

Company No.

854686	K
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APPENDIX II

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

Company No.

854686	K
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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors submit herewith their report together with the audited financial statements of the Company for the financial year ended 31 December 2016.

PRINCIPAL ACTIVITY

The Company is principally engaged in providing financial guarantee insurance.

There were no significant changes in the nature of the principal activity during the financial year.

RESULTS

Net profit for the financial year

RM'000

125,514

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

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

DIVIDENDS

The dividends paid by the Company since 31 December 2015 were as follows:

RM'000

In respect of the financial year ended 31 December 2015:

- single-tier final dividend of 1.19 sen paid on 1 July 2016

11,900

At the forthcoming Annual General Meeting, a final dividend in respect of the current financial year of RM12,600,000 will be proposed for shareholders' approval. These financial statements do not reflect this final dividend which will be accounted for in the shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2017 when approved by shareholders.

ISSUE OF SHARE CAPITAL

There were no issue of new ordinary shares during the financial year.

DIRECTORS

The Directors of the Company in office during the financial year and during the period commencing from the end of the financial year and ending on the date of this report are as follows:

Dato' Mohammed bin Haji Che Hussein

Abdul Kadir bin Md Kassim

Dato' Albert Yeoh Beow Tit

Philip Tan Puay Koon

Datuk Ahmad Badri bin Mohd Zahir

Dato' Azian binti Mohd Noh

Mohamed Rashdi bin Mohamed Ghazalli

Mohamed Nazri bin Omar

Ariffin Hew @ Hew Siak Tow (appointed w.e.f. 25 October 2016)

Cheah Tek Kuang (resigned w.e.f. 19 May 2016)

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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

DIRECTORS (CONTINUED)

Pursuant to Article 63 of the Company's Articles of Association, one third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one third, shall retire from office except for the Managing Director ("MD")/Chief Executive Officer ("CEO") in accordance with Article 91 of the Company's Articles of Association ("Article"). At the Seventh Annual General Meeting of the Company held on 28 June 2016, Dato' Mohammed bin Haji Che Hussein and Dato' Azian binti Mohd Noh, who retired from office pursuant to Article 63 of the Company's Articles and being eligible for re-election, were re-elected as Directors of the Company, while Abdul Kadir bin Md Kassim, who retired from office pursuant to Section 129(6) of the Companies Act, 1965 and being eligible for re-appointment, was re-appointed as a Director of the Company.

DIRECTORS' BENEFITS AND INTERESTS

During and at the end of the financial year, no arrangement subsisted to which the Company is a party, being arrangements with the object or objects of enabling the Directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than Directors' remuneration, allowances and benefits-in-kind as disclosed in Note 18 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

According to the register of Directors' shareholdings, none of the Directors in office as at the end of the financial year had any interest in shares in, or debentures of, the Company or its related corporations during the financial year.

STATEMENT ON CORPORATE GOVERNANCE

Introduction

The Company is the nation's first Financial Guarantee Insurer, licensed under the Financial Services Act, 2013 ("FSA") (previously under the Insurance Act, 1996) and regulated and supervised by Bank Negara Malaysia ("BNM"). The Company does not have any subsidiary and the Company is not a subsidiary of another corporation.

As a licensed entity, the Company adopts management practices that are consistent with the principles of the Policy Document issued by BNM on Corporate Governance (BNM/RH/PD029-9) ("BNM Guidelines"). Through the Company's policies and procedures as well as periodic audit reviews, the Board of Directors of Danajamin Nasional Berhad ("Board") ensures that good governance is practised throughout the Company in all aspect of its business dealings, and that integrity and transparency are displayed with the objective of safeguarding shareholders' investments and ultimately enhancing shareholders' value. The Board is convinced that by doing so, will undoubtedly contribute towards the betterment of the Company's overall performance.

Board responsibilities and oversight

The Board acknowledges its overall responsibilities and is committed in ensuring that the highest standards of corporate governance are applied in all aspects of the Company's operations pursuant to the BNM Guidelines.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Board composition and balance

The Board comprises nine Members, one Independent Non-Executive Chairman, five Independent Non-Executive Directors, two Non-Independent Non-Executive Directors and one MD/CEO.

Diversity in the Board's composition is essential to facilitate good decision making as this enables different insights and perspectives to be harnessed. The Board comprises members with various professional backgrounds including from the fields of legal, information technology as well as accounting and finance, all of whom bring in-depth and diverse experiences, expertise and perspectives to the Company's operations.

Collectively, the Board brings a wide spectrum of business acumen, skills and perspectives necessary for the decision making process. The diversity and depth of knowledge offered by the Board reflect the commitment of the Company to ensure effective leadership and control of the Company.

The Independent Non-Executive Directors provide unbiased and independent views in ensuring that the strategies proposed by the Management are fully deliberated and examined.

With its diversity of skills, the Board has been able to provide clear and effective collective leadership to the Company. This has also brought an independent judgement to the Company's strategy and performance so as to ensure that the highest standards of conduct of integrity are always at the core of the Company.

A brief profile of each Director is presented as follows:

1. Dato' Mohammed bin Haji Che Hussein ("Dato' Mohammed Hussein")

(66 years – Malaysian)

(Independent Non-Executive Chairman)

Dato' Mohammed Hussein was appointed as an Independent Non-Executive Chairman on 5 August 2013. He is also the Chairman of Board Remuneration and Nomination Committee and Board Underwriting Committee. Dato' Mohammed Hussein has been a member of the Board since 2009, when he was first appointed as an Independent Non-Executive Director on 14 May 2009.

Dato' Mohammed Hussein served thirty-one years in the Maybank Group, holding various senior management positions including Head of Corporate Banking, Head of Commercial Banking, Head of Malaysian Operations, Managing Director of Aseambankers Malaysia Berhad (currently known as Maybank Investment Bank Berhad) and Executive Director (Business Group). The last position held prior to his retirement on 30 January 2008 was Deputy President/Executive Director/Chief Financial Officer of Maybank Group.

Dato' Mohammed Hussein also serves as Chairman of Gamuda Berhad, and is a Non-Executive Director of several private and public listed companies such as Hap Seng Consolidated Berhad, Bank of America Malaysia Berhad, CapitaCommercial Trust Management Ltd and PNB Commercial Sdn Bhd. He is also a member of Corporate Debt Restructuring Committee established by BNM to facilitate the resolution and restructuring of major corporate debts.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Board composition and balance (continued)

A brief profile of each Director is presented as follows (continued):

1. Dato' Mohammed bin Haji Che Hussein ("Dato' Mohammed Hussein") (continued)

(66 years – Malaysian)

(Independent Non-Executive Chairman)

Dato' Mohammed Hussein obtained a Bachelor of Commerce degree majoring in Accounting from the University of Newcastle, New South Wales, Australia. He is also an alumnus of the Advance Management Program, Harvard Business School, Boston, USA and attended several management programmes in Wharton Business School (Philadelphia, USA), IMD (Lausanne, Switzerland) and INSEAD (Fontainebleau, France).

Dato' Mohammed Hussein is also a Fellow of the Asian Institute of Chartered Bankers.

2. Abdul Kadir bin Md Kassim

(76 years – Malaysian)

(Independent Non-Executive Director)

Abdul Kadir Md Kassim was appointed as an Independent Non-Executive Director of Danajamin on 14 May 2009. He is the Chairman of Board Investment Committee and a member of Board Remuneration and Nomination Committee as well as Board Underwriting Committee.

Abdul Kadir holds a Bachelor of Laws (Honours) Degree from the University of Singapore and is the Senior Partner of Messrs Kadir, Andri & Partners.

Abdul Kadir sits on the Board of various public listed and non-listed companies, including TIME DotCom Berhad Group of Companies, UEM Group of Companies, Cement Industries of Malaysia Berhad, Datuk Yaw Teck Seng Foundation and The Renong Group Scholarship Trust Fund. He is a member of the Investment Panel of the Lembaga Tabung Haji and Corporate Debt Restructuring Committee established by BNM.

3. Dato' Albert Yeoh Beow Tit

(67 years – Malaysian)

(Independent Non-Executive Director)

Dato' Albert Yeoh Beow Tit was appointed as an Independent Non-Executive Director of Danajamin on 14 May 2009. He is also the Chairman of Board Audit Committee and a member of Board Remuneration and Nomination Committee as well as Board Underwriting Committee.

Dato' Albert holds a Master of Science in Management from University of Salford, Manchester, England and Fellowship from the Institute of Bankers Malaysia.

Prior to joining OCBC Bank (Malaysia) Berhad in March 1996, Dato' Albert was a Director of Corporate Banking Group for Citibank Berhad. He held various senior management positions within the OCBC Group including as the Chief Executive Officer of OCBC Bank (Malaysia) Berhad, a position which he held until his retirement on 31 July 2008.

Dato' Albert also sits on the Boards of Cagamas SRP Berhad, Cagamas MBS Berhad, Great Eastern Life Assurance (Malaysia) Berhad, Overseas Assurance Corporation (Malaysia) Berhad and Alliance Investment Bank Berhad.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)**STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)**Board composition and balance (continued)

A brief profile of each Director is presented as follows (continued):

4. Philip Tan Puay Koon*(59 years – Malaysian)**(Independent Non-Executive Director)*

Philip Tan Puay Koon was appointed as an Independent Non-Executive Director of Danajamin on 14 May 2009. He also serves as a member of Board Audit Committee, Board Risk Committee and Board Investment Committee.

Philip Tan has close to three decades of experience in the field of banking and finance, principally in the areas of treasury and risk management. He was formerly a Managing Director of Citigroup and the Chief Financial Officer of EM Sales and Trading, Asia-Pacific, based in Singapore. From 1999 to 2001, he served as the Country Treasurer and Financial Markets Head of Citibank Berhad and as a Director of Citibank Malaysia (L) Ltd. Prior to 1995, Philip Tan served fourteen years with the MUI Group of Companies in Malaysia, in various senior management positions in MUI Bank and MUI Finance.

Philip Tan holds a First Class Honours B.A. (CNA) Degree in Business Studies (Accounting and Finance) from North-East London Polytechnic, U.K. and has attended the Oxford International Executive Programme and the Stanford-NUS Executive Programme. Philip Tan is also an Associate Fellow of the Asian Institute of Chartered Bankers.

Philip Tan currently serves on the Boards of Cagamas Berhad, MIDF Amanah Investment Bank Berhad, SP Setia Berhad, Citibank Berhad, Malaysian Electronic Clearing Corporation Sdn Bhd ("MyClear"), Qinzhou Development (Malaysia) Consortium Sdn Bhd and China-Malaysia Qinzhou Industrial Park (Guangxi) Development Co Ltd. He is also a member of Corporate Debt Restructuring Committee established by BNM.

5. Datuk Ahmad Badri bin Mohd Zahir*(56 years – Malaysian)**(Non-Independent Non-Executive Director)*

Datuk Ahmad Badri Mohd Zahir was appointed as a Non-Independent Non-Executive Director of Danajamin on 25 June 2009. He is also a member of Board Remuneration and Nomination Committee, Board Investment Committee and Board Underwriting Committee.

Datuk Ahmad Badri is currently the Secretary of Strategic Investment Division at the Ministry of Finance. He has served more than twenty years in the Ministry of Finance, holding several senior positions.

Datuk Ahmad Badri holds a Masters in Business Administration from the University of Hull, United Kingdom.

Datuk Ahmad Badri serves on the Boards of KL International Airport Berhad, DanaInfra Nasional Berhad, Perbadanan Kemajuan Negeri Selangor, Kumpulan Wang Simpanan Pekerja, Taha Alam Sdn Bhd, Lembaga Pembiayaan Perumahan Sektor Awam, Bank Simpanan Nasional and Malaysia Development Holdings Sdn Bhd. He is also a member of Corporate Debt Restructuring Committee established by BNM and sits as a panel of Pertubuhan Keselamatan Sosial (PERKESO).

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Board composition and balance (continued)

A brief profile of each Director is presented as follows (continued):

6. Dato' Azian binti Mohd Noh

(63 years – Malaysian)

(Independent Non-Executive Director)

Dato' Azian Mohd Noh was appointed as an Independent Non-Executive Director of Danajamin on 25 June 2013. She is the Chairman of Board Risk Committee and a member of the Board Audit Committee and Board Investment Committee.

Prior to that, she served Kumpulan Wang Amanah Pencen for 15 years until its corporatisation. She also held senior management positions in various government entities in the fields of investment, finance and accounting.

Dato' Azian previously sat on the Boards of Malakoff Corporation Berhad and Valuecap Sdn Bhd. She was also the Chairman of i-VCap Management Sdn Bhd prior to her retirement.

Dato' Azian is currently a board member of Maybank Asset Management Group Berhad. She obtained her Bachelor's Degree in Economics (Hons) majoring in Accounting from University of Malaya and a Masters in Business Administration from Universiti Kebangsaan Malaysia. She is also a member of the Malaysian Institute of Accountants. Dato' Azian completed the Advanced Management Program at Harvard Business School, Harvard University, USA.

7. Mohamed Rashdi bin Mohamed Ghazalli

(59 years – Malaysian)

(Non-Independent Non-Executive Director)

Mohamed Rashdi Mohamed Ghazalli was appointed as a Non-Independent Non-Executive Director of Danajamin on 8 September 2014. He is a member of Board Underwriting Committee and Board Risk Committee.

Mohamed Rashdi has extensive experience in industry and consulting. He initially worked in the telecommunications industry with Jabatan Telekom Malaysia (now known as Telekom Malaysia Berhad) before joining the Sapura Holdings Group in 1983 as a founder member of its Information Technology ("IT") business. He decided to move into consulting in 1989, building a career with Coopers & Lybrand, IBM Consulting ("IBM") and PricewaterhouseCoopers ("PwC") over a span of 20 years.

During his career, Mohamed Rashdi worked overseas with Telecoms Australia as well as Coopers & Lybrand in the United Kingdom. He was a Partner of PwC Consulting East Asia as well as IBM. He was also the IT and Consulting Advisor with PwC Malaysia focusing on capacity building, business development and quality assurance. After leaving the firm, he served as an independent consultant for a number of organisations.

As a management and technology consultant, Mohamed Rashdi has personally led assignments in strategy and economics, business process improvement, information systems planning and large-scale project management. He has provided consultancy expertise across a number of industries such as government, telecommunications, oil and gas, transportation and utilities. He also had some involvement in the manufacturing and financial services sectors.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Board composition and balance (continued)

A brief profile of each Director is presented as follows (continued):

7. Mohamed Rashdi bin Mohamed Ghazalli (continued)

(59 years – Malaysian)

(Non-Independent Non-Executive Director)

Mohamed Rashdi currently sits on the Boards of Credit Guarantee Corporation Malaysia Berhad, Malaysia Venture Capital Management Berhad and SapuraKencana Petroleum Berhad.

Mohamed Rashdi graduated from the University of Manchester Institute of Science and Technology, United Kingdom in 1979.

8. Ariffin Hew

(65 years – Malaysian)

(Independent Non-Executive Director)

Ariffin Hew was appointed as an Independent Non-Executive Director effective 25 October 2016. Ariffin who holds a Bachelor of Economics (Honours) degree from the University of Malaya has over twenty eight years of experience in the banking industry. He had held various board positions in insurance, discount house, securities companies and was also an Independent Director of Bank Pembangunan Malaysia Berhad until his resignation on 27 September 2014.

Throughout his career, Ariffin has served in senior positions in major organisations including Malaysia Resources Corporation Berhad (MRCB), the Bank Bumiputra Group and the RHB Group. He had also been tasked to lead various projects at both the domestic and international front. He actively contributes to the banking industry and is currently a member of the Small Debt Resolution Committee established by BNM.

9. Mohamed Nazri bin Omar

(42 years – Malaysian)

(Managing Director / Chief Executive Officer)

Mohamed Nazri Omar was appointed as Managing Director /Chief Executive Officer of Danajamin on 1 May 2014. He was previously a Director, Client Coverage Division of Danajamin since 8 November 2011.

Mohamed Nazri's corporate career has been within the financial industry particularly in the corporate banking and capital markets. He began his career at Citibank Berhad and subsequently served in Macquarie Bank Limited and RHB Investment Bank Berhad (then known as RHB Sakura Merchant Bankers Berhad).

Before joining Danajamin, Mohamed Nazri served in several capacities at Kuwait Finance House (M) Bhd ("KFH") including Director of Investment Banking and Head of Capital Markets and Advisory. Under these roles, he was responsible for the origination and structuring of Shariah compliant financing transactions as well as providing project finance advisory. As one of the pioneers at KFH, he was primarily involved in the setting up of the KFH's Corporate and Investment Banking Division. On 1 May 2016, he was appointed as a member of the Investment Panel of Kumpulan Wang Persaraan (Diperbadankan) (KWAP).

Mohamed Nazri holds a Bachelor of Arts Degree, majoring in Economics (Hons) and Government from Cornell University, USA.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Board of Directors' meetings

The Board meets at least once in every two months during the financial year and also at other times as and when Board meetings are required.

Board meetings are scheduled in advance before the commencement of the new financial year to enable the Directors to plan and accommodate the year's meetings into their schedules. The Board requires all members to devote sufficient time to effectively discharge their duties and to endeavour to attend meetings to the best of their ability.

Special Board meetings and Board Committee meetings are convened between the scheduled meetings to consider urgent proposals or matters that require expeditious decisions or deliberations by the Board and/or the Board Committees.

Agenda and Management Papers are distributed in advance for all Board and Board Committees to have sufficient time for appropriate review to facilitate full discussion at the meetings. Agendas of meetings that include, amongst others, minutes of meetings, comprehensive management reports, project or investment proposals and supporting documents, are targeted for dissemination to the respective members at least five working days prior to meetings. However, Management Papers that are deemed urgent may still be submitted to the Company Secretary to be tabled at the meeting subject to the approval of the Chairman.

All issues raised, discussions, deliberations, decisions and conclusions, including dissenting views made at Board and Board Committee meetings along with clear actions to be taken by responsible parties, are recorded in the minutes of meetings. Where the Board is considering a matter in which a Director has an interest, the relevant Director must immediately disclose the nature of his/her interest and abstain from participating in any discussion or decision-making on the subject matter.

The Board is constantly advised and updated on statutory and regulatory requirements pertaining to its duties and responsibilities. As and when the need arises, the Board is also provided with reports, information papers and relevant trainings, where necessary, to ensure it is apprised on key business, operational, corporate, legal, regulatory and industry matters.

Whenever necessary, Senior Management and/or external advisors are invited to attend Board and Board Committee meetings to provide clarification on agenda items so as to enable the Board and/or the Board Committees to arrive at a considered and informed decision.

The Board has full and unrestricted access to all information pertaining to the Company's business and affairs through the Senior Management and the Company Secretary to enable it to discharge its duties effectively.

The Board has adopted a schedule of matters specially reserved for its approval which include, amongst others, reviewing and approving the following:-

- Strategic/business plans and annual budget;
- New investments, divestments, mergers and acquisitions, corporate restructuring including the establishment of subsidiaries, joint ventures or strategic alliances both locally and abroad;
- Annual financial statements;
- Appointment of new Director, Chief Executive Director and Company Secretary;
- Related party transactions; and
- Capital financing.

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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Board of Directors' meetings (continued)

In line with the BNM Guidelines on the tenure limit of an independent director, none of the Directors of the Company has reached the nine years limit considering the Company was only incorporated in 2009.

During the financial year ended 31 December 2016, the Board met eight times, comprising six scheduled and two special meetings to deliberate and consider a variety of significant matters that required its guidance and approval. All Directors have attended at least 75% of the total Board meetings held during the financial year in line with the BNM Guidelines.

Details of attendance of each Director who was in office during the financial year ended 31 December 2016 are as follows:

<u>Name of Directors</u>	<u>Number of Meetings and Attendance</u>	<u>Percentage of Attendance</u>
Dato' Mohammed bin Hj Che Hussein	8/8	100%
Abdul Kadir bin Md Kassim	8/8	100%
Dato' Albert Yeoh Beow Tit	8/8	100%
Philip Tan Puay Koon	7/8	88%
Datuk Ahmad Badri bin Mohd Zahir	7/8	88%
Dato' Azian binti Mohd Noh	7/8	88%
Mohamed Rashdi bin Mohamed Ghazalli	8/8	100%
Mohamed Nazri bin Omar	8/8	100%
Ariffin Hew (appointed w.e.f. 25 October 2016)	2/2	100%
Cheah Tek Kuang (resigned w.e.f. 19 May 2016)	3/3	100%

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Roles and responsibilities of the Chairman and the Managing Director/Chief Executive Officer

The roles of both the Chairman and the MD/CEO are clearly separated with the positions being held by two different individuals to ensure that an appropriate balance of role and authority is maintained.

The duties and responsibilities of the Chairman and MD/CEO are distinct and separate to ensure a balance of power and authority towards the establishment of an effective Board.

Chairman

The Chairman is responsible to ensure the smooth and effective functioning of the Board and the governance structure, inculcate positive culture in the Board, provide avenues for all Directors to participate openly in the discussion, provide leadership to the Board and is responsible for the development needs of the Board. He continues to demonstrate the highest standards of corporate governance practices and ensures that these practices are regularly communicated to the stakeholders.

The Chairman's main responsibility is to ensure effective conduct of the Board through the execution of the following key roles:

- (i) To build a high performance Board by leading the evaluation of the Board's performance and ensuring that succession planning is considered on an ongoing basis;
- (ii) To manage Board meetings in order to achieve robust decision-making by ensuring that accurate, timely and clear information are provided to all Directors. The Chairman encourages participation and deliberation by the Board to tap the wisdom of all members and to promote consensus building as much as possible; and
- (iii) To facilitate the Board and Management interface by acting as the conduit between the two parties.

Managing Director/Chief Executive Officer

The MD/CEO has the overall responsibilities for the implementation and execution of the Company's strategic goals as determined by the Board as well as to manage and oversee the day-to-day operations to ensure the smooth and effective running of the Company. He is responsible for the Company's operational, business units and support services, organisational effectiveness and implementation of Board policies, directives, strategies and decisions. He is also responsible for ensuring high management competency as well as the emplacement of an effective management succession plan to sustain continuity of operations. The MD/CEO, by virtue of his position as a Board member, also acts as an intermediary between the Board and the Senior Management.

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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Board Committees

The Board has established several Committees which operate within its respective clearly defined Terms of Reference to assist the Board in executing its duties and responsibilities. Although the Board may delegate certain duties to its Committees, it remains ultimately responsible for the decisions of the Committees. However the Board Underwriting Committee has the full delegated authority to endorse underwriting proposals.

The Board Committees established are as follows:

1. Board Remuneration and Nomination Committee;
2. Board Audit Committee;
3. Board Risk Committee;
4. Board Underwriting Committee; and
5. Board Investment Committee.

Pursuant to Section 12.3 of the BNM Guidelines, each Board Committee must comply with the following:-

- (i) have at least three directors;
- (ii) have a majority of independent directors;
- (iii) be chaired by an independent director; and
- (iv) comprise directors who have the skills, knowledge and experience relevant to the responsibilities of the Board Committee.

The functions and Terms of Reference of the Board Committees are clearly defined as follows:

1. Board Remuneration and Nomination Committee

Composition

The Board Remuneration and Nomination Committee ("BRNC") consists of the following three Independent Non-Executive Directors and one Non-Independent Non-Executive Director:

Members

- (i) Dato' Mohammed bin Hj Che Hussein (Chairman)
- (ii) Abdul Kadir bin Md Kassim
- (iii) Dato' Albert Yeoh Beow Tit
- (iv) Datuk Ahmad Badri bin Mohd Zahir
- (v) Cheah Tek Kuang (resigned w.e.f. 19 May 2016)

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)**STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)**Board Committees (continued)**1. Board Remuneration and Nomination Committee (continued)**Meetings

Meetings are held at least once every financial quarter. In the financial year ended 31 December 2016, the BRNC met a total of six times, comprising four scheduled meetings and two special meetings.

The details of attendance of each Member at the meeting of the BRNC during the financial year ended 31 December 2016 are as follows:

<u>Name of Directors</u>	<u>Number of Meetings and Attendance</u>	<u>Percentage of Attendance</u>
Dato' Mohammed bin Hj Che Hussein	6/6	100%
Abdul Kadir bin Md Kassim	6/6	100%
Dato' Albert Yeoh Beow Tit	6/6	100%
Datuk Ahmad Badri bin Mohd Zahir	5/6	83%
Cheah Tek Kuang (resigned w.e.f. 19 May 2016)	3/3	100%

Objectives

- (i) To ensure that the Board has the appropriate balance and size, and the required mix of skills, experience and other core competencies.
- (ii) To ensure the Company can attract and retain high calibre executives needed to run and manage the Company successfully.

Quorum

A majority of the members at any one time.

Voting

By majority, with casting vote to Chairman.

Duties and responsibilities

- a. To review and recommend to the Board the compensation and benefits package and salary scale and terms and conditions for all levels of employees of the Company.
- b. To review and recommend to the Board the basis for the annual bonus and salary increment for all levels of employees of the Company.
- c. To consider and recommend suitable persons for appointment as Directors and CEO and Head of Functions.
- d. To review and recommend to the Board the compensation and benefits package and the terms and conditions of service of the CEO and Head of Functions.
- e. To review and recommend to the Board the remuneration for Non-Executive Directors of the Company.
- f. To review and approve the recruitment and remuneration package of Head of Divisions if the package exceeds the limits set by the Scheme of Service.
- g. To annually review performance of the CEO, Heads of Functions and Heads of Divisions.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)**STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)**Board Committees (continued)**1. Board Remuneration and Nomination Committee (continued)**Duties and responsibilities (continued)

- h. To assess the effectiveness of the Board, the Committees of the Board and each individual Director.
- i. To consider and recommend measures to upgrade the effectiveness of the Board and Committees of the Board.
- j. To annually review the required mix of skills and experience and other qualities, including core competencies, which Non-Executive Directors should bring to the Board.
- k. To consider and recommend solutions on issues of conflict of interest affecting Directors.
- l. To approve the appointments of all Heads of Divisions excluding the Head of Division of Internal Audit and Risk Management and Compliance.

2. Board Audit CommitteeComposition

The Board Audit Committee ("BAC") consists of the following three Independent Non-Executive Directors:

Members

- (i) Dato' Albert Yeoh Beow Tit (Chairman)
- (ii) Philip Tan Puay Koon
- (iii) Dato' Azian binti Mohd Noh
- (iv) Cheah Tek Kuang (resigned w.e.f. 19 May 2016)

Meetings

Meetings are held at least once every financial quarter. In the financial year ended 31 December 2016, the BAC met a total of seven times, comprising four scheduled meetings and three special meetings. Two meetings were held in the presence of the External Auditors without the Management.

The details of attendance of each Member at the meeting of the BAC during the financial year ended 31 December 2016 are as follows:

<u>Name of Directors</u>	<u>Number of Meetings and Attendance</u>	<u>Percentage of Attendance</u>
Dato' Albert Yeoh Beow Tit	7/7	100%
Philip Tan Puay Koon	7/7	100%
Dato' Azian binti Mohd Noh	6/7	86%
Cheah Tek Kuang (resigned w.e.f. 19 May 2016)	4/4	100%

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Board Committees (continued)

2. Board Audit Committee (continued)

Quorum

Quorum shall be at least two-third of members at any one time.

Duties and responsibilities

- a. To review the Company's financial statements for submission to the Board and ensure compliance with disclosure requirements and any adjustments as suggested by the Auditors.
- b. To review the reports of the Internal Auditors, External Auditors, BNM Examiners and any other relevant parties, including obligatory reports to the BNM on matters covered under the FSA.
- c. To ensure the independence and effectiveness of the Internal Audit functions and its compliance with BNM's Guidelines.
- d. To review the appropriateness of the risk assessment methodology employed including compliance with BNM's Risk Governance Policy and adequacy of the Company's internal controls.
- e. To be responsible for the appointment of the External Auditors and assessing the Auditors' objectivity, performance and independence.
- f. To review with the External Auditors the scope of the audit plan, the financial statements, changes in accounting policies and principles, compliance with laws and accounting standards, material variances or fluctuations, validity of going concern assumptions, system of internal accounting controls and any other relevant findings or concerns raised by the External Auditors.
- g. To make recommendations to the Board on the appointment of External Auditors.
- h. To meet with the External Auditors without the presence of management at least once per annum.
- i. To review and approve the annual audit plan and budget for the internal audit functions.
- j. To be directly responsible for the appointment, role and performance of the Head of Internal Audit functions and his or her remuneration scheme; to ensure the adequacy of resources for the carrying out of the internal audit functions.
- k. To report to the Board via minutes of meetings or special report on the findings of its meetings/activities.
- l. To carry out such other responsibilities as may be delegated by the Board from time to time.
- m. To ensure compliance with BNM's Guidelines on Corporate Governance, as may be amended from time to time.

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DIRECTORS' REPORT (CONTINUED)**STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)**Board Committees (continued)**3. Board Risk Committee**Composition

The Board Risk Committee ("BRC") comprises at least three members comprising Non-Executive Directors, of which not more than one member is also a member of the Board Underwriting Committee. As at 31 December 2016, the BRC consists of the following two Independent Non-Executive Directors and one Non-Independent Non-Executive Director:

Members

- (i) Dato' Azian binti Mohd Noh (Chairman)
- (ii) Philip Tan Puay Koon
- (iii) Mohamed Rashdi bin Mohamed Ghazalli

Meetings

Meetings are held at least six times during the financial year. In the financial year 2016, the BRC met six times as scheduled.

The details of attendance of each Member at the meeting of the BRC during the financial year ended 31 December 2016 are as follows:

<u>Name of Directors</u>	<u>Number of Meetings and Attendance</u>	<u>Percentage of Attendance</u>
Dato' Azian binti Mohd Noh	6/6	100%
Philip Tan Puay Koon	6/6	100%
Mohamed Rashdi bin Mohamed Ghazalli	6/6	100%

Objective

To ensure the risk management functions and practices of the Company are conducted and discharged effectively to ensure management and mitigation of key risks.

Quorum

A majority of the members at any one time.

Voting

By majority, with casting vote to Chairman.

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Board Committees (continued)

3. Board Risk Committee (continued)

Duties and responsibilities

- a. To review the risk-taking strategies and risk management policies of the Company.
- b. To review the overall risk profile of the Company, including market risks and credit risks within the portfolio.
- c. To set the risk appetite appropriate for the Company.
- d. To review and approve the appointment, remuneration and dismissal of the Director, Risk Management and Compliance.
- e. To review and approve Key Performance Indicators ("KPIs") and undertake performance assessment for Director, Risk Management and Compliance.
- f. To review the performance of the risk management function of the Company and ensure compliance with the Risk Governance Policy.
- g. To approve contingency plans for dealing with potential high-impact risk events.
- h. To ensure a culture of risk-awareness and risk-mitigation in the Company.

Joint BAC and BRC

The Joint BAC and BRC shall comprise members from BAC and BRC. The Joint BAC and BRC ensures effective exchange of information between BAC and BRC members so as to enable effective coverage of all risk, including emerging risk issues that could have an impact on the institution's risk appetite and business plans. In the financial year 2016, the Joint BAC and BRC met two times and among the matters reviewed and discussed were business emerging risks, Internal Capital Adequacy Assessment Process (ICAAP) and the overall Risk Management and Internal Audit Plans of the Company in order to promote alignment on the oversight function of BAC and BRC.

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DIRECTORS' REPORT (CONTINUED)**STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)**Board Committees (continued)**4. Board Underwriting Committee**Composition

The Board Underwriting Committee ("BUC") comprises at least five members, all of whom must be Non-Executive Directors and the majority of the members shall be independent Directors. As at 31 December 2016, the BUC consists of the following four Independent Non-Executive Directors and two Non-Independent Non-Executive Directors:

Members

- (i) Dato' Mohammed bin Hj Che Hussein (Chairman)
- (ii) Abdul Kadir bin Md Kassim
- (iii) Datuk Ahmad Badri bin Mohd Zahir
- (iv) Dato' Albert Yeoh Beow Tit
- (v) Mohamed Rashdi bin Mohamed Ghazalli
- (vi) Ariffin Hew (appointed w.e.f. 4 November 2016)
- (vii) Cheah Tek Kuang (resigned w.e.f. 19 May 2016)

Meetings

Meetings are held at least once a month. In the financial year 2016, the BUC met eighteen times; twelve scheduled meetings and six special meetings.

The details of attendance of each Member at the meeting of the BUC during the financial year ended 31 December 2016 are as follows:

<u>Name of Directors</u>	<u>Number of Meetings and Attendance</u>	<u>Percentage of Attendance</u>
Dato' Mohammed bin Hj Che Hussein	18/18	100%
Abdul Kadir bin Md Kassim	18/18	100%
Datuk Ahmad Badri bin Mohd Zahir	13/18	72%
Dato' Albert Yeoh Beow Tit	18/18	100%
Mohamed Rashdi bin Mohamed Ghazalli	17/18	94%
Ariffin Hew	3/3	100%
Cheah Tek Kuang (resigned w.e.f. 19 May 2016)	8/8	100%

Objective

To review and endorse (with power to veto) underwriting proposals approved by the Management Underwriting Committee ("MUC").

Quorum

A majority of the members at any one time.

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DIRECTORS' REPORT (CONTINUED)**STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)**Board Committees (continued)**4. Board Underwriting Committee (continued)**Voting

By majority, with casting vote to Chairman.

Duties and responsibilities

- a. To review and, if appropriate, endorse underwriting proposals that have been approved by the MUC.
- b. Where an underwriting proposal has been approved by the MUC and the BUC disagrees with the proposal, to exercise the power of veto.
- c. To review and monitor reports on the underwriting performance of the Company.
- d. To approve acceleration of redemption recommended by the MUC and thereafter, the decision to accelerate be tabled to the Board for notification.
- e. To approve any exception to the guidelines on Refinancing.

5. Board Investment CommitteeComposition

The Board Investment Committee ("BIC") comprises at least three members, all of whom must be Non-Executive Directors and the majority of the members shall be independent Directors. As at 31 December 2016, the BIC consists of the following three Independent Non-Executive Directors and one Non-Independent Non-Executive Directors:

Members

- (i) Abdul Kadir bin Md Kassim (Chairman)
- (ii) Philip Tan Puay Koon
- (iii) Datuk Ahmad Badri bin Mohd Zahir
- (iv) Dato' Azian binti Mohd Noh

Meetings

Meetings are held at least four times each financial year, on a quarterly basis, and from time to time, for the deliberations of specific investment proposals. In the financial year 2016, the BIC met five times; four scheduled meetings and one special meeting.

The details of attendance of each Member at the meeting of the BIC during the financial year ended 31 December 2016 are as follows:

<u>Name of Directors</u>	<u>Number of Meetings and Attendance</u>	<u>Percentage of Attendance</u>
Abdul Kadir bin Md Kassim	5/5	100%
Philip Tan Puay Koon	5/5	100%
Datuk Ahmad Badri bin Mohd Zahir	4/5	80%
Dato' Azian binti Mohd Noh	5/5	100%

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Board Committees (continued)

5. Board Investment Committee (continued)

Objective

To ensure the Company invests and manages its capital resources in a professional and prudent manner, achieves the targeted returns while assuming an appropriate level of risk, maintain a sufficient level of liquidity for claim events and maintain conformity with all regulatory requirements.

Quorum

A majority of the members at any one time.

Voting

By majority, with casting vote to Chairman.

Duties and responsibilities

- a. To review and, if appropriate, approve proposals for all investments and divestments of assets other than short-term term deposits, short-term money market instruments and low risk assets that are more than RM25 million.
- b. To review the performance of the portfolio of capital resources.
- c. To determine from time to time the asset allocation target for the portfolio of capital resources.

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DIRECTORS' REPORT (CONTINUED)**STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)**Training and education provided to the Board

During the financial year, the Directors attended the following training programmes:

Director	Training attended	Description of training
Dato' Mohammed bin Haji Che Hussein	1. Anti-Money Laundering/Counter Financing of Terrorism (26 February 2016)	<ul style="list-style-type: none"> Update on the latest changes in the Malaysian Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLA).
	2. Industry Briefing by United Overseas Bank (7 October 2016)	<ul style="list-style-type: none"> Oil & Gas Industry Outlook.
Abdul Kadir bin Md Kassim	1. Anti-Money Laundering/Counter Financing of Terrorism (26 February 2016)	<ul style="list-style-type: none"> Update on the latest changes in AMLA.
	2. Strategic Management Banking Programme (1-11 March 2016)	<ul style="list-style-type: none"> Address the needs of senior bankers, including Board members, who want to reassess the future of banking.
	3. AIF International Symposium 2016 – Talent, Technology and Tomorrow's Workplace (17 August 2016)	<ul style="list-style-type: none"> Explore the factors and trends driving change in the workplace.
	4. Industry Briefing by United Overseas Bank (7 October 2016)	<ul style="list-style-type: none"> Oil & Gas Industry Outlook.
Dato' Albert Yeoh Beow Tit	1. Anti-Money Laundering/Counter Financing of Terrorism (26 February 2016)	<ul style="list-style-type: none"> Update on the latest changes in AMLA.
	2. Financial Condition Report (28 July 2016)	<ul style="list-style-type: none"> Current and expected future financial condition. Significant risks/threats. Options and recommendations on mitigating risks and threats.
	3. Industry Briefing by United Overseas Bank (7 October 2016)	<ul style="list-style-type: none"> Oil & Gas Industry Outlook.
Philip Tan Puay Koon	1. Anti-Money Laundering/Counter Financing of Terrorism (26 February 2016)	<ul style="list-style-type: none"> Update on the latest changes in AMLA.
	2. Strategic Management Banking Programme (1-11 March 2016)	<ul style="list-style-type: none"> Addresses the needs of senior bankers, including Board members, who want to re-assess the future of banking.

DANAJAMIN NASIONAL BERHAD

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DIRECTORS' REPORT (CONTINUED)**STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)**Training and education provided to the Board (continued)

During the financial year, the directors attended the following training programmes (continued):

Director	Training attended	Description of training
Philip Tan Puay Koon (continued)	3. Financial Condition Report (28 July 2016)	<ul style="list-style-type: none"> • Current and Expected future financial condition. • Significant risks/threats. • Options and recommendations on mitigating risks and threats.
	4. Industry Briefing by United Overseas Bank (7 October 2016)	<ul style="list-style-type: none"> • Oil & Gas Industry Outlook.
Datuk Ahmad Badri bin Mohd Zahir	1. Anti-Money Laundering/Counter Financing of Terrorism (26 February 2016)	<ul style="list-style-type: none"> • Update on the latest changes in AMLA.
Dato' Azian binti Mohd Noh	1. Anti-Money Laundering/Counter Financing of Terrorism (26 February 2016)	<ul style="list-style-type: none"> • Update on the latest changes in AMLA.
	2. Board Risk Intelligence Workshop 2016 - Risk Governance Into Practice (15 - 16 August 2016)	<ul style="list-style-type: none"> • Strategies and techniques for sound decision making to balance growth and profitability within appropriate risks/control boundaries.
	3. Financial Condition Report (28 July 2016)	<ul style="list-style-type: none"> • Current and expected future financial condition. • Significant risks/threats. • Options and recommendations on mitigating risks and threats.
	4. Industry Briefing by United Overseas Bank (7 October 2016)	<ul style="list-style-type: none"> • Oil & Gas Industry Outlook.
Mohamed Rashdi bin Mohamed Ghazalli	1. Anti-Money Laundering/Counter Financing of Terrorism (26 February 2016)	<ul style="list-style-type: none"> • Update on the latest changes in AMLA.
	2. Financial Condition Report (28 July 2016)	<ul style="list-style-type: none"> • Current and expected future financial condition. • Significant risks/threats. • Options and recommendations on mitigating risks and threats.
	3. Industry Briefing by United Overseas Bank (7 October 2016)	<ul style="list-style-type: none"> • Oil & Gas Industry Outlook.

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DIRECTORS' REPORT (CONTINUED)**STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)**Training and education provided to the Board (continued)

During the financial year, the directors attended the following training programmes (continued):

Director	Training attended	Description of training
Cheah Tek Kuang (resigned w.e.f. 19 May 2016)	1. Anti-Money Laundering/Counter Financing of Terrorism (26 February 2016)	<ul style="list-style-type: none"> Update on the latest changes in AMLA.
Mohamed Nazri bin Omar	1. Anti-Money Laundering/Counter Financing of Terrorism (26 February 2016)	<ul style="list-style-type: none"> Update on the latest changes in AMLA.
	2. IFN 2016 Asia Forum - Jakarta, Indonesia (5 - 6 April 2016)	<ul style="list-style-type: none"> A forum which gathers Asia's corporate, private and investor sectors to learn more about the opportunities Islamic finance has to offer and will serve to showcase Asia's potential to be a leading Islamic finance market. Nazri was a panelist for a session titled "How Will the Economic Environment Impact Islamic Capital Raising Trends in 2016?".
	3. Module 1: Leadership Excellence through Awareness and Practice - Singapore (10 - 18 May 2016)	<ul style="list-style-type: none"> Leadership at the organisational, interpersonal and intrapersonal levels.
	Module 2: Leadership Excellence through Awareness and Practice - Fontainebleau, Paris (4 - 8 October 2016)	<ul style="list-style-type: none"> Leadership at the organisational, interpersonal and intra-personal levels.
	4. Financial Condition Report (28 July 2016)	<ul style="list-style-type: none"> Current and expected future financial condition. Significant risks/threats. Options and recommendations on mitigating risks and threats.

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Remuneration strategy

Board

The Board is mindful in ensuring that the level of Directors' remuneration is comparable in order to attract and retain high caliber executives with the necessary skills and experience to lead and manage the Company successfully.

In its effort to ensure that remuneration levels commensurate the responsibilities, risks and time commitment of the Boards/Board Committees for effective management and operations of the Company, the Company's common reference, sets out the general principles for the remuneration of Non-Executive Directors ("NEDs") as follows:

- (a) Reflection of the responsibilities and different contribution levels of individual NEDs in terms of intensity of work time commitment and effort;
- (b) Recognition of the different roles played by individual NEDs (e.g. as Chairman of the Board or Board Committees);
- (c) Based on the NEDs' roles and contributions and should not be differentiated based on knowledge and experience;
- (d) Sufficiently competitive to attract and retain the right caliber of talents;
- (e) Remuneration levels should not compromise an NED's independence; and
- (f) May reflect the complexity size and business of the Licensed Financial Institutions ("LFIs").

The remuneration also takes into consideration industry practices. The remuneration of all Directors is also reviewed by the Board as a whole to ensure that it is aligned to the market and to the Directors' duties and responsibilities.

The shareholders of the Company had, at its Seventh Annual General Meeting ("AGM") held on 28 June 2016, approved the increase in NEDs' fee from RM780,000 up to RM936,000 for the financial year ended 31 December 2016.

It was noted that there has been no revision to the NEDs' remuneration since the Company's inception in 2009. The increase took into consideration factors such as inflation and increase in accountability consistent with the rise in complexity of transactions and increased regulatory demands. It was also conducted pursuant to the survey by Financial Institutions Directors' Education ("FIDE") Programme on directors' remuneration in banking and insurance industry whereby the previous NED's average fixed fee was lower than the average fixed fee of NEDs in LFIs, local banking group, other banks and insurance companies. In strengthening the relationship between the Company and its shareholders through effective communication and proactive engagements with shareholders, the payment of Directors' fees to all NEDs are made on monthly basis.

The Meeting Allowance, on the other hand, was only reviewed upon the publication of FIDE's Directors Remuneration Report.

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Remuneration strategy (continued)

Board (continued)

As at 31 December 2016, the remuneration of the Board and Board Committee are as follows:

	Chairman	Member
<u>Directors' fees per month*</u>		
Board	RM33,000	RM6,000
Board Committee	RM6,000	RM4,000
<u>Meeting Allowance per sitting **</u>		
Board	RM7,500	RM5,000
Board Committee	RM6,000	RM4,000

*as approved by the shareholders in June 2016

**up to 31 December 2016

The remuneration package of the NEDs comprises the following:

- (a) Directors' fees
The NEDs are entitled to annual Directors' fees which are fixed and payable monthly. The annual Directors' fees are subject to the approval of the shareholders at the AGM of the Company.
- (b) Board Committee fees
NEDs who sit on Board Committees are entitled to Board Committee allowances which are fixed and payable monthly.
- (c) Meeting attendance allowance
- (d) Benefits-in-kind
Benefits are accorded to the Chairman of the Company consisting of, amongst others, provision of a driver and petrol.

No bonuses were paid to the NEDs during the financial year ended 31 December 2016.

The details of Directors' Remuneration are set out in Note 18(b) to the financial statements.

Managing Director/Chief Executive Officer

The Board, through BRNC, annually reviews the performance of the MD/CEO as a prelude to determining his annual remuneration, bonus and other benefits. In discharging the duty, BRNC evaluates the performance of the MD/CEO against the objectives set by the Board, thereby linking their remuneration to performance.

The basic salary of the MD/CEO is fixed for the duration of his contract. The Company operates a bonus scheme for all employees including its MD/CEO. Bonus payable to the MD/CEO is reviewed by the BRNC and approved by the Board. The MD/CEO is not entitled to fees.

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Remuneration strategy (continued)

Company

The Company's continued success depends on the commitment of our people to embrace and live our values, the commitment of the company to provide our people with a competitive total rewards program, a competitive and collegial working environment and the opportunity to grow our people alongside our company.

Recognising the importance of having the right people with the right skills at all times, the Company's remuneration strategy has been put in place to attract, retain and reward high calibre and talented employees with relevant experience.

Our remuneration strategy serves to achieve the following imperatives:

- Recognises individuals that contribute in making the organisation more competitive, efficient and sustainable;
- Recognises individual performance against pre-agreed expectations; and
- Is competitive with the financial services industry.

Our remuneration framework is represented by the following:

- a. Basic salary – a core component that is determined by the job size which takes into account the level of responsibility and complexity associated to the role undertaken by the incumbent;
- b. Performance bonus – a variable component that is strictly subject to the overall performance of the Company and individual performance based on the achievement of assigned KPIs; and
- c. Benefits-in-kind – comprising other benefits that are assigned to individual employees based on Standard Scheme of Service as approved by the Board in respect to the job grade.

Our fixed remuneration is defined by the salary band that makes a clear distinction between levels of accountability, role complexity and the requirement of competencies. For the purpose of external referencing, the salary band is benchmarked against other entities that are operating within the fixed income market and dealing with similar corporate credit business.

The variable remuneration is represented by annual performance bonus which is determined based on performance delivered for the financial year at Company and individual level.

The remuneration framework is applicable to all employees of the Company across levels and functions, with direct oversight by the Board. All matters pertaining to design and review of job grade, salary scale, annual bonus and increment payments are to be recommended by the BRNC and approved by the Board.

To ensure independence of officers in control functions comprising of the Director of Risk Management and Compliance and Head of Internal Audit, these positions are made to report direct to the BRC and BAC respectively. The respective Board Committee undertake the decision on appointment, KPIs setting and performance review of the incumbent in the role which are then channelled to the Board for decisions on overall rewards and remuneration.

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Remuneration strategy (continued)

Company (continued)

The Company deems the Senior Management team and key officers as Material Risk Takers. However, the Company classifies the Senior Management and key officers into the following critical positions categories based on regulatory and internal reference:

1. Key Responsible Person ("KRPs") comprising of the Senior Management team and as per BNM Guideline on Fit and Proper Criteria (12 positions)
2. Mission Critical Position comprising of positions that are directly involved in contributing to revenue, managing of key risks and executing Company's strategic objectives (13 positions)

The above classification is adopted as a key reference for our risk governance and market positioning for remuneration.

The Performance Management System ("PMS") is the underlying process that supports the implementation of our remuneration framework, whereby it emphasises the following:

- Reinforces individual roles and accountabilities;
- Promotes risk-taking that is consistent with our risk appetite; and
- Disincentivises any behaviour that contradicts our values.

The above imperatives are embedded in the various stages of Performance Management cycle from performance planning to performance review.

Our assessment of performance encapsulates 2 components as follows:

- i. Achievement of assigned KPIs (for the year)
- ii. Alignment of behavior to the Company's shared values

To ensure that the Company continues to deliver its mandate and able to achieve its business imperatives, the Corporate Scorecard planning and performance assessment for the MD/CEO and Senior Management team is subject to deliberation and recommendation by BRNC prior to escalation for approval by the Board. The Corporate Scorecard which will be used to measure the overall performance will incorporate the following main performance metrics:

1. Business metrics – Issuances target, risk sharing and zero default
2. Financial metrics – Profit Before Tax ("PBT"), income and impairment

The above metrics are then translated into specific KPIs and embedded into individual scorecard of Senior Management team members based on their respective functional role.

During the annual performance review exercise, the overall achievement of Corporate Scorecard will be assessed and deliberated by Board to determine the size of overall Company's bonus pool.

Individual performance review rating will be calibrated through a moderation process across the divisions within the Company based on employee's job grade and job functions to derive to the final rating. The final output of performance assessment defined as individual ratings is thereafter translated into annual bonus payment based on the pre-set bonus matrix.

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Remuneration strategy (continued)

Company (continued)

In line with our aspiration of building a high performance culture, staff who have been assessed as poor performer will not be accorded any bonus payment. The Performance Improvement Plan (“PIP”) process has been established as a support mechanism in managing poor performance.

To continuously ensure that the remuneration package remains competitive in the market, the Company has engaged an external party to conduct job evaluation, salary benchmarking and benefits review exercise in 2016, where the following were validated:

- Danajamin's target positioning of cash remuneration in the market;
- The competitiveness of the total remuneration package against the target industries and companies; and
- The effectiveness of the benefits package against market practice.

The outcome and recommendation resulting from this exercise were presented to the Board for the necessary action items to be undertaken accordingly as follows:

1. To revise the existing salary band taking into consideration the market movement since the last review carried out back in 2012. The Board has approved for the new salary structure to be implemented effective beginning 2017.
2. To explore other approach that may increase the effectiveness of our benefits package as part of talent attraction and employee engagement strategy.

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DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Internal Control Framework

The Board has the primary responsibility to ensure that the Company maintains an adequate system of internal controls, and that the Company has effective and efficient operations and risk management policies to ensure compliance with relevant laws and regulations. The Company has in place formal policies which govern the management and control of financial and non-financial risks. The adoption of these policies enables a consistent approach to the management of risks throughout the Company. The Directors and Senior Management of the Company are committed to maintaining a risk-conscious culture in the Company.

- Enterprise Risk Management (“ERM”) Framework

One of the building blocks used to identify and evaluate significant risks is the ERM Framework which was implemented in early 2010 and is continuously enhanced to reflect best practices. The Framework establishes systematic monitoring and reporting requirements of each division within the Company, and is aimed at embedding sound risk management culture within the Company to ensure that the Company continues to expand its business with the right risk management culture, discipline and practices.

In 2016, the ERM framework was further strengthened to streamline and redefine key risks relevant to the business with clear identification of root causes, accountability/ownership of the risks and mitigating controls, for alignment with the industry’s best practices as well. As part of this initiative, members of the Board and Senior Management were also re-trained on risk awareness. The enhancement also included automation of the enterprise risk reporting and sign off process to promote accountability and enable Senior Management to provide assurance to the Board on the adequacy and effectiveness of the risk management and internal control system as well as improve operational efficiency.

- Credit risk management

Management of credit risk is through a set of stringent underwriting standards and comprehensive credit risk policies. All underwriting proposals are subject to robust credit evaluation process and dual-level approval process through MUC and BUC, to ensure that the shareholders’ capital and the Company’s rating is protected. The Company practises credit risk reporting and controlling framework through regular reporting of each obligor’s performance via the credit risk dashboards. These risk dashboards provide transparency and early warning indicators to Senior Management with regard to the risk profile of each underwritten commitment.

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DIRECTORS' REPORT (CONTINUED)**STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)**Internal Control Framework (continued)

- Compliance Framework

The Company strives to operate within its compliance principles which is driven down by the Board and Senior Management to all staff to foster a strong compliance culture in the Company and the way we do business. The Company is governed by the FSA, Companies Act 1965, BNM licensing conditions and regulatory requirements and guidelines as well as other relevant and applicable Acts and standards issued by regulators to the Company. The Compliance Framework also establishes a systematic monitoring and reporting requirements for the Compliance Officers along with the Board, BRC, Senior Management and staff to understand, comply and manage compliance risks in the Company. In 2016, the monitoring and reporting process was enhanced to promote accountability and enable Senior Management to provide assurance to the Board on the adequacy and effectiveness of the compliance risk management as well as improve operational efficiency.

The Risk Management Division performs regular reviews of the Company's internal control framework on a continuous basis.

- Risk governance and oversight

The Management Risk Committee ("MRC") is responsible to oversee the risk management functions and practices of the Company, while the BRC oversees management of key risk areas by the Senior Management to ensure that the risk management framework and processes are functioning effectively.

- Key policies and procedures

Policies and procedures are established in the Company to manage the day-to-day operations, and are communicated and made available to all staff. The policies and procedures are reviewed and updated regularly to ensure they remain relevant to the current business environment and in compliance with the current/applicable laws and regulations.

Listed below are some of the key policies and procedures and also denotes if changes were made in 2016:

- Underwriting Policy & Procedures
- Client Management Procedures (2016)
- Claims Payment & Advance Payment Policy
- Investment Policy & Operating Procedures (2016)
- Liquidity Framework
- Risk Governance Policy
- Delegated Authority Limit Manual (2016)
- Risk Appetite Statement (2016)
- ERM Policy & Procedures (2016)
- Operational Risk Policy (2016)
- Compliance Policy (2016)
- Credit Risk Guidelines & Procedures (2016)
- Portfolio Monitoring Policy
- Premium Pricing Policy
- Portfolio Concentration Policy (2016)

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Internal Control Framework (continued)

• Key policies and procedures (continued)

Listed below are some of the key policies and procedures and also denotes if changes were made in 2016 (continued):

- Portfolio Risk Management Procedures
- Special Assets Policy & Procedures (2016)
- Stress Testing Policy
- General IT Control Policy (2016)
- Business Continuity Management Policy
- Anti-Money Laundering and Counter Financing of Terrorism Policy
- Code of Conduct
- Whistleblower Policy
- ICAAP Framework (2016)

Internal Audit and Internal Control Activities

The Company has an in-house group internal audit function which is guided by its Audit Charter and reports to the BAC. Its primary role is to assist the BAC in the discharge of their duties and responsibilities by independently reviewing and reporting on the adequacy and effectiveness of the Company's risk management, internal control and governance processes.

The Internal Auditors perform regular reviews of the Company's operational processes and system of internal controls. Auditable units of priority and frequency of review are determined by adopting a risk-based approach, and the annual internal audit plan is reviewed and approved by the BAC. Results of the audits conducted by the Internal Auditors are reported to the BAC, while follow-up and review of the status of actions taken on the auditors' recommendations are carried out by the Management.

The BAC holds regular meetings to deliberate on findings and recommendations for improvement highlighted by both the Internal and External Auditors as well as regulatory authorities on the state of the Company's internal control system. The minutes of the BAC meetings are subsequently tabled to the Board for notation. In addition to audit assignments, the Internal Audit Division is invited to participate on a consultative basis in projects, the development of new systems and information technology related initiatives.

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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

RATING BY EXTERNAL RATING AGENCIES

Details of the Company's ratings are as follows:

<u>Rating agency</u>	<u>Date</u>	<u>Rating/classification</u>	<u>Rating received</u>
RAM Rating Services Berhad ("RAM")	6 December 2016	Long-term Financial Enhancement Rating	AAA
		Short-term Financial Enhancement Rating	P1
		Outlook	Stable
Malaysian Rating Corporation Berhad ("MARC")	17 November 2016	Insurer Financial Strength Rating	AAA
		Short-term Counterparty Credit Rating	MARC-1
		Outlook	Stable

DESCRIPTION OF THE RATINGS ACCORDED

RAM Rating Services Berhad

Long-term Financial Enhancement Rating

AAA A financial guarantee insurance company rated AAA has a superior capacity to meet its financial obligations to policy/contract holders. This is the highest long-term financial enhancement rating assigned by RAM.

Short-term Financial Enhancement Rating

P1 A financial guarantee insurance company rated AAA has a superior capacity to meet its financial obligations to policy/contract holders. This is the highest short-term financial enhancement rating assigned by RAM.

Malaysian Rating Corporation Berhad

Insurer Financial Strength Rating

AAA An institution rated AAA has an exceptionally strong capacity to meet its financial commitments and exhibits a high degree of resilience to adverse developments in the economy, and in business and other external conditions. These institutions typically possess a strong balance sheet and superior earnings record.

Short-term Rating

MARC-1 An institution rated MARC-1 reflects the counterparty's very strong capacity to meet its short-term obligations not exceeding a year under financial contracts. This is the highest short-term rating assigned by MARC.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

OTHER STATUTORY INFORMATION

- (a) Before the financial statements of the Company were made out, the Directors took reasonable steps:
 - (i) to ascertain that proper actions have been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts have been written off and adequate allowance had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Company had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Company which would render:
 - (i) the amount written off for bad debts or the amount of allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent; and
 - (ii) the values attributed to current assets in the financial statements of the Company misleading.
- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.
- (d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Company which would render any amount stated in the financial statements misleading.
- (e) At the date of this report, there does not exist:
 - (i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Company which has arisen since the end of the financial year other than those arising in the normal course of business of the Company.
- (f) In the opinion of the Directors:
 - (i) no contingent or other liability of the Company has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet their obligations as and when they fall due; and
 - (ii) for the purpose of this section, contingent or other liabilities do not include liabilities arising from contracts of financial guarantee insurance underwritten in the ordinary course of business of the Company.

Company No.

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DANAJAMIN NASIONAL BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

There has not been any significant event during the financial year, and there is no significant adjusting event after the date of the statement of financial position up to the date when the financial statements are authorised for issue.

SUBSEQUENT EVENTS AFTER THE FINANCIAL YEAR

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the result of the operations of the Company for the financial year in which this report is made.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

The details of Auditors' Remuneration are set out in Note 18(c) to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the Board of Directors dated 23 March 2017.

x 

DATO' MOHAMMED BIN HAJI CHE HUSSEIN
NON-EXECUTIVE CHAIRMAN

✓ 

MOHAMED NAZRI BIN OMAR
MANAGING DIRECTOR /
CHIEF EXECUTIVE OFFICER

Company No.

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DANAJAMIN NASIONAL BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS
PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016

We, Dato' Mohammed bin Haji Che Hussein and Mohamed Nazri Bin Omar, being two of the Directors of Danajamin Nasional Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 39 to 93 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2016 and of its financial performance and cash flows for the financial year ended on that date in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 2016.

Signed on behalf of the Board in accordance with a resolution of the Board of Directors dated 23 March 2017.



DATO' MOHAMMED BIN HAJI CHE HUSSEIN
NON-EXECUTIVE CHAIRMAN



MOHAMED NAZRI BIN OMAR
MANAGING DIRECTOR /
CHIEF EXECUTIVE OFFICER

Kuala Lumpur, Malaysia

STATUTORY DECLARATION
PURSUANT TO SECTION 251(1) OF THE COMPANIES ACT, 2016

I, Poorani Ramachandran, being the officer primarily responsible for the financial management of Danajamin Nasional Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 39 to 93 are in my opinion correct and I make this solemn declaration conscientiously believing the same to be true by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly
declared at Kuala Lumpur
in the Federal Territory
on 23 March 2017



Before me,



Lot 1.08, Tingkat 1,
Bangunan KWSP, Jln Raja Laut
50350 Kuala Lumpur.
Tel: 019-6630715



**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF DANAJAMIN NASIONAL BERHAD
(Incorporated in Malaysia)
(Company No. 854686K)**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

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

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 39 to 93.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

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

Independence and other ethical responsibilities

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



**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF DANAJAMIN NASIONAL BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 854686K)**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the Directors for the financial statements

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

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



**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF DANAJAMIN NASIONAL BERHAD (CONTINUED)**
(Incorporated in Malaysia)
(Company No. 854686K)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

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

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

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



**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF DANAJAMIN NASIONAL BERHAD (CONTINUED)**
(Incorporated in Malaysia)
(Company No. 854686K)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that, in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

SOO HOO KHOON YEAP
(No. 2682/10/17(J))
Chartered Accountant

Kuala Lumpur
23 March 2017

Company No.

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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
ASSETS			
Property, plant and equipment	2	3,787	4,675
Intangible assets	3	382	373
Available-for-sale securities	4	626,690	646,033
Deposits and placements with licensed banks	5	990,875	856,549
Insurance receivables	6	422,910	463,169
Reinsurance assets	7	31,121	12,684
Tax recoverable		11,985	12,985
Other assets	8	1,353	1,611
Cash and cash equivalents		5,082	5,909
TOTAL ASSETS		2,094,185	2,003,988
LIABILITIES AND EQUITY			
Premium liabilities	9	482,499	523,314
Insurance payables	10	23,439	9,480
Other liabilities	11	12,815	11,392
TOTAL LIABILITIES		518,753	544,186
Share capital	12	1,000,000	1,000,000
Retained earnings	13	549,054	435,703
Contingency reserve	14	26,518	26,255
Available-for-sale fair value reserve		(140)	(2,156)
TOTAL EQUITY		1,575,432	1,459,802
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,094,185	2,003,988

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

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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
Gross earned premiums	15 (a)	98,214	90,516
Premiums ceded to reinsurance	15 (b)	(8,336)	(4,121)
Net earned premiums		89,878	86,395
Investment income	16	64,022	57,707
Other operating income	17	8,689	7,009
		162,589	151,111
Management expenses	18	(37,075)	(31,797)
Profit before taxation		125,514	119,314
Taxation	19	-	-
Net profit for the financial year		125,514	119,314
Other comprehensive income:			
<u>Items that may be subsequently reclassified to the income statement:</u>			
Available-for-sale fair value reserve:			
Unrealised net gain on revaluation		3,921	2,649
Net transfer to income statement upon disposal		(1,905)	369
Other comprehensive income for the financial year, net of tax		2,016	3,018
Total comprehensive income for the financial year		127,530	122,332
Basic earnings per share (sen)	20	12.55	11.93

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

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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	<u>Non-Distributable</u>		<u>Distributable</u>		
	Share capital	AFS fair value reserve	Contingency reserve	Retained earnings	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2016	1,000,000	(2,156)	26,255	435,703	1,459,802
Net profit for the financial year	-	-	-	125,514	125,514
Dividend paid for the financial year ended 31 December 2015	-	-	-	(11,900)	(11,900)
Available-for-sale ("AFS") fair value reserve:					
Unrealised net gain on revaluation	-	3,921	-	-	3,921
Net transfer to income statement upon disposal	-	(1,905)	-	-	(1,905)
Transfer to contingency reserve	-	-	263	(263)	-
At 31 December 2016	1,000,000	(140)	26,518	549,054	1,575,432
At 1 January 2015	1,000,000	(5,174)	22,468	331,376	1,348,670
Net profit for the financial year	-	-	-	119,314	119,314
Dividend paid for the financial year ended 31 December 2014	-	-	-	(11,200)	(11,200)
AFS fair value reserve:					
Unrealised net gain on revaluation	-	2,649	-	-	2,649
Net transfer to income statement upon disposal	-	369	-	-	369
Transfer to contingency reserve	-	-	3,787	(3,787)	-
At 31 December 2015	1,000,000	(2,156)	26,255	435,703	1,459,802

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

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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	125,514	119,314
Adjustments for:		
Depreciation of property, plant and equipment	1,402	782
Property, plant and equipment written off	-	205
Amortisation of intangible assets	282	690
Gain on disposal of property, plant and equipment	-	(117)
Net gain from disposal of AFS securities	(1,257)	(369)
Net amortisation of premium/(accretion of discounts) for AFS securities	190	(110)
Interest income	(64,212)	(57,597)
	<u>61,919</u>	<u>62,798</u>
Purchase of AFS securities	(200,569)	(103,921)
Proceeds from disposal of AFS securities	223,591	115,219
Increase in deposits and placements with licensed banks	(125,855)	(7,112)
Investment income received	55,145	55,511
Decrease/(increase) in insurance receivables	40,259	(55,923)
(Increase)/decrease in reinsurance assets	(18,437)	4,135
Decrease/(increase) in other assets	258	(705)
(Decrease)/increase in premium liabilities	(40,815)	56,262
Increase/(decrease) in insurance payables	13,959	(3,715)
Increase/(decrease) in other liabilities	1,458	(2,284)
Income tax refunded	1,000	-
Net cash inflows from operating activities	<u>11,913</u>	<u>120,265</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(543)	(4,951)
Purchase of intangible assets	(297)	(271)
Proceeds from disposal of property, plant and equipment	-	118
Net cash outflows from investing activities	<u>(840)</u>	<u>(5,104)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Shareholders' advance	-	(100,000)
Dividends paid	(11,900)	(11,200)
Net cash outflows from financing activities	<u>(11,900)</u>	<u>(111,200)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(827)	3,961
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR	<u>5,909</u>	<u>1,948</u>
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	<u>5,082</u>	<u>5,909</u>
Cash and cash equivalents comprise:		
Cash and bank balances	<u>5,082</u>	<u>5,909</u>

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

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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

1A GENERAL INFORMATION

Danajamin Nasional Berhad (“the Company”) is a public limited liability company, incorporated and domiciled in Malaysia.

The Company is principally engaged in providing financial guarantee insurance (“FGI”). There were no significant changes in the nature of the principal activity during the financial year.

The address of the registered office and the principal place of business of the Company are Level 18, Menara Allianz Sentral, No. 203, Jalan Tun Sambanthan, Kuala Lumpur Sentral 50470 Kuala Lumpur, Malaysia.

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 23 March 2017.

1B ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements. These accounting policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The financial statements of the Company have been prepared under the historical cost convention unless otherwise indicated in the summary of significant accounting policies below. The financial statements of the Company have been prepared in accordance to Malaysian Financial Reporting Standards (“MFRS”), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

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

The preparation of financial statements in conformity with the MFRS requires the use of certain accounting estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. It also requires the Directors to exercise their judgement in the process of applying the Company’s accounting policies. Although these estimates and judgement are based on the Directors’ best knowledge of current events and actions, actual results may differ from those estimates.

Critical accounting estimates and assumptions used that are significant to the financial statements and areas involving a higher degree of judgement and complexity are disclosed in Note 1C.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

(CONTINUED)

1B ACCOUNTING POLICIES (CONTINUED)

1.1 Basis of preparation (continued)

- (a) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company and are effective:

On 1 January 2016, the Company adopted the following standard mandatory for financial year beginning on or after 1 January 2016:

- Amendments to MFRS 116 and MFRS 138 "Clarification of Acceptable Methods of Depreciation and Amortisation"
- Annual Improvements to MFRSs 2012 - 2014
- Amendments to MFRS 101 "Disclosure Initiative"

The adoption of the above standard does not give rise to any material impact to the Company's accounting policies other than enhanced disclosures to the financial statements.

- (b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective:

(i) Financial year beginning on/after 1 January 2017

Amendments to MFRS 107 "Statement of Cash Flows - Disclosure Initiative" clarify that an entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cashflows and non-cash changes. An entity can provide a reconciliation between opening and closing balances in the balance sheet for liabilities arising from financing activities.

Amendments to MFRS 112 "Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses" clarify that decreases in value of a debt instrument measured at fair value for which the tax base remains at its original cost give rise to a deductible temporary difference. The estimate of probable future profits may include recovery of some of an entity's assets for more than their carrying amounts if sufficient evidence exists that it is probable the entity will achieve this.

The Amendments also clarify that deductible temporary differences should be compared with the entity's future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences when an entity evaluates whether it has sufficient future taxable profits.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

1B ACCOUNTING POLICIES (CONTINUED)

1.1 Basis of preparation (continued)

- (b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective: (continued)

(ii) Financial year beginning on/after 1 January 2018

MFRS 9, "Financial Instruments" (effective 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement". MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are always measured to fair value through profit or loss with irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirement. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

MFRS 9 introduces an expected credit losses model on impairment for all financial assets that replaces the incurred loss impairment model used in MFRS 139. The expected credit losses model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

The adoption of the new standards, amendments to published standards and interpretations to existing standards are not expected to have a material impact on the financial results of the Company, except that the Company is in the process of reviewing the requirements of MFRS 9 and expects this process to be completed prior to the effective date on 1 January 2018.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

1B ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies

(a) Property, plant and equipment and depreciation

Property, plant and equipment are initially stated at cost and subsequently stated at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Depreciation of property, plant and equipment is computed on a straight-line basis over the following estimated useful life:

Motor vehicles	60 months
Renovation	60 months
Computer hardware	30 months
Furniture and fittings	60 months
Office equipment	60 months

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at the end of each reporting period.

At the end of the reporting period, the Company assesses whether there is any indication of impairment. If such indications exist, the carrying amount is written down to its recoverable amount. Refer to accounting policy Note 1.2(d)(iv) on impairment of non-financial assets.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the income statement.

(b) Intangible assets and amortisation

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and expenditure is reflected in the income statement in the financial year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**(CONTINUED)****1B ACCOUNTING POLICIES (CONTINUED)**

1.2 Summary of significant accounting policies (continued)

(b) Intangible assets and amortisation (continued)

Intangible assets with finite lives are amortised on a straight line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each financial year-end.

Computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Computer software are amortised on a straight line basis over their estimated useful lives of thirty (30) months.

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

(c) Investments and financial assets

(i) Available-for-sale

AFS securities are investments that are not classified as held-for-trading or held-to-maturity or loan and receivables. They are initially recognised at fair value plus transaction costs, and subsequently measured at fair value. Interest from the AFS securities, calculated using the effective yield method, is recognised in the income statement, while dividends on AFS instruments are recognised in the income statement when the Company's right to receive payment is established.

Except for impairment losses, any gains or losses arising from changes in the fair value adjustments are recognised directly in other comprehensive income (i.e. AFS fair value reserve).

When the AFS security is derecognised, the cumulative fair value gains or losses previously recognised in other comprehensive income are transferred to the income statement as net realised gains or losses on AFS security.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise deposits and placements with licensed banks, other assets and cash and cash equivalents in the statement of financial position.

These financial assets are initially recognised at fair value plus all transaction costs directly attributable to the acquisition. After initial measurement, loans and receivables are measured at amortised cost, using the effective yield method, less allowance for impairment. Gains and losses are recognised in the income statement when the financial assets are derecognised or impaired, as well as through the amortisation process.

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

1B ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies (continued)

(d) Impairment of assets

(i) Impairment of financial assets carried at amortised cost

The Company assesses at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in income statements. If 'loans and receivables' or a 'held-to-maturity investment' have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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 reversal of the previously recognised impairment loss is recognised in income statement.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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

(CONTINUED)

1B ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies (continued)

(d) Impairment of assets (continued)

(ii) Impairment of financial assets carried at cost

If there is objective evidence that an impairment loss on securities carried at cost (e.g. equity instruments or which there is no active market or whose fair value cannot be reliably measured) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. Such impairment losses shall not be reversed.

(iii) Impairment of financial assets carried at fair value

In the case of AFS securities, a significant or prolonged decline in the fair value of the financial asset below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS securities, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

If, in subsequent periods, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment was recognised in the income statement, that portion of impairment loss will be reversed in the income statement. Impairment losses previously recognised in the income statement for an investment in an equity instrument classified as AFS will not be reversed through the income statement.

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

1B ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies (continued)

(d) Impairment of assets (continued)

(iv) Impairment of non-financial assets

The Company assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. Impairment losses are charged to the income statement immediately.

A subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately.

(e) Fair value of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value for investments traded in an active market is based on quoted market price at the end of the reporting date. Where current market prices are not available, the price of the most recent transaction may be used provided that there has not been significant change in economic circumstances since the time of the transaction. If conditions have changed, the price will be adjusted to reflect the change in conditions by reference to current prices for similar financial instruments.

If the market for the investments is not active, fair value may be established by using a valuation technique, which includes but is not limited to using recent arm's length market transactions between knowledgeable, willing parties, if available, references to the current fair value for another instrument that is substantially the same, discounted cash flow analysis and option pricing models. A valuation technique should, where possible, incorporate observable market data about market conditions and other factors that are likely to affect the investments' fair value.

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

1B ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies (continued)

(f) Guarantee fee and security

The Company provides financial guarantee insurance over bond and sukuk issuances by companies incorporated in Malaysia.

Bond issuers will pay a guarantee fee to Danajamin in return for the Company's guarantee to meet the coupon and principal payments due to bondholders should the bond issuer default. The guarantee fee is calculated based on a percentage of the nominal value of each insured issuance, and is paid annually in advance.

To reduce the risk the Company's exposed to, the financial guarantee insurance ("FGI") facility agreement has the following features:

- Security is provided to the Company;
- Various accounts must be established and controlled by an appointed Facility/Security Agent. The proceeds from bond issues, asset sales, operating income must be paid into these accounts. Withdrawals from these accounts are subject to strict conditions;
- Covenants are imposed on the bond issuer. These include financial and non-financial covenants; and
- In the event of a financial or non-financial covenant being breached, the Company has the right to impose additional covenants, increase the frequency of reporting, request additional security, withhold any unutilised amount of the guarantee facility, appoint auditors, monitoring accountants and/or independent consultants to assess the financial position of the bond issuer and exercise the Power of Attorney over the bond issuer in whatever way the Company deems appropriate.

(g) Financial guarantee insurance results

The financial guarantee insurance results are determined after taking into account commissions, unearned premiums and claims incurred.

Gross premiums

Gross premiums are recognised in a financial year in respect of risks assumed during the financial year. No insurers licensed under the Financial Services Act, 2013 effective since 30 June 2013 (previously under the Insurance Act, 1996) are allowed to accept reinsurance of the Company's FGI risks.

Unearned premium reserve

Unearned premium reserve ("UPR") in respect of FGI policy is determined as an amount calculated on the basis that the premiums written are earned in proportion with the expiration of the exposure. This method is applied consistently to premiums, reduced by the percentage of accounted gross direct commission expenses to corresponding premiums.

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

1B ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies (continued)

(g) Financial guarantee insurance results (continued)

Claim liabilities

Claims liabilities relate to the FGI's obligation, whether contractual or otherwise, to make future payments in relation to all claims that have been incurred as at the valuation date, with appropriate allowance for direct and indirect claims-related expenses that the FGI expects to incur when settling these claims. Upon receipt of a notice of claim, the FGI is obligated to make relevant payments of interest and principal, to investors, in respect of a guaranteed debt obligation. The amount of this obligation, including allowance for appropriate related expenses the FGI expects to incur when paying the interest and principal, determines the claim liabilities.

(h) Reinsurance

The Company cedes insurance risk in the normal course of business for some of its financial guarantees. Reinsurance assets represent balances due from companies where the insurance risks are ceded. Amounts recoverable from reinsurers are in accordance with the related reinsurance contracts.

Ceded reinsurance arrangement does not relieve the Company from its obligation to bondholders. Premiums are presented on a gross basis for ceded reinsurance.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting financial year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due to the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the income statement.

(i) Premium receivables

Premium receivables are recognised when risks are assumed (including instalment premiums) and measured on initial recognition at the fair value of the consideration received or receivable.

If there is objective evidence that the premium receivable is impaired, the Company reduces the carrying amount of the premium receivable accordingly and recognises that impairment loss in the income statement. The Company gathers the objective evidence that a premium receivable is impaired using the process as described in Note 1.2(d).

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

1B ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies (continued)

(j) Fee receivables

Fee receivables are amounts due from obligors for services rendered in the ordinary course of business. Fee receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

(k) Financial guarantee insurance liabilities

FGI liabilities are recognised when contracts are entered into and premiums are charged. The FGI liabilities refer to the claims and premium liabilities of the Company's business, associated with the uncertainty of claims and unexpired risks (with respect to unexpired FGI policies), resulting from the risks of increased claims losses and under-estimation of premiums.

The value of the FGI liabilities is the aggregate of the values of the premium liabilities and the claim liabilities.

Premium liabilities

Premium liabilities refer to the greater of:

- The aggregate of the unearned premium reserve ("UPR"); and
- The best estimate value of the unexpired risk reserve ("URR") at the valuation date and a provision of risk margin for adverse deviation ("PRAD"). The URR is the reserve required to cover for future claims and associated expenses that are expected to emerge during the unexpired period of the FGI guarantee. It is an estimate of the future obligations of the FGI taking into account the likelihood and amount of the interest and principal that the FGI expects to pay in the event of a default of an obligation with allowance for expenses, including overheads and any cost of reinsurance expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and the timing of the payments.

Valuation of financial guarantee insurance liabilities shall provide for reserves at a specified level of adequacy with explicit prudential margins. In particular, the liability valuation should aim to secure an overall level of sufficiency of reserves at the 75% confidence level. To secure this level of adequacy, the Company calculates the best estimate value of its FGI liabilities and apply a PRAD.

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

(CONTINUED)

1B ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies (continued)

(k) Financial guarantee insurance liabilities (continued)

Claims liabilities

Claims liabilities relate to expired periods of exposure and earned premiums. Claim liabilities are obligations, whether contractual or otherwise, to make future payments in relation to all claims that have been incurred as at the valuation date, with appropriate allowance for expected claims-related expenses.

The claims liability consists of two reserves. These being:

- A reported but not admitted (“RBNA”) claims reserve, which is the reserve held in respect of claims notified to the Company which the Company has not accepted; and
- An incurred but not reported (“IBNR”) claims reserve, which is the reserve held in respect of defaults that have occurred, but where the Company has not been notified of the default.

The financial positions of the companies insured are monitored on an ongoing basis and any default would be highlighted immediately.

Details on the methodologies and assumptions in the valuation of FGI liabilities are outlined in Note 1C.

Contingency reserve

As a FGI, the Company is required to establish and maintain a contingency reserve as a buffer against the risk of excessive losses occurring during adverse economic cycles, in the manner prescribed in paragraph 44(6) of Insurance (FGI) Regulations 2001 issued by BNM. The provision of this contingency reserve is shown via a movement/transfer within the Statement of Changes in Equity.

(l) Other revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Guarantee related fees are recognised upon performance of services in accordance with the terms and conditions in the Letter of offer or agreement.

Interest income is recognised using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial instrument. The calculation includes significant fees and transaction costs that are integral to the effective interest rate, as well as premiums or discounts.

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

1B ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies (continued)

(l) Other revenue recognition (continued)

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

Gains or losses arising on disposal of financial assets are credited or charged to the income statement.

(m) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on the straight line basis over the lease period.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which termination takes place.

(n) Income taxes

Tax expense for the period comprises current tax and deferred tax. The tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

Deferred tax is provided on a temporary difference at the date of statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

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

(CONTINUED)

1B ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies (continued)

(n) Income taxes (continued)

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

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

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

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

Deferred tax is recognised as income or an expense and included in the income statement for the financial year, except when it arises from a transaction which is recognised directly in equity, the deferred tax is also recognised in equity.

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

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

(CONTINUED)

1B ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies (continued)

(o) Employee benefits

(i) Short term benefits

Wages, salaries, paid annual leave and sick leave, bonuses, social security contributions and non-monetary benefits are recognised as expense in the financial year in which the associated services are rendered by employees of the Company.

(ii) Defined contribution plan

As required by law, the Company makes contribution to the Employees' Provident Fund ("EPF"), a defined contribution plan. The Company's contributions to the EPF are charged to the income statement in the financial year to which they relate. Once contributions have been made, the Company has no further payment obligations.

(p) Cash and cash equivalents

For the purposes of statement of cash flow, cash and cash equivalents consist of cash and bank balances, excluding deposits and placements with licensed banks which are held for investment purpose.

(q) Deferred income

Interest/profit received upfront from the deposits and placements with licensed banks are presented as deferred income and recognised in the income statement on straight line basis over the useful lives of the deposits and placements made.

(r) Insurance payables and other liabilities

Insurance payables and other liabilities are recognised when due and measured on initial recognition at fair value less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective yield method.

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

1B ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies (continued)

(s) Provisions for liabilities

Provisions for liabilities are recognised when the Company have a present legal or constructive obligation, as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Where the Company expect a provision to be reimbursed (for example, under an insurance contract), the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value is material, the amount of the provision is the present value of the expenditure expected to settle the obligation.

(t) Share capital

(i) Classification

Ordinary shares are classified as equity. Other shares, if issued, are classified as equity and/or liability according to the economic substance of the particular instrument.

(ii) Share issue cost

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(iii) Dividend distribution

Distributions to holders of an equity instrument is debited directly to equity, net of any related income tax benefit. The corresponding liability is recognised in the period in which the shareholders' right to receive the dividends are established or the dividends are declared, being appropriately authorised and no longer at the discretion of the Company, on or before the end of the reporting period but not distributed at the end of the reporting period.

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

(CONTINUED)

1B ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies (continued)

(u) Contingent liabilities and contingent assets

The Company does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be estimated reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company. The Company does not recognise contingent assets but disclose their existence where inflows of economic benefits are probable, but not virtually certain.

(v) Foreign currency transactions and balances

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the 'functional currency'). The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**(CONTINUED)****1C CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

In the application of the Company's accounting policies, which are described in Note 1B, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

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

Valuation of financial guarantee insurance liabilities

The Company is subject to BNM's Guidelines in valuing its FGI liabilities that is further described in Note 1.2(k).

The FGI liabilities comprise:

- The best estimate value of the claim liabilities;
- The best estimate value of the premium liabilities; and
- The PRAD for each of the above best estimate values.

The best estimate value should reflect the statistical central estimate of the underlying distribution of the FGI liabilities. The statistical central estimate is equal to the mean of reasonable expected outcomes.

The calculation of the best estimate claims liabilities and premium liabilities are subject to considerations of materiality.

(i) Best estimates of claim liabilities

The claims liability consists of two reserves; reported but not admitted ("RBNA") claims reserve and an incurred but not reported ("IBNR") claims reserve as described in Note 1.2(k).

The RBNA reserve is calculated by determining the reserve for each reported claim and then aggregating the individual reserves. The reserve in respect of each reported claim is determined by calculating the best estimate of future payments net of expected future recoveries, allowing for claims related expenses.

(ii) Best estimates of premium liabilities

Premium liabilities relate to unexpired periods of exposure and unearned premiums. The best estimate premium liabilities amount is the higher of:

- the unearned premium reserve ("UPR"); and
- the best estimate value of the unexpired risk reserve ("URR") at the valuation date plus the PRAD for unexpired risks.

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

1C CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(ii) Best estimates of premium liabilities (continued)

Unearned premium reserve(i) Methodology

- The UPR established reflect premiums received to date, plus future premiums receivable under the FGI policies issued at the valuation date.
- The UPR reserve is amortised over the term of the FGI policies.
- A premium receivable is established in respect of future premiums receivable under the FGI policies issued at the valuation date.

(ii) Assumptions

- The claims profile of the portfolio is approximately uniform over the contract term.

Unexpired risk reserve(i) Methodology

- The URR is calculated using a stochastic credit reserving model.
- For each FGI policy, a transition matrix is used to randomly simulate changes in the credit ratings of the issuer on a yearly basis.
- The probability of the issuer defaulting over a one year period is assigned based on the risk rating of the issuer.
- The model then randomly simulates on the issuer defaulting in the remaining term of the issuance using the risk ratings and the corresponding probabilities of default.
- The loss incurred is randomly simulated should the issuer default and the present value is determined.
- The steps are repeated for each FGI policy and the present value of future defaults for each FGI policy is accumulated to determine the portfolio losses.
- The simulation is repeated 10,000 times to construct a distribution of portfolio losses and the average outcome is calculated to determine the URR.

The best estimate URR reflects the aggregate value of expected claim on each FGI policy over the period from the valuation date until the expiry of that policy.

(ii) Assumptions

The following assumptions have been adopted:

- Multiple FGI policies can be issued under the one FGI facility agreement.
- The calculation of URR does not allow for FGI policies that are expected to be issued in the future.
- Correlation between the bond issuer ratings is allowed for using a Asset Value Model approach.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**(CONTINUED)****1C CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)**

(ii) Best estimates of premium liabilities (continued)

Unexpired risk reserve (continued)(ii) Assumptions (continued)

- The recovery rate is assumed to be described by the Beta distribution.
- Correlation between the recovery rates on the different FGI facilities is not allowed.
- The model assumes the average recovery rate is partially sensitive to the level of security provided.
- The facility is assumed to be fully drawn down at the next policy date.
- The allowance for policy administration expenses is made outside the model. The policy administration allowance is determined by multiplying the policy administration expense assumption by the UPR.
- Claim handling expenses are implicitly allowed via the recovery rate assumption adopted.

(iii) Best estimate of the provision of risk margin for adverse deviation ("PRAD")

(i) Methodology

- PRAD is determined for claims liability and the URR separately and added together to form the total PRAD.
- The claims liability PRAD depends on nature of claims notified. There has not been any claims to date.
- The URR PRAD is determined using the distribution of portfolio losses calculated by the credit risk reserving model and has been set at the 75% confidence level.
- The approach for determining the URR PRAD will be reviewed as the size of the FGI portfolio grows. Volatility in the PRAD as a percentage of the best estimate is expected at this stage in operations.

(ii) Assumptions

- The PRAD calculation does not allow for future FGI policies signed at the valuation date.

(iv) Reinsurance

The FGI liabilities is determined gross of reinsurance, with a reinsurance asset held on the statement of financial position of the Company.

(i) Methodology

- The methodology for determining is consistent with that adopted for the FGI liabilities.

(ii) Assumptions

- No adjustment is made to the reinsurance asset to reflect the risk of the reinsurer defaulting as it is not considered material to the Company's operations.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

2 PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles	Renovation	Computer hardware	Furniture and fittings	Office equipment	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost						
At 1 January 2016	5	2,435	2,164	1,444	600	6,648
Additions	-	-	503	15	25	543
Disposals/write-offs	-	-	(231)	(115)	(16)	(362)
At 31 December 2016	5	2,435	2,436	1,344	609	6,829
Accumulated depreciation						
At 1 January 2016	5	162	1,140	522	144	1,973
Charge for the financial year	-	477	626	198	101	1,402
Charge borne by a related party	-	10	13	4	2	29
Disposals/write-offs	-	-	(231)	(115)	(16)	(362)
At 31 December 2016	5	649	1,548	609	231	3,042
Net book value at 31 December 2016	-	1,786	888	735	378	3,787

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2 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Motor vehicles	Renovation	Computer hardware	Furniture and fittings	Office equipment	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost						
At 1 January 2015	418	1,226	1,412	1,512	131	4,699
Additions	-	2,435	1,064	972	480	4,951
Disposals/write-offs	(413)	(1,226)	(312)	(1,040)	(11)	(3,002)
At 31 December 2015	5	2,435	2,164	1,444	600	6,648
Accumulated depreciation						
At 1 January 2015	384	1,078	1,062	1,334	113	3,971
Charge for the financial year	34	207	377	124	40	782
Charge borne by a related party	-	4	8	4	1	17
Disposals/write-offs	(413)	(1,127)	(307)	(940)	(10)	(2,797)
At 31 December 2015	5	162	1,140	522	144	1,973
Net book value at 31 December 2015	-	2,273	1,024	922	456	4,675

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(CONTINUED)**

3 INTANGIBLE ASSETS

	<u>2016</u>	<u>2015</u>
<u>Computer software</u>	<u>RM'000</u>	<u>RM'000</u>
Cost		
At 1 January	4,163	3,910
Additions	297	271
Write-offs	(6)	(18)
At 31 December	<u>4,454</u>	<u>4,163</u>
Accumulated amortisation		
At 1 January	3,790	3,104
Amortisation for the financial year	282	690
Amortisation borne by a related party	6	14
Write-offs	(6)	(18)
At 31 December	<u>4,072</u>	<u>3,790</u>
Net book value at 31 December	<u>382</u>	<u>373</u>

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(CONTINUED)****4 AVAILABLE-FOR-SALE SECURITIES**

<u>At fair value</u>	<u>2016</u>	<u>2015</u>
	<u>RM'000</u>	<u>RM'000</u>
<u>Unquoted in Malaysia:</u>		
Malaysian Government Securities ("MGS")	50,015	19,572
Government Investment Issues ("GII")	243,630	359,635
Corporate debt securities	333,045	266,826
	<u>626,690</u>	<u>646,033</u>
Mature within 12 months	31,783	6,193
Mature after 12 months	594,907	639,840
	<u>626,690</u>	<u>646,033</u>

Fair value hierarchy

The fair value analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 : Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 : Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 : Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Recurring fair value measurements

The available-for-sale securities, which are under Level 2 of the fair value hierarchy, are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions and for which pricing is obtained via pricing agencies and other service provider. Where prices have not been determined in an active market, instruments with fair values are based on broker quotes.

5 DEPOSITS AND PLACEMENTS WITH LICENSED BANKS

The deposits and placements are maturing within 12 months, and the carrying amounts approximate the fair values due to the relatively short-term maturity of these balances.

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(CONTINUED)**

6 INSURANCE RECEIVABLES

	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Premium receivables	421,410	461,533
Fee receivables	1,500	1,636
	<u>422,910</u>	<u>463,169</u>
Receivable within 12 months	81,154	83,807
Receivable after 12 months	341,756	379,362
	<u>422,910</u>	<u>463,169</u>
Gross/net amount of recognised financial assets presented in the statement of financial position	<u>422,910</u>	<u>463,169</u>

There are no financial liabilities subject to an enforceable master netting arrangement or similar agreement and financial instruments received as collateral as at 31 December 2016 (2015 : Nil).

7 REINSURANCE ASSETS

	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Reinsurance assets	31,121	12,684
Receivable within 12 months	11,178	3,926
Receivable after 12 months	19,943	8,758
	<u>31,121</u>	<u>12,684</u>

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(CONTINUED)****8 OTHER ASSETS**

	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Deposits	570	906
Prepayments	570	433
Other receivables	213	272
	<u>1,353</u>	<u>1,611</u>

The balances are receivable within 12 months, and the carrying amounts approximate the fair values due to the relatively short-term maturity of these balances.

9 PREMIUM LIABILITIES

	Note	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>
		RM'000	RM'000	RM'000
<u>Unearned premium reserve</u>				
At 1 January 2016		523,314	(12,684)	510,630
Premiums written during the financial year	15	57,399	(26,773)	30,626
Premiums earned during the financial year	15	(98,214)	8,336	(89,878)
At 31 December 2016		<u>482,499</u>	<u>(31,121)</u>	<u>451,378</u>
Payable within 12 months		9,430	(11,178)	(1,748)
Payable after 12 months		<u>473,069</u>	<u>(19,943)</u>	<u>453,126</u>
		<u>482,499</u>	<u>(31,121)</u>	<u>451,378</u>
<u>Unearned premium reserve</u>				
At 1 January 2015		467,052	(16,819)	450,233
Premiums written during the financial year	15	146,778	14	146,792
Premiums earned during the financial year	15	(90,516)	4,121	(86,395)
At 31 December 2015		<u>523,314</u>	<u>(12,684)</u>	<u>510,630</u>
Payable within 12 months		5,804	(3,926)	1,878
Payable after 12 months		<u>517,510</u>	<u>(8,758)</u>	<u>508,752</u>
		<u>523,314</u>	<u>(12,684)</u>	<u>510,630</u>

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

10 INSURANCE PAYABLES

	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Reinsurance premiums payable	<u>23,439</u>	<u>9,480</u>
Payable within 12 months	9,022	4,448
Payable after 12 months	<u>14,417</u>	<u>5,032</u>
	<u>23,439</u>	<u>9,480</u>
Gross/net amount of recognised financial liabilities presented in the statement of financial position	<u>23,439</u>	<u>9,480</u>

There are no financial assets subject to an enforceable master netting arrangement or similar agreement and financial instruments received as collateral as at 31 December 2016 (2015: Nil).

11 OTHER LIABILITIES

	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Provision for unutilised leave	140	168
Provision for loan interest subsidy	116	95
Provision for audit fees	189	171
Provision for bonus and related EPF	7,618	5,049
Amount due to a related party	21	109
Accrued expenses	1,488	1,484
Deferred income	2,199	3,000
Other payables	<u>1,044</u>	<u>1,316</u>
	<u>12,815</u>	<u>11,392</u>

The amount due to a related party is unsecured, interest-free and has no fixed terms of repayment. The balances are payable within 12 months, and the carrying amounts approximate the fair values due to the relatively short-term maturity of these balances.

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

12 SHARE CAPITAL

	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Authorised:		
Ordinary shares of RM1 each:		
At the beginning and end of financial year	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid up:		
Ordinary shares of RM1 each:		
At the beginning and end of financial year	<u>1,000,000</u>	<u>1,000,000</u>

In addition to the above issued and fully paid up share capital, there is an additional RM1,000,000,000 capital on call from the Government of Malaysia.

13 RETAINED EARNINGS

Under the single-tier tax system which came into effect from the year of assessment 2008 onwards, companies are not required to have tax credits under Section 108 of the Income Tax Act, 1967 for dividend payment purposes. Dividends paid under this system are tax exempt in the hands of shareholders.

The Company can distribute all of its retained earnings as at 31 December 2016 as single-tier dividends.

14 CONTINGENCY RESERVE

	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Contingency reserve	<u>26,518</u>	<u>26,255</u>

Pursuant to paragraph 44(6) of Insurance (Financial Guarantee Insurance) Regulatory 2001, the Company is required to maintain contingency reserves in respect of every policy which is in force at the end of the financial year, computed based on a prescribed formula.

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(CONTINUED)**

15 NET EARNED PREMIUMS

	Note	<u>2016</u> RM'000	<u>2015</u> RM'000
15 (a) Gross earned premiums			
Gross written premium	(i)	57,399	146,778
Change in gross unearned premium reserve		<u>40,815</u>	<u>(56,262)</u>
		<u>98,214</u>	<u>90,516</u>
15 (b) Premiums ceded to reinsurance			
Gross written premium ceded		(26,773)	14
Change in ceded unearned premium reserve		<u>18,437</u>	<u>(4,135)</u>
		<u>(8,336)</u>	<u>(4,121)</u>
Net earned premiums		<u>89,878</u>	<u>86,395</u>
(i) Gross written premium			
Gross written premium during the financial year		68,552	153,869
Reversal of premium due to early redemption		<u>(11,153)</u>	<u>(7,091)</u>
		<u>57,399</u>	<u>146,778</u>

16 INVESTMENT INCOME

	<u>2016</u> RM'000	<u>2015</u> RM'000
Interest income from AFS securities	19,578	24,788
Interest income from deposits and placements with licensed banks	44,634	32,809
(Amortisation of premiums)/net accretion of discounts	<u>(190)</u>	<u>110</u>
	<u>64,022</u>	<u>57,707</u>

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(CONTINUED)**

17 OTHER OPERATING INCOME

	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Net gain from disposal of AFS securities	1,257	369
Guarantee related fees	7,409	6,513
Gain on disposal of property, plant and equipment	-	117
Other income	23	10
	<u>8,689</u>	<u>7,009</u>

18 MANAGEMENT EXPENSES

	Note	<u>2016</u>	<u>2015</u>
		RM'000	RM'000
Staff costs	18 (a)	26,843	21,221
Directors' remuneration	18 (b)	2,109	1,888
Auditors' remuneration	18 (c)	256	439
Depreciation of property, plant and equipment	2	1,402	782
Property, plant and equipment written off		-	205
Amortisation of intangible assets	3	282	690
Rental of office		1,745	1,658
Repairs and maintenance		620	601
Postage, telephone and telefax		169	75
Printing and stationery		119	122
Professional fees		1,162	1,877
Other expenses		2,368	2,239
		<u>37,075</u>	<u>31,797</u>

(a) Staff costs

Salaries and bonus	18,514	14,052
SOCSSO contributions	70	52
EPF contributions	3,272	2,520
Training expenses	1,122	1,137
Other benefits (inclusive of interest subsidy and unutilised leave)	3,865	3,460
	<u>26,843</u>	<u>21,221</u>

Included in staff costs are the remuneration, including benefits-in-kind, attributable to the CEO of the Company during the financial year which amounted to RM1,198,000 (2015: RM1,191,000).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

18 MANAGEMENT EXPENSES (CONTINUED)

(b) Directors' remuneration

The details of remuneration of the Managing Director and Directors during the financial year are as follows:

	Salary and other remuneration RM'000	Benefits-in- kind RM'000	Bonus RM'000	Total RM'000
2016				
Managing Director / CEO				
Mohamed Nazri bin Omar	918	7	273	1,198
2015				
Managing Director / CEO				
Mohamed Nazri bin Omar	913	7	271	1,191
2016				
	Fees RM'000	Benefits-in- kind RM'000	Other remuneration RM'000	Total RM'000
Non-Executive Directors				
Dato' Mohammed bin Haji Che Hussein	681	7	-	688
Abdul Kadir bin Md Kassim	238	-	-	238
Dato' Albert Yeoh Beow Tit	258	-	-	258
Philip Tan Puay Koon	187	-	-	187
Datuk Ahmad Badri bin Mohd Zahir	195	-	-	195
Dato' Azian binti Mohd Noh	193	-	-	193
Mohamed Rashdi bin Mohamed Ghazalli	212	-	-	212
Ariffin Hew (appointed w.e.f. 25 October 2016)	35	-	-	35
Cheah Tek Kuang (resigned w.e.f. 19 May 2016)	103	-	-	103
	2,102	7	-	2,109
2015				
Non-Executive Directors				
Dato' Mohammed bin Haji Che Hussein	550	21	-	571
Abdul Kadir bin Md Kassim	189	-	-	189
Dato' Albert Yeoh Beow Tit	218	-	-	218
Philip Tan Puay Koon	179	-	-	179
Datuk Ahmad Badri bin Mohd Zahir	168	-	-	168
Cheah Tek Kuang	194	-	-	194
Dato' Azian binti Mohd Noh	179	-	-	179
Mohamed Rashdi bin Mohamed Ghazalli	190	-	-	190
	1,867	21	-	1,888

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(CONTINUED)**

18 MANAGEMENT EXPENSES (CONTINUED)

(c) Auditors' remuneration

The details of the auditor's remuneration during the financial year are as follows:

	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Statutory audit	189	163
Non-audit fees	67	276
	<u>256</u>	<u>439</u>

19 TAXATION

The Company is exempted from income tax at the statutory level, except for dividend income pursuant to Section 127(3A) of the Income Tax Act, 1967. The exemption is granted for extended for another five years effective from years of assessment 2014 to 2018.

A reconciliation of income tax expenses applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate is as follows:

	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Profit before tax	<u>125,514</u>	<u>119,314</u>
Taxation at Malaysian statutory tax rate of 24% (2015: 25%)	30,123	29,829
Tax effects of:		
Statutory income exempted from tax	(31,227)	(30,523)
Expenses not deductible	1,104	694
Tax expense for the financial year	<u>-</u>	<u>-</u>

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(CONTINUED)****20 EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the net profit for the financial year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year:

	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Net profit for the financial year	125,514	119,314
Weighted average number of shares in issue	1,000,000	1,000,000
Basic earnings per share (sen)	<u>12.55</u>	<u>11.93</u>

There has been no other transactions involving ordinary shares between the reporting date and the date of completion of these financial statements.

21 OPERATING LEASE COMMITMENTS

The Company (as lessee) has entered into non-cancellable operating lease commitments. These leases have remaining non-cancellable lease terms of between less than 1 year and 3 years.

The future minimum lease payments under non-cancellable operating leases contracted for as at the reporting date but not recognised as payables, are as follows:

	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Not later than 1 year	1,910	1,848
Later than 1 year and not later than 3 years	<u>938</u>	<u>2,762</u>
	<u>2,848</u>	<u>4,610</u>

22 CAPITAL COMMITMENTS

	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Capital expenditure		
Approved and contracted for:		
Intangible assets - computer software	<u>201</u>	<u>-</u>
Approved but not contracted for:		
Property, plant and equipment	200	-
Intangible assets - computer software	<u>200</u>	<u>-</u>
	<u>400</u>	<u>-</u>

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23 FINANCIAL GUARANTEE PORTFOLIO

Concentration of financial guarantee contracts portfolio outstanding based on sector and approved underwriting limit is tabulated as follows:

Sector

	<u>2016</u>		<u>2015</u>	
	<u>Guaranteed amount</u>	<u>Facility amount</u>	<u>Guaranteed amount</u>	<u>Facility amount</u>
	RM'000	RM'000	RM'000	RM'000
Agriculture	50,000	200,000	105,000	105,000
Airports and ports	440,000	440,000	470,000	470,000
Power	735,000	735,000	735,000	735,000
Education	220,000	220,000	240,000	240,000
Consumer products	865,000	940,000	850,000	990,000
Water	430,000	430,000	500,000	500,000
Oil and gas	1,000,000	1,045,000	455,000	490,000
Real estate	1,004,000	984,000	1,223,000	1,474,000
Industrial products	120,000	120,000	180,000	180,000
Property development	450,000	530,000	450,000	530,000
Toll and highways	350,000	350,000	350,000	350,000
	<u>5,664,000</u>	<u>5,994,000</u>	<u>5,558,000</u>	<u>6,064,000</u>

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(CONTINUED)**

24 SIGNIFICANT RELATED PARTY DISCLOSURES

The related parties of, and their relationship with the Company, are as follows:

<u>Related parties</u>	<u>Relationship</u>
Credit Guarantee Corporation Malaysia Berhad	Shareholder
Minister of Finance (Incorporated)	Shareholder
Bank Negara Malaysia	Related party of shareholder
Key management personnel	The key management personnel of the Company consists of the Chief Executive Officer and senior management

Key management personnel are those people defined as having authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly.

In addition to the transactions detailed elsewhere in the financial statements, the Company had the following transactions and balances with related parties during the financial year:

(a) Significant related party balances

	Note	2016	2015
		RM'000	RM'000
Other liabilities			
Amount due to a related party	11	21	109

(b) Key management personnel's remuneration

	2016	2015
	RM'000	RM'000
Salaries and benefits	5,506	4,748
Employer's EPF contributions	902	783
	6,408	5,531

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(CONTINUED)**

25 REGULATORY CAPITAL REQUIREMENT

The Risk-Based Capital ("RBC") Framework as prescribed by Bank Negara Malaysia ("BNM") came into effect on 1 January 2015. Under the prescribed RBC Framework, the Company needs to maintain a capital adequacy level that commensurate with the risk profiles. The Company is required to maintain a minimum Capital Adequacy Ratio ("CAR") of 130%. The Company has been in compliance with the said requirement.

The capital structure of the Company as at 31 December 2016, as prescribed under the RBC Framework is shown below:

	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Tier 1 Capital		
Paid-up share capital	1,000,000	1,000,000
Retained earnings	549,054	435,703
	1,549,054	1,435,703
Tier 2 Capital		
Contingency reserve	26,518	26,255
Available-for-sale fair value reserve	(140)	(2,156)
	26,378	24,099
Total capital available	1,575,432	1,459,802

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(CONTINUED)****26 RISK MANAGEMENT FRAMEWORK**

The risk management framework is to ensure that the Company operates within the risk appetite set by the Board and to ensure that managing risk becomes an integral part of the Company's risk culture. The Risk Management Division spearheads the development and implementation of the risk management framework for the Company with input from the respective divisions.

(a) Capital Management Framework

The Company is governed under the Risk Based Capital Framework as prescribed by BNM effective 1 January 2015. The Company's capital management policy is to maintain a strong capital position with sufficient buffer to meet its guaranteed obligations and regulatory requirements. The Company is also governed by the capital requirements as measured by the local rating agencies to maintain its "AAA" rating and works closely with the local rating agencies on the capital requirements to ensure that the "AAA" rating is maintained. To ensure that the capital requirements are met, the underwriting capacity is governed and managed by taking into account the Company's capital base.

(b) Governance Framework

The Board Risk Committee provides the oversight on the risk management initiatives. In managing the Company's risk management framework, the following Management Committees comprising the Chief Executive Officer and key members of the Senior Management team are being instituted:

- Management Committee ("MC")
- Management Investment Committee ("MIC")
- Information Technology Steering Committee ("ITSC")
- Management Underwriting Committee ("MUC")
- Management Risk Committee ("MRC")

The MC is responsible for providing leadership, direction and strategic oversight with regard to all matters of the Company. The MIC is responsible for the Company's investment decisions and managing the Company's balance sheet position through reviewing and formulating investment framework, liquidity management and to ensure compliance against the Company's Investment Policy. The ITSC is responsible for matters relating information technology covering all areas ranging from system requirements, resources and security. The MRC is responsible to oversee all risk management functions and practices of the Company. The MIC and ITSC report to the MC while MRC reports directly to Board Risk Committee. The MUC oversees the credit risk aspects by evaluating the risk profile of all underwriting proposals and ensuring rewards commensurate with any risk taken.

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

26 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(c) Regulatory Framework

The Company is governed by the Financial Services Act 2013 as well as guidelines from BNM. All company's policies are approved by the BRC and other Board Committees and endorsed by the Board.

(d) Credit Risk

Credit risk is the potential loss arising from claims on the financial guarantee insurance covers provided by the Company resulting from the defaults by obligors or counterparties in meeting their contractual obligations on a timely basis. Credit risk arises not only from obligors but also from investments in private debt securities undertaken by the Company. In mitigating this credit risk, the Company has instituted a set of credit and investment policies governing the underwriting and investment criteria and a robust credit evaluation and approval process.

The credit risk objectives of the Company are set by the Board, and are implemented and monitored within a structured approval process, including adherence to credit policies, maximum group exposure limits, maximum industry limits and portfolio monitoring.

The credit risk management framework exists to provide a structured and disciplined process to support these objectives. The integrity of the credit risk function is maintained by the independence of the credit chain and is supported by comprehensive risk analysis and monitoring process.

(e) Operational risk

The Company manages operational risk via the establishment and implementation of procedures for each respective divisions approved by the Chief Executive Officer. These respective divisions procedures are subjected to Internal Audit, who will evaluate and improve the effectiveness of risk management, control and governance process.

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

27 INSURANCE RISK

Sensitivity analysis

Sensitivity analysis to the best estimate URR by the parameters as at 31 December 2016 are computed based on the following key assumptions:

Change in assumptions	Impact on gross URR RM'000	Impact on gross/net premium liabilities* RM'000	Impact on profit before tax* RM'000
31 December 2016			
Improve in credit rating by 1 grade	(46,900)	-	-
Worsen in credit rating by 1 grade	67,500	-	-
Increase in recovery rate by 5%	(27,700)	-	-
Decrease in recovery rate by 5%	26,200	-	-
31 December 2015			
Improve in credit rating by 1 grade	(54,300)	-	-
Worsen in credit rating by 1 grade	70,900	-	-
Increase in recovery rate by 5%	(35,400)	-	-
Decrease in recovery rate by 5%	27,800	-	-

* There is no impact on the gross/net premium liabilities and profit before tax as the aggregate gross/net UPR as at 31 December 2016 of RM482.5 million (2015 : RM523.3 million) is higher than the URR with the key sensitivity analysis factors listed above.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(CONTINUED)****28 FINANCIAL RISKS**Financial risk management objectives and policies

The financial risks which the Company is exposed to are credit risk, liquidity risk and market risk. The Company carried out its financial risk management through internal control procedures, standard operating procedures, investment strategy and adherence to all rules and regulations as stipulated by the guidelines for investments issued by BNM.

a) Credit risk

Credit exposure

The table below shows the maximum exposure to credit risk.

	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Available-for-sale securities:		
Malaysian Government Securities	50,015	19,572
Government Investment Issues	243,630	359,635
Corporate debt securities	333,045	266,826
Deposits and placements with licensed banks	990,875	856,549
Insurance receivables	422,910	463,169
Reinsurance assets	31,121	12,684
Other assets	1,353	1,611
Cash and cash equivalents	5,082	5,909
	<u><u>2,078,031</u></u>	<u><u>1,985,955</u></u>

Credit exposure by credit rating

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties.

	Neither past-due nor impaired	
	<u>2016</u>	<u>2015</u>
	RM'000	RM'000
Available-for-sale securities:		
Malaysian Government Securities	50,015	19,572
Government Investment Issues	243,630	359,635
Corporate debt securities	333,045	266,826
Deposits and placements with licensed banks	990,875	856,549
Insurance receivables	422,910	463,169
Reinsurance assets	31,121	12,684
Other assets	1,353	1,611
Cash and cash equivalents	5,082	5,909
	<u><u>2,078,031</u></u>	<u><u>1,985,955</u></u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**28 FINANCIAL RISKS (CONTINUED)**

a) Credit risk (continued)

Credit exposure by credit rating (continued)

The table below provides information regarding the credit exposure of the Company by classifying assets according to the latest available Rating Agency of Malaysia's ("RAM") credit ratings of counterparties. AAA is the highest possible rating.

	Weighted average	AAA RM'000	AA1 RM'000	AA2 RM'000	AA3 RM'000	A1 RM'000	A2 RM'000	Government guaranteed RM'000	Unrated RM'000	Total RM'000
31 December 2016										
Available-for-sale securities:										
Malaysian Government Securities	4.22%	-	-	-	-	-	-	50,015	-	50,015
Government Investment Issues	3.97%	-	-	-	-	-	-	243,630	-	243,630
Corporate debt securities	4.02%	215,600	35,250	-	-	-	-	82,195	-	333,045
Deposits and placements										
with licensed banks	4.19%	240,764	3,343	297,990	174,725	160,967	100,116	-	12,970	990,875
Insurance receivables		422,910	-	-	-	-	-	-	-	422,910
Reinsurance assets		14,576	-	8,289	-	907	7,349	-	-	31,121
Other assets		-	-	-	-	-	-	-	1,353	1,353
Cash and cash equivalents		3,969	-	298	815	-	-	-	-	5,082
		<u>897,819</u>	<u>38,593</u>	<u>306,577</u>	<u>175,540</u>	<u>161,874</u>	<u>107,465</u>	<u>375,840</u>	<u>14,323</u>	<u>2,078,031</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

28 FINANCIAL RISKS (CONTINUED)

a) Credit risk (continued)

Credit exposure by credit rating (continued)

	Weighted average	AAA RM'000	AA1 RM'000	AA2 RM'000	AA3 RM'000	A1 RM'000	A2 RM'000	Government guaranteed RM'000	Unrated RM'000	Total RM'000
31 December 2015										
Available-for-sale securities:										
Malaysian Government Securities	4.27%	-	-	-	-	-	-	19,572	-	19,572
Government Investment Issues	3.93%	-	-	-	-	-	-	359,635	-	359,635
Corporate debt securities	3.86%	209,797	25,151	-	-	-	-	31,878	-	266,826
Deposits and placements										
with licensed banks	4.19%	253,624	7,910	353,015	65,071	176,929	-	-	-	856,549
Insurance receivables	-	463,169	-	-	-	-	-	-	-	463,169
Reinsurance assets	-	-	-	11,711	-	973	-	-	-	12,684
Other assets	-	-	-	-	-	-	-	-	1,611	1,611
Cash and cash equivalents	-	2,564	-	369	2,976	-	-	-	-	5,909
		<u>929,154</u>	<u>33,061</u>	<u>365,095</u>	<u>68,047</u>	<u>177,902</u>	<u>-</u>	<u>411,085</u>	<u>1,611</u>	<u>1,985,955</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

28 FINANCIAL RISKS (CONTINUED)

a) Credit risk (continued)

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Credit risk is also mitigated by entering into collateral agreements. Management monitors the market value of the collateral, requests additional collateral when needed and performs impairment valuation, when applicable.

Market value	2016	2015
Nature of collateral	RM'000	RM'000
Commercial land	892,660	413,677
Industrial land	346,080	342,680
Oil palm plantation/agricultural land	686,400	-
Commercial property	870,715	1,548,566
Industrial property	92,690	92,690
Plant and machinery	1,557,000	1,557,000
Quoted shares	1,004,353	619,376
Special assets	935,040	-
	<u>6,384,938</u>	<u>4,573,989</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

28 FINANCIAL RISKS (CONTINUED)

b) Liquidity risk

Liquidity risk arises when the Company does not have the availability of funds to honour all cash outflow commitments as they fall due.

The Company's funds shall be managed and invested with prudence. The tenor of investments chosen shall always take into consideration the timing and size of any potential claim liabilities and adjusted for the liquidity requirements of the Company at all times. The Company's portfolio of investments shall always conform to the limits and regulations as may be determined by BNM for financial guarantee insurers from time to time.

Maturity profiles

The table below summarises the maturity profile of the financial assets and financial liabilities of the Company based on remaining contractual obligations, including interest/profit payable and receivable. Reinsurance assets and premium liabilities has been excluded from the analysis as they are not contractual obligations.

	<u>Carrying value</u> RM'000	<u>Up to a year</u> RM'000	<u>> 1 year to 3 years</u> RM'000	<u>> 3 years to 5 years</u> RM'000	<u>> 5 years</u> RM'000	<u>Total</u> RM'000
31 December 2016						
Available-for-sale securities:						
Malaysian Government Securities	50,015	1,872	3,744	13,744	42,564	61,924
Government Investment Issues	243,630	9,301	18,602	162,660	95,609	286,172
Corporate debt securities	333,045	38,900	145,820	86,298	117,568	388,586
Deposits and placements with licensed banks	990,875	1,002,249	-	-	-	1,002,249
Insurance receivables	422,910	81,154	122,276	79,992	139,488	422,910
Other assets	1,353	1,353	-	-	-	1,353
Cash and cash equivalents	5,082	5,082	-	-	-	5,082
	<u>2,046,910</u>	<u>1,139,911</u>	<u>290,442</u>	<u>342,694</u>	<u>395,229</u>	<u>2,168,276</u>
Insurance payables	23,439	9,022	10,999	3,418	-	23,439
Other liabilities	12,815	12,815	-	-	-	12,815
	<u>36,254</u>	<u>21,837</u>	<u>10,999</u>	<u>3,418</u>	<u>-</u>	<u>36,254</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

28 FINANCIAL RISKS (CONTINUED)

b) Liquidity risk (continued)

	<u>Carrying value</u> RM'000	<u>Up to a year</u> RM'000	<u>> 1 year to 3 years</u> RM'000	<u>> 3 years to 5 years</u> RM'000	<u>> 5 years</u> RM'000	<u>Total</u> RM'000
31 December 2015						
Available-for-sale securities:						
Malaysian Government Securities	19,572	684	1,367	1,367	21,367	24,785
Government Investment Issues	359,635	13,378	26,757	193,514	196,609	430,258
Corporate debt securities	266,826	10,874	138,320	115,952	35,422	300,568
Deposits and placements with licensed banks	856,549	867,751	-	-	-	867,751
Insurance receivables	463,169	83,807	125,485	87,358	166,519	463,169
Other assets	1,611	1,611	-	-	-	1,611
Cash and cash equivalents	5,909	5,909	-	-	-	5,909
	<u>1,973,271</u>	<u>984,014</u>	<u>291,929</u>	<u>398,191</u>	<u>419,917</u>	<u>2,094,051</u>
Insurance payables	9,480	4,448	4,370	662	-	9,480
Other liabilities	11,392	11,392	-	-	-	11,392
	<u>20,872</u>	<u>15,840</u>	<u>4,370</u>	<u>662</u>	<u>-</u>	<u>20,872</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

28 FINANCIAL RISKS (CONTINUED)

c) Market risk

(i) Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates.

Investment decisions shall always take into consideration the appropriate and prevailing risk adjusted returns available in the marketplace. The focus on maximising returns shall always be bounded by a tempered approach to risk that is acceptable for the Company's funds. There shall be no over concentration of investments in single counterparties, and there shall be appropriate investment diversification across industries to mitigate these risks.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

28 FINANCIAL RISKS (CONTINUED)

c) Market risk (continued)

(i) Interest rate risk (continued)

The following tables provide the sensitivity analysis, showing the impact on the profit before tax and equity given the change in variables.

31 December 2016	Impact on profit before tax	Impact on equity				
		Up to a year	> 1 year to 3	> 3 years to	> 5 years	Total
			years	5 years		
Change in variable	RM'000	RM'000	RM'000	RM'000	RM'000	
+ 25 basis points	-	(33)	(682)	(2,083)	(3,099)	(5,897)
- 25 basis points	-	32	692	2,105	3,163	5,992
+ 50 basis points	-	(65)	(1,363)	(4,143)	(6,147)	(11,718)
- 50 basis points	-	65	1,385	4,233	6,381	12,064

31 December 2015	Impact on profit before tax	Impact on equity				
		Up to a year	> 1 year to 3	> 3 years to	> 5 years	Total
			years	5 years		
Change in variable	RM'000	RM'000	RM'000	RM'000	RM'000	
+ 25 basis points	-	-	(745)	(2,639)	(2,713)	(6,097)
- 25 basis points	-	-	749	2,669	2,754	6,172
+ 50 basis points	-	-	(1,484)	(5,249)	(5,387)	(12,120)
- 50 basis points	-	-	1,504	5,369	5,548	12,421

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

28 FINANCIAL RISKS (CONTINUED)

c) Market risk (continued)

(ii) Foreign currency risk

The Company is currently not exposed to any currency risk as all transactions were transacted in Ringgit Malaysia denominated currency.

(iii) Price risk

The Company is currently not exposed to any equity and properties, and hence not affected by price risk.

d) Underwriting risk

Underwriting risk arises when the Company is exposed to claims higher than expected from the Company's underwriting of financial guarantee insurance covers and also more than the premiums earned.

In minimising the underwriting risk, the Company's portfolio is spread over a diversified mix of businesses, and the Company observes specific guidelines governing the prudential limits on exposure to a single company/group and to an industry or business sector. Besides, the Company adopts risk-based pricing model developed according to the principles of its Premium Pricing Policy, ensuring that the premium fee charged is adequate to cover the underlying risk costs.

e) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The risk is managed through established operational risk management processes, proper monitoring and reporting of the business units' adherence to established risk policies, procedures and limits by independent control and support units, and oversight provided by the management and the Board.

The operational risk management processes encompass appropriate documentation of processes and procedures within the framework of system of internal controls, regular disaster recovery and business continuity planning and simulations, self-compliance audit and internal audit.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**29 INSURANCE FUNDS**

The Company's activities are organised by funds and segregated into Shareholders' Fund and Insurance Fund in accordance with the Financial Services Act, 2013.

The Company's statement of financial position and statement of comprehensive income have been further analysed by Shareholders' Fund and Insurance Fund.

Statement of Financial Position

	<u>Shareholders' Fund</u>		<u>Insurance Fund</u>		<u>Total</u>	
	<u>2016</u> RM'000	<u>2015</u> RM'000	<u>2016</u> RM'000	<u>2015</u> RM'000	<u>2016</u> RM'000	<u>2015</u> RM'000
ASSETS						
Property, plant and equipment	-	-	3,787	4,675	3,787	4,675
Intangible assets	-	-	382	373	382	373
Available-for-sale securities	-	-	626,690	646,033	626,690	646,033
Malaysian Government Securities	-	-	50,015	19,572	50,015	19,572
Government Investment Issues	-	-	243,630	359,635	243,630	359,635
Corporate debt securities	-	-	333,045	266,826	333,045	266,826
Deposits and placements with licensed banks	-	-	990,875	856,549	990,875	856,549
Insurance receivables	-	-	422,910	463,169	422,910	463,169
Reinsurance assets	-	-	31,121	12,684	31,121	12,684
Tax recoverable	-	-	11,985	12,985	11,985	12,985
Other assets	-	-	1,353	1,611	1,353	1,611
Cash and cash equivalents	-	-	5,082	5,909	5,082	5,909
TOTAL ASSETS	-	-	2,094,185	2,003,988	2,094,185	2,003,988
LIABILITIES AND EQUITY						
Premium liabilities	-	-	482,499	523,314	482,499	523,314
Insurance payables	-	-	23,439	9,480	23,439	9,480
Other liabilities	-	-	12,815	11,392	12,815	11,392
Amount due (from)/to Shareholders'/ Insurance funds	(1,575,572)	(1,461,958)	1,575,572	1,461,958	-	-
TOTAL LIABILITIES	(1,575,572)	(1,461,958)	2,094,325	2,006,144	518,753	544,186
Share capital	1,000,000	1,000,000	-	-	1,000,000	1,000,000
Retained earnings	549,054	435,703	-	-	549,054	435,703
Contingency reserve	26,518	26,255	-	-	26,518	26,255
Available-for-sale fair value reserve	-	-	(140)	(2,156)	(140)	(2,156)
TOTAL EQUITY	1,575,572	1,461,958	(140)	(2,156)	1,575,432	1,459,802
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	-	-	2,094,185	2,003,988	2,094,185	2,003,988

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**29 INSURANCE FUNDS (CONTINUED)****Statement of Comprehensive Income**

	<u>Shareholders' Fund</u>		<u>Insurance Fund</u>		<u>Total</u>	
	<u>2016</u> RM'000	<u>2015</u> RM'000	<u>2016</u> RM'000	<u>2015</u> RM'000	<u>2016</u> RM'000	<u>2015</u> RM'000
Gross earned premiums	-	-	98,214	90,516	98,214	90,516
Premiums ceded to reinsurance	-	-	(8,336)	(4,121)	(8,336)	(4,121)
Net earned premiums	-	-	89,878	86,395	89,878	86,395
Investment income	-	-	64,022	57,707	64,022	57,707
Other operating income	-	-	8,689	7,009	8,689	7,009
	-	-	162,589	151,111	162,589	151,111
Management expenses	(2,614)	(2,680)	(34,461)	(29,117)	(37,075)	(31,797)
Profit before taxation	(2,614)	(2,680)	128,128	121,994	125,514	119,314
Taxation	-	-	-	-	-	-
Net (loss)/profit for the financial year	(2,614)	(2,680)	128,128	121,994	125,514	119,314
Other comprehensive income/(loss):						
<u>Items that may be subsequently reclassified to the income statement:</u>						
Available-for-sale fair value reserve:						
Unrealised net gain on revaluation	-	-	3,921	2,649	3,921	2,649
Net transfer to income statement upon disposal	-	-	(1,905)	369	(1,905)	369
Other comprehensive income for the financial year, net of tax	-	-	2,016	3,018	2,016	3,018
Total comprehensive (loss)/income for the financial year	(2,614)	(2,680)	130,144	125,012	127,530	122,332

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

29 INSURANCE FUNDS (CONTINUED)

Information on Cash Flows by Funds

	<u>Shareholders' Fund</u>		<u>Insurance Fund</u>		<u>Total</u>	
	<u>2016</u> RM'000	<u>2015</u> RM'000	<u>2016</u> RM'000	<u>2015</u> RM'000	<u>2016</u> RM'000	<u>2015</u> RM'000
Cash flows from:						
Operating activities	11,900	111,200	13	9,065	11,913	120,265
Investing activities	-	-	(840)	(5,104)	(840)	(5,104)
Financing activities	(11,900)	(111,200)	-	-	(11,900)	(111,200)
Net (decrease)/increase in cash and cash equivalents	-	-	(827)	3,961	(827)	3,961
At beginning of the financial year	-	-	5,909	1,948	5,909	1,948
At end of the financial year	-	-	5,082	5,909	5,082	5,909