

**Sumitomo Mitsui Banking Corporation
Malaysia Berhad**
(Company No. 926374-U)
(Incorporated in Malaysia)

**Financial Statements for the Financial
Year Ended 31 March 2018**

Sumitomo Mitsui Banking Corporation Malaysia Berhad

(Company No. 926374-U)
(Incorporated in Malaysia)

Directors' Report for the Financial Year Ended 31 March 2018

The Directors have pleasure in submitting their report and the audited financial statements of Sumitomo Mitsui Banking Corporation Malaysia Berhad ("the Bank") for the financial year ended 31 March 2018.

Principal Activities

The Bank is principally engaged in the provision of banking and related financial services. There has been no significant change in the nature of these activities during the financial year.

Ultimate Holding Corporation

The Directors regard Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Financial Group, Inc. as immediate and ultimate holding corporation respectively, during the financial year and until the date of this report. Both companies are incorporated in Japan.

Results

	RM'000
Profit before taxation	211,758
Tax expense	<u>(57,446)</u>
Profit for the year	<u>154,312</u>

Dividends

Since the end of the previous financial year, no dividend was paid and the Directors do not recommend any dividend to be paid for the financial year.

Reserves and Provisions

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

Bad and Doubtful Debts and Financing

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that all known bad debts have been written off and adequate provision made for impaired loans, advances and financing.

At the date of this report, the Directors are not aware of any circumstances, which would render the amount written off for bad debts or the amount of the provision for impaired loans, advances and financing in the Bank inadequate to any substantial extent.

Current Assets

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that the value of any current assets, other than debts and financing, which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances, which would render the value attributed to the current assets in the financial statements of the Bank misleading.

Valuation Methods

At the date of this report, the Directors are not aware of any circumstances, which have arisen that would render adherence to the existing method of valuation of assets or liabilities of the Bank's financial statements misleading or inappropriate.

Contingent and Other Liabilities

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

- i) any charge on the assets of the Bank which has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) any contingent liability in respect of the Bank that has arisen since the end of the financial year, other than those that may arise in the ordinary course of the banking business.

No contingent liability or other liability of the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Bank to meet its obligations as and when they fall due.

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Change of Circumstances

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 Bank, that would render any amount stated in the financial statements misleading.

Items of an Unusual Nature

In the opinion of the Directors, the financial performance of the Bank for the financial year ended 31 March 2018 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Directors

Directors who served during the financial year until the date of this report are as follows:

Yoshimi Gunji
 Chin Kok Sang
 Tan Kim Seng
 Dato' Wan Mohd Fadzmi Bin Che Wan Othman Fadzilah (appointed on 1 April 2018)
 Hiroshi Higuma (appointed on 26 June 2018)
 Dato' Md Agil Bin Mohd Natt (retired on 1 April 2018)
 Yuichi Nishimura (resigned on 26 June 2018)

Directors' Interests in Shares

The interests and deemed interests in the shares of the Bank and of its related corporations of those who were Directors at financial year end as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares*			
	At 1.4.2017	Bought	Sold	At 31.3.2018
Ultimate holding company				
Sumitomo Mitsui Financial Group, Inc.				
- Yuichi Nishimura	585	16	-	601

* The ordinary shares of the ultimate holding company do not have any par value by virtue of the Japanese Companies Act.

None of the other Directors holding office at the end of the financial year had any interest in the shares of the Bank and of its related corporations during the financial year.

Directors' Benefits

Since the end of previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full-time employee of the Bank) by reason of a contract made by the Bank or a related corporation with 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.

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

Compliance with Bank Negara Malaysia's Expectations on Financial Reporting

In the preparation of the financial statements, the Directors have taken reasonable steps to ensure that Bank Negara Malaysia's expectations on financial reporting have been complied with, including those as set out in the Guidelines on Financial Reporting for Financial Institutions and Guidelines on Classification and Impairment Provisions for Loans/Financing.

Bank Ratings

On 28 November 2017, RAM Rating Services Berhad had reaffirmed the Bank's long and short-term financial institution ratings of AA1 Stable and P1 respectively.

Issue of Shares and Debentures

During the financial year, the Bank issued 877,605,000 new ordinary shares ("OS") fully paid in the capital of the Bank at an issue price of RM1.00 per OS to the holding company of the Bank, Sumitomo Mitsui Banking Corporation for a cash consideration of RM877.605 million. There were no debentures issued during the financial year.

Options Granted Over Unissued Shares

No options were granted to any person to take up unissued shares of the Bank during the financial year.

Indemnity and Insurance Costs

The Bank has put in place a Directors and Officers Insurance scheme with a maximum sum insured amount and premium paid of RM20.990 million and RM22,257 respectively effective for the financial year.

Business Results for the Financial Year Ended 31 March 2018

The Bank registered an Operating Profit Before Taxation and Provision for Loans, Advances and Financing of RM198.9 million, an increase of RM54.0 million or 37.2% against the previous financial year. The overall good performance was mainly attributed to the 49.9% increase in Other Operating Income amounting to RM118.3 million as compared to RM78.9 million as recorded in the previous financial year. The strong increase in Other Operating Income was partly offset by the increase of Operating Expenditure during the year amounting to RM116.4 million, which was 35.6% higher as compared to the previous financial year.

The Bank has recorded a Net Profit after Tax of RM154.3 million or an increase of 93.2% as compared to the previous year. Due to the improved quality of loans, the Bank has recorded a lower Provision for Loans, Advances and Financing resulting in the reversal of Collective Impairment Allowance of RM12.8 million as income during the year against an expense of RM41.2 million in the previous year. This, has also added to the overall good performance of the Bank.

The Total Assets declined by 4.0% to RM17,109 million. This was mainly due to the 23.1% reduction in Cash and Short Term Funds placed with other financial institutions amounting to RM3,617 million. Total Liabilities registered a reduction of 10.9% to RM14,252 million from RM15,995 million as recorded in the previous financial year, which corresponded with the decrease in Deposits and Placements of banks and other financial institutions from RM3,218 million to RM2,328 million.

Outlook for the Financial Year Ending 31 March 2019

The Malaysian economy recorded a robust Gross Domestic Product growth of 5.9% in 2017, supported by the expansion in both private and public sector spending. For the year 2018, Malaysian economy is projected to expand by 5.5% - 6.0% based on Malaysia's strong economic fundamentals, diversified structure and inherent dynamism. Domestic demand continues to be the key driver for the GDP growth on the back of robust domestic economic activity that is expected to spin-off increased domestic consumption.

Inflation is however expected to be moderate, following the expectation of smaller spillovers from external and domestic cost factors. A stronger Ringgit exchange rate would also mitigate the import costs. Inflationary pressures from robust domestic demand factors will be contained by improving the labour productivity and on-going investment for capacity expansion.

In the global market, the oil price remains volatile with projection of a higher price in this financial year. However, the magnitude of increase would likely to be smaller compared to previous years. Correspondingly, domestic fuel prices are forecast to be higher. However, the increase in price of fuel for consumers are expected to be moderated by the stronger Ringgit exchange rate. Malaysia's private sector is also expected to sustain the continuous capital expenditure outflows for the nation's infrastructure projects and capital investments in the manufacturing and services sectors.

While the overall political and economic condition in Malaysia continues to be in transition following the recent change of Government after the General Election in May 2018, the Bank shall strive harder, with extreme caution in managing the businesses into the next financial year. The Bank will maintain its focus in offering basic commercial banking services such as loan, deposit, foreign exchange, derivatives, cash management services and trade finance in both the conventional and Islamic financing to both Japanese and Non-Japanese clients.

Corporate Governance

Board of Directors

The Board brings to the Bank a wealth of knowledge, experience and skills in a wide range of business management, audit and accountancy, economics, finance, risk management, international banking, business planning and strategy. In addition, the composition by the members of the Board is designed to uphold the highest standards of independence and corporate governance and by setting in place the strategy and direction of the Bank through the formulation of policies and establishment of respective Board Committees. These policies will be subjected to regular reviews and enhancements as and when the need arises. All policies are formulated to take into consideration the principles and standards as set by Bank Negara Malaysia (“BNM”) in its Guidelines on Corporate Governance (BNM/RH/PD 029-9).

Board Composition and Balance

The Board currently has five (5) members, comprising one (1) Independent Non-Executive Chairman, two (2) Independent Non-Executive Directors and two (2) Executive Directors. The Board has a majority of Independent Directors which comply with the BNM Guidelines on Corporate Governance.

Profile of each Director is as follows:

1. Chin Kok Sang

(60 years – Australian)

(Independent Non- Executive Chairman)

Mr. Chin was appointed as an Independent Non-Executive Director on 18 September 2015 and subsequent re-designated as Chairman on 15 May 2018. Mr. Chin relinquished the position as Chairman of both the Audit Committee and Nominations and Remuneration Committee and remained as member of Audit Committee and Nominations and Remuneration Committee. He is also a member of the Board Risk Management Committee.

Mr. Chin has over 30 years of experience in the banking and finance industry. He spent 14 years with Societe Generale (SG) Group at its offices in Melbourne, Singapore and Labuan, Malaysia. SG is an international banking group headquartered in Paris and listed on the Paris Stock Exchange.

Since 1998, Mr. Chin has been a business consultant and corporate adviser to both public listed and unlisted companies in Malaysia as a Corporate and Debt Restructuring specialist. He has also held senior management positions and served as Independent Non-Executive Director in several public listed companies in Malaysia and Singapore. He was the Group Chief Executive Officer of Denko Industrial Corporation Berhad (a company listed on Bursa Malaysia) between November 2011 and May 2015.

Mr. Chin holds a Bachelor of Commerce from University of Melbourne and is a Fellow Chartered Accountant, Chartered Accountants Australia and New Zealand.

Corporate Governance (continued)

Board Composition and Balance (continued)

2. Tan Kim Seng

(Age 65, Malaysian)

(Independent Non- Executive Director)

Mr. Tan was appointed as an Independent Non-Executive Director on 1 February 2017. He was appointed as the Chairman of the Audit Committee and Nominations and Remuneration Committee on 15 May 2018 while concurrently serving as member of the Board Risk Management Committee.

Having spent his entire career as a banker, Mr. Tan has served in key senior management positions in several local banking institutions.

Mr. Tan holds professional accountancy and chartered secretary qualifications from the Association of Chartered Certified Accountants (ACCA), the Chartered Institute of Management Accountants (CIMA) and the Institute of Chartered Secretaries & Administrators (ICSA).

3. Dato' Wan Mohd Fadzmi Bin Che Wan Othman Fadzilah (“Dato' Wan Fadzmi”)

(Age 52, Malaysian)

(Independent Non- Executive Director)

Dato' Wan Fadzmi was appointed as an Independent Non-Executive Director on 1 April 2018. He was appointed as the Chairman of Board Risk Management Committee on 15 May 2018 while concurrently serving as member of the Audit Committee and Board Risk Management Committee.

Dato' Wan Fadzmi has over 25 years of experience in domestic and international banking particularly in leading business units at global financial centres namely in London, New York and Hong Kong. He was President/Chief Executive Officer of Bank Pertanian Malaysia Berhad (“Agrobank”) from July 2011 till August 2017. During his tenure, he successfully transformed the bank from a conventional leverage model to a full-fledged Islamic Bank, making it one of the few banks in the world to have undergone such a transformation.

He holds a Bachelor of Construction Economics from RMIT University in Australia. He is a Chartered Banker, Asian Institute of Chartered Bankers (AICB) and a Chartered Professional in Islamic Finance (CPIF). He has attended the Advanced Management Program at Wharton Business School and the Senior Executive Finance Program at the Templeton College, University of Oxford.

He is also the Independent Non-Executive Director of Chemical Company of Malaysia Berhad and Hap Seng Consolidated Berhad.

Corporate Governance (continued)

Board Composition and Balance (continued)

4. Yoshimi Gunji

(Age 53, Japanese)

(President/Chief Executive Officer and Executive Director)

Mr. Gunji was appointed as a President/ Chief Executive Officer (“CEO”) on 25 June 2015.

Mr. Gunji joined Sumitomo Mitsui Banking Corporation (then known as Sumitomo Bank Limited) at the Kandaekimae Branch in Tokyo. He has over twenty nine (29) years of experience in Business banking, Trade Finance and Corporate banking and has spent over fifteen (15) years in senior management positions in overseas branches in Thailand, Australia and currently in Malaysia.

He holds a Bachelor of Arts from University of Rikkyo, Japan.

5. Hiroshi Higuma

(Age 49, Japanese)

(Executive Director)

Mr. Higuma was appointed as an Executive Director of the Bank on 26 June 2018.

Mr. Higuma joined Sumitomo Mitsui Banking Corporation (then known as Sumitomo Bank Limited) in 1991 in the Hibiya Branch, Tokyo. He has over twenty one (21) years of experience in formulating long term business strategies, project financing for infrastructure projects, joint financing and planning. He has spent over eight (8) years in senior management positions in Tokyo, overseas branches and currently in Singapore.

He holds a Bachelor of Laws from The University of Tokyo.

Corporate Governance (continued)

Board Composition and Balance (continued)

Members of the Board are professionals in their own rights and they possess the pre-requisite skills, knowledge, experiences and expertise from the private sector and the banking industry. They contribute immensely by adding value to the strategy and direction of the Bank. They are persons of high caliber and integrity and they duly fulfilled the “Fit and Proper” standards for appointment of directors as established by the Board in accordance with the Financial Services Act 2013, the Guidelines on Corporate Governance and Fit and Proper Standards, other relevant regulations and industry best-practices.

Board Roles and Responsibilities

The Board reviews and approves strategies, business plans and significant policies and monitors the Management’s execution in implementing the approved strategies, plans and policies. The Board ensures that there are adequate controls and systems in place to facilitate the implementation of the Bank’s policies. Consequentially, the Bank establishes comprehensive risk management policies, processes and infrastructure, to manage the various types of risks. The Board accordingly monitors and assesses current developments in the country and globally which may affect the Bank’s existing strategic plans.

The Board reviews the adequacy and the integrity of the Bank’s internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

The respective roles of the Chairman and President/CEO are clearly separated from each other with clearly defined responsibilities, authority and accountability. This distinction allows an appropriate balance of roles between the Board and at Management levels. The Independent Directors are independent of management and are free from any business or other relationships which could interfere with the exercise of their independent judgement.

Performance Criteria Used To Assess The Board As A Whole

The effectiveness of the Board is measured against the Bank’s performance in terms of profitability, internal controls, risk management and cost effectiveness.

Frequency And Conduct of Board Meetings

Meetings are conducted regularly to discuss key issues of the Bank including review of the financial performance, operations and risk management of the Bank and to deliberate on matters which require the Board’s decision and approval.

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Corporate Governance (continued)

Board Meetings

A total of 8 Board meetings were held during the financial year in review. The details of the meeting attendance are as follows:-

<u>Name of Directors</u>	<u>Attendance at Meetings</u>	<u>%</u>
Chin Kok Sang - Chairman (appointed as Chairman on 15 May 2018)	8/8	100
Yoshimi Gunji	8/8	100
Tan Kim Seng	8/8	100
Dato' Wan Fadzmi (appointed on 1 April 2018)	Not applicable	Not applicable
Hiroshi Higuma (appointed on 26 June 2018)	Not applicable	Not applicable
Dato' Md Agil Bin Mohd Natt (retired on 1 April 2018)	8/8	100
Yuichi Nishimura (resigned on 26 June 2018)	8/8	100

Board Committees

The Board is supported by specific Board Committees to oversee critical and major functional areas of the Bank.

The functions and terms of reference of Board Committees have been approved by the Board and are revised from time to time to ensure that they are relevant, effective and up-to-date.

The Board Committees established are as follows:

1. Nominations and Remuneration Committee;
2. Audit Committee; and
3. Board Risk Management Committee.

Nominations and Remuneration Committee ("NRC")

The NRC consists of three (3) members and all are Independent Non-Executive Directors.

The Chairman of the NRC is Mr. Tan Kim Seng and the members are Mr. Chin Kok Sang and Dato' Wan Fadzmi. Details of attendance of each member at the NRC meetings held during the financial year in review are as follows:-

<u>Name of Directors</u>	<u>Attendance at Meetings</u>	<u>%</u>
Tan Kim Seng (appointed as Chairman of NRC on 15 May 2018)	5/5	100
Chin Kok Sang	5/5	100
Dato' Wan Fadzmi (appointed on 1 April 2018)	Not applicable	Not applicable
Dato' Md Agil Bin Mohd Natt (retired on 1 April 2018)	5/5	100

Corporate Governance (continued)

Board Committees (continued)

NRC (continued)

The objective of the NRC is to provide formal and transparent procedures for the appointment of Directors, President/CEO, members of the Shariah Committee and the Company Secretary. The NRC assesses the effectiveness of individual Directors, the Board as a whole and the performance of the President/CEO, key senior management, members of the Shariah Committee and Company Secretary as well as make recommendations on remuneration for Directors, President/CEO, key senior management officers and other material risk-takers in the Bank in ensuring that the compensation offered is competitive and commensurate with the Bank's culture, risk appetite, objectives and strategy.

The NRC with regard to its nomination roles are responsible for amongst others:-

1. Establishing minimum requirements for the Board i.e. the necessary mix of skills, experience, qualification, inclusiveness and other core competencies required of a Director. The Committee is also responsible for establishing minimum requirements for the President/CEO and members of the Shariah Committee.;
2. Assessing and recommending to the Board the nominees for Directorship, Board Committee members as well as nominees for the President/CEO and members of the Shariah Committee;
3. Overseeing the overall composition of the Board, in terms of the appropriate size and skills, balance between Executive Directors, Non-Executive Directors and Independent Directors through annual review;
4. Recommending to the Board the removal of a Director or President/CEO or members of the Shariah Committee from the Board or management if he/she is ineffective, errant and negligent in discharging his/her responsibilities; and
5. Establishing a mechanism for the formal assessment on the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the President/CEO, members of the Shariah Committee, and Company Secretary. Ensuring that all Directors and members of the Shariah Committee continue to receive appropriate training program in order to keep abreast with the latest developments in the industry.

The NRC with regard to its remuneration roles are responsible for :

1. Recommending to the Board the remuneration framework for Directors, President/CEO, members of senior management, other material risk-takers and members of the Shariah Committee;
2. Reviewing and recommending to the Board the remuneration for each Director, President/CEO, members of senior management and other material risk-takers annually;
3. Supporting the Board in actively overseeing the design and operation of the Bank's remuneration system; and
4. Reviewing and recommending to the Board the annual salary increment and performance bonus for employees of the Bank.

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Corporate Governance (continued)

Board Committees (continued)

Audit Committee (AC)

The AC consists of three (3) members and all are Independent Non-Executive Directors.

The Chairman of the AC is Mr. Tan Kim Seng and the members of the AC are Mr. Chin Kok Sang and Dato' Wan Fadzmi. The details of attendance of each member at AC meetings held during the financial year in review are as follows:-

<u>Name of Directors</u>	<u>Attendance at Meetings</u>	<u>%</u>
Tan Kim Seng (appointed as Chairman of AC on 15 May 2018)	7/7	100
Chin Kok Sang Dato' Wan Fadzmi (appointed on 1 April 2018)	7/7 Not applicable	100 Not applicable
Dato' Md Agil Bin Mohd Natt (retired on 1 April 2018)	7/7	100

The objective of the AC is to provide independent oversight of the Bank's financial reporting and internal control system and ensuring adequate checks and balances are put in place within the Bank.

Corporate Governance (continued)

Board Committees (continued)

AC (continued)

The AC is responsible for:

1. **Reliable and Transparent Reporting**
 - i. Support the Board in ensuring a reliable and transparent financial reporting process within the Bank.
2. **Effectiveness of Internal Audit**
 - i. Oversee the functions of the Internal Audit Department and ensuring compliance with BNM Guidelines on Internal Audit Functions of Licensed institutions;
 - ii. Review and approve the audit scope, procedures and frequency;
 - iii. Review key audit reports and ensuring that senior management is taking necessary corrective actions in a timely manner;
 - iv. Noting significant disagreements between the Head of Internal Audit Department/Chief Internal Auditor (CIA) and the rest of the senior management team, irrespective of whether these have been resolved, in order to identify any impact the disagreements may have on the audit process or findings;
 - v. Establish a mechanism to assess the performance and effectiveness of the internal audit function; and
 - vi. Appoint, set compensation, evaluate performance, decide on the transfer and dismissal and also review the reasons and circumstances leading to the resignation of the Head of Internal Audit Department / CIA.
3. **Internal Controls**
 - i. Review the effectiveness of internal controls and risk management processes.
4. **External Auditors**
 - i. Make recommendations to the Board on the appointment, removal and remuneration of the External Auditor;
 - ii. Monitor and assess the independence of the External Auditor, including approval of the provision of non-audit services by the External Auditor;
 - iii. Monitor and assess the effectiveness of the external audit meeting with the External Auditor without the presence of Senior Management at least annually;
 - iv. Maintain regular, timely, open and honest communication with the External Auditor and requiring the External Auditor to report to the Board AC on significant matters, and
 - v. Ensure that senior management is taking necessary corrective actions in a timely and effective manner to address external audit findings and recommendations.
5. **Related Party Transactions**
 - i. Review all related party transactions and keep the Board informed of such transactions.
6. **External Experts**
 - i. Ability to engage external experts in circumstances where the internal audit function lacks the expertise needed to perform the audit of specialized areas, and
 - ii. To ensure that the independence of the external auditor in its role as statutory auditor of the Bank is not compromised if the external auditor is engaged.

Corporate Governance (continued)

Board Committees (continued)

AC (continued)

Internal Audit and Control Activities

Internal Audit is independent and staffed with qualified internal audit personnel to perform the internal audit functions, covering the financial and management audit. The AC oversees the functions of the Internal Audit department and ensures compliance with BNM Guidelines on Internal Audit Functions of Licensed Institutions (BNM/RH/GL 013-4).

The Head of Internal Audit/ CIA and audit personnel are responsible for:

1. Develop a flexible annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by Management and submit that plan to the AC for review and approval;
2. Implement the approved annual audit plan, including any special appropriate tasks or projects requested by the Management and directed by the AC;
3. Maintain clearly documented audit programs to provide guidance to auditors in gathering information, documenting procedures performed and making assessment;
4. Maintain a team of professional audit staff with sufficient knowledge, skills and experience to meet the requirements of this charter;
5. Checking and testing the compliance with, and effectiveness of policies, procedures and controls and assessing whether current measures are in line with the latest developments and changes to the relevant AML/CFT requirements;
6. Issue written audit reports to the AC and Management, detailing the audit findings and recommendations as well as the client's responses and action plans in a timely manner after the completion of the audit;
7. Monitor progress of rectification actions on findings raised, taking into consideration the timeline committed by Management. This includes rectification actions taken in regard to findings raised by regulatory authorities or external auditors; and
8. Conduct investigation on suspected fraudulent activities when required and notify Management and the AC of the results.

Corporate Governance (continued)

Board Committees (continued)

Board Risk Management Committee (“BRMC”)

The BRMC consists of three (3) members and all are Independent and Non-Executive Directors.

The Chairman of the BRMC is Dato’ Wan Fadzmi. The members of the BRMC are Mr. Chin Kok Sang and Mr. Tan Kim Seng. Details of attendance of each member at the BRMC meetings held during the financial year in review are as follows:-

<u>Name of Directors</u>	<u>Attendance at Meetings</u>	<u>%</u>
Dato’ Wan Fadzmi – Chairman (Appointed as Chairman of BRMC on 15 May 2018)	Not applicable	Not applicable
Tan Kim Seng	5/5	100
Chin Kok Sang	5/5	100
Dato’Md Agil bin Mohd Natt (retired on 1 April 2018)	5/5	100

The objective of the BRMC is to oversee the Bank’s activities in managing credit, market, liquidity, operational, legal, compliance and other risks and to ensure that the risk management process is in place and functioning effectively.

The BRMC are responsible for amongst others:

1. Reviewing and recommending to the Board risk management strategies, policies and risk tolerance;
2. Reviewing and assessing the adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively;
3. Ensuring adequate infrastructure, resources and systems are in place to support effective risk management and to ensure that the staff responsible for implementing these risk management systems perform those duties independently of the Banks’ risk taking activities;
4. Reviewing management’s periodic reports on risk exposure, risk portfolio composition and risk management activities; and
5. Appoint, set remuneration, evaluate performance and decide on the dismissal of the Head of Risk Management/Chief Risk Officer (CRO) and Head of Compliance Department/Chief Compliance Officer (CCO).

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Corporate Governance (continued)

Trainings provided to the Board

Trainings programmes, conferences and forums attended by the Directors for the financial year ended 31 March 2018 were as follows:-

Name of Director	Training Programme
Dato' Agil Natt (Retired on 1 April 2018)	<ol style="list-style-type: none"> 1. Digital Marketing 2. Talk on Sharing Economy 3. Board Selection for Nomination Committee Members 4. Innovation in the financial sector 5. New themes in Islamic Finance by Dr Daud Bakar 6. Boards in the Digital Economy 7. Briefing on Corporate Governance 8. Future of Work: Preparing for tomorrow today 9. Global Symposium on Development Financial Institutions 10. Workshop MFRS 9 Financial Instruments 11. BNM-FIDE FORUM Dialogue : Managing Cyber Risks in Financial Institutions
Yoshimi Gunji	<ol style="list-style-type: none"> 1. FIDE FORUM's Efficient Inefficiency: Making Boards Effective in a Changing World 2. Current Issues in Corporate Governance 3. Workshop MFRS 9 Financial Instruments 4. 1st Distinguished Board Leadership Series Dialogue with Prof Tan Sri Dato' Lin See-Tan on Navigating the VUCA world 5. Focus Group Discussion in Preparation for the 5th BNM-FIDE FORUM Annual Dialogue with the Governor
Yuichi Nishimura	<ol style="list-style-type: none"> 1. Regional Leadership Program 2. Corporate Investment Strategy 3. Board Performance Evaluation and Enterprise Risk Management 4. Workshop MFRS 9 Financial Instruments 5. Cyber Security Training

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Corporate Governance (continued)

Training provided to the Board (continued)

Name of Director	Training Programme
Chin Kok Sang	<ol style="list-style-type: none"> 1. IFN Asia Forum 2017 2. Annual Legal Conference: Simplifying Business in a Complex World 3. FIDE FORUM's Efficient Inefficiency: Making Boards Effective in a Changing World 4. PIKOM Academy 1st Tea-Talk Forum - Embracing Millennials Culture into your Organization 5. Compliance Conference 2017 6. Enterprise Risk Management: Harnessing Disruption 7. Industry Seminar on Recovery and Resolution Planning in Malaysia 8. AICB Global Banking Discourse Series Cyber Landscape in the Malaysian Financial Industry 9. Information And Data Leakage: Threats And Risk Mitigation 10. Global Banking Conference China's Banking Industry: Opportunities for Growth 11. Stakeholder Management Addressing The Elephant in the Room 12. Workshop MFRS 9 Financial Instruments 13. vForum 2017 14. PIKOM Leadership Summit 2017 15. BNM-FIDE FORUM Dialogue : Managing Cyber Risks in Financial Institutions 16. Implementing the Companies Act 2016 & the Malaysian Code of Corporate Governance 2017 - What every Director needs to know 17. Open Source Leadership - Reinventing Management When There Is No More Business As Usual 18. 1st Distinguished Board Leadership Series Dialogue with Prof Tan Sri Dato' Lin See-Tan on Navigating the VUCA World 19. Focus Group Discussion in Preparation for the 5th BNM-FIDE FORUM Annual Dialogue with the Governor - Banking Industries 20. - The Evolving Climate of Doing Business in Malaysia - CPTPP (TPP11) and What it Means to your Business in Malaysia

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Corporate Governance (continued)

Training provided to the Board (continued)

Name of Director	Training Programme
Tan Kim Seng	<ol style="list-style-type: none"> 1. Compliance Conference 2017 2. Industry Seminar on Recovery and Resolution Planning in Malaysia 3. FIDE Core Programme Module A (Bank) 4. FIDE Core Programme Module B (Bank) 5. "Fintech Opportunities For Financial Services Industry in Malaysia" 6. "Cyber Landscape in the Malaysian Financial Industry" 7. Workshop MFRS 9 Financial Instruments 8. 2nd Securities Commission - FIDE FORUM Dialogue: Leveraging Technology for Growth 9. 1st Distinguished Board Leadership Series Dialogue with Prof Tan Sri Dato' Lin See-Yan on Navigating the VUCA world

Corporate Governance (continued)

Internal Control Framework

Board Responsibility

The Board is responsible for the Bank's system of internal control which includes the implementation of an appropriate internal control framework and periodically reviews whether the framework remained appropriate. The internal control framework addresses the need to have in place a set of rules and controls governing the Bank's organisational and operating structure, including reporting process and control functions.

The Board is committed to maintaining a sound internal control framework in the Bank to safeguard its assets and stakeholders' interests.

The internal control framework lies in the foundation of the Bank's Three Lines of Defense and in its key internal control processes.

Three Lines of Defense

I. First Line of Defense

The first level of the control environment is the business operations which perform day to day risk and control management activities. It covers both the operations by the business and the support functions.

The staff of the business and support functions must understand their roles and responsibilities with regard to processing transactions and who must follow a systematic procedure of process and ensure internal controls are complied with.

The Heads of Department are responsible to identify and assess risks and to ensure that the control activities and other responses that treat risk are enforced and monitored for compliance.

II. Second Line of Defense

The second line of defense is the Risk and Compliance functions that provide independent oversight of the risk management activities of the first line of defense.

i. Risk Management Functions

These functions, comprising the managements of credit, market and operational risks, are headed by the CRO, who reports directly to the BRMC. These functions provide independent challenge to the business and support functions and ensure that Management is duly informed and engaged.

Corporate Governance (continued)

Internal Control Framework (continued)

The major responsibilities of these functions, among others, are participating in the business unit's risk committees, reviewing risk reports and validating compliance to the risk management framework requirements, with the objective of ensuring that risks are actively and appropriately managed. The risk management functions shall be guided by the risk management process.

ii. **Shariah Risk Function**

This function, under the Islamic Banking Department ("IBD"), ensures that all Islamic banking facilities and transactions of the Bank are in accordance with Shariah requirements. IBD reports directly to Shariah Committee, while reporting to BRMC is through the CRO.

iii. **Compliance Risk Function**

This function ensures compliance, in particular to applicable laws, regulatory requirements and guidelines, and provides assurance oversight to Management and Board. This function reports to BRMC.

III. Third Line of Defense

The third line of defense is provided by Internal Audit who reports directly to the AC, as well as indirectly to Shariah Committee with regards to Shariah matters. It entails independent challenge, audit of key controls, formal reporting on assurance, and audit of assurance providers.

The function provides independent, objective assurance and consulting activities to add value and improve operations to the business and support functions, including risk management and compliance functions.

The internal audits conducted are in accordance with the annual audit plan as approved by the AC.

The Internal Audit function adopts a risk-based approach in its audit planning. Audit reports are tabled to the AC reporting on the state of the Bank's internal control and the extent of compliance with the established policies and procedures as well as regulatory requirements. In addition, the function duly monitors on the implementation of the Management action plans which seek to address the weaknesses identified on an on-going basis.

Corporate Governance (continued)

Internal Control Framework (continued)

In addition, independent challenge and audit of key controls may also be performed by the Head Office Internal Auditor and the External Auditor.

Key Internal Control Processes

The key processes that the Board has established in reviewing the adequacy and integrity of the system of internal control, including compliance with applicable laws, regulations, rules and guidelines, are as follows:

BRMC

The BRMC is a Board committee chaired by an Independent and Non-Executive Board member. The Committee is delegated with oversight authority by the Board of Directors, in discharging its overall duties and responsibilities. The Committee monitors and evaluates the effectiveness of the risk management system and operations on an ongoing basis. This Committee also decides and approves matters related to establishment, amendment and abolition of important rules and policies.

At the Management level, the Asset and Liability Management/Risk Management Committee ("ALM/RMC") comprising of key Management personnel is chaired by the President/CEO. The Committee meets every month and special meetings are convened to discuss on urgent issues. The Committee reviews risk management reports regularly so as to ensure the Bank's activities are within the risk appetites approved by the Board. It is also responsible to decide on important risk management matters, including matters related to various principal policies on risk management, that are within the scope determined by the Board. Existence or occurrence of matters or issues deemed material for Management to decide will be escalated to the Board or its Committee for further deliberation and decision.

AC

The AC is a Board Committee supported by Internal Audit Department to provide an independent assessment of the adequacy and reliability of the Bank's internal controls, risk management processes, compliances with control and risk policies and regulatory requirements.

The AC deliberates on findings and recommendations proposed by the Internal and External Auditors. The AC also evaluates the adequacy and effectiveness of the Bank's risk management and system of internal control. Apart from reviewing the annual audit plan, the AC assesses the scope and quality of audits performed.

Corporate Governance (continued)

Internal Control Framework (continued)

Shariah Committee

The Shariah Committee is responsible to advise the Board and to provide input to the Bank on Shariah matters in order for the Bank to comply with Shariah principles in its Islamic banking activities at all times. It is also responsible to assess the work carried out by Shariah review and Shariah audit in order to ensure compliance with Shariah matters.

Senior Management and other Management Committees

The President/CEO, assisted by the Deputy President and Deputy Chief Executive Officer, manages the strategic direction and provides strategic guidance to the business of the Bank.

The President/CEO provides direction and awareness of internal control and compliance via the In-Office Compliance Committee and the System and Operation Planning Committee.

The In-Office Compliance Committee provides the platform to discuss the state of regulatory compliance and AML/CFT in the Bank and updates on the progress of the activities undertaken as well as updates on matters and laws/regulatory requirements which may have an impact on the Bank's operations and control.

The System and Operation Planning Committee formulates and reviews the IT Strategic Plan of the Bank which supports the overall organisational strategic business plan. In carrying out its function, the Committee reviews, monitors and provides recommendations on the IT expenditure of the Bank to maximize the IT investments and to achieve overall efficiency and performance of the IT services and utilization. The Committee also reviews the IT policies and procedures and administers as well as monitors the operation control to minimize operational and processing risks. The Committee is also responsible in reviewing and advising Senior Management on controls and matters pertaining to data management, Management Information System framework and IT security/system.

Internal Policies and Procedures

Clearly documented internal policies and procedures of all departments have been approved by the Board and Senior Management respectively for application. These policies and procedures which are easily accessible through the Bank's Intranet serve as a day-to-day operational guide to ensure compliance with internal controls and the applicable laws and regulations. Annual reviews are performed on the policies and procedures. Annual reviews are conducted to ensure that the policies and procedures are up-to-date with the practices as embraced; in ensuring operational efficiency and effectiveness; and to take into account the changing regulatory requirements, risks and external environment to continuously strengthen internal control.

Corporate Governance (continued)

Internal Control Framework (continued)

New Product Policy and Procedures

All new products undergo the requirements as per the Bank's New Product Policy and Procedures. All risks associated with the new products are identified and managed using the appropriate assessment and mitigation practices with assessments from the Risk Departments, Planning Department and the Islamic Banking Department in regards to Islamic products. Legal Department and Compliance Department provides legal advisory and regulatory compliance review respectively.

In the process, all new products are subject to adequate assessment with respect to their suitability from the business perspective, compliance with laws and regulatory guidelines and that the operations and processes contain sufficient controls to ensure that there are no unlawful activity involving money laundering or financing of terrorism.

The new products are tabled at the ALM/RMC for deliberation prior to the approval of the President/CEO followed by notification to the Board for conventional banking products and to the Shariah Committee and Board for approval in regards to Islamic products.

Annual review of all products is performed to review and assess the products' business performance and management of risks.

Compliance

The Bank takes a firm stand in advocating a compliance culture as compliance is the responsibility of all staff within the Bank. All business lines and functions within the Bank are to carry out their responsibilities to ensure effective management of compliance risk.

The Compliance function is to promote the culture of compliance with legal and regulatory requirements, compliance related policies and procedures and ethical standards in the conduct of business.

The Compliance Department of the Bank is responsible for ensuring that controls to manage compliance risk are adequate and operating as intended. A Compliance Risk Assessment is undertaken by the department to assess the areas of higher compliance risk/weaker controls on annual basis and an Action Plan is then prepared to outline control activities on areas of risks/weaknesses. The department performs Compliance Self-Reviews to ensure that the regulatory requirements and policies of the Bank are complied with. The department also conducts appropriate validation to test and evaluate the adequacy of internal control put in place to manage compliance risks and promptly follow-up on any identified deficiencies and plans to address such deficiencies. Compliance risks findings and recommendations are reported to the Senior Management, In-Office Compliance Committee and the Board on a regular basis.

Corporate Governance (continued)

Internal Control Framework (continued)

The department carries out compliance awareness and training via face-to-face training and e-learning on a continuous basis.

The Bank has in place a Compliance Manual which serves as a reference to all employees of the legal and regulatory requirements of which the Bank has to comply when conducting business, and the internal rules and procedures for conduct of its employees. The Compliance Manual is subjected to annual review.

Whistle Blowing Policy

The Bank has put in place a Whistle Blowing Policy and Procedure Manual. The BRMC Chairman, who is an Independent Non-Executive Director has been appointed to be responsible for the effective implementation of the policy. The Policy and Procedure defines the means and methods for reporting of the allegations, the protection accorded to whistle-blowers and the duties and responsibilities of Directors, officers and employees. The outcomes of all investigations are to be reported to the Board or its appointed Committee.

Anti-Money Laundering/Counter Financing of Terrorism

Policies and Procedures on the Prevention of Money Laundering & Terrorist Financing are established to prevent money laundering and terrorist financing, and operate and manage businesses in accordance with the law and regulations.

It is the general principle of the Bank that no banking business will be carried out for a customer unless the Bank knows the customer. The "Know Your Customer" Policy helps build the Bank's relationship with customers and in ensuring that the Bank is in compliance with all applicable laws and regulations and adhere to sound banking practices. A system is in place to profile, monitor and review of information in support of the Bank's AML/CFT activities.

The Compliance Department of the Bank provides training to facilitate all staff's understanding of the laws and regulations in relation to money laundering, terrorist financing and sanction laws.

All new staff is required to read and understand the Policies and Procedures on the Prevention of Money Laundering & Terrorist Financing and complete the requisite AML/CFT training upon joining the Bank. All staff undergoes AML/CFT training annually.

Corporate Governance (continued)

Internal Control Framework (continued)

Human Resources Policies and Procedures

The Human Resources (“HR”) Policies and Procedures are established in covering the full process of human resource management such as the recruitment of new hires to the termination of employment which includes resignation and dismissal of staff. The policies and procedures which are subjected to annual review are readily available through the Bank’s Intranet where staff can easily access the policies and procedures at their convenience.

i. **Code of Ethics and Conduct, Employee Handbook and Office Rules**

The HR Policies and Procedures also includes the Bank’s Code of Ethics and Conduct which set forth the standard of behaviors, ethics and conduct expected of its employees. All new staff are required to acknowledge their understanding and acceptance to abide by the Bank’s Code of Ethics and Conduct on hardcopy upon joining the Bank. Subsequently, all existing staff are to declare the observance to the Code of Ethics and Conduct annually. In addition, all new staff are to abide by the Employee Handbook and Office Rules of the Bank.

ii. **Employee Assessment Framework**

The evaluation of the prospective employee’s personal information, including criminal records, employment and financial background is part of the HR recruitment process as documented in the Bank’s HR Policies and Procedures. Employment reference checks and screening procedures are carried out prior to hiring the employee. The screening procedures also apply throughout the course of employment where existing employees are screened annually

Business Continuity Management

The Operation Planning Department of SMBC SSC Sdn. Bhd., the Bank’s outsourced service provider, ensures that there is a Business Continuity Plan (“BCP”) in place to ensure critical business operations and systems can continue in the event of prolonged disruption to the business. The department spear-heads the Business Impact Assessment of the Bank’s operations to identify the activities and operations that are critical to the continuity of the Bank’s operations. The department manages the Business Continuity Management activities for the Bank’s operations and ensures that all mandatory BCP and Disaster Recovery Plan drills are successfully carried out. The Bank has subscribed to a Disaster Recovery site which serves as the back-up site, with an independent service provider.

Corporate Governance (continued)

Internal Control Framework (continued)

Risk Control Self-Assessment

A Risk Control Self-Assessment (“RCSA”) tool is used to assist the Bank’s departments to identify and assess their operational risk which are inherent in their work processes, activities, services, products and systems in a documented and systematic manner. The implementation of RCSA is facilitated by the Operational Risk Management Department where it provides operational support on risk and control assessments, which will lead to formulation of action plans by the relevant departments to mitigate and manage the identified operational risks.

Loss Database and Key Risk Indicator

The Bank has in place a Loss Database i.e. a loss incident reporting database, which captures and tracks the actual and potential operational risk-related losses, including near miss incidents. Major or high frequency loss events are investigated and analyzed against past records and trends to identify high risk areas and to take action to mitigate the risk. Preventive measures and additional controls, if any, are tracked for completion and effectiveness.

In addition, the Bank also monitors operational risk trends via its Key Risk Indicators reporting, which involves collecting transactional data at prescribed frequencies over a period of time to observe the trending of business or transaction activities. Management limits and thresholds are determined to pre-empt and/or alert the departments on additional controls to be implemented to mitigate operational risks.

Loss incidents and Key Risk Indicators are duly reported to the Senior Management and the Board.

Corporate Governance (continued)

Remuneration

The Remuneration Policy of the Bank outlines the mandatory requirements that must be reflected in the design and management of performance and remuneration arrangement in the Bank. Our remuneration strategy is designed to enable the Bank to attract and retain talents, motivate them to achieve the Bank's long terms goals, support good corporate governance and promotes effective risk management.

Components of Remuneration

Employee remuneration is composed of two main components - fixed and variable:

Fixed	Consist of monthly base salary and fixed allowances	Determined by individual's roles and responsibilities, experience and skills, competency and market competitiveness. It should also reflect core performance requirements and expectations.
Variable	Annual performance bonus in cash	Performance-based and not guaranteed, reflecting overall bank's performance and individual performance. Purpose of the performance bonus is to reward good performance; drive the right values and behaviours.

Measurement of Performance

With oversight and review by the Board, the Bank's overall performance is determined in accordance with three core evaluation factors which include Sustainable Growth Initiatives, Financial Performance, Bank Management and Compliance, including Risk Management Control.

The Bank's key indicators are cascaded down to the business and support departments and eventually to each individual employee in the Bank via the Individual Performance Appraisal process. The individual performance goals or key performance indicators ("KPIs") include Business Function Initiatives, Risk and Compliance and Behavioral Competencies that reflects Sumitomo Mitsui Banking Corporation's ("SMBC") five core values of Customer First, Proactive & Innovative, Quality, Speed and Team SMBC.

The risk and control functions of Audit, Compliance and Risk Management operate independently from the business department. Their performance assessment is based principally on the achievement of the objectives of their job functions and reviewed independently by the AC and the BRMC.

Corporate Governance (continued)

Remuneration (continued)

Linkage between Performance and Remuneration

To inculcate a performance driven culture, the performance bonus payment is closely linked to overall performance of the Bank and performance of the individual based on achievement of KPIs set for the financial year. An individual's performance bonus may be further adjusted based on audit and non-compliance findings or due to disciplinary action.

Remuneration of Senior Management and local employees are reviewed by the NRC and approved by the Board of Directors while remuneration of the Heads and employees of the risk and control functions are reviewed by their respective Board committees i.e. AC and BRMC.

Summary of Remuneration Outcomes for the Financial Year Ended 31 March 2018

For the purpose of disclosure on remuneration as per BNM's Policy on Corporate Governance, the following are the payment for the financial year ended 31 March 2018 -

Table 1: Guaranteed bonuses, sign-on bonuses and severance payments

Category	Senior Officers*	Other Material Risk Takers**
Number of guaranteed bonuses	-	-
Number of sign-on bonuses	-	-
Number of severance payments	-	-

*Senior Officers of the Bank are defined as Deputy Chief Executive Officer, Deputy President, Chief Risk Officer, Chief Compliance Officer and Chief Internal Auditor.

**Other Material Risk Takers are defined as employees whose responsibilities have material impact on the Bank and risk profile, and employees whose responsibilities require them to take on material risk exposure on behalf of the Bank.

Table 2: Remuneration for Senior Officers and Other Material Risk Takers

Category	Senior Officers (5 Headcount)	Other Material Risk Takers (2 Headcount)
Fixed remuneration – Cash based	RM2,687,664	RM1,071,051
Variable remuneration – Cash based	RM1,403,344	RM647,799

Company No. 926374-U

Corporate Governance (continued)

Remuneration (continued)

Table 3: Breakdown of CEO's remuneration

Category	Cash
Fixed remuneration	RM573,707
Variable remuneration	RM305,236
Total remuneration award for financial year ended 31 March 2018	RM878,943

In compliance with BNM's Policy on Corporate Governance, the Board of Directors has approved the enhanced Remuneration Policy in March 2018 and Deferral Policy will be introduced for CEO, Senior Officers and Other Material Risk Takers of the Bank from FY2018/2019 onwards.

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Corporate Governance (continued)

Shariah Committee (“ShC”)

Members of the ShC are Shariah qualified persons in their own rights and they possess the pre-requisite knowledge, expertise and experience in Shariah. Their appointments were made after vigorous selections process and approved by BNM. The current members of ShC have been ShC members since its first established on 1st December 2014.

It was unanimously agreed by members of ShC that the position of Chairman of ShC be rotated every 2 years. The current Chairman of ShC is Dr. Muhammad Pisol bin Mohd @ Mat Isa, who was appointed on 14 December 2016, after taking over from Dr. Mushaddad bin Hasbullah after he has served 2 years as Chairman of ShC. The other member of ShC is Mr. Mohamed Khairul Anuar bin Mohd Basri.

For financial year ended 31 March 2018, the ShC held 6 meetings, in addition to a special meeting with members of the Board of Directors and Senior Management as part of the effort to foster closer relationship between all a parties.

The details of attendance of each member at the ShC Meetings held during the financial year ended 31 March 2018 are as follows: -

<u>Name of ShC member</u>	<u>Attendance at Meetings</u>	<u>%</u>
Dr. Muhammad Pisol bin Mohd @ Mat Isa - Chairman	6/6	100
Dr. Mushaddad bin Hasbullah	6/6	100
Encik Mohamed Khairul Anuar bin Mohd Basri	6/6	100

ShC is responsible for:

1. Advising the Board and provide input to the Bank on Shariah matters in order for the Bank to comply with Shariah principles at all times;
2. Endorsing Shariah policies and procedures prepared by the Bank and to ensure that the contents do not contain any elements which are not in line with Shariah;
3. Ensuring that the products of the Bank comply with Shariah principles, the ShC must approve:
 - i. The terms and conditions contained in the forms, contracts, agreements or other legal documentations used in executing the transactions; and
 - ii. The product manual, marketing advertisements, sales illustrations and brochures used to describe the product;
4. Assessing the work carried out by Shariah review and Shariah audit in order to ensure compliance with Shariah matters;
5. Advising the Bank to consult BNM's Shariah Advisory Council ("SAC") on Shariah matters that could not be resolved; and
6. Providing written Shariah opinions in circumstances where the Bank makes reference to the BNM's SAC for further deliberation, or where the Bank submits applications to the BNM for new products.

Company No. 926374-U

Auditors

The auditors, KPMG PLT have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 19 to the financial statements.

Signed on behalf of the Board of Directors in accordance with the resolution of the Directors:

.....
Chin Kok Sang
Director

.....
Yoshimi Gunji
Director

Kuala Lumpur

Date: 17 August 2018

Company No. 926374-U

SHARIAH COMMITTEE'S REPORT

In the name of Allah, the Beneficent, the Merciful

In complying with the letter of appointment, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by Sumitomo Mitsui Banking Corporation Malaysia Berhad during the financial year ended 31 March 2018. We have also conducted our review to form an opinion as to whether Sumitomo Mitsui Banking Corporation Malaysia Berhad has complied with the Shariah principles and with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions made by us.

The management of Sumitomo Mitsui Banking Corporation Malaysia Berhad is responsible for ensuring that the financial institution conducts its business in accordance with Shariah principles. It is our responsibility to form an independent opinion based on our review of the operations of Sumitomo Mitsui Banking Corporation Malaysia Berhad and to report to you.

We have assessed the work carried out by Shariah review which included examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by Sumitomo Mitsui Banking Corporation Malaysia Berhad.

We have obtained all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that Sumitomo Mitsui Banking Corporation Malaysia Berhad have not violated the Shariah principles.

In our opinion, the contracts, transactions and dealings entered into by Sumitomo Mitsui Banking Corporation Malaysia Berhad during the financial year ended 31 March 2018 that we have reviewed are in compliance with the Shariah principles.

We, the members of the Shariah Committee of Sumitomo Mitsui Banking Corporation Malaysia Berhad, do hereby confirm that the operations of Sumitomo Mitsui Banking Corporation Malaysia Berhad during the period we acted as Shariah Committee Members, for the financial year ended 31 March 2018 have been conducted in conformity with the Shariah principles.

Chairman of the Shariah Committee :

Dr. Muhammad Pisol bin Mohd @ Mat Isa

Shariah Committee member :

Mohamed Khairul Anuar bin Mohd Basri

Shariah Committee member :

Dr. Mushaddad bin Hasbullah

Kuala Lumpur:

Date: 17 August 2018

Sumitomo Mitsui Banking Corporation Malaysia Berhad

(Company No. 926374-U)

(Incorporated in Malaysia)

Statement of Financial Position as at 31 March 2018

	Note	2018 RM'000	2017 RM'000
Assets			
Cash and short-term funds	3	3,616,844	4,704,896
Deposits and placements with banks and other financial institutions	4	639,783	626,193
Investment securities available-for-sale	5	550,770	682,204
Loans, advances and financing	6	11,496,753	10,840,094
Derivative financial assets	30	554,223	919,869
Other assets	7	195,759	18,704
Statutory deposits with Bank Negara Malaysia	8	40,700	2,228
Plant and equipment	9	13,936	14,835
Tax recoverable		627	11,621
Total assets		<u>17,109,395</u>	<u>17,820,644</u>
Liabilities			
Deposits from customers	10	11,151,646	11,185,916
Deposits and placements of banks and other financial institutions	11	2,327,691	3,217,924
Bills and acceptances payable		9,589	1,723
Derivative financial liabilities	30	538,844	828,339
Other liabilities	12	197,901	742,252
Deferred tax liabilities	13	26,531	18,438
Total liabilities		<u>14,252,202</u>	<u>15,994,592</u>
Equity			
Share capital	14	2,452,605	1,575,000
Reserves	15	404,588	251,052
Total equity attributable to owners of the Bank		<u>2,857,193</u>	<u>1,826,052</u>
Total liabilities and equity		<u>17,109,395</u>	<u>17,820,644</u>
Commitments and contingencies	27	<u>26,928,827</u>	<u>20,151,147</u>

The notes on pages 38 to 117 are an integral part of these financial statements.

Sumitomo Mitsui Banking Corporation Malaysia Berhad

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Statement of Profit or Loss and Other Comprehensive Income for the Financial Year Ended 31 March 2018

	Note	2018 RM'000	2017 RM'000
Interest income	16	419,452	371,713
Interest expense	17	<u>(222,451)</u>	<u>(219,834)</u>
Net interest income		197,001	151,879
Other operating income	18	<u>118,300</u>	<u>78,922</u>
Net operating income		315,301	230,801
Other operating expenses	19	<u>(116,376)</u>	<u>(85,829)</u>
Operating profit		198,925	144,972
Provision for loans, advances and financing	21	<u>12,833</u>	<u>(41,194)</u>
Profit before taxation		211,758	103,778
Tax expense	22	<u>(57,446)</u>	<u>(23,887)</u>
Profit for the year		154,312	79,891
Other comprehensive income for the year, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Available-for-sale financial assets – reclassified to profit or loss		(776)	1,211
Total comprehensive income for the year		<u>153,536</u>	<u>81,102</u>
Basic earnings per ordinary share (sen)	23	<u>7.09</u>	<u>5.07</u>

The notes on pages 38 to 117 are an integral part of these financial statements.

Sumitomo Mitsui Banking Corporation Malaysia Berhad

(Company No. 926374-U)
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Statement of Changes in Equity for the Financial Year Ended 31 March 2018

	←——— <i>Attributable to owners of the Bank</i> ———→					Total RM'000
	Share capital RM'000	Statutory reserve RM'000	Regulatory reserve RM'000	Available- for-sale reserve RM'000	Retained earnings RM'000	
At 1 April 2016	1,575,000	87,018	41,624	379	40,929	1,744,950
Profit for the year	-	-	-	-	79,891	79,891
Fair value changes of available-for-sale financial assets	-	-	-	1,211	-	1,211
Total comprehensive income for the year	-	-	-	1,211	79,891	81,102
Transfer to statutory reserve	-	39,945	-	-	(39,945)	-
Transfer to regulatory reserve	-	-	13,725	-	(13,725)	-
At 31 March 2017/ 1 April 2017	1,575,000	126,963	55,349	1,590	67,150	1,826,052
Issue of shares	877,605	-	-	-	-	877,605
Profit for the year	-	-	-	-	154,312	154,312
Fair value changes of available-for-sale financial assets	-	-	-	(776)	-	(776)
Total comprehensive income for the year	-	-	-	(776)	154,312	153,536
Transfer to regulatory reserve	-	-	19,793	-	(19,793)	-
Transfer between reserve	-	(126,963)	-	-	126,963	-
At 31 March 2018	<u>2,452,605</u>	<u>-</u>	<u>75,142</u>	<u>814</u>	<u>328,632</u>	<u>2,857,193</u>
	Note 14	Note 15	Note 15	Note 15	Note 15	

The notes on pages 38 to 117 are an integral part of these financial statements.

Sumitomo Mitsui Banking Corporation Malaysia Berhad

(Company No. 926374-U)

(Incorporated in Malaysia)

Statement of Cash Flows for the Financial Year Ended 31 March 2018

	2018 RM'000	2017 RM'000
Cash flows from operating activities		
Profit from ordinary activities before taxation	211,758	103,778
Adjustments for:		
Depreciation of plant and equipment	4,132	4,065
Plant and equipment written-off	-	7
Loan loss provision	(12,833)	41,194
Unrealised net loss on revaluation of derivatives	7,952	2,475
Amortisation of premium on debt securities	600	674
Operating profit before working capital changes	211,609	152,193
Decrease/(Increase) in operating assets		
Deposits and placements with banks and other financial institutions	(13,590)	(438,663)
Statutory deposits with Bank Negara Malaysia	(38,472)	(2,228)
Loans, advances and financing	(643,826)	(4,512,681)
Derivative financial instruments	68,199	(3,409)
Other assets	(177,054)	12,003
(Decrease)/Increase in operating liabilities		
Deposits from customers	(34,270)	4,347,509
Deposits and placements of banks and other financial institutions	(890,233)	537,650
Bills and acceptances payable	7,866	1,345
Other liabilities	(544,351)	358,601
Cash (used in)/ generated from operating activities	(2,054,122)	452,320
Taxation paid	(38,112)	(26,880)
Net cash (used in)/generated from operating activities	(2,092,234)	425,440
Cash flows from investing activities		
Purchase of plant and equipment	(3,233)	(1,067)
Acquisition of investment securities available-for-sale	(551,371)	(680,785)
Disposal of investment securities available-for-sale	681,181	160,497
Net cash generated from/(used in) investing activities	126,577	(521,355)
Cash flows from financing activities		
Proceeds from issuance of shares	877,605	-
Net cash generated from financing activities	877,605	-

Statements of Cash Flows for the Financial Year Ended 31 March 2018 (continued)

	2018 RM'000	2017 RM'000
Net decrease in cash and cash equivalents	(1,088,052)	(95,915)
Cash and cash equivalents at beginning of the financial year	<u>4,704,896</u>	<u>4,800,811</u>
Cash and cash equivalents at end of financial year	<u><u>3,616,844</u></u>	<u><u>4,704,896</u></u>

Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position balances:

	2018 RM'000	2017 RM'000
Cash and balances with banks and other financial institutions	80,061	71,641
Money at call and deposit placements maturing within one month	<u>3,536,783</u>	<u>4,633,255</u>
	<u><u>3,616,844</u></u>	<u><u>4,704,896</u></u>

The notes on pages 38 to 117 are an integral part of these financial statements.

Sumitomo Mitsui Banking Corporation Malaysia Berhad

(Company No. 926374-U)

(Incorporated in Malaysia)

Notes to the Financial Statements for the Financial Year Ended 31 March 2018

Sumitomo Mitsui Banking Corporation Malaysia Berhad (“the Bank”) is a public limited company, incorporated and domiciled in Malaysia. The address of its registered office and principal place of business is Suite 22-03, Level 22, Integra Tower, The Intermark, 348, Jalan Tun Razak, 50400 Kuala Lumpur.

The Bank is principally engaged in banking and related financial services.

The immediate and ultimate holding corporations during the financial year are Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Financial Group, Inc. respectively. Both corporations are incorporated in Japan.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 17 August 2018.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with the Malaysian Financial Reporting Standards (“MFRSs”), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (“MASB”) but have not been adopted by the Bank:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Plan Amendment, Curtailment or Settlement*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Bank plans to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 April 2018 for those accounting standards, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2018, except for Amendments to MFRS 1, Amendments to MFRS 2, Amendments to MFRS 4, Amendments to MFRS 128 and Amendments to MFRS 140 which are not applicable to the Bank.
- from the annual period beginning on 1 April 2019 for the accounting standard that is effective for annual periods beginning on or after 1 January 2019, except for Amendments to MFRS 3, Amendments to MFRS 11 and Amendments to MFRS 128 which are not applicable to the Bank.

The Bank does not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on 1 January 2021 as it is not applicable to the Bank.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Bank except as mentioned below:

MFRS 15, *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*.

The Bank is currently assessing the financial impact that may arise from the adoption of MFRS 15.

MFRS 16, *Leases*

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases - Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Bank will assess the financial impact that may arise from the adoption of MFRS 16.

MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

In implementing MFRS 9, the Bank has set up a MFRS 9 Project Team which is assisted by external consultants. The Bank had completed a gap assessment and developed MFRS 9 compliant ECL models for applicable credit exposures as well as incorporated the model in its information systems. Independent validation has been on-going to ensure the MFRS 9 models are fit for purpose and comply with the requirements of MFRS 9.

In respect of impairment of financial assets, MFRS 9 replaces the “incurred loss” model in MFRS 139 with an “expected credit loss” (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments measured at fair value through other comprehensive income, but not to investments in equity instruments

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRS 9, *Financial Instruments* (continued)

The three-stage approach which reflects the change in credit quality of the financial instrument since initial recognition is as follows:

i) Stage 1: 12-month ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within next 12 months will be recognised.

ii) Stage 2: Lifetime ECL - non-credit impaired

For exposures where there has been a significant increase in credit risk since initial recognition but that are non-credit impaired, a lifetime ECL will be recognised.

iii) Stage 3: Lifetime ECL - credit impaired

A financial asset is assessed as credit impaired when one or more events that have detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that are credit impaired, a lifetime ECL will be recognised.

The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should also take into account the time value of money.

The recognition and measurement of impairment under MFRS 9 will be more forward-looking and will result in earlier recognition of credit losses as compared to MFRS 139.

As the Bank is in the midst of refining certain assumptions on the tools, the quantitative impact to the overall financial statements has not been finalised at this juncture.

1. Basis of preparation (continued)

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis other than as disclosed in Note 2(b)(ii).

(c) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia ("RM"), which is the Bank's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following note:

- Note 6 – Collective impairment provision on loans, advances and financing
- Note 30 - Fair value of financial assets and financial liabilities

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in the financial statements unless otherwise stated.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting period, except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

(b) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Bank becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement

The Bank categorises financial instruments as follows:

Financial assets

(a) *Financial assets at fair value through profit or loss*

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss. Interest income from the financial assets held for trading, calculated using effective interest method, is recognised in profit or loss.

(b) *Loans and receivables*

Loans and receivables category comprises debt instruments that are not quoted in an active market. Financial assets classified under this category includes cash and short-term funds, deposits and placements with banks and other financial institutions, loans, advances and financing and other assets.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

(c) *Impairment of loans, advances and financing*

The Bank's allowance for impaired loans/financing is in conformity with MFRS 139 and Bank Negara Malaysia's "Guidelines on Classification and Impairment Provisions for Loans/Financing" issued on 6 April 2015. Accounts are classified as impaired when principal or interest/profit or both are past due for more than ninety (90) days, or once there is objective evidence that the customer's account is impaired, whichever is sooner. Where repayments are scheduled on intervals of 3 months or longer, the loan/financing is classified as impaired as soon as a default occurs, unless it does not exhibit any weakness that would render it classified according to the Bank's credit risk grading framework.

Individual impairment provisions are made for impaired debts and financing which have been individually reviewed and specifically identified as impaired.

Impaired loans/financing, if any, are measured at their estimated recoverable amount based on the discounted cash flow methodology. Individual impairment allowances are provided if the recoverable amount (present value of estimated future cash flows discounted at original effective interest/profit rate) is lower than the net book value of the loans/financing (outstanding amount of loans, advances and financing, net of individual impairment allowance). The expected cash flows are based on projections of liquidation proceeds, realisation of assets or estimates of future operating cash flows.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

(c) *Impairment of loans, advances and financing (continued)*

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss may be reversed to the extent it is now excessive by reducing the loan impairment allowance account. The amount of any reversal is recognised in profit or loss.

Impairment is also assessed on a collective basis to cover loans/financing which no impairment has been specifically identified. Individually assessed loans/financing for which no evidence of impairment has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective impairment. These credit risk characteristics may include type of products offered, industry sector, credit characteristics or other relevant factors. As soon as information becomes available which identifies losses on individual loans/financing within the group, those loans/financing are removed from the group and assessed on an individual basis for impairment.

The collective impairment provision is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector, loan/financing grade, loan to value (LTV) or product);
- management's experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience; and
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate provision against the individual loan.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

(d) Available-for-sale financial assets

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedged risks of fair value hedges which are recognised in profit or loss.

On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see note 2(f)(i)).

Financial liabilities

The financial liabilities of the Bank include deposits from customers, deposits and placements of banks and other financial institutions, bills and acceptances payable, financial derivatives and other liabilities.

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are held for trading, derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Fair values arising from financial guarantee contracts are classified as deferred income and are amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

(iv) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

- (a) the recognition of an asset to be received and the liability to pay for it on the trade date; and
- (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

(v) Hedge accounting

Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

(v) Hedge accounting (continued)

Fair value hedge (continued)

In a fair value hedge, the gain or loss from remeasuring the hedging instrument at fair value or the foreign currency component of its carrying amount translated at the exchange rate prevailing at the end of the reporting period is recognised in profit or loss. The gain or loss on the hedged item, except for hedged item categorised as available-for-sale, attributable to the hedged risk is adjusted to the carrying amount of the hedged item and recognised in profit or loss.

For a hedged item categorised as available-for-sale, the fair value gain or loss attributable to the hedged risk is recognised in profit or loss.

Fair value hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective or the hedge designation is revoked.

(vi) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or control of the asset is not retained or substantially all of the risks and rewards of ownership of the asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(c) Plant and equipment

(i) Recognition and measurement

Items of plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

2. Significant accounting policies (continued)

(c) Plant and equipment (continued)

(i) Recognition and measurement (continued)

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

The gain or loss on disposal of an item of plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and is recognised net within “other operating income” and “other operating expenses” respectively in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of a plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of plant and equipment from the date that they are available for use.

The estimated useful lives for the current and comparative periods are as follows:

- | | |
|------------------------------------|--------------|
| • motor vehicles | 5 years |
| • furniture, fixtures and fittings | 5 - 10 years |
| • computer equipment | 3 years |
| • renovations | 10 years |

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate at the end of the reporting period.

2. Significant accounting policies (continued)

(d) Operating lease

Leases, where the Bank does not assume substantially all the risks and rewards of ownership are classified as operating leases and the leased assets are not recognised in the statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease.

(e) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, bank balances and deposits maturing within one month.

(f) Impairment

(i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset is estimated.

An impairment loss in respect of loans and receivables (see Note 2(b)(ii)) and held-to-maturity investments is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

2. Significant accounting policies (continued)

(f) Impairment (continued)

(i) Financial assets (continued)

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(ii) Other assets

The carrying amounts of other assets (except for deferred tax assets) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets (or cash-generating units).

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amounts of the assets in the cash-generating unit (or a group of cash-generating units) on a *pro rata* basis.

2. Significant accounting policies (continued)

(f) Impairment (continued)

(ii) Other assets (continued)

In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

(g) Employee benefits

(i) Short term employee benefits

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

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

(ii) State plans

The Bank's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payment is available.

(h) Provisions and contingent liabilities

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

2. Significant accounting policies (continued)

(h) Provisions and contingent liabilities (continued)

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

(i) Revenue and other income

(i) Interest income/financing income and expense

Interest income/financing income and expense is recognised in profit or loss using the effective interest/profit method.

The effective interest/profit rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest/profit rate includes all fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

(ii) Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed. If a loan commitment is not expected to result in the drawdown of a loan, then the related loan commitment fees are recognised on a straight line basis over the commitment period. When it is probable that a loan commitment will result in a specific lending arrangement, commitment fees are included in the measurement of the effective interest rate.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

2. Significant accounting policies (continued)

(j) Tax expense

Tax expense comprises current and deferred tax. Tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

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

Deferred tax is recognised using the liability method, on temporary differences arising between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(k) Earnings per ordinary share

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

2. Significant accounting policies (continued)

(I) Fair value measurement

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined 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 measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

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

When measuring the fair value of an asset or a liability, the Bank uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation technique as follows:

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

The Bank recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

3. Cash and short-term funds

	2018 RM'000	2017 RM'000
Cash and balances with banks and other financial institutions	80,061	71,641
Money at call and deposit placements maturing within one month	<u>3,536,783</u>	<u>4,633,255</u>
	<u>3,616,844</u>	<u>4,704,896</u>

4. Deposits and placements with banks and other financial institutions

	2018 RM'000	2017 RM'000
Money at call and deposit placements maturing more than one month	<u>639,783</u>	<u>626,193</u>

5. Investments securities available-for-sale

	2018 RM'000	2017 RM'000
At fair value		
Negotiable instruments of deposits	401,292	552,358
Malaysian Government treasury bills	129,473	109,851
Malaysian Government Sukuk	<u>20,005</u>	<u>19,995</u>
	<u>550,770</u>	<u>682,204</u>

6. Loans, advances and financing

	2018 RM'000	2017 RM'000
(a) By type:		
At amortised cost:		
Overdraft	24,262	93,147
Term loans		
- Syndicated loans	897,646	463,278
- Syndicated Islamic financing	116,173	133,062
- Bridging loans	-	15,524
- Factoring receivables	71,211	56,936
- Other term loans	4,933,908	5,479,371
- Other Islamic term financing	1,431,642	1,412,891
Trade bills discounted	164,506	119,407
Revolving credits	3,248,427	2,518,381
Islamic revolving credits	<u>672,562</u>	<u>624,514</u>
Gross loans, advances and financing	11,560,337	10,916,511
Less: Collective impairment provision	<u>(63,584)</u>	<u>(76,417)</u>
Net loans, advances and financing	<u>11,496,753</u>	<u>10,840,094</u>
(b) By geographical distribution:		
Malaysia	9,885,884	9,240,693
Other countries	<u>1,674,453</u>	<u>1,675,818</u>
Gross loans, advances and financing	<u>11,560,337</u>	<u>10,916,511</u>
(c) By type of customer:		
Domestic non-bank financial institutions	3,365,088	3,427,396
Domestic business enterprises	8,159,917	7,404,539
Foreign entities	<u>35,332</u>	<u>84,576</u>
Gross loans, advances and financing	<u>11,560,337</u>	<u>10,916,511</u>
(d) By interest rate sensitivity:		
Fixed rate		
- Other fixed rate loans	933,224	484,874
Variable rate		
- Cost-plus	3,455,220	3,134,322
- Other variable rates	<u>7,171,893</u>	<u>7,297,315</u>
Gross loans, advances and financing	<u>11,560,337</u>	<u>10,916,511</u>

6. Loans, advances and financing (continued)

	2018 RM'000	2017 RM'000
(e) By economic purposes:		
Purchase of securities	34,726	332,412
Purchase of residential property	-	7,982
Purchase of non-residential property		
- Commercial complexes	202,015	195,711
Purchase of fixed assets other than land and buildings	212,913	225,256
Construction	688,435	462,641
Working capital	6,277,521	6,372,264
Other purpose	<u>4,144,727</u>	<u>3,320,245</u>
Gross loans, advances and financing	<u>11,560,337</u>	<u>10,916,511</u>
(f) By sector:		
Primary agriculture	-	54,180
Mining and quarrying	38,629	157,578
Manufacturing	3,205,237	2,535,097
Electricity, gas and water	969,335	1,112,626
Construction	41,942	64,598
Wholesale and retail trade, and	1,010,962	895,371
Transport, storage and communication	536,331	520,811
Finance, insurance, and business services	4,838,430	5,147,686
Real estate	911,469	417,327
Education, health and others	<u>8,002</u>	<u>11,237</u>
Gross loans, advances and financing	<u>11,560,337</u>	<u>10,916,511</u>
(g) By residual contractual maturity:		
Maturing within one year	4,722,617	3,912,619
One year to three years	2,927,555	1,898,842
Three years to five years	3,263,428	4,375,142
More than five years	<u>646,737</u>	<u>729,908</u>
Gross loans, advances and financing	<u>11,560,337</u>	<u>10,916,511</u>

6. Loans, advances and financing (continued)

	2018 RM'000	2017 RM'000
(h) Movements in collective impairment provision on loans, advances and financing:		
At beginning of financial year	76,417	35,223
(Reversal)/Addition during the financial year (Note 21)	<u>(12,833)</u>	<u>41,194</u>
At end of financial year	<u>63,584</u>	<u>76,417</u>
As % of gross loans, advances and financing (net of individual allowance)	<u>0.55%</u>	<u>0.70%</u>

7. Other assets

	2018 RM'000	2017 RM'000
Interest receivable	7,554	10,354
Amount due from related corporations/ companies	124	166
Cash collateral placements	182,354	1,770
Other receivables	3,411	4,589
Deposits	2,000	1,522
Prepayments	<u>316</u>	<u>303</u>
	<u>195,759</u>	<u>18,704</u>

The cash collaterals are placed in respect of derivative balances pursuant to agreements in accordance with International Swaps and Derivatives Association ("ISDA") and Credit Support Annex ("CSA") entered into with respective counterparties amounting to RM180,810,000 (2017:RM Nil) and a related company amounting to RM1,544,000 (2017: RM1,770,000).

8. Statutory deposits with Bank Negara Malaysia

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Sections 26(2)(c) and 26(3) of the Central Bank of Malaysia Act 2009, the amounts of which are determined as set percentages of total eligible liabilities.

9. Plant and equipment

	Renovations RM'000	Computer equipment RM'000	Furniture, fixtures and fittings RM'000	Motor vehicles RM'000	Total RM'000
Cost					
At 1 April 2016	11,815	12,769	3,627	2,135	30,346
Additions	7	819	241	-	1,067
Written-off	-	-	(17)	-	(17)
At 31 March 2017/ 1 April 2017	11,822	13,588	3,851	2,135	31,396
Additions	487	1,771	641	334	3,233
Written-off	-	-	-	(532)	(532)
Reclassification	8	96	(104)	-	-
At 31 March 2018	12,317	15,455	4,388	1,937	34,097
Accumulated depreciation					
At 1 April 2016	1,237	8,695	881	1,693	12,506
Charge for the year	1,182	2,271	463	149	4,065
Written-off	-	-	(10)	-	(10)
At 31 March 2017/ 1 April 2017	2,419	10,966	1,334	1,842	16,561
Charge for the year	1,193	2,311	474	154	4,132
Written-off	-	-	-	(532)	(532)
At 31 March 2018	3,612	13,277	1,808	1,464	20,161
Carrying amounts					
At 31 March 2017/ 1 April 2017	9,403	2,622	2,517	293	14,835
At 31 March 2018	8,705	2,178	2,580	473	13,936

10. Deposits from customers

	2018 RM'000	2017 RM'000
(a) By type of deposits:		
Demand deposits	2,019,719	1,605,312
Fixed deposits*	5,843,075	6,931,647
Short-term deposits	3,288,852	2,648,957
	<u>11,151,646</u>	<u>11,185,916</u>

* Included in the fixed deposits are deposits amounting to RM4,679,660,000 (2017: RM4,374,536,000) placed by a branch of the immediate holding company as cash collateral for certain loans, advances and financing.

	2018 RM'000	2017 RM'000
Maturity structure of fixed deposits is as follows:		
Due within six months	1,105,912	2,507,446
Six months to one year	495,205	20,362
One year to three years	1,355,372	1,035,237
Three years to five years	2,329,397	3,055,348
Five years to ten years	305,749	313,254
Ten years and above	251,440	-
	<u>5,843,075</u>	<u>6,931,647</u>
(b) By type of customers:		
Domestic non-bank financial institutions	481,458	416,464
Domestic business enterprises	5,893,506	6,271,333
Branch of immediate holding company	4,679,660	4,374,536
Foreign non-bank entities	96,192	122,783
Domestic other entities	830	800
	<u>11,151,646</u>	<u>11,185,916</u>

11. Deposits and placements of banks and other financial institutions

	2018 RM'000	2017 RM'000
Licensed Malaysian banks	69,075	-
Foreign banks		
- Immediate holding company	<u>2,258,616</u>	<u>3,217,924</u>
	<u>2,327,691</u>	<u>3,217,924</u>

12. Other liabilities

	2018 RM'000	2017 RM'000
Interest payable	14,851	16,696
Amount due to related corporations/companies	13,039	22,501
Cash collateral placements	122,129	664,042
Other payables	34,249	29,665
Accruals	<u>13,633</u>	<u>9,348</u>
	<u>197,901</u>	<u>742,252</u>

The cash collaterals are received in respect of derivative balances pursuant to agreements in accordance with International Swaps and Derivatives Association ("ISDA") and Credit Support Annex ("CSA") entered into with respective counterparties.

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13. Deferred tax

Recognised deferred tax assets/ (liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Plant and equipment	415	-	-	(39)	415	(39)
Available-for-sale reserve	-	-	(256)	(503)	(256)	(503)
Unrealised foreign exchange gain	-	-	(37,278)	(26,557)	(37,278)	(26,557)
Deferred income	7,352	6,118	-	-	7,352	6,118
Other items	3,236	2,543	-	-	3,236	2,543
Tax assets/(liabilities)	11,003	8,661	(37,534)	(27,099)	(26,531)	(18,438)
Set off of tax	(11,003)	(8,661)	11,003	8,661	-	-
Net tax assets/(liabilities)	-	-	(26,531)	(18,438)	(26,531)	(18,438)

Movement in temporary differences during the year

	At	Recognised	Recognised	At	Recognised	Recognised	At
	1.4.2016 RM'000	in profit or loss RM'000	directly in equity RM'000	31.3.2017 RM'000	in profit or loss RM'000	directly in equity RM'000	31.3.2018 RM'000
Plant and equipment	(176)	137	-	(39)	454	-	415
Available-for-sale reserve	(99)	-	(404)	(503)	-	247	(256)
Unrealised foreign exchange gain	(21,725)	(4,832)	-	(26,557)	(10,721)	-	(37,278)
Deferred income	1,357	4,761	-	6,118	1,234	-	7,352
Other items	2,049	494	-	2,543	693	-	3,236
	(18,594)	560	(404)	(18,438)	(8,340)	247	(26,531)

14. Share capital

	Amount 2018 RM'000	Number of shares 2018 '000	Amount 2017 RM'000	Number of shares 2017 '000
Ordinary shares				
Issued and fully paid up:				
At beginning of the year	1,575,000	1,575,000	1,575,000	1,575,000
Issued during the year	<u>877,605</u>	<u>877,605</u>	<u>-</u>	<u>-</u>
At end of the year	<u>2,452,605</u>	<u>2,452,605</u>	<u>1,575,000</u>	<u>1,575,000</u>

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as and when declared by the Bank, after obtaining the regulatory approval from Bank Negara Malaysia prior to the declaration of dividends.

All ordinary shares carry one vote per share at meetings of the Bank and rank equally with regard to the Bank's residual assets.

15. Reserves

	Note	2018 RM'000	2017 RM'000
<i>Non-distributable:</i>			
Statutory reserve	15.1	-	126,963
Available-for-sale ("AFS") reserve	15.2	814	1,590
Regulatory reserve	15.3	<u>75,142</u>	<u>55,349</u>
		75,956	183,902
<i>Distributable:</i>			
Retained earnings		<u>328,632</u>	<u>67,150</u>
		<u>404,588</u>	<u>251,052</u>

15.1 Statutory reserve

On 3 May 2017, BNM issued revised policy document on capital funds, whereby the requirement to maintain a reserve no longer required given the implementation of Capital Conserve Buffer under the Capital Adequacy Framework. Therefore, during the financial year, the Bank has transferred RM126,963,000 from statutory reserve to retained earnings.

15.2 Available-for-sale ("AFS") reserve

AFS reserve relates to the cumulative fair value changes of financial assets categorised as available-for-sale.

15.3 Regulatory reserve

The regulatory reserve is maintained by the Bank as an additional credit risk absorbant in excess of the requirement of accounting standards. The reserve is maintained in line with the requirements of Bank Negara Malaysia.

16. Interest income

	2018	2017
	RM'000	RM'000
Loans, advances and financing		
- Interest income	251,940	168,823
- Financing income	43,562	38,728
Money at call and deposit placements with banks and other financial institutions	100,450	149,326
Investment securities available-for-sale	22,977	14,771
Others	523	65
	<u>419,452</u>	<u>371,713</u>

17. Interest expense

	2018	2017
	RM'000	RM'000
Deposits and placements of banks and other financial institutions	43,435	44,935
Deposits from customers	178,312	173,736
Investment securities available-for-sale	600	905
Others	104	258
	<u>222,451</u>	<u>219,834</u>

18. Other operating income

	2018	2017
	RM'000	RM'000
Fee and commission income		
- Service charges/ fees	45	29
- Guarantee fees	2,084	1,532
- Loan related fees	24,814	15,206
- Commitment fees	1,707	1,254
	<u>28,650</u>	<u>18,021</u>
Gain from derivative financial instruments	<u>10,010</u>	<u>12,472</u>
Unrealised net (loss)/gain on revaluation of derivatives	<u>(7,952)</u>	<u>(2,475)</u>
Foreign exchange net gain	<u>72,892</u>	<u>39,575</u>
Other income		
- Management fees	8,726	6,778
- Rental of fixed assets	2,131	1,963
- Miscellaneous income	3,843	2,588
	<u>14,700</u>	<u>11,329</u>
	<u>118,300</u>	<u>78,922</u>

19. Other operating expenses

	2018 RM'000	2017 RM'000
Personnel costs		
Salaries, allowances and bonuses	30,680	27,434
Employees' provident fund contributions	3,561	3,068
Staff training expenses	388	322
Staff welfare expenses	243	186
Other personnel expenses	4,000	4,979
	<u>38,872</u>	<u>35,989</u>
Establishment costs		
Rental of premises	1,677	1,789
Depreciation	4,132	4,065
Repair and maintenance	795	738
Other establishment expenses	13,507	12,229
	<u>20,111</u>	<u>18,821</u>
Marketing expenses		
Advertisement and publicity	296	269
Other marketing expenses	126	112
	<u>422</u>	<u>381</u>
Administration and general expenses		
Guarantee fees	26,874	9,957
Auditors' remuneration		
- Statutory audit	246	230
- Other services	150	100
Professional fees	1,649	761
Communication expenses	426	380
Management fees	15,080	13,368
Licence fees and stamp duties	150	150
Non-executive directors' fees and allowances	607	479
Plant and equipment written off	-	7
Other administration and general expenses	11,789	5,206
	<u>56,971</u>	<u>30,638</u>
	<u>116,376</u>	<u>85,829</u>

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20. Directors' remuneration

Remuneration of the Directors of the Bank are as follows:-

	2018					2017				
	Salary and other remuneration, including meeting allowance RM'000	Bonus RM'000	Fees RM'000	Benefit-in-kind RM'000	Total RM'000	Salary and other remuneration, including meeting allowance RM'000	Bonus RM'000	Fees RM'000	Benefit-in-kind RM'000	Total RM'000
Executive Director and Chief Executive Officer										
Mr. Yoshimi Gunji	579	205	-	606	1,390	574	247	-	354	1,175
Non-executive Directors										
Dato' Md Agil bin Mohd Natt	35	-	200	-	235	39	-	200	-	239
Mr. Chin Kok Sang	35	-	123	-	158	39	-	180	-	219
Mr. Tan Kim Seng	35	-	180	-	215	-	-	21	-	21
	<u>684</u>	<u>205</u>	<u>503</u>	<u>606</u>	<u>1,998</u>	<u>652</u>	<u>247</u>	<u>401</u>	<u>354</u>	<u>1,654</u>

21. Provision for loans, advances and financing

	2018 RM'000	2017 RM'000
Collective impairment provision (Note 6(h))	<u>(12,833)</u>	<u>41,194</u>

22. Tax expense

Recognised in profit or loss

	2018 RM'000	2017 RM'000
Malaysian income tax		
- Current year	46,473	24,366
- Prior year under provision	<u>2,633</u>	<u>81</u>
	49,106	24,447
Deferred tax expense		
Origination/reversal of temporary differences	<u>8,340</u>	<u>(560)</u>
Underprovision in prior year	<u>-</u>	<u>-</u>
	8,340	(560)
Total tax expense	<u>57,446</u>	<u>23,887</u>

Reconciliation of effective tax expense

Profit before taxation	<u>211,758</u>	<u>103,778</u>
Income tax calculated using Malaysian tax rate of 24% (2017: 24%)	50,822	24,907
Non-deductible expenses	3,991	767
Non-taxable income	-	(1,868)
Under provision in prior year	<u>2,633</u>	<u>81</u>
	<u>57,446</u>	<u>23,887</u>

23. Earnings per ordinary share

Basic earnings per ordinary share

The calculation of the basic earnings per ordinary share for year ended 31 March 2018 was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the financial year:-

	2018 RM'000	2017 RM'000
Net profit attributable to ordinary shareholder	<u>154,312</u>	<u>79,891</u>
	2018 Number ('000)	2017 Number ('000)
Weighted average number of ordinary shares outstanding	<u>2,176,099</u>	<u>1,575,000</u>
	2018	2017
Basic earnings per ordinary shares (sen)	<u>7.09</u>	<u>5.07</u>

24. Related parties

Identity of related parties

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

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly. Key management personnel include all the Directors of the Bank, and certain members of senior management of the Bank.

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24. Related parties (continued)

(a) The significant transactions and outstanding balances of the Bank with related parties are as follows:

	Amount transacted for the year ended 31 March RM'000	Gross balance outstanding at 31 March RM'000	Allowance for impairment loss at 31 March RM'000	Net balance outstanding at 31 March RM'000	Impairment loss recognised for the year ended 31 March RM'000
2018					
Immediate holding corporation					
Income					
- Interest income from deposits and placements with banks and other financial institutions	634	-	-	-	-
- Other income	7,548	-	-	-	-
- Fee and commission income	125	-	-	-	-
Expenses					
- Interest expense on deposits from customers	32,760	-	-	-	-
- Interest expense on deposits and placements of banks and other financial institutions	53,629	-	-	-	-
- Fee and commission expenses	308	-	-	-	-
- Other operating expenses	36,798	-	-	-	-
Amount due from					
- Cash and short-term funds	-	161,209	-	161,209	-
- Derivative financial assets	-	25,473	-	25,473	-
- Other assets	-	21	-	21	-

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24. Related parties (continued)

	Amount transacted for the year ended 31 March RM'000	Gross balance outstanding at 31 March RM'000	Allowance for impairment loss at 31 March RM'000	Net balance outstanding at 31 March RM'000	Impairment loss recognised for the year ended 31 March RM'000
2018					
Immediate holding corporation (continued)					
Amount due to					
- Deposits from customers	-	4,679,660	-	4,679,660	-
- Deposits and placements of banks and other financial institutions	-	2,258,616	-	2,258,616	-
- Derivative financial liabilities	-	37,010	-	37,010	-
- Other liabilities	-	11,582	-	11,582	-
Other related corporations/ companies					
Income					
- Interest income from deposits and placements with banks and other financial institutions	30	-	-	-	-
- Interest income from loans, advances and financing	3,218	-	-	-	-
- Fee and commission income	2	-	-	-	-
- Other income	5,412	-	-	-	-
Expenses					
- Interest expense on deposits and placements of banks and other financial institutions	-	-	-	-	-
- Interest expense on deposits from customers	208	-	-	-	-
- Other operating expenses	14,641	-	-	-	-

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24. Related parties (continued)

	Amount transacted for the year ended 31 March RM'000	Gross balance outstanding at 31 March RM'000	Allowance for impairment loss at 31 March RM'000	Net balance outstanding at 31 March RM'000	Impairment loss recognised for the year ended 31 March RM'000
2018					
Other related corporations/ companies (continued)					
Amount due from					
- Cash and short-term funds	-	895	-	895	-
- Loans, advances and financing	-	257,326	(1,415)	255,911	575
- Derivative financial assets	-	12,695	-	12,695	-
- Other assets	-	1,647	-	1,647	-
Amount due to					
- Deposits from customers	-	129,591	-	129,591	-
- Derivative financial liabilities	-	9,274	-	9,274	-
- Other liabilities	-	1,457	-	1,457	-

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24. Related parties (continued)

	Amount transacted for the year ended 31 March RM'000	Gross balance outstanding at 31 March RM'000	Allowance for impairment loss at 31 March RM'000	Net balance outstanding at 31 March RM'000	Impairment loss recognised for the year ended 31 March RM'000
2017					
Immediate holding corporation					
Income					
- Interest income from deposits and placements with banks and other financial institutions	295	-	-	-	-
- Other income	6,154	-	-	-	-
- Fee and commission income	143	-	-	-	-
Expenses					
- Interest expense on deposits from customers	16,635	-	-	-	-
- Interest expense on deposits and placements of banks and other financial institutions	29,978	-	-	-	-
- Fee and commission expenses	314	-	-	-	-
- Other operating expenses	24,830	-	-	-	-
Amount due from					
- Cash and short-term funds	-	155,761	-	155,761	-
- Derivative financial assets	-	36,193	-	36,193	-
- Other assets	-	20	-	20	-

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24. Related parties (continued)

	Amount transacted for the year ended 31 March RM'000	Gross balance outstanding at 31 March RM'000	Allowance for impairment loss at 31 March RM'000	Net balance outstanding at 31 March RM'000	Impairment loss recognised for the year ended 31 March RM'000
2017					
Immediate holding corporation (continued)					
Amount due to					
- Deposits from customers	-	4,374,536	-	4,374,536	-
- Deposits and placements of banks and other financial institutions	-	3,217,924	-	3,217,924	-
- Derivative financial liabilities	-	1,101	-	1,101	-
- Other liabilities	-	21,430	-	21,430	-
Other related corporations/ companies					
Income					
- Interest income from deposits and placements with banks and other financial institutions	508	-	-	-	-
- Interest income from loans, advances and financing	3,855	-	-	-	-
- Fee and commission income	20	-	-	-	-
- Other income	4,624	-	-	-	-
Expenses					
- Interest expense on deposits and placements of banks and other financial institutions	1	-	-	-	-
- Interest expense on deposits from customers	82	-	-	-	-
- Other operating expenses	14,176	-	-	-	-

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24. Related parties (continued)

	Amount transacted for the year ended 31 March RM'000	Gross balance outstanding at 31 March RM'000	Allowance for impairment loss at 31 March RM'000	Net balance outstanding at 31 March RM'000	Impairment loss recognised/ (reversed) for the year ended 31 March RM'000
2017					
Other related corporations/ companies (continued)					
Amount due from					
- Cash and short-term funds	-	514	-	514	-
- Loans, advances and financing	-	119,961	(840)	119,121	219
- Derivative financial assets	-	37	-	37	-
- Other assets	-	1,917	-	1,917	-
Amount due to					
- Deposits from customers	-	39,029	-	39,029	-
- Derivative financial liabilities	-	42,944	-	42,944	-
- Other liabilities	-	1,072	-	1,072	-

All transactions of the Bank with its related parties are made in the ordinary course of business and on substantially the same terms with third parties.

There is no amount outstanding from key management personnel as at year end.

24. Related parties (continued)

(b) The key management personnel compensations are as follows:

	2018 RM'000	2017 RM'000
Executive Directors:		
- Remuneration	784	821
- Other short term employee benefit	606	354
	<u>1,390</u>	<u>1,175</u>
Non-executive Directors:		
- Fees	503	401
- Allowances	104	78
	<u>607</u>	<u>479</u>
Other key management personnel:		
- Short term employee benefits	<u>12,266</u>	<u>11,571</u>

Other key management personnel comprise persons other than the Directors of the Bank, having authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly.

25. Credit exposures to connected parties

Bank Negara Malaysia's Guidelines on Credit Transactions and Exposures with Connected Parties came into effect in October 2008. The credit exposures of the Bank to connected parties are as follows:

	2018 RM'000	2017 RM'000
Aggregate value of outstanding credit exposures to connected parties	882,538	649,573
As a percentage of total credit exposure	<u>4.07%</u>	<u>2.97%</u>

There are currently no exposures to connected parties which are classified as impaired.

26. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2018 RM'000	2017 RM'000
Less than one year	1,701	1,640
Between one and five years	3,260	-
	<u>4,961</u>	<u>1,640</u>

27. Commitments and contingencies

In the ordinary course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

The commitment and contingencies are as follows:

	Principal amount RM'000	Credit equivalent amount* RM'000	Risk- weighted assets RM'000
2018			
Transaction related contingent items	489,289	244,644	238,904
Short-term self liquidating trade-related contingencies	281,079	56,216	56,216
Foreign exchange related contracts:			
- Less than one year	12,316,700	445,427	259,135
- One year to less than five years	6,377,068	881,539	543,615
- Five years and above	887,498	229,436	97,843
Interest/ profit rate related contracts			
- Less than one year	63,605	800	384
- One year to less than five years	755,794	27,795	17,971
- Five years and above	80,000	4,309	2,154
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	4,949,487	2,474,744	2,423,583
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	728,307	145,661	127,128
Total	26,928,827	4,510,571	3,766,933

27. Commitments and contingencies (continued)

2017	Principal amount RM'000	Credit equivalent amount* RM'000	Risk-weighted assets RM'000
Transaction related contingent items	348,655	174,328	162,846
Short-term self liquidating trade-related contingencies	52,505	10,501	10,501
Foreign exchange related contracts:			
- Less than one year	5,299,673	391,607	234,413
- One year to less than five years	8,571,990	1,314,041	730,722
- Five years and above	984,034	319,343	140,564
Interest/ profit rate related contracts			
- Less than one year	39,998	91	53
- One year to less than five years	583,124	22,556	15,665
- Five years and above	220,792	13,304	9,554
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	3,130,007	1,565,004	1,529,606
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	920,369	184,074	156,427
Total	20,151,147	3,994,849	2,990,351

* The credit equivalent amount is arrived at using the credit conversion factor as per Bank Negara Malaysia Guidelines.

28. Financial instruments

28.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follow:-

- (a) Loans and receivables ("L&R")
- (b) Fair value through profit or loss ("FVTPL")
 - Held for trading ("HFT")
- (c) Available-for-sale financial assets ("AFS")
- (d) Financial liabilities measured at amortised cost ("FL")

28. Financial instruments (continued)

28.1 Categories of financial instruments (continued)

2018	Carrying amount RM'000	L&R/ (FL) RM'000	FVTPL -HFT RM'000	AFS RM'000
<u>Financial Assets</u>				
Cash and short-term funds	3,616,844	3,616,844	-	-
Deposits and placements with banks and other financial institutions	639,783	639,783	-	-
Investment securities available- for-sale	550,770	-	-	550,770
Loans, advances and financing	11,496,753	11,496,753	-	-
Derivative financial assets	554,223	-	554,223	-
Other assets	11,529	11,529	-	-
Statutory deposits with Bank Negara Malaysia	40,700	40,700	-	-
Total financial assets	16,910,602	15,805,609	554,223	550,770
<u>Financial Liabilities</u>				
Deposits from customers	(11,151,646)	(11,151,646)	-	-
Deposits and placements of banks and other financial institutions	(2,327,691)	(2,327,691)	-	-
Bills and acceptances payable	(9,589)	(9,589)	-	-
Derivative financial liabilities	(538,844)	-	(538,844)	-
Other liabilities	(195,257)	(195,257)	-	-
Total financial liabilities	(14,223,027)	(13,684,183)	(538,844)	-

28. Financial instruments (continued)

28.1 Categories of financial instruments (continued)

2017	Carrying amount RM'000	L&R/ (FL) RM'000	FVTPL -HFT RM'000	AFS RM'000
Financial Assets				
Cash and short-term funds	4,704,896	4,704,896	-	-
Deposits and placements with banks and other financial institutions	626,193	626,193	-	-
Investment securities available- for-sale	682,204	-	-	682,204
Loans, advances and financing	10,840,094	10,840,094	-	-
Derivative financial assets	919,869	-	919,869	-
Other assets	17,083	17,083	-	-
Statutory deposits with Bank Negara Malaysia	2,228	2,228	-	-
Total financial assets	17,792,567	16,190,494	919,869	682,204
Financial Liabilities				
Deposits from customers	(11,185,916)	(11,185,916)	-	-
Deposits and placements of banks and other financial institutions	(3,217,924)	(3,217,924)	-	-
Bills and acceptances payable	(1,723)	(1,723)	-	-
Derivative financial liabilities	(828,339)	-	(828,339)	-
Other liabilities	(738,273)	(738,273)	-	-
Total financial liabilities	(15,972,175)	(15,143,836)	(828,339)	-

28. Financial instruments (continued)

28.2 Net gains and losses arising from financial instruments

	2018 RM'000	2017 RM'000
Net gains/ (losses) arising on:		
Fair value through profit or loss:	74,950	49,572
- Held for trading	72,892	39,575
- Held for hedging	2,058	9,997
Available-for-sale financial assets:	(617)	537
- (Amortisation of premium)/Accretion of discount and gain on redemption on debt securities held recognised in profit or loss	160	(674)
- Revaluation on available-for-sale investment securities recognised in other comprehensive income	(777)	1,211
Loans and receivables	385,248	316,773
Financial liabilities measured at amortised cost	(221,853)	(218,927)
	237,728	147,955

29. Financial risk management

The Bank adopts the Basel II policies to establish sound risk management practices with the proper risk management discipline, practices and processes.

Currently, the Bank is in compliance with the regulatory standards under the Basel II Pillar-1. The Bank is also in compliance with the Basel II Pillar-2 that involves self-assessment exercise of the level of capital required to be held and Basel II Pillar-3, which is related to market discipline and disclosure requirements.

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

29. Financial risk management (continued)

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established BRMC, which are responsible for developing the risk management policies and assessing the implementation of risk management by the management of the Bank. The Bank has also established Asset Liability Management/Risk Management Committee (ALM/RMC) as one of the management committees to formulate the policies, procedures and risk limits and conduct periodical monitoring on risk exposure, risk portfolio and risk management activities.

(a) Credit risk

Credit risk is the risk of a financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank's exposure to credit risk arises principally from loans and advances to customers and placements with other banks.

The Bank has established Credit Committee as one of the management committees with following objectives:

- (i) to discuss, formulate, review and implement the credit policies, procedures and manuals; and
- (ii) to review, analyse and approve credit proposals by ensuring effective credit limit control and monitoring.

The Bank has credit policies in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are required to be performed on customers requiring credit.

As at the end of the reporting period, the maximum exposure to credit risk arising from loans, advances, investments and receivables is represented by the carrying amounts in the statement of financial position as shown in Notes 3, 4, 5 and 6 to the financial statements.

The Bank has taken reasonable steps to ensure that loans, advances, investments and receivables that are neither past due nor impaired are stated at their realisable values. A significant portion of these loans, advances, investments and receivables are regular customers or counterparties that have been transacting with the Bank.

The ALM/RMC conducts periodical monitoring on credit exposure trend, asset quality by obligor grading/impaired loans, portfolio concentration analysis and credit related limits control such as single counterparty exposure limit, large loan limit, exposure to connected parties, exposure to broad property sector and exposure for margin financing.

29. Financial risk management (continued)

(a) Credit risk (continued)

(i) Maximum exposure to credit

The following tables present the Bank's maximum exposure to credit risk of its on-balance sheet and off-balance sheet financial instruments at 31 March 2018 and 31 March 2017, before taking into account any collateral held or other credit enhancements. For on-balance sheet financial instruments, the maximum exposure to credit risk is the carrying amount reported on the statement of financial position. For off-balance sheet financial instruments, the maximum exposure to credit risk represented the contractual nominal amount.

	2018	2017
	RM'000	RM'000
<u>On-balance sheet assets</u>		
Cash and short-term funds	3,616,844	4,704,896
Deposits and placements with banks and other financial institutions	639,783	626,193
Investment securities available-for-sale	550,770	682,204
Loans, advances and financing	11,496,753	10,840,094
Derivative financial assets	554,223	919,869
Other assets	11,529	17,083
Statutory deposits with Bank Negara Malaysia	40,700	2,228
	<u>16,910,602</u>	<u>17,792,567</u>
<u>Off-balance sheet assets</u>		
Contingent commitments	489,289	348,655
Undrawn irrevocable standby facilities, credit line and other commitments to lend	5,677,794	4,050,376
	<u>6,167,083</u>	<u>4,399,031</u>
Total maximum exposure to credit risk	<u>23,077,685</u>	<u>22,191,598</u>

29. Financial risk management (continued)

(a) Credit risk (continued)

(ii) Summary analysis of loan, advances and financing

	Loans, advances and financing to customers RM'000	Loans, advances and financing to banks* RM'000
2018		
Carrying amount	<u>11,560,337</u>	<u>4,256,627</u>
Assets at amortised cost		
Neither past due nor impaired:	11,560,337	4,256,627
Collective impairment provision	<u>(63,584)</u>	<u>-</u>
	<u>11,496,753</u>	<u>4,256,627</u>
2017		
Carrying amount	<u>10,916,511</u>	<u>5,331,089</u>
Assets at amortised cost		
Neither past due nor impaired:	10,916,511	5,331,089
Collective impairment provision	<u>(76,417)</u>	<u>-</u>
	<u>10,840,094</u>	<u>5,331,089</u>

The following table presents the gross credit exposures of the Bank analysed by geographical location based on where the credit risk resides:

	Loans, advances and financing to customers RM'000	Loans, advances and financing to banks* RM'000
2018		
Carrying amount	<u>11,560,337</u>	<u>4,256,627</u>
Concentration of credit risk based on geographical location of customers		
Malaysia	9,885,884	4,087,731
Other countries		
- Singapore	-	136,713
- Japan	-	1,065
- Hong Kong	35,332	-
- Jordan	965,540	-
- Germany	275,979	-
- Australia	397,602	-
- Others	-	31,118
	<u>11,560,337</u>	<u>4,256,627</u>

29. Financial risk management (continued)

(a) Credit risk (continued)

(ii) Summary analysis of loan, advances and financing (continued)

	Loans, advances and financing to customers RM'000	Loans, advances and financing to banks* RM'000
2017		
Carrying amount	<u>10,916,511</u>	<u>5,331,089</u>
Concentration of credit risk based on geographical location of customers		
Malaysia	9,240,693	5,153,235
Other countries		
- Singapore	-	133,268
- Japan	-	19,269
- Hong Kong	84,576	-
- Jordan	1,106,240	-
- United States	289,291	-
- Australia	195,711	-
- Others	-	25,317
	<u>10,916,511</u>	<u>5,331,089</u>

* Consists of cash and short-term funds and deposits and placements with banks and other financial institutions.

(iii) Deposit placements maturing within one month and deposits and placements with banks and other financial institutions

All deposits and placements as at the reporting date are neither past due nor impaired. Table below summarises the balances, excluding balances with Bank Negara Malaysia, by external credit rating.

	Fitch RM'000	Moody's RM'000	RAM RM'000	S&P RM'000
2018				
AAA	-	-	-	-
AA- to AA+	-	964	39,041	765
A- to A+	161,209	406,792	-	114,771
BBB	-	100,000	-	728,037
	<u>161,209</u>	<u>507,756</u>	<u>39,041</u>	<u>843,573</u>
2017				
AAA	-	-	271,124	-
AA- to AA+	-	350	-	6,602
A- to A+	155,760	795,998	-	1,135,323
BBB	-	-	-	225,448
	<u>155,760</u>	<u>796,348</u>	<u>271,124</u>	<u>1,367,373</u>

29. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Summary analysis on securities portfolio

The following table summarises the investment securities available-for-sale:

	2018 RM'000	2017 RM'000
Negotiable instruments of deposits	401,292	552,358
Malaysian Government treasury bills	<u>149,478</u>	<u>129,846</u>
	<u>550,770</u>	<u>682,204</u>

(v) Credit quality of gross loans and advances

Gross loans and advances are analysed as follows:-

	2018 RM'000	2017 RM'000
Neither past due nor impaired	11,560,337	10,916,511
Collective impairment provision	<u>(63,584)</u>	<u>(76,417)</u>
	<u>11,496,753</u>	<u>10,840,094</u>

(vi) Loans and advances neither past due nor impaired

Analysis of gross loans and advances based on the Bank's internal grading system is as follows:

Borrower's Grading	2018 RM'000	2017 RM'000
Good	11,319,953	10,059,456
Closely Monitored Accounts	<u>240,384</u>	<u>857,055</u>
	<u>11,560,337</u>	<u>10,916,511</u>

29. Financial risk management (continued)

(b) Liquidity risk

Liquidity risk arises when a bank is not able to refinance its assets upon liabilities due, for any reason, which can be at a macro-level, affecting most or all the market participants, or name specific to the bank.

Liquidity risk is managed through the Bank's Asset Liability Management/Risk Management Committee (ALM/RMC), which meets on a monthly basis. The ALM/RMC is chaired by the CEO who is responsible for both the statutory and prudential liquidity.

The primary tools used to monitor the liquidity risk are the Bank Negara Malaysia's Liquidity Coverage Ratio requirement and the internal liquidity risk management policy set by ALM/RMC and Head Office. Under the LCR requirement, the Bank must ensure that there is sufficient high quality liquid assets (HQLA) to cover potential net cash outflows for the next 30 days. While under the internal policy, among others, the Bank is guided by tight money gap limits for one day, two days, one week and one month periods. Adherence to these limits are monitored on daily basis and reported to the Management, Regional Office and Head Office. As at 31 March 2018, the LCR and money gap limits are as follows:-

BNM			Internal Policy			
Liquidity Coverage Ratio			Money Gap Limits (USD million)			
HQLA (RM mil)	Net Outflows (RM mil)	Ratio	One day	Two days	One week	One month
2,896	1,202	241%	-20	-30	-40	-100

Company No. 926374-U

29. Financial risk management (continued)

(b) Liquidity risk (continued)

Cash flows payable by the Bank (for financial liabilities) based on remaining contractual maturity as at the financial year end, on an undiscounted basis are as follows:

2018	Carrying amount RM'000	Contractual interest rate/ coupon %	Contractual cash flows RM'000	Under 3 months RM'000	3-12 months RM'000	>1 year RM'000
Liabilities						
Deposits from customers	11,151,646	0.0% to 4.25%	11,551,416	5,445,221	1,500,899	4,605,296
Deposits and placements of banks and other financial institutions	2,327,691	0.0% to 2.56%	2,334,458	2,093,929	146,630	93,899
Bills and acceptances payable	9,589	-	9,589	9,589	-	-
Other liabilities	195,257	-	195,257	170,444	17,954	6,859
Total liabilities	13,684,183	-	14,090,720	7,719,183	1,665,483	4,706,054
Derivative financial liabilities, Gross settled						
Outflows	5,696,898	-	11,056,581	1,342,949	5,178,216	4,535,416
Inflows	(5,158,054)	-	(10,410,398)	(1,288,767)	(4,975,481)	(4,146,150)
	538,844	-	646,183	54,182	202,735	389,266
Grand Total	14,223,027	-	14,736,903	7,773,365	1,868,218	5,095,320

Company No. 926374-U

29. Financial risk management (continued)

(b) Liquidity risk (continued)

2017	Carrying amount RM'000	Contractual interest rate/ coupon %	Contractual cash flows RM'000	Under 3 months RM'000	3-12 months RM'000	>1 year RM'000
Liabilities						
Deposits from customers	11,185,916	0.0% to 4.2%	11,391,157	6,244,159	553,530	4,593,468
Deposits and placements of banks and other financial institutions	3,217,924	0.0% to 2.4%	3,230,537	2,897,204	185,030	148,303
Bills and acceptances payable	1,723	-	1,723	1,723	-	-
Other liabilities	738,273	-	738,273	716,583	16,288	5,402
Total liabilities	15,143,836	-	15,361,690	9,859,669	754,848	4,747,173
Derivative financial liabilities, Gross settled						
Outflows	6,448,287	-	8,724,550	1,044,298	1,830,976	5,849,276
Inflows	(5,619,948)	-	(7,627,257)	(1,015,953)	(1,524,478)	(5,086,826)
	828,339	-	1,097,293	28,345	306,498	762,450
Grand Total	15,972,175	-	16,458,983	9,888,014	1,061,346	5,509,623

29. Financial risk management (continued)

(c) Market risk

Market risk is defined as the potential impact on the Bank's operating results resulting from changes in the market prices and rates. The Bank's market risks are categorised as:

- i) Interest rate risk, the impact on the values of the Bank's derivatives and forward foreign exchange contracts arising from the movement of yield curves; and
- ii) Foreign exchange risk, the impact on the values of the Bank's foreign currency exposures arising from the movement of the exchange rates.

ALM/RMC is responsible to oversee the management of market risk for the Bank, which include ensuring compliance to the Bank's Market Risk Management Policy and Trading Book Policy.

The primary tools to control the market risks are the exposure (position) limits and the stop loss limits, implemented on portfolio basis and on individual dealer basis. Adherence to these limits is monitored and reported on daily basis to the Management, Regional Office and Head Office.

Interest rate risk management

Interest rate risk is defined as the potential impact on the Bank's earnings (i.e. the net interest income) and the net assets value resulting from a change in interest rates.

Interest rate risk is managed through the Bank's ALM/RMC, which meets on a monthly basis. The committee is responsible to study the sensitivity of the net interest income against the change in interest rates and subsequently, to determine the Bank's policy on balance sheet management. The committee also monitors the impact of the change in interest rates on the net assets value.

The primary tool used for monitoring the interest rate risk impact on the earnings is the re-pricing gap analysis. In this analysis, the re-price dates of rate sensitive assets are compared against the re-price dates of rate sensitive liabilities. A positive gap position indicates that more assets are available to be re-priced than liabilities; hence, an increase in the interest rates will positively impact the Bank's net interest income.

In addition to monitoring the assets and liabilities gap, the Bank also uses interest rate derivatives (i.e. interest rate swaps) to mitigate the interest rate risk impact on the earnings.

29. Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk management (continued)

The primary tool used to monitor the interest rate risk impact on the net assets value is the basis point value (BPV) analysis and economic value of equity (EVE) analysis. The Bank's BPV positions are monitored on daily basis against the approved BPV limits as set by the Head Office based on recommendation by ALM/RMC, whereas, the EVE is monitored and reported to ALM/RMC on a monthly basis.

Foreign exchange risk management

Foreign exchange risk arises from exchange rate movements, which affects the profit of the Bank from its foreign exchange open positions taken from time to time. This risk is principally managed by setting predetermined limits on open foreign exchange positions and the setting and monitoring of cut-loss mechanisms. The Bank enters into foreign exchange related derivatives, namely spot and forward contracts, as part of its strategies to manage foreign exchange risk.

29. Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk

The tables below summarise the Bank's financial instruments at carrying amounts, categorised by contractual re-pricing or maturity dates, whichever is earlier:

	← Non-trading book →						Trading book RM'000	Total RM'000
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	Non- interest bearing RM'000		
2018								
Assets								
Cash and short-term funds	3,536,783	-	-	-	-	80,061	-	3,616,844
Deposits and placements with banks and other financial institutions	-	639,783	-	-	-	-	-	639,783
Investment securities available-for-sale		431,195	39,471	40,011	40,092	-	-	550,770
Loans, advances and financing	2,305,064	1,294,635	1,122,918	6,190,983	646,737	(63,584) [^]	-	11,496,753
Other assets	3,424	2,605	1,535	-	-	3,965	-	11,529
Derivative financial assets	2,588	13	6	22,948	310	-	528,358	554,223
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	40,700	-	40,700
Total assets	5,847,859	2,368,231	1,163,930	6,253,942	687,137	61,142	528,358	16,910,602

[^] The negative balance represents collective allowance for impairment on loans, advances and financing.

29. Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk (continued)

	Non-trading book						Trading book RM'000	Total RM'000
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	Non- interest bearing RM'000		
2018								
Liabilities								
Deposits from customers	2,153,958	1,261,183	1,474,827	3,684,763	557,188	2,019,727	-	11,151,646
Deposits and placements of banks and other financial institutions	984,774	1,100,936	145,180	93,899	-	2,902	-	2,327,691
Bills and acceptances payable	-	-	9,589	-	-	-	-	9,589
Other liabilities	6,980	6,281	4,138	5,053	236	172,569	-	195,257
Derivative financial liabilities	-	-	8,167	4,109	49,259	-	477,309	538,844
Total liabilities	3,145,712	2,368,400	1,641,901	3,787,824	606,683	2,195,198	477,309	14,223,027
On balance sheet interest rate gap	2,702,147	(169)	(477,969)	2,466,119	80,453	(2,134,056)	51,050	2,687,575
Off balance sheet interest rate gap	-	858,399	(22,605)	(755,794)	(80,000)	-	-	-
Total interest rate gap	2,702,147	858,230	(500,574)	1,710,325	453	(2,134,056)	51,050	2,687,575

29. Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk

The tables below summarise the Bank's financial instruments at carrying amounts, categorised by contractual re-pricing or maturity dates:

	Non-trading book						Trading book RM'000	Total RM'000
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	Non- interest bearing RM'000		
2017								
Assets								
Cash and short-term funds	4,633,255	-	-	-	-	71,641	-	4,704,896
Deposits and placements with banks and other financial institutions	-	526,193	100,000	-	-	-	-	626,193
Investment securities available-for-sale	150,494	351,745	179,965	-	-	-	-	682,204
Loans, advances and financing	2,297,914	784,041	830,670	5,167,744	1,836,142	(76,417) ^	-	10,840,094
Other assets	3,896	1,535	4,924	-	-	6,728	-	17,083
Derivative financial assets	-	-	221	49,073	-	-	870,575	919,869
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	2,228	-	2,228
Total assets	7,085,559	1,663,514	1,115,780	5,216,817	1,836,142	4,180	870,575	17,792,567

^ The negative balance represents collective allowance for impairment on loans, advances and financing.

29. Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk (continued)

	Non-trading book						Trading book RM'000	Total RM'000
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	Non- interest bearing RM'000		
2017								
Liabilities								
Deposits from customers	3,781,458	848,224	547,085	2,984,411	1,419,426	1,605,312	-	11,185,916
Deposits and placements of banks and other financial institutions	1,829,674	1,189,917	55,955	29,425	110,396	2,557	-	3,217,924
Bills and acceptances payable	-	-	1,723	-	-	-	-	1,723
Other liabilities	8,172	4,682	6,819	3,797	413	714,390	-	738,273
Derivative financial liabilities		1	11	791	3,479	-	824,057	828,339
Total liabilities	<u>5,619,304</u>	<u>2,042,824</u>	<u>611,593</u>	<u>3,018,424</u>	<u>1,533,714</u>	<u>2,322,259</u>	<u>824,057</u>	<u>15,972,175</u>
On balance sheet interest rate gap	1,466,255	(379,310)	504,187	2,198,393	302,428	(2,318,079)	46,518	1,820,392
Off balance sheet interest rate gap	-	842,914	(38,998)	(583,124)	(220,792)	-	-	-
Total interest rate gap	<u>1,466,255</u>	<u>463,604</u>	<u>465,189</u>	<u>1,615,269</u>	<u>81,636</u>	<u>(2,318,079)</u>	<u>46,518</u>	<u>1,820,392</u>

29. Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk (continued)

The table below details the disclosure for interest rate risk in the Banking Book, the increase or decline in earnings and equity for upward and downward rate shocks which are consistent with shocks applied in stress test for measuring interest rate risk, broken down by various currencies, where relevant:-

Type of Currency	Impact on Positions as at Reporting Date (100 basis points) Hike Increase/ (Decline) in profit before taxation 2018 RM'000		Impact on Positions as at Reporting Date (100 basis points) Hike Increase/ (Decline) in profit before taxation 2017 RM'000	
	Increase/ (Decline) in profit before taxation 2018 RM'000	Increase/ (Decline) in equity 2018 RM'000	Increase/ (Decline) in profit before taxation 2017 RM'000	Increase/ (Decline) in equity 2017 RM'000
JPY	(1,434)	(1,090)	(163)	(124)
USD	(742)	(564)	1,416	1,076
MYR	299	227	(3,349)	(2,545)

The tables below summarises the effective average interest rates by major currencies for each class of financial asset and financial liability:

	2018		2017	
	MYR %	USD %	MYR %	USD %
<u>Financial assets</u>				
Cash and short-term funds	3.26	1.91	3.05	1.19
Deposits and placements with banks and other financial institutions	3.40	3.40	3.41	1.53
Loans, advances and financing	4.47	2.94	4.26	2.02
<u>Financial liabilities</u>				
Deposits from customers	3.70	2.04	3.46	1.06
Deposits and placements of banks and other financial institutions	-	2.03	-	1.10

29. Financial risk management (continued)

(c) Market risk (continued)

Currency risk

The table below summarises the Bank's foreign exchange position for its financial instruments outstanding by major currencies. "Others" include Singapore Dollar, Hong Kong Dollar, Thailand Baht, Australian Dollar, Euro, Great Britain Pound, Indonesia Rupiah and Chinese Yuan.

2018	MYR RM'000	USD RM'000	JPY RM'000	Others RM'000	Total RM'000
<u>Financial Assets</u>					
Cash and short-term funds	2,834,999	479,356	9,900	292,589	3,616,844
Deposits and placements with banks and other financial institutions	300,000	339,783	-	-	639,783
Investment securities available-for-sale	550,770	-	-	-	550,770
Loans, advances and financing	3,656,327	6,425,033	744,962	670,431	11,496,753
Derivative financial assets	177,602	352,102	21,946	2,573	554,223
Other assets	5,709	4,411	824	585	11,529
Statutory deposits with Bank Negara Malaysia	40,700	-	-	-	40,700
Total Financial Assets	7,566,107	7,600,685	777,632	966,178	16,910,602

29. Financial risk management (continued)

(c) Market risk (continued)

Currency risk (continued)

2018	MYR RM'000	USD RM'000	JPY RM'000	Others RM'000	Total RM'000
<u>Financial Liabilities</u>					
Deposits from customers	4,706,706	5,214,962	469,731	760,247	11,151,646
Deposits and placements of banks and other financial institutions	2,546	1,828,361	294,479	202,305	2,327,691
Bills and acceptances payable	9,589	-	-	-	9,589
Derivative financial liabilities	290,636	210,942	1,756	35,510	538,844
Other liabilities	183,615	11,441	38	163	195,257
Total Financial Liabilities	5,193,092	7,265,706	766,004	998,225	14,223,027
Total foreign currency sensitivity gap	2,373,015	334,979	11,628	(32,047)	2,687,575

Stress test has been performed on foreign currency trading positions to assess impact of a 10% weakening in Ringgit Malaysia exchange rates, adjusted to incorporate impact of correlation between different currencies. The impact has been assessed to be a decrease of RM31,456,000 in profit before tax and RM23,907,000 in equity. This analysis assumes that all variables, in particular interest rates, remained constant.

29. Financial risk management (continued)

(c) Market risk (continued)

Currency risk

The table below summarises the Bank's foreign exchange position for its financial instruments outstanding by major currencies. "Others" include Singapore Dollar, Hong Kong Dollar, Thailand Baht, Australian Dollar, Euro, Great Britain Pound, Indonesia Rupiah and Chinese Yuan.

2017	MYR RM'000	USD RM'000	JPY RM'000	Others RM'000	Total RM'000
<u>Financial Assets</u>					
Cash and short-term funds	3,170,437	1,459,256	19,269	55,934	4,704,896
Deposits and placements with banks and other financial institutions	520,000	106,193	-	-	626,193
Investment securities available-for-sale	682,204	-	-	-	682,204
Loans, advances and financing	2,678,903	7,453,460	182,908	524,823	10,840,094
Derivative financial assets	774,188	108,056	1,986	35,639	919,869
Other assets	14,464	2,568	-	51	17,083
Statutory deposits with Bank Negara Malaysia	2,228	-	-	-	2,228
Total Financial Assets	<u>7,842,424</u>	<u>9,129,533</u>	<u>204,163</u>	<u>616,447</u>	<u>17,792,567</u>

29. Financial risk management (continued)

(c) Market risk (continued)

Currency risk (continued)

2017	MYR RM'000	USD RM'000	JPY RM'000	Others RM'000	Total RM'000
<u>Financial Liabilities</u>					
Deposits from customers	4,267,167	6,338,528	199,608	380,613	11,185,916
Deposits and placements of banks and other financial institutions	2,553	3,018,063	-	197,308	3,217,924
Bills and acceptances payable	1,723	-	-	-	1,723
Derivative financial liabilities	8,221	813,113	3,072	3,933	828,339
Other liabilities	716,105	22,134	-	34	738,273
Total Financial Liabilities	4,995,769	10,191,838	202,680	581,888	15,972,175
Total foreign currency sensitivity gap	2,846,655	(1,062,305)	1,483	34,559	1,820,392

Stress test has been performed on foreign currency trading positions to assess impact of a 10% weakening in Ringgit Malaysia exchange rates, adjusted to incorporate impact of correlation between different currencies. The impact has been assessed to be a decrease of RM102,626,000 in profit before tax and RM77,996,000 in equity. This analysis assumes that all variables, in particular interest rates, remained constant.

29. Financial risk management (continued)

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human behaviour and systems, or from external events. Operational risk is inherent in each of the Bank's business activities. These include breakdowns, error, business interruption and inappropriate behaviour of employees, and can potentially result in financial losses and other damage to the Bank.

Operational risks are managed and controlled within the individual business lines. The ALM/RMC monitors the predetermined items to assess the trend of operational risks.

The Calculation of Value Equivalent to Operational Risk-weighted Asset

The Bank currently uses Basic Indicator Approach (BIA) to calculate its value equivalent to operational risk-weighted assets as at 31 March 2018.

Recognised financial instruments

The estimated fair values of the financial assets and financial liabilities carried on the statement of financial position as at 31 March (excluding those short term/on demand financial assets and financial liabilities where the carrying amounts are deemed reasonable approximation of their fair values) are as follows:

	Carrying amount		Fair value	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
<u>Financial Assets</u>				
Investment securities available-for-sale	550,770	682,204	550,770	682,204
Loans, advances and financing*	11,560,337	10,916,511	10,862,696	10,371,432
Derivative financial assets	554,223	919,869	554,223	919,869
Total financial assets	12,665,330	12,518,584	11,967,689	11,973,505
<u>Financial Liabilities</u>				
Derivative financial liabilities	538,844	828,339	538,844	828,339
Total financial liabilities	538,844	828,339	538,844	828,339

* The collective impairment provision of the Bank is not included in the carrying amount.

30. Fair value measurements (continued)

Methods and assumptions

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

(a) Financial investment available-for-sale

The estimated fair value is based on quoted or observable market prices at the statements of financial position date. Where such quoted or observable market prices are not available, the fair value is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, the estimated future cash flows are discounted using the prevailing market rates for similar instruments at the reporting date.

(b) Loans, advances and financing

The fair values of fixed rate loans with remaining maturity of less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate loans with maturity of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at prevailing rates at the reporting date offered for similar loans.

(c) Derivative financial instruments

Fair values of derivative instruments are normally zero or negligible at inception and the subsequent change in value is financial assets (favourable) or financial liabilities (unfavourable) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The fair values of the Bank's derivative instruments are estimated by reference to observable market prices. Internal models are used where no market price is available.

30. Fair value measurements (continued)

Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

	Level 1	Level 2	Level 3
Fair value determined using	Unadjusted quoted prices in an active market for identical assets and liabilities	Valuation models with directly or indirectly market observable inputs	Valuation models using significant non-market observable inputs
Type of financial assets	Actively traded corporate, government and government agency securities	Corporate and other government bonds and loans	Unquoted equity investments
	Actively traded derivatives	Over-the-counter ("OTC") derivatives	Corporate bonds in non-liquid market
			Loans, advances and financing
Type of financial liabilities	-	OTC derivatives	-

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30. Fair value measurements (continued)

Fair value hierarchy (continued)

2018	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
Assets	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Investment securities available-for-sale	-	550,770	-	550,770	-	-	-	-	550,770	550,770
Loans, advances and financing	-	-	-	-	-	-	10,862,696	10,862,696	10,862,696	11,560,337
Derivative financial assets	-	554,223	-	554,223	-	-	-	-	554,223	554,223
As 31 March 2018	-	1,104,993	-	1,104,993	-	-	10,862,696	10,862,696	11,967,689	12,665,330
Liabilities										
Derivative financial liabilities	-	538,844	-	538,844	-	-	-	-	538,844	538,844
As 31 March 2018	-	538,844	-	538,844	-	-	-	-	538,844	538,844

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30. Fair value measurements (continued)

Fair value hierarchy (continued)

2017	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
Assets										
Investment securities available-for-sale	-	682,204	-	682,204	-	-	-	-	682,204	682,204
Loans, advances and financing	-	-	-	-	-	-	10,371,432	10,371,432	10,371,432	10,916,511
Derivative financial assets	-	919,869	-	919,869	-	-	-	-	919,869	919,869
As 31 March 2017	-	1,602,073	-	1,602,073	-	-	10,371,432	10,371,432	11,973,505	12,518,584
Liabilities										
Derivative financial liabilities	-	828,339	-	828,339	-	-	-	-	828,339	828,339
As 31 March 2017	-	828,339	-	828,339	-	-	-	-	828,339	828,339

30. Fair value measurements (continued)

Derivative financial instruments

	Principal amounts RM'000	Positive fair value RM'000	Negative fair value RM'000
2018			
Derivatives designated as fair value hedges:			
- Interest rate swaps	366,876	2,520	68
- Currency swaps	611,930	23,345	61,467
	<u>978,806</u>	<u>25,865</u>	<u>61,535</u>
Held for trading			
- Forward exchange contracts	8,716,397	84,181	77,047
- Currency swaps	10,252,939	437,495	396,703
- Interest rate swaps	532,523	6,682	3,559
	<u>19,501,859</u>	<u>528,358</u>	<u>477,309</u>
	<u>20,480,665</u>	<u>554,223</u>	<u>538,844</u>
2017			
Derivatives designated as fair value hedges:			
- Interest rate swaps	219,083	1,218	204
- Currency swaps	593,860	48,076	4,078
	<u>812,943</u>	<u>49,294</u>	<u>4,282</u>
Held for trading			
- Forward exchange contracts	3,483,935	98,295	103,853
- Currency swaps	10,777,902	766,822	717,394
- Interest rate swaps	624,831	5,458	2,810
	<u>14,886,668</u>	<u>870,575</u>	<u>824,057</u>
	<u>15,699,611</u>	<u>919,869</u>	<u>828,339</u>

30. Fair value measurements (continued)

Derivative financial instruments (continued)

Derivative financial instruments by sector:

	Principal amounts RM'000	Positive fair value RM'000	Negative fair value RM'000
2018			
Primary agriculture	386,117	34,235	-
Manufacturing	1,450,503	40,430	38,254
Electricity	-		
Construction	511,734	9,513	68,006
Wholesale and retail trade, and restaurants and hotels	277,841	2,566	4,308
Transport, storage and communication	-	-	-
Finance, insurance, and business services	17,725,769	461,362	425,459
Real estate	128,701	6,117	2,817
Education, health and others	-	-	-
	<u>20,480,665</u>	<u>554,223</u>	<u>538,844</u>
2017			
Primary agriculture	479,367	164	38,831
Manufacturing	1,596,022	7,859	101,262
Electricity	6,370	-	1,890
Construction	915,237	81,944	116,397
Wholesale and retail trade, and restaurants and hotels	259,606	1,651	28,412
Transport, storage and communication	-	-	-
Finance, insurance, and business services	12,281,108	828,251	507,407
Real estate	161,901	-	34,140
Education, health and others	-	-	-
	<u>15,699,611</u>	<u>919,869</u>	<u>828,339</u>

31. Offsetting of financial assets and financial liabilities

The Bank enters into derivative transactions under International Swaps and Derivatives Association (“ISDA”) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to other. In certain circumstances – e.g. when a credit event such as a default occurs, all outstanding agreements are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Bank currently does not have any legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as default on the bank’s commitments or other credit events.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

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31. Offsetting of financial assets and financial liabilities (continued)

			Amount Not Set-off in the Statement of Financial Position					
			Gross Amount Recognised as Financial Assets/ Liabilities RM'000	Gross Amount Offset in the Statement of Financial Position RM'000	Amount Presented in the Statement of Financial Position RM'000	Values of the Financial Instruments RM'000	Cash Collateral Received/ Pledged RM'000	Net Amount RM'000
At 31 March 2018								
Financial assets								
Derivatives financial assets								
-	Foreign exchange related	contracts	545,021	-	545,021	(154,142)	(115,306)	275,573
-	Interest rate related contracts		9,202	-	9,202	(39)	(6,823)	2,340
			554,223	-	554,223	(154,181)	(122,129)	277,913
Financial liabilities								
Derivatives financial liabilities								
-	Foreign exchange related	contracts	535,217	-	535,217	(154,142)	(180,975)	200,100
-	Interest rate related contracts		3,627	-	3,627	(39)	(1,379)	2,209
			538,844	-	538,844	(154,181)	(182,354)	202,309

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31. Offsetting of financial assets and financial liabilities (continued)

			Amount Not Set-off in the Statement of Financial Position					
			Gross Amount Recognised as Financial Assets/ Liabilities RM'000	Gross Amount Offset in the Financial Position RM'000	Amount Presented in the Statement of Financial Position RM'000	Values of the Financial Instruments RM'000	Cash Collateral Received/ Pledged RM'000	Net Amount RM'000
2017								
Financial assets								
Derivatives financial assets								
-	Foreign exchange related contracts		913,191	-	913,191	(114,078)	(660,880)	138,233
-	Interest rate related contracts		6,678	-	6,678	(296)	(3,162)	3,220
			<u>919,869</u>	<u>-</u>	<u>919,869</u>	<u>(114,374)</u>	<u>(664,042)</u>	<u>141,453</u>
Financial liabilities								
Derivatives financial liabilities								
-	Foreign exchange related contracts		825,324	-	825,324	(114,078)	-	711,246
-	Interest rate related contracts		3,015	-	3,015	(296)	(1,770)	949
			<u>828,339</u>	<u>-</u>	<u>828,339</u>	<u>(114,374)</u>	<u>(1,770)</u>	<u>712,195</u>

32. Capital adequacy

The capital adequacy ratios of the Bank are analysed as follows:

	2018 RM'000	2017 RM'000
<u>Tier-1 capital</u>		
Paid-up ordinary share capital	2,452,605	1,575,000
Retained earnings	328,632	67,150
Statutory reserve	-	126,963
Available-for-sale reserve	366	716
	<u>2,781,603</u>	<u>1,769,829</u>
Less: Deferred tax assets	-	-
Common Equity Tier 1 (CET 1) and Tier-1 Capital	<u>2,781,603</u>	<u>1,769,829</u>
<u>Tier-2 capital</u>		
Collective allowance for impairment	63,584	76,417
Regulatory reserve	75,142	55,349
Tier-2 Capital	<u>138,726</u>	<u>131,766</u>
Total capital base	<u>2,920,329</u>	<u>1,901,595</u>
<u>Capital ratios</u>		
CET 1 and Tier 1 Capital Ratio	22.498%	15.293%
Total Capital Ratio	23.620%	16.432%

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

	2018 RM'000	2017 RM'000
Credit risk	11,634,674	11,040,792
Market risk	296,185	210,958
Operational risk	432,769	321,004
Total risk-weighted assets	<u>12,363,628</u>	<u>11,572,754</u>

32. Capital adequacy (continued)

The capital adequacy ratios of the Bank are analysed as follows:

- (a) The breakdown of risk-weighted assets by exposures in each major risk category is as follows:

2018	Gross exposures RM'000	Net exposures RM'000	Risk-weighted assets RM'000	Capital requirements RM'000
(i) Credit risk				
On-balance sheet exposures:				
Sovereigns/ central banks	2,897,204	2,897,204	-	-
Banks, development financial institutions and MDBs	2,349,448	2,349,448	548,658	43,893
Corporates	11,351,443	11,351,443	6,745,216	539,617
Other assets	574,257	574,257	573,867	45,909
Total on-balance sheet exposures	17,172,352	17,172,352	7,867,741	629,419
Off-balance sheet exposures:				
Credit-related exposures	4,510,570	4,510,570	3,766,933	301,355
Total off-balance sheet exposures	4,510,570	4,510,570	3,766,933	301,355
Total on and off-balance sheet exposures	21,682,922	21,682,922	11,634,674	930,774
(ii) Large exposure risk requirement				
	-	-	-	-
(iii) Market risk				
	Long position RM'000	Short position RM'000		
Interest rate risk	19,295,245	19,245,606	49,639	278,934
Foreign exchange risk	17,251	(66)	17,317	17,251
	19,312,496	19,245,540	66,956	296,185
(iv) Operational risk			432,769	34,622
Total risk-weighted assets and capital requirements			12,363,628	989,091

32. Capital adequacy (continued)

2017					
Exposure class	Gross exposures RM'000	Net exposures RM'000	Risk-weighted assets RM'000	Capital requirements RM'000	
(i) Credit risk					
On-balance sheet exposures:					
Sovereigns/ central banks	2,874,325	2,874,325	-	-	
Banks, development financial institutions and MDBs	3,476,921	3,476,921	725,974	58,078	
Corporates	10,592,481	10,592,481	6,383,185	510,655	
Other assets	941,713	941,713	941,282	75,303	
Total on-balance sheet exposures	17,885,440	17,885,440	8,050,441	644,036	
Off-balance sheet exposures:					
Credit-related exposures	3,994,849	3,994,849	2,990,351	239,228	
Total off-balance sheet exposures	3,994,849	3,994,849	2,990,351	239,228	
Total on and off-balance sheet exposures	21,880,289	21,880,289	11,040,792	883,264	
(ii) Large exposure risk requirement					
	-	-	-	-	
(iii) Market risk					
	Long position RM'000	Short position RM'000			
Interest rate risk	14,955,352	14,909,201	46,151	194,399	15,552
Foreign exchange risk	16,559	(82)	16,641	16,559	1,325
	14,971,911	14,909,119	62,792	210,958	16,877
(iv) Operational risk					
			321,004	25,680	
Total risk-weighted assets and capital requirements			11,572,754	925,821	

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32. Capital adequacy (continued)

(b) The following table presents the breakdown of credit exposures by risk weights of the Bank:-

2018 Risk Weights	← Exposure after Netting and Credit Risk Mitigation →				Total Exposure after Netting & Credit Risk Mitigation RM'000	Total Risk- Weighted Assets RM'000
	Sovereigns/ Central Banks RM'000	Banks, Development Financial Institutions and MDBs RM'000	Corporates RM'000	Other Assets RM'000		
0%	2,897,204	-	4,603,429	391	7,501,024	-
20%	-	2,223,346	320,615	-	2,543,961	508,792
50%	-	983,569	40,542	-	1,024,111	512,056
100%	-	-	10,039,960	573,866	10,613,826	10,613,826
Total	2,897,204	3,206,915	15,004,546	574,257	21,682,922	11,634,674
Risk-weighted assets by exposure	-	936,454	10,124,354	573,866	11,634,674	
Average risk weight	0.0%	29.2%	67.5%	99.9%	53.7%	
Deduction from capital base	-	-	-	-	-	

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32. Capital adequacy (continued)

(b) The following table presents the breakdown of credit exposures by risk weights of the Bank:-

2017 Risk Weights	Exposure after Netting and Credit Risk Mitigation				Total Exposure after Netting & Credit Risk Mitigation RM'000	Total Risk- Weighted Assets RM'000
	Sovereigns/ Central Banks RM'000	Banks, Development Financial Institutions and MDBs RM'000	Corporates RM'000	Other Assets RM'000		
0%	2,874,325	-	4,207,235	429	7,081,989	-
20%	-	3,601,015	283,387	-	3,884,402	776,880
50%	-	1,298,206	1,770	-	1,299,976	649,989
100%	-	-	8,672,638	941,284	9,613,922	9,613,923
Total	2,874,325	4,899,221	13,165,030	941,713	21,880,289	11,040,792
Risk-weighted assets by exposure	-	1,369,305	8,730,203	941,284	11,040,792	
Average risk weight	0.0%	27.9%	66.3%	100.0%	50.5%	
Deduction from capital base	-	-	-	-	-	

33. Capital management

The objective of the Bank's capital management policy is to maintain an adequate level of capital to support business growth strategies under an acceptable risk framework, and to meet its regulatory minimum requirement. The Bank's capital management process includes analysis of the risk appetite and the capital requirement for the business growth and periodical monitoring of capital adequacy ratios.

The Bank's capital requirements and capital adequacy ratios, in accordance with Bank Negara Malaysia's Risk-Weighted Capital Adequacy Framework ('RWCAF'): Standardised Approach for Credit Risk and Market Risk and Basic Indicator Approach for Operational Risk (Basel II) are disclosed in Note 32.

Sumitomo Mitsui Banking Corporation Malaysia Berhad

(Company No. 926374-U)

(Incorporated in Malaysia)

**Statement by Directors pursuant to
Section 251(2) of the Companies Act 2016**

In the opinion of the Directors, the financial statements set out on pages 33 to 117 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 March 2018 and of its financial performance and cash flows for the financial year then ended.

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

.....
Chin Kok Sang
Director

.....
Yoshimi Gunji
Director

Kuala Lumpur

Date: 17 August 2018

Sumitomo Mitsui Banking Corporation Malaysia Berhad

(Company No. 926374-U)

(Incorporated in Malaysia)

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

I, Yoshimi Gunji, the officer primarily responsible for the financial management of Sumitomo Mitsui Banking Corporation Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 33 to 117 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named Yoshimi Gunji, passport number: TZ1279887, at Kuala Lumpur in the Federal Territory on 17 August 2018.

.....
Yoshimi Gunji

Before me:

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SUMITOMO MITSUI BANKING CORPORATION MALAYSIA BERHAD

(Company No. 926374-U)

(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sumitomo Mitsui Banking Corporation Malaysia Berhad ("Bank"), which comprise the statement of financial position as at 31 March 2018, and the statement of profit or loss and other 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 and other explanatory information, as set out on pages 33 to 117.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 March 2018, 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 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 auditors' 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 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.

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 information included in the Directors' Report and the Shariah Committee's Report, but does not include the financial statements of the Bank and our auditors' report thereon.

Company No. 926374-U

Sumitomo Mitsui Banking Corporation Malaysia Berhad
*Independent Auditors' Report for the
Financial Year Ended 31 March 2018*

Information Other than the Financial Statements and Auditors' Report Thereon (continued)

Our opinion on the financial statements of the Bank does not cover the Directors' Report and the Shariah Committee's Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Bank, our responsibility is to read the Directors' Report and the Shariah Committee's Report and, in doing so, consider whether the Directors' Report and the Shariah Committee's Report are materially inconsistent with the financial statements 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 the Directors' Report and the Shariah Committee's Report, 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 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 Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Bank, the Directors are responsible for assessing the ability of the Bank 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 Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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.

Company No. 926374-U

Sumitomo Mitsui Banking Corporation Malaysia Berhad
*Independent Auditors' Report for the
Financial Year Ended 31 March 2018*

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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 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 internal control of the Bank.
- 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 ability of the Bank 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 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Bank, including the disclosures, and whether the financial statements of the Bank represent the underlying transactions and events in a manner that gives a true and fair view.

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.

Company No. 926374-U

Sumitomo Mitsui Banking Corporation Malaysia Berhad
*Independent Auditors' Report for the
Financial Year Ended 31 March 2018*

Other Matter

This report is made solely to the members 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.

KPMG PLT
LLP0010081-LCA & AF 0758
Chartered Accountants

Chin Shoon Chong
Approval Number: 02823/04/2019 J
Chartered Accountant

Petaling Jaya

Date: 17 August 2018