events relating to the threat of market failure that could disrupt the Bank's profitability and capital adequacy in ensuring its resiliency.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.5 Market risk (continued)

41.5.4 Exposure to profit rate risk on profit-bearing financial instruments

Bank 2015	Non-trading book						Trading book RM'000	Total RM'000
	Up to 1 month RM'000	More than 1 month - 3 months RM'000	More than 3 months - 1 year RM'000	More than 1 year - 5 years RM'000	More than 5 years RM'000	Non-profit sensitive RM'000		
Assets								
Cash, deposits and placements with financial institutions	1,492,576	908,750	-	-	-	405,400	-	2,806,726
Financial assets available-for-sale	51,216	415,900	1,058,369	6,385,518	3,215,535	-	2,169,281	13,295,819
Financial assets held-to-maturity	20,720	452,780	579,266	7,380,637	2,285,440	-	-	10,718,843
Financing and advances								
- Non-impaired	18,381,717	7,125	90,495	2,687,567	40,063,405	2,015,457	-	63,245,766
- Impaired, net of allowances	-	-	-	-	-	(108,582)	-	(108,582)
Other non-profit sensitive balances	-	-	-	-	-	2,327,356	-	2,327,356
	19,946,229	1,784,555	1,728,130	16,453,722	45,564,380	4,639,631	2,169,281	92,285,928

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.5 Market risk (continued)

41.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

Bank 2015	Non-trading book						Trading book RM'000	Total RM'000
	Up to 1 month RM'000	More than 1 month - 3 months RM'000	More than 3 months - 1 year RM'000	More than 1 year - 5 years RM'000	More than 5 years RM'000	Non-profit sensitive RM'000		
Liabilities								
Deposits from customers	27,572,417	19,463,485	20,741,994	2,867,571	336,305	-	-	70,981,772
Deposits and placements from banks and financial institutions	1,505,000	435,000	-	-	-	-	-	1,940,000
Recourse obligations on financing sold to Cagamas	-	-	716,430	327,515	434,714	-	-	1,478,659
Debt securities issued	-	-	200,190	2,167,427	351,254	-	-	2,718,871
Other non-profit sensitive balances	-	-	-	-	-	1,476,120	-	1,476,120
	29,077,417	19,898,485	21,658,614	5,362,513	1,122,273	1,476,120	-	78,595,422
Shareholders' fund								
	-	-	-	-	-	13,690,506	-	13,690,506
On-balance sheet profit sensitivity gap	(9,131,188)	(18,113,930)	(19,930,484)	11,091,209	44,442,107	(10,526,995)	2,169,281	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-
Total profit sensitivity gap	(9,131,188)	(18,113,930)	(19,930,484)	11,091,209	44,442,107	(10,526,995)	2,169,281	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.5 Market risk (continued)

41.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

Bank 2014	Non-trading book						Trading book RM'000	Total RM'000
	Up to 1 month RM'000	More than 1 month - 3 months RM'000	More than 3 months - 1 year RM'000	More than 1 year - 5 years RM'000	More than 5 years RM'000	Non-profit sensitive RM'000		
Assets								
Cash, deposits and placements with financial institutions	2,711,041	160,099	-	-	-	367,738	-	3,238,878
Financial assets available-for-sale	5,084	10,153	800,703	5,463,611	5,467,154	-	211,897	11,958,602
Financial assets held-to-maturity	-	253,768	494,460	6,837,678	3,545,811	-	-	11,131,717
Financing and advances								
- Non-impaired	16,320,011	9,433	148,978	3,558,733	39,155,023	1,640,136	-	60,832,314
- Impaired, net of allowances	-	-	-	-	-	(349,765)	-	(349,765)
Other non-profit sensitive balances	-	-	-	-	-	2,364,908	-	2,364,908
	19,403,874	433,453	1,444,141	15,860,022	48,167,988	3,655,279	211,897	89,176,654

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.5 Market risk (continued)

41.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

Bank 2014	Non-trading book						Trading book RM'000	Total RM'000
	Up to 1 month RM'000	More than 1 month - 3 months RM'000	More than 3 months - 1 year RM'000	More than 1 year - 5 years RM'000	More than 5 years RM'000	Non-profit sensitive RM'000		
Liabilities								
Deposits from customers	23,977,397	18,278,718	20,713,232	5,434,588	119,038	-	-	68,522,973
Deposits and placements from banks and financial institutions	1,800,000	-	-	-	-	-	-	1,800,000
Recourse obligations on financing sold to Cagamas	-	-	599,565	1,178,053	-	-	-	1,777,618
Debt securities issued	-	-	301,896	2,367,494	351,181	-	-	3,020,571
Other non-profit sensitive balances	-	-	-	-	-	1,611,373	-	1,611,373
	25,777,397	18,278,718	21,614,693	8,980,135	470,219	1,611,373	-	76,732,535
Shareholders' fund								
	-	-	-	-	-	12,444,119	-	12,444,119
On-balance sheet profit sensitivity gap	(6,741,261)	(17,845,265)	(20,170,552)	6,879,887	47,697,769	(10,032,475)	211,897	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-
Total profit sensitivity gap	(6,741,261)	(17,845,265)	(20,170,552)	6,879,887	47,697,769	(10,032,475)	211,897	

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.6 Operational risk

The Bank defines operational risk as the risk of loss or non-achievement of business objectives due to inadequate or failed internal processes, people and system, or from external events.

The Bank's Operational Risk Management (ORM) Framework sets out the governance and oversight structure, roles and relationships of the three lines of defense mechanism as well as the high level principles and methodologies for operational risk identification, assessment, control and monitoring.

The framework recognises the relationships between operational risk and other risk types such as strategic, credit, market and reputation risks; and is cascaded to also govern the management of operational risk sub-types i.e. legal and compliance risk, Shariah non-compliance risk, Information Technology risk and outsourcing risk.

The Bank has no appetite for losses arising from inadequate internal controls, systems, and processes; which can be elaborated as zero appetite for:

- Failure to maintain a sound and proportionate system of internal controls to manage the expected operational risk losses and avoid the unexpected operational risk losses;
- Regulatory censures, fines or prosecution relating to the laws and regulations applicable to the Bank; and
- Failure to comply with Shariah rules and parameters as set out by the Shariah Committee (SC) and/or the Shariah Advisory Council of Bank Negara Malaysia.

The Bank continuously monitors its operational risk exposure to ensure the level of exposure is within the acceptable tolerance. This is conducted by means of the established governance and oversight structure as well as through the day-to-day operational risk management processes.

ORM processes are undertaken through the implementation of tools such as Risk and Control Self-Assessment (RCSA), Key Risk Indicator (KRI) and Loss Event Data (LED) collection. RCSA is a tool used to identify and assess the risks in key business processes, evaluate the effectiveness of internal controls and provide the basis for determining risk responses/strategies in pursuing business objectives. KRI provides early warning signal of any increase in risk exposure and/or occurrence of control failures. To support operational risk analytics, the Bank collects LED based on BNM's Operational Risk Integrated Online Network (ORION) requirements.

To improve its operational resilience, the Bank has revamped its Business Continuity Management (BCM) framework and processes by streamlining the governance structure and response matrix based on severity of disruption; namely code Amber, Red and Black. Code Amber incidents are isolated disruption affecting only a particular business/activity which shall be managed by the respective business involved. The entire crisis management hierarchy headed by Managing Director/President shall be activated under Code Black, which is a full-on crisis that could potentially affect the going concern of the Bank. To ensure effectiveness of the business continuity plans and to be in line with regulatory requirements, regular exercises, disaster simulations and recovery drills are conducted throughout the year.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.7 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- i) To comply with the capital requirements set by the regulators of the banking markets where the entities within the Bank operate;
- ii) To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- iii) To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines under the New Liquidity Framework developed by Bank Negara Malaysia. The required information is filed with Bank Negara Malaysia on a monthly basis.

The Bank maintains a ratio of total regulatory capital to its risk-weighted assets above a minimum level agreed with Bank Negara Malaysia which takes into account the risk profile of the Bank. The regulatory capital requirements are strictly observed when managing economic capital.

The Bank's regulatory capital comprises two tiers:

- i) Tier 1 capital: share capital, statutory reserve, capital reserve and retained profits; and
- ii) Tier 2 capital: collective impairment allowances on non-impaired financing and regulatory reserve.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and exposures not recognised in the statement of financial position.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.7 Capital management (continued)

41.7.1 Capital adequacy ratio

The Bank is required to comply with the core capital ratio and risk-weighted capital adequacy ratio prescribed by Bank Negara Malaysia. The Bank was in compliance with all prescribed capital ratios throughout the period.

	Bank	
	2015	2014 Restated
Before proposed dividend		
Core capital ratio	19.48%	18.26%
Risk-weighted capital adequacy ratio	20.70%	19.66%
After proposed dividend		
Core capital ratio	18.92%	17.60%
Risk-weighted capital adequacy ratio	20.13%	19.00%

The above ratios are derived by taking into account the core capital and capital base against the risk weighted assets of the Bank. Components of the capital are as follows:

	Bank	
	2015 RM'000	2014 RM'000
Tier I capital		
Paid-up share capital	2,983,923	2,973,677
Retained profits	5,699,785	4,915,527
Other reserves	4,758,185	4,304,098
Total Tier I capital (core)	13,441,893	12,193,302
Tier II capital		
Collective impairment *	642,077	731,757
Regulatory reserve	258,653	245,566
Total Tier II capital	900,730	977,323
Total capital	14,342,623	13,170,625
Less: Investment in subsidiaries	(61,976)	(43,500)
	(61,976)	(43,500)
Total capital base	14,280,647	13,127,125

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.7 Capital management (continued)

41.7.1 Capital adequacy ratio (continued)

* This is a surplus amount allowable after taking into account the collective impairment allowance on impaired financing of the Bank.

Assets in various categories are risk-weighted as follows:

	Bank	
	2015	2014
	RM'000	RM'000
Total assets assigned 20% risk-weighted	482,475	541,768
Total assets assigned 50% risk-weighted	1,520,233	1,352,334
Total assets assigned 100% risk-weighted	65,830,370	63,521,927
Off-Balance Sheet claims assigned 100% risk-weighted	1,158,093	1,356,114
	68,991,171	66,772,143

42. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets, financial liabilities and off-balance sheet financial instruments. Fair value is the amount at which the financial asset could be exchanged or a financial liability could be settled, between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the best estimates of fair values as at the end of the reporting period.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on appropriate methodologies and assumptions on risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

Fair value information for non-financial assets and liabilities is excluded as they do not fall within the scope of MFRS 132 ('Financial Instruments: Disclosure and Presentation') which requires the fair value information to be disclosed.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.1 Valuation of financial instruments

The Group and the Bank measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- i) Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- ii) Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- iii) Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices. For all other financial instruments, the Group and the Bank determine fair values using valuation techniques.

There were no financial liabilities of the Group and the Bank at the end of the reporting period that were measured at fair value.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.2 Valuation of financial instruments at fair value

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group					
2015					
Financial assets					
available-for-sale					
Islamic debt securities	2,736,259	2,736,259	-	2,736,259	-
Government investment issues	7,384,890	7,384,890	-	7,384,890	-
Government bonds	2,521,156	2,521,156	-	2,521,156	-
Khazanah bonds	100,117	100,117	-	100,117	-
Cagamas bonds	310,530	310,530	-	310,530	-
Quoted shares	234,304	234,304	234,304	-	-
Unit trust shares	1,730	1,730	-	1,730	-
Unquoted shares	7,987	7,987	-	-	7,987
	13,296,973	13,296,973	234,304	13,054,682	7,987
Group					
2014					
Financial assets					
available-for-sale					
Islamic debt securities	2,652,177	2,652,177	-	2,652,177	-
Government investment issues	6,793,223	6,793,223	-	6,793,223	-
Government bonds	2,162,419	2,162,419	-	2,162,419	-
Khazanah bonds	85,259	85,259	-	85,259	-
Cagamas bonds	53,627	53,627	-	53,627	-
Quoted shares	203,347	203,347	203,347	-	-
Unit trust shares	1,717	1,717	-	1,717	-
Unquoted shares	10,249	10,249	-	-	10,249
	11,962,018	11,962,018	203,347	11,748,422	10,249

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.2 Valuation of financial instruments at fair value (continued)

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Bank					
2015					
Financial assets					
available-for-sale					
Islamic debt securities	2,736,259	2,736,259	-	2,736,259	-
Government investment issues	7,384,890	7,384,890	-	7,384,890	-
Government bonds	2,521,156	2,521,156	-	2,521,156	-
Khazanah bonds	100,117	100,117	-	100,117	-
Cagamas bonds	310,530	310,530	-	310,530	-
Quoted shares	234,304	234,304	234,304	-	-
Unit trust shares	1,730	1,730	-	1,730	-
Unquoted shares	6,833	6,833	-	-	6,833
	13,295,819	13,295,819	234,304	13,054,682	6,833

Bank					
2014					
Financial assets					
available-for-sale					
Islamic debt securities	2,652,177	2,652,177	-	2,652,177	-
Government investment issues	6,793,223	6,793,223	-	6,793,223	-
Government bonds	2,162,419	2,162,419	-	2,162,419	-
Khazanah bonds	85,259	85,259	-	85,259	-
Cagamas bonds	53,627	53,627	-	53,627	-
Quoted shares	203,347	203,347	203,347	-	-
Unit trust shares	1,717	1,717	-	1,717	-
Unquoted shares	6,833	6,833	-	-	6,833
	11,958,602	11,958,602	203,347	11,748,422	6,833

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.3 Valuation of financial instruments not carried at fair value (but fair value disclosures are required)

Set out below is a comparison of the carrying amount and fair value of financial instruments that are not measured at fair value in the financial statements.

	Carrying amount 2015 RM'000	Fair value 2015 RM'000	Carrying amount 2014 RM'000	Fair value 2014 RM'000
Group				
Financial assets				
Cash and short-term funds	1,899,146	1,899,146	3,080,554	3,080,554
Deposits and placements with financial institutions	933,286	933,286	185,838	185,838
Financial assets held-to-maturity	10,718,843	10,554,180	11,131,717	10,889,343
Financing and advances	63,137,184	70,273,216	60,482,549	68,993,458
Trade receivables	8,416	8,416	6,484	6,484
Other receivables and deposits	390,204	390,204	450,231	450,231
Financial liabilities				
Deposits from customers	70,981,772	70,981,772	68,522,973	68,522,973
Deposits and placements from banks and financial institutions	1,940,000	1,940,000	1,800,000	1,800,000
Recourse obligations on financing sold to Cagamas	1,478,659	1,300,284	1,777,618	1,654,215
Debt securities issued	2,718,871	2,396,634	3,020,571	2,588,032
Trade payables	3,582	3,582	3,348	3,348
Other liabilities	1,251,329	1,251,329	1,431,012	1,431,012

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.3 Valuation of financial instruments not carried at fair value (but fair value disclosures are required) (continued)

	Carrying amount 2015 RM'000	Fair value 2015 RM'000	Carrying amount 2014 RM'000	Fair value 2014 RM'000
Bank				
Financial assets				
Cash and short-term funds	1,897,976	1,897,976	3,078,779	3,078,779
Deposits and placements with financial institutions	908,750	908,750	160,099	160,099
Financial assets held-to-maturity	10,718,843	10,554,180	11,131,717	10,889,343
Financing and advances	63,137,184	70,273,216	60,482,549	68,993,458
Other receivables and deposits	350,606	350,606	395,598	395,598
Financial liabilities				
Deposits from customers	70,981,772	70,981,772	68,522,973	68,522,973
Deposits and placements from banks and financial institutions	1,940,000	1,940,000	1,800,000	1,800,000
Recourse obligations on financing sold to Cagamas	1,478,659	1,300,284	1,777,618	1,654,215
Debt securities issued	2,718,871	2,396,634	3,020,571	2,588,032
Other liabilities	1,476,120	1,476,120	1,592,597	1,592,597

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.3 Valuation of financial instruments not carried at fair value (but fair value disclosures are required) (continued)

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group 2015					
Financial assets					
Cash and short-term funds	1,899,146	1,899,146	-	-	1,899,146
Deposits and placements with financial institutions	933,286	933,286	-	-	933,286
Financial assets held-to-maturity					
Government bonds	1,096,603	1,077,494	-	-	1,077,494
Government investment issues	8,289,353	8,152,622	-	-	8,152,622
Islamic debt securities	489,145	481,458	-	-	481,458
Khazanah bonds	467,356	468,180	-	-	468,180
Cagamas Bonds	177,946	176,006	-	-	176,006
Negotiable Islamic debt certificates	198,440	198,420	-	-	198,420
Financing and advances	63,137,184	70,273,216	-	-	70,273,216
Trade receivables	8,416	8,416	-	-	8,416
Other receivables and deposits	390,204	390,204	-	-	390,204
	77,087,079	84,058,448	-	-	84,058,448
Financial liabilities					
Deposits from customers	70,981,772	70,981,772	-	-	70,981,772
Deposits and placements from banks and financial Institutions	1,940,000	1,940,000	-	-	1,940,000
Recourse obligations on financing sold to Cagamas	1,478,659	1,300,284	-	-	1,300,284
Debt securities issued	2,718,871	2,396,634	-	-	2,396,634
Trade payables	3,582	3,582	-	-	3,582
Other liabilities	1,251,329	1,251,329	-	-	1,251,329
	78,374,213	77,873,601	-	-	77,873,601

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.3 Valuation of financial instruments not carried at fair value (but fair value disclosures are required) (continued)

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group 2014					
Financial assets					
Cash and short-term funds	3,080,554	3,080,554	-	-	3,080,554
Deposits and placements with financial institutions	185,838	185,838	-	-	185,838
Financial assets held-to-maturity					
Government bonds	1,078,786	1,055,176	-	-	1,055,176
Government investment issues	8,673,072	8,465,937	-	-	8,465,937
Islamic debt securities	558,563	549,705	-	-	549,705
Khazanah bonds	449,742	448,453	-	-	448,453
Cagamas Bonds	122,835	121,340	-	-	121,340
Negotiable Islamic debt certificates	248,719	248,732	-	-	248,732
Financing and advances	60,482,549	68,993,458	-	-	68,993,458
Trade receivables	6,484	6,484	-	-	6,484
Other receivables and deposits	450,231	450,231	-	-	450,231
	75,337,373	83,605,908	-	-	83,605,908
Financial liabilities					
Deposits from customers	68,522,973	68,522,973	-	-	68,522,973
Deposits and placements from banks and financial institutions	1,800,000	1,800,000	-	-	1,800,000
Recourse obligations on financing sold to Cagamas	1,777,618	1,654,215	-	-	1,654,215
Debt securities issued	3,020,571	2,588,032	-	-	2,588,032
Trade payables	3,348	3,348	-	-	3,348
Other liabilities	1,431,012	1,431,012	-	-	1,431,012
	76,555,522	75,999,580	-	-	75,999,580

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.3 Valuation of financial instruments not carried at fair value (but fair value disclosures are required) (continued)

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Bank 2015					
Financial assets					
Cash and short-term funds	1,897,976	1,897,976	-	-	1,897,976
Deposits and placements with financial institutions	908,750	908,750	-	-	908,750
Financial assets held-to-maturity					
Government bonds	1,096,603	1,077,494	-	-	1,077,494
Government investment issues	8,289,353	8,152,622	-	-	8,152,622
Islamic debt securities	489,145	481,458	-	-	481,458
Khazanah bonds	467,356	468,180	-	-	468,180
Cagamas Bonds	177,946	176,006	-	-	176,006
Negotiable Islamic debt certificates	198,440	198,420	-	-	198,420
Financing and advances	63,137,184	70,273,216	-	-	70,273,216
Other receivables and deposits	350,606	350,606	-	-	350,606
	77,013,359	83,984,728	-	-	83,984,728
Financial liabilities					
Deposits from customers	70,981,772	70,981,772	-	-	70,981,772
Deposits and placements from banks and financial institutions	1,940,000	1,940,000	-	-	1,940,000
Recourse obligations on financing sold to Cagamas	1,478,659	1,300,284	-	-	1,300,284
Debt securities issued	2,718,871	2,396,634	-	-	2,396,634
Other liabilities	1,476,120	1,476,120	-	-	1,476,120
	78,595,422	78,094,810	-	-	78,094,810

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.3 Valuation of financial instruments not carried at fair value (but fair value disclosures are required) (continued)

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Bank 2014					
Financial assets					
Cash and short-term funds	3,078,779	3,078,779	-	-	3,078,779
Deposits and placements with financial institutions	160,099	160,099	-	-	160,099
Financial assets held-to-maturity					
Government bonds	1,078,786	1,055,176	-	-	1,055,176
Government investment issues	8,673,072	8,465,937	-	-	8,465,937
Islamic debt securities	558,563	549,705	-	-	549,705
Khazanah bonds	449,742	448,453	-	-	448,453
Cagamas Bonds	122,835	121,340	-	-	121,340
Negotiable Islamic debt certificates	248,719	248,732	-	-	248,732
Financing and advances	60,482,549	68,993,458	-	-	68,993,458
Other receivables and deposits	395,598	395,598	-	-	395,598
	75,248,742	83,517,277	-	-	83,517,277
Financial liabilities					
Deposits from customers	68,522,973	68,522,973	-	-	68,522,973
Deposits and placements from banks and financial institutions	1,800,000	1,800,000	-	-	1,800,000
Recourse obligations on financing sold to Cagamas	1,777,618	1,654,215	-	-	1,654,215
Debt securities issued	3,020,571	2,588,032	-	-	2,588,032
Other liabilities	1,592,597	1,592,597	-	-	1,592,597
	76,713,759	76,157,817	-	-	76,157,817

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.3 Valuation of financial instruments not carried at fair value (continued)

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

42.3.1 Cash and short-term funds

The carrying amounts of cash and short-term funds approximate fair values due to the relatively short maturity of the financial instruments. This is similar to deposits and placements with financial institutions maturing within one month that have relatively short maturity period.

42.3.2 Deposits and placements with financial institutions

The fair values of deposits and placements with financial institutions are not materially sensitive to changes in market profit rate because of their limited term to maturity.

42.3.3 Financial assets held-to-maturity

Financial assets held-to-maturity are carried at amortised cost at the end of the reporting period. Fair values for these financial instruments are estimated based on broker quotes from Bond Pricing Agency.

42.3.4 Financing and advances

Financing and advances are carried at amortised cost at the end of the reporting period. Fair valuation of these financial instruments are estimated based on discounted repayment to be received in the future using effective profit rate for each financing type.

42.3.5 Trade and other receivables

The carrying amounts of trade and other receivables reported in the statement of financial position approximate their fair values due to the relatively short-term maturity of these instruments.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.3 Valuation of financial instruments not carried at fair value (continued)

42.3.6 Deposits from customers

The fair values of deposits payable on demand (demand and savings deposits), or deposits with remaining maturity of less than one year are estimated to approximate their carrying amounts.

The fair values of deposits with remaining maturities of more than one year are estimated using discounted cash flows based on effective profit rates for similar deposits from customers.

However, since all deposits received can be classified as Islamic deposits, their fair values are deemed to approximate their carrying amounts as profit rates are determined at the end of the maturity period based on the sharing of profits generated from investments of the deposits.

42.3.7 Deposits and placements from banks and financial institutions

The fair values of these financial instruments with remaining maturity of less than one year approximate their carrying amounts due to the relatively short maturity of the financial instruments.

42.3.8 Recourse obligations on financing sold to Cagamas

The fair values for recourse obligations sold to Cagamas that have remaining maturity of one year are estimated to approximate their carrying amounts. For remaining maturity of more than one year, they are estimated using discounted cash flows based on prevailing Cagamas rates.

42.3.9 Debt securities issued

Debt securities issued are measured at amortised cost at the end of the reporting period. The fair value of the securities are derived by referring to the present value of the expected amount due in the future by applying the effective profit rate for the debt securities.

42.3.10 Trade and other liabilities

The carrying amounts of trade and other liabilities reported in the statement of financial position approximate their fair values due to the relatively short-term maturity of these instruments.

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