

Directors' report

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2018.

Principal activities

The principal activity of the Bank is the provision of finance for development projects.

The principal activities and other information of the subsidiaries are stated in Note 23 to the financial statements.

Results

	Group RM'000	Bank RM'000
Profit net of tax	<u>78,820</u>	<u>79,909</u>

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

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

Dividends

The amounts of dividends paid by the Bank since 31 December 2017 were as follows:

	RM'000
In respect of the financial year ended 31 December 2018:	
First interim tax exempt dividend of 1.35 sen per ordinary share, on 562,000,000 ordinary shares, declared and paid on 24 April 2018	7,600
Second interim tax exempt dividend of 7.12 sen per ordinary share, on 562,000,000 ordinary shares, declared on 20 November 2018 and paid on 30 November 2018	<u>40,000</u>
	<u>47,600</u>

Directors' report

Directors

The names of the directors of the Bank in office since the beginning of the financial year to the date of this report are:

Datuk Henry Goh Jiok Vui	(Appointed on 8 March 2019)
Mohamad Hassanel Bin Jarai	(Appointed on 8 March 2019)
Datuk Bahari Hj Hassan	(Appointed on 1 February 2019)
Datuk Kevin K. How**	
Petrus Gimbad**	
Shiak Vui Ming	(Appointed on 1 February 2019)
Datuk Jikulin Nointin @ Anastasius	(Appointed on 5 April 2019)
Datuk Siau Wui Kee**	(Resigned on 5 April 2019)
Datuk Lim Siong Eng**	(Resigned on 15 August 2018)
Datuk Pengiran Hassanel Bin Pg Mohd Tahir**	(Resigned on 5 April 2019)

**These directors are also directors of the Bank's subsidiaries.

The name of the director of the Bank's subsidiaries in office since the beginning of the financial year to the date of this report (not including those directors listed above) is:

Suhnylla Kaur Kler

Directors' benefits

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

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors or the fixed salary of a full-time employee of the Bank as shown below) by reason of a contract made by the Bank or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, as disclosed in Note 34 to the financial statements.

The directors' benefits are as follows:

	Group RM'000	Bank RM'000
Salaries and other emoluments	2,089	3,010
Fees	175	126
EPF and social security contributions	197	335
Retirement gratuity	142	142
	<u>2,603</u>	<u>3,613</u>

* The Bank maintains a liability insurance for the directors of the Group. The total amount of indemnity coverage and insurance premium paid for the Directors and the officers of the Group and of the Bank for the financial year amounted to RM25,000,000 and RM65,000 respectively.

Directors' report

Directors' interests

None of the directors in office at the end of the financial year had any interest in shares in the Bank or its related corporations during the financial year.

Holding entities

The Bank is a wholly-owned subsidiary of SDB Corporation Sdn. Bhd., a company incorporated in Malaysia. SDB Corporation Sdn. Bhd. is a wholly-owned subsidiary of Sabah Development Berhad, a company incorporated in Malaysia, which is wholly-owned by the State Government of Sabah.

Other statutory information

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

Directors' report

Other statutory information (continued)

(f) In the opinion of the directors:

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

Auditors

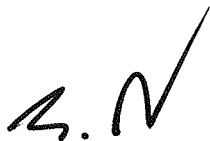
The auditors, Ernst & Young, have expressed their willingness to continue in office.

Auditors' remuneration is as follows:

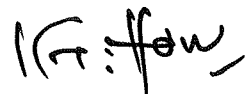
	Group RM'000	Bank RM'000
Ernst & Young	171	155

To the extent permitted by law, the Bank has agreed to indemnify its auditor, Ernst & Young, as part of the terms of its audit engagement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young for the financial year ended 31 December 2018.

Signed on behalf of the Board in accordance with a resolution of the directors dated 17 June 2019.



Datuk Bahari Hj Hassan



Datuk Kevin K. How

**Sabah Development Bank Berhad - 34638-W
(Incorporated in Malaysia)**

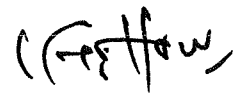
**Statement by directors
Pursuant to Section 251(2) of the Companies Act, 2016**

We, Datuk Bahari Hj Hassan and Datuk Kevin K. How, being two of the directors of Sabah Development Bank Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 10 to 115 give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2018 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Signed on behalf of the Board in accordance with a resolution of the directors dated 17 June 2019.



Datuk Bahari Hj Hassan

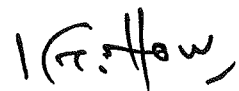


Datuk Kevin K. How

**Statutory declaration
Pursuant to Section 251(1)(b) of the Companies Act, 2016**

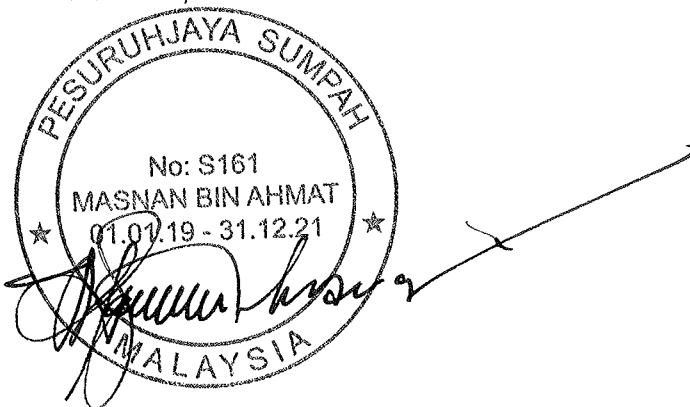
I, Datuk Kevin K. How, being the director primarily responsible for the financial management of Sabah Development Bank Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 10 to 115 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Datuk Kevin K. How at Kota Kinabalu in the State of Sabah on 17 June 2019



Datuk Kevin K. How

Before me,



Lot 1 & 2, Blok J, Tkt.1
Pejabat MARA Negeri,
Asia City 88609
Kota Kinabalu

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Sabah Development Bank Berhad, which comprise statements of financial position as at 31 December 2018 of the Group and of the Bank, and statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 10 to 115.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2018, and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Basis for opinion

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

Independence and other ethical responsibilities

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

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**Independent auditors' report to the member of
Sabah Development Bank Berhad (continued)**

Information other than the financial statements and auditors' report thereon

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

Our opinion on the financial statements of the Group and of the Bank 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 Group and of the Bank, 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 Group and of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, 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 Bank are responsible for the preparation of financial statements of the Group and of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Bank that are free from material misstatement, whether due to fraud or error.

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

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**Independent auditors' report to the member of
Sabah Development Bank Berhad (continued)**

Auditors' responsibilities for the audit of the financial statements

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

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

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



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**Independent auditors' report to the member of
Sabah Development Bank Berhad (continued)**

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Bank, including the disclosures, and whether the financial statements of the Group and of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Other matters

This report is made solely to the member of the Bank, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Kota Kinabalu, Malaysia
17 June 2019

Kwan Bitt Jing @ Winnie Kwan
03257/05/2020 J
Chartered Accountant