

**Sumitomo Mitsui Banking Corporation Malaysia
Berhad**

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

**Financial Statements for the Financial Year Ended
31 March 2013**

Sumitomo Mitsui Banking Corporation Malaysia Berhad

(Company No. 926374-U)

(Incorporated in Malaysia)

Directors' Report for the Financial Year Ended 31 March 2013

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 2013.

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.

Results

| | RM'000 |
|------------------------|---------------|
| Profit before taxation | 43,385 |
| Tax expense | (11,214) |
| Profit after taxation | <u>32,171</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 there are no bad debts to be 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.

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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 which would render adherence to the existing method of valuation of assets or liabilities of the Bank 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 that 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.

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 their obligations as and when they fall due.

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 2013 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.

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Directors

Directors who served since the date of the last report are:

Masayuki Shimura
 Lim Choon Eng
 Razman Hafidz bin Abu Zarim
 Hiroshi Irie
 Yasuhiro Oashi (appointed on 6 June 2013)
 Hitoshi Suyama (resigned on 6 June 2013)

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 31.3.2013 |
|---------------------------------|----------------------------|--------|------|-----------------|
| | At 1.4.2012 | Bought | Sold | |
| Ultimate holding company | | | | |
| Sumitomo Mitsui Financial Group | | | | |
| - Hitoshi Suyama | 1,302 | 214 | - | 1,516 |

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

None of the other Directors holding office at the end of the financial year had any interest in the ordinary 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 or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments 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.

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Compliance with Bank Negara Malaysia's Expectation on Financial Reporting

In the preparation of the financial statements, the Directors have taken reasonable steps to ensure that the Bank Negara Malaysia's expectation on financial reporting have been complied with, including those as set out in the Guidelines in Financial Reporting from Financial Institutions and Guidelines in classification and impairment provision for loan/financing.

Bank Ratings

The Bank has not been rated by any external agencies.

Issue of Shares and Debentures

During the financial year, the Bank issued 350,000,000 new ordinary shares of RM 1 each at par for cash to finance the Bank's working capital purposes.

There were no other changes in the authorised, issued and paid-up capital of the Bank during the financial year. 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.

Holding Companies

The Directors regard Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Financial Group as immediate and ultimate holding companies. Both companies are incorporated in Japan.

Business Results for the Financial Year Ended 31 March 2013

The Bank recorded a profit before taxation of RM43.4 million for the financial year ended 31 March 2013. Net interest income for the year was RM33.5 million, generated mainly from interest income from interbank lending of RM31.5 million, and interest income from loans and advances of RM23.6 million, net of interest expense incurred on deposits from customers of RM20.6 million.

Other operating income of RM59.1 million is attributed mainly from foreign exchange gains and mark to market gain on revaluation of derivatives. Personnel costs, information systems and equipment cost together with operations and systems outsourcing expense make up the bulk of other operating expenses of RM43.7 million.

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Business Results for the Financial Year Ended 31 March 2013 (continued)

The Bank's total assets stood at RM2,588.6 million as at 31 March 2013, comprised mainly of interbank lending and loans disbursed to customers, derived from its increased paid-up capital and increase in deposits from customers and interbank borrowing.

As at 31 March 2013, the Bank's core capital ratio and risk-weighted capital ratio stood high at 42.93% and 43.41% respectively.

Outlook for the Financial Year Ending 31 March 2014

Malaysia's GDP is expected to grow steadily at 5%-6% in year 2013 supported by moderate domestic demand and favorable economic outlook in the region. The Bank foresees that the growth of Malaysian banking industry to also remain stable for coming few years. For the financial year ending 31 March 2014, the Bank will continue to offer basic commercial banking services such as loan, deposit, foreign exchange, derivatives and cash management service to both Japanese and Non-Japanese clients. In order to grow sustainably, the Bank needs to strengthen its base income by capturing the flow of business of the clients. The Bank continues to make efforts to support the trade and investment between Japan and Malaysia which will contribute to further growth of Malaysian economy.

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Corporate Governance

The Board of Directors

The Board of Directors seeks to uphold the highest standards of corporate governance by setting in place the strategy and direction of the Bank, the formulation of policies and the establishment of Board Committees. The Policies of the Bank will continually be reviewed and enhanced annually or as and when the need arises. The Policies are formulated to take into consideration the principles and standards set by Bank Negara Malaysia in its Guidelines on Corporate Governance for Licensed Financial Institutions (Revised BNM/GP1).

The Board of Directors consists of 5 members, with one Executive Director/CEO, two Non-Independent Non-Executive Directors and two Independent Non-Executive Directors including the Chairman.

The Non-Independent Non-Executive Directors are Mr Masayuki Shimura and Mr Hiroshi Irie. The Independent Directors are Mr Razman Hafidz bin Abu Zarim who is also the Chairman of the Board and Mr Lim Choon Eng.

Mr Hitoshi Suyama, aged 51, was appointed as a Director and CEO of the Bank on 16 March 2011. He holds a Bachelor of Arts from Jochi (Sophia) University in Japan. He resigned on 6 June 2013.

Mr Yasuhiro Oashi, aged 49, was appointed as a Director and CEO of the Bank on 6 June 2013. He holds a Bachelor of Law from Kyoto University in Japan.

Mr Masayuki Shimura, aged 54, was appointed as a Director and Chairman of the Bank on 16 March 2011. He resigned as Chairman of the Bank on 20 March 2012. He graduated from the Faculty of Economics from the University of Tokyo, Japan.

Mr Hiroshi Irie, aged 48, was appointed a Director on 19 September 2011. He holds a Bachelor of Economics from Kyushu University in Japan.

Mr Razman Hafidz bin Abu Zarim, aged 57, was appointed as a Director on 16 March 2011 and as the Chairman of the Bank on 20 March 2012. He is also the Chairman of the Audit Committee and Nominating Committee. He graduated with a Joint Honours degree in Economics and Accounting from University College Cardiff, University of Wales in United Kingdom.

Mr Lim Choon Eng, aged 54, was appointed as a Director on 16 March 2011. He holds a Master of Applied Finance from Macquarie University in Sydney, Australia. He also holds a Bachelor of Economics from Sydney University in Australia. He is the Chairman of the Risk Management Committee and Remuneration Committee.

The members of the Board are professionals in their own right and they possess the skills, knowledge, experiences and expertise in the private sector and the banking industry. They are persons of high calibre and they fulfill the “fit and proper” standards for appointment of directors as established by the Board in accordance with the Banking and Financial Institutions Act, 1989 (BAFIA) and the Revised BNM/GP1.

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Corporate Governance (continued)

The Board of Directors (continued)

The role of the Chairman and CEO are independent of each other with clearly defined roles, responsibilities, authority and accountability. The Independent Directors are independent of management and free from any business or other relationships which could interfere with the exercise of independent judgement.

Roles and responsibilities of the Board

The Board reviews and approves strategies, business plans and significant policies and monitor 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. The Bank establishes comprehensive risk management policies, processes and infrastructure, to manage the various types of risks. The Board monitors and assesses current developments in the country which may affect the Bank's 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 Board approves corporate strategy, business plans, annual budget and policies.

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 not less than six times a year 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.

A total of six meetings were held during the financial year ended 31 March 2013 as reflected below:-

| Name of Director | Number of Meetings | |
|--|--------------------|----------|
| | Held | Attended |
| Razman Hafidz bin Abu Zarim - Chairman | 6 | 6 |
| Masayuki Shimura | 6 | 6 |
| Hiroshi Irie | 6 | 6 |
| Lim Choon Eng | 6 | 6 |
| Hitoshi Suyama (resigned on 6 June 2013) | 6 | 6 |

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Corporate Governance (continued)

Board Committees

The Board established specialized 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 and up-to-date.

Nominating Committee (NC)

The Chairman of the NC is Mr Razman Hafidz bin Abu Zarim and the members of the NC are Mr Lim Choon Eng, Mr Masayuki Shimura, Mr Hitoshi Suyama and Mr Hiroshi Irie.

The NC held one meeting during the financial year.

The details of attendance of each member at the NC Meetings held during the financial year ended 31 March 2013 are as follows:-

| Name of Director | Number of Meetings | |
|--|--------------------|----------|
| | Held | Attended |
| Razman Hafidz bin Abu Zarim - Chairman | 1 | 1 |
| Masayuki Shimura | 1 | 1 |
| Hiroshi Irie | 1 | 1 |
| Lim Choon Eng | 1 | 1 |
| Hitoshi Suyama (resigned on 6 June 2013) | 1 | 1 |

The objective of the NC is to provide a formal and transparent procedure for the appointment of directors and CEO as well as assessment of effectiveness of individual directors, Board as a whole and performance of CEO and key senior management officers.

The NC is responsible, amongst others, for:

1. Establishing minimum requirements for the Board that is, required mix of skills, experience, qualification and other core competencies required of a director;
2. Recommending and assessing the nominees for directorship, board committee members as well as nominees for the CEO. This includes assessing directors for reappointment, before an application for approval is submitted to Bank Negara Malaysia; and
3. Overseeing the overall composition of the board, in terms of the appropriate size and skills, and the balance between executive directors, non-executive directors and independent directors through annual review.

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Corporate Governance (continued)

Board Committees (continued)

Remuneration Committee (RC)

The Chairman of the RC is Mr Lim Choon Eng and the members of the RC are Mr Razman Hafidz bin Abu Zarim, Mr Masayuki Shimura and Mr Hiroshi Irie.

The RC held one meeting during the financial year.

The details of attendance of each member at the RC Meetings held during the financial year ended 31 March 2013 are as follows:-

| Name of Director | Number of Meetings | |
|-----------------------------|--------------------|----------|
| | Held | Attended |
| Lim Choon Eng - Chairman | 1 | 1 |
| Masayuki Shimura | 1 | 1 |
| Hiroshi Irie | 1 | 1 |
| Razman Hafidz bin Abu Zarim | 1 | 1 |

The objective of the RC is to provide a formal and transparent procedure for developing remuneration policy for directors, CEO and key senior management officers and ensuring that compensation is competitive and consistent with the Bank's culture, objectives and strategy.

The RC is responsible for:

1. Recommending a framework of remuneration for directors, CEO and key senior management officers for the full board's approval; and
2. Recommending specific remuneration packages for executive directors and the CEO.

Audit Committee (AC)

The Chairman of the AC is Mr Razman Hafidz bin Abu Zarim and the members of the AC are Mr Lim Choon Eng and Mr Hiroshi Irie.

The AC held 5 meetings during the financial year.

The details of attendance of each member at the AC Meetings held during the financial year ended 31 March 2013 are as follows:-

| Name of Director | Number of Meetings | |
|--|--------------------|----------|
| | Held | Attended |
| Razman Hafidz bin Abu Zarim - Chairman | 5 | 5 |
| Hiroshi Irie | 5 | 5 |
| Lim Choon Eng | 5 | 5 |

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Corporate Governance (continued)

Board Committees (continued)

Audit Committee (AC) (continued)

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

The AC is responsible, amongst others, to:

1. Ensure fair and transparent reporting and prompt publication of the financial accounts;
2. Review the scope of the internal audit programme, internal audit findings and recommend actions to be taken by the Management;
3. Review the effectiveness of internal controls and risk management processes;
4. Select external auditors for appointment by the Board; and
5. Review findings of external auditors

Related Party Transactions

All related party transactions are reviewed by the AC and the AC keeps the Board informed of such transactions. There are no related party transactions with the Board of Directors or Senior Management.

External Experts

The AC has the ability to engage external experts in circumstances where the internal audit function lacks the expertise needed to perform the audit of specialized areas and 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.

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.

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Corporate Governance (continued)

Board Committees (continued)

Audit Committee (AC) (continued)

The Head of Internal Audit and audit personnel have responsibility to:

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 Audit Committee 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 Audit Committee;
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. Issue written audit reports to the Audit Committee 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;
6. Monitor progress of rectification actions on findings raised taking into consideration the timeline committed by Management; and
7. Conduct investigation on suspected fraudulent activities when required and notify Management and the Audit Committee of the results.

Risk Management Committee (RMC)

The Chairman of the RMC is Mr Lim Choon Eng and the members of the RMC are Mr Razman Hafidz bin Abu Zarim, Mr Masayuki Shimura and Mr Hiroshi Irie.

The RMC held 6 meetings during the financial year.

The details of attendance of each member at the RMC Meetings held during the financial year ended 31 March 2013 are as follows:-

| Name of Director | Number of Meetings | |
|-----------------------------|--------------------|----------|
| | Held | Attended |
| Lim Choon Eng - Chairman | 6 | 6 |
| Masayuki Shimura | 6 | 6 |
| Hiroshi Irie | 6 | 6 |
| Razman Hafidz bin Abu Zarim | 6 | 6 |

The objective of the RMC is to oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process is in place and functioning.

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Corporate Governance (continued)

Board Committees (continued)

Risk Management Committee (RMC) (continued)

The functions and responsibilities of the RMC are:

1. Review and recommend risk management strategies, policies and risk tolerance for the Board's approval;
2. Review and assess adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively;
3. Ensure infrastructure, resources and systems are in place for risk management that is, ensuring that the staff responsible for implementing risk management systems perform those duties independently of the Banks' risk taking activities; and
4. Review the Management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

The outline for risk management is as follows:-

1. Identify risks to be managed and set risk tolerance limit consistent with allocated capital and ensure implementation is in place;
2. Ensure clear documentation on approaches to determine risk limits, organisational structure, line of authorities and methods to be employed under the risk management function; and
3. Ensure optimal risk management information system must be in place to ensure transparency of data and to prevent operational error.

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Auditors

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

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

.....
Yasuhiro Oashi

.....
Razman Hafidz bin Abu Zarim

Kuala Lumpur

Date: 19 August 2013

Sumitomo Mitsui Banking Corporation Malaysia Berhad
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Statement of Financial Position as at 31 March 2013

| | Note | 31 March 2013 RM'000 | 31 March 2012 RM'000 | 1 April 2011 RM'000 |
|---|------|----------------------------|----------------------------|---------------------------|
| Assets | | | | |
| Cash and short-term funds | 3 | 1,095,919 | 741,953 | 331,553 |
| Deposits and placements with banks and other financial institutions | 4 | 250,000 | 251,532 | - |
| Investment securities available- for-sale | 5 | 64,656 | 19,825 | - |
| Loans, advances and financing | 6 | 1,095,987 | 366,455 | - |
| Derivative financial assets | 30 | 63,274 | 18,384 | - |
| Other assets | 7 | 7,872 | 10,520 | 916 |
| Statutory deposits with Bank Negara Malaysia | 8 | - | 674 | - |
| Plant and equipment | 9 | 9,056 | 11,551 | 13,220 |
| Deferred tax assets | 22 | 1,882 | - | - |
| Total assets | | <u>2,588,646</u> | <u>1,420,894</u> | <u>345,689</u> |
| Liabilities | | | | |
| Deposits from customers | 10 | 1,281,746 | 876,464 | - |
| Deposits and placements of banks and other financial institutions | 11 | 528,355 | 173,156 | - |
| Bills and acceptances payable | | 2,684 | 2,973 | - |
| Derivative financial liabilities | 30 | 22,210 | 8,336 | - |
| Other liabilities | 12 | 14,937 | 7,256 | 72 |
| Tax payable | | 4,708 | 381 | 80 |
| Deferred tax liabilities | 22 | - | 456 | - |
| Total liabilities | | <u>1,854,640</u> | <u>1,069,022</u> | <u>152</u> |
| Equity | | | | |
| Share capital | 13 | 700,000 | 350,000 | 350,000 |
| Reserves | 14 | 34,006 | 1,872 | (4,463) |
| Total equity attributable to equity holder of the Bank | | <u>734,006</u> | <u>351,872</u> | <u>345,537</u> |
| Total liabilities and equity | | <u>2,588,646</u> | <u>1,420,894</u> | <u>345,689</u> |
| Commitments and contingencies | 27 | <u>4,302,976</u> | <u>1,532,484</u> | <u>-</u> |

The notes on pages 19 to 98 are an integral part of these financial statements.

Sumitomo Mitsui Banking Corporation Malaysia Berhad

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Statement of Comprehensive Income For the Financial Year Ended 31 March 2013

| | Note | 2013 RM'000 | 2012 RM'000 |
|---|------|----------------|----------------|
| Interest income | 15 | 56,727 | 27,522 |
| Interest expense | 16 | (23,242) | (12,664) |
| Net interest income | | <u>33,485</u> | <u>14,858</u> |
| Other operating income | 17 | 59,076 | 36,257 |
| Net operating income | | <u>92,561</u> | <u>51,115</u> |
| Other operating expenses | 18 | (43,663) | (39,986) |
| Operating profit | | <u>48,898</u> | <u>11,129</u> |
| Provision for loans, advances and financing | 20 | (5,513) | (2,770) |
| Profit before taxation | | <u>43,385</u> | <u>8,359</u> |
| Tax expense | 21 | (11,214) | (2,019) |
| Profit after taxation | | <u>32,171</u> | <u>6,340</u> |
| Other comprehensive income for the year, net of income tax | | | |
| Fair value changes of investment securities available-for-sale | | (37) | (5) |
| Total comprehensive income for the year | | <u>32,134</u> | <u>6,335</u> |
| Basic earnings per ordinary share (sen) | 23 | <u>5.25</u> | <u>1.81</u> |

The notes on pages 19 to 98 are an integral part of these financial statements.

Sumitomo Mitsui Banking Corporation Malaysia Berhad

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Statement of Changes in Equity for the Financial Year Ended 31 March 2013

| | ← <i>Non-Distributable reserves</i> → | | | <i>Distributable reserves</i> | Total RM'000 |
|---|---------------------------------------|------------------------------------|---|--|------------------------|
| | Share Capital RM'000 | Statutory reserve RM'000 | Available-for-sale reserve RM'000 | Retained earnings/ (Accumulated losses) RM'000 | |
| At 1 April 2011 | 350,000 | - | - | (4,463) | 345,537 |
| Profit for the year | - | - | - | 6,340 | 6,340 |
| Fair value changes of available-for-sale financial assets | - | - | (5) | - | (5) |
| Total comprehensive income for the year | - | - | (5) | 6,340 | 6,335 |
| Transfer to statutory reserve | - | 3,170 | - | (3,170) | - |
| At 31 March 2012 | <u>350,000</u> | <u>3,170</u> | <u>(5)</u> | <u>(1,293)</u> | <u>351,872</u> |
| At 1 April 2012 | 350,000 | 3,170 | (5) | (1,293) | 351,872 |
| Issuance of shares | 350,000 | - | - | - | 350,000 |
| Profit for the year | - | - | - | 32,171 | 32,171 |
| Fair value changes of available-for-sale financial assets | - | - | (37) | - | (37) |
| Total comprehensive income for the year | - | - | (37) | 32,171 | 32,134 |
| Transfer to statutory reserve | - | 16,086 | - | (16,086) | - |
| At 31 March 2013 | <u><u>700,000</u></u> | <u><u>19,256</u></u> | <u><u>(42)</u></u> | <u><u>14,792</u></u> | <u><u>734,006</u></u> |

The notes on pages 19 to 98 are an integral part of these financial statements.

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Statement of Cash Flows For the Financial Year Ended 31 March 2013

| | 2013 RM'000 | 2012 RM'000 |
|---|-----------------|-----------------|
| Cash flows from operating activities | | |
| Profit from ordinary activities before taxation | 43,385 | 8,359 |
| Adjustments for: | | |
| Depreciation of property and equipment | 3,162 | 2,871 |
| Loan loss provision | 5,513 | 2,770 |
| Equipment written off | - | 2 |
| Accretion of discount on debt securities | (1,648) | (42) |
| Operating profit before working capital changes | <u>50,412</u> | <u>13,960</u> |
| Decrease/(Increase) in operating assets | | |
| Deposits and placements from banks and other financial institutions | 1,532 | (251,532) |
| Loans and advances | (735,045) | (369,225) |
| Derivative financial instruments | (31,016) | (10,048) |
| Other assets | 2,648 | (9,604) |
| Statutory deposit with Bank Negara Malaysia | 674 | (674) |
| Increase/(Decrease) in operating liabilities | | |
| Deposits from customers | 405,282 | 876,464 |
| Deposits and placements of banks and other financial institutions | 355,199 | 173,156 |
| Bills and acceptances payable | (289) | 2,973 |
| Other liabilities | 7,681 | 7,184 |
| Cash generated from operating activities | <u>57,078</u> | <u>432,654</u> |
| Taxation paid | (9,212) | (1,260) |
| Net cash generated from operating activities | <u>47,866</u> | <u>431,394</u> |
| Cash flows from investing activities | | |
| Purchase of plant and equipment | (667) | (1,204) |
| Investment securities available-for-sale | (43,233) | (19,790) |
| Net cash used in investing activities | <u>(43,900)</u> | <u>(20,994)</u> |
| Cash flows from financing activities | | |
| Proceeds from issuance of shares | 350,000 | - |
| Net cash generated from financing activities | <u>350,000</u> | <u>-</u> |

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Statements of Cash Flows

For the Financial Year Ended 31 March 2013 (continued)

| | 2013 | 2012 |
|--|---------------|---------------|
| | RM'000 | RM'000 |
| Net increase in cash and cash equivalents | 353,966 | 410,400 |
| Cash and cash equivalents at beginning of the financial year | 741,953 | 331,553 |
| Cash and cash equivalents at end of financial year (Note 3) | 1,095,919 | 741,953 |

The notes on pages 19 to 98 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 2013

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 Level 51, Vista Tower, The Intermark, No. 348, Jalan Tun Razak, 50400 Kuala Lumpur.

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

The immediate and ultimate holding companies during the financial year are Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Financial Group respectively. Both companies 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 19 August 2013.

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 (“MFRS”), International Financial Reporting Standards (“IFRS”) and the requirements of the Companies Act, 1965 in Malaysia.

The Bank has adopted the MFRS framework issued by the MASB with effect from 1 April 2012. The MFRS framework was introduced in order to fully converge Malaysia’s existing Financial Reporting Standards (“FRS”) framework with the framework issued by the International Accounting Standard Board (IASB). Whilst all FRSs issued under the previous FRS framework were equivalent to the MFRSs issued under the MFRS framework, there are some differences in relation to the transitional provisions and effective dates contained in certain MFRSs.

These are the Bank’s first financial statements prepared in accordance with MFRSs, and MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards* has been applied. The MFRSs did not result in any material financial impact to the Bank other than the financial impact arising from the change in accounting policy on the impairment of collectively assessed loans, advances and financing. The changes in these accounting policies are described in Note 1(e) Change in accounting policies. The financial impacts on transition to MFRSs are disclosed in Note 33.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

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

Effective for annual periods beginning on or after 1 July 2012

- Amendments to FRS 101, *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*

Effective for annual periods beginning on or after 1 January 2013

- MFRS 10, *Consolidated Financial Statements*
- MFRS 11, *Joint Arrangements*
- MFRS 12, *Disclosure of Interests in Other Entities*
- MFRS 13, *Fair Value Measurement*
- MFRS 119, *Employee Benefits* (2011)
- MFRS 127, *Separate Financial Statements* (2011)
- MFRS 128, *Investments in Associates and Joint Ventures* (2011)
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Government Loans)*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle: Repeated Application of MFRS 1 and Borrowing Cost)*
- Amendments to MFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
- Amendments to MFRS 10, MFRS 11 and MFRS 12, *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance*
- Amendments to MFRS 101, *Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle: Clarification of the Requirements for Comparative Information)*
- Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle: Classification of Servicing Equipment)*
- Amendments to MFRS 132, *Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle: Tax Effect of Distribution to Holders of Equity Instruments)*
- Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2009-2011 Cycle: Interim Financial Reporting and Segment Information for Total Assets and Liabilities)*
- IC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

Effective for annual periods beginning on or after 1 January 2014

- Amendments to MFRS 10, *Consolidated Financial Statements: Investment Entities*
- Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Investment Entities*
- Amendments to MFRS 127, *Separate Financial Statements (2011): Investment Entities*
- Amendments to MFRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

Effective for annual periods beginning on or after 1 January 2015

- MFRS 9, *Financial Instruments* (IFRS 9 issued by IASB in November 2009)
- MFRS 9, *Financial Instruments* (IFRS 9 issued by IASB in October 2010)
- Amendments to MFRS 7, *Financial Instruments: Disclosures – Mandatory Date of MFRS 9 and Transition Disclosures*

The Bank plans to apply the abovementioned accounting standards, amendments and interpretations from the annual period beginning on 1 April 2013, except for Amendments to MFRS 132 that would apply for the annual period beginning on or after 1 April 2014, and MFRS 9 (2009 & 2010) and Amendment to MFRS 7 that would apply for the annual period beginning on or after 1 April 2015.

IC Interpretation 20 is not expected to have any impact on the financial statements of the Bank as it is not relevant to the operations of the Bank. The initial application of the applicable standards, amendments and interpretations is not expected to have any material financial impact to the current and prior periods financial statements of the Bank upon their first adoption, except for those discussed below:

MFRS 9, Financial Instruments

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

The adoption of MFRS 9 may result in a change in accounting policy for financial assets. The Bank is currently assessing the financial impact that may arise from the adoption of MFRS 9.

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 used in applying accounting policies that have significant effect on the amount recognised in the financial statements other than those disclosed in the following note:

- Note 30 - Fair value of financial assets and financial liabilities

(e) Change in accounting policies

(i) *Impairment of collectively assessed loans, advances and financing*

Prior to the transition to MFRS 139, the Bank had maintained its collective impairment provision at 1.5% of total outstanding loans, net of individual impairment provision, in line with BNM's transitional provisions under its Guidelines on Classification and Impairment Provisions for Loans/Financing. Upon the transition to MFRS 139 on 1 April 2012, these transitional provisions were removed and the Bank has applied the requirements of MFRS 139 in the determination of collective impairment provision, of which the full revised accounting policy is described in Note 2(b)(ii)(c).

1. Basis of preparation (continued)

(e) Change in accounting policies (continued)

(i) Impairment of collectively assessed loans, advances and financing (continued)

This change in accounting policy has been accounted for retrospectively and has resulted in a decrease in the collective allowance for impairment charged in the income statement for year ended 31 March 2012 and a write back of collective allowance to the opening retained earnings and opening collective allowance in the statements of financial position as at 1 April 2012. A summary of the financial impact of the change in accounting policy on the financial statements of the Bank is reflected in Note 33.

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and in preparing the opening MFRSs statement of financial position of the Bank at 1 April 2011 (the transition date to MFRS framework), unless otherwise stated.

(a) Foreign currency

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 date 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.

2. Significant accounting policies (continued)

(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.

(ii) Financial instrument categories and subsequent measurement

The Bank categorises and measures 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.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

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

Financial assets (continued)

(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.

(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 1 January 2012. 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 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 the statement of comprehensive income.

Prior to the transition to MFRS 139, the Bank had maintained their collective impairment provision at 1.5% of total outstanding loans, net of individual impairment provision, in line with BNM's transitional provisions under its Guidelines on Classification and Impairment Provisions for Loans/Financing. Upon the transition to MFRS 139 on 1 April 2012, these transitional provisions were removed and the Bank has applied the requirements of MFRS 139 in the determination of collective impairment provision, of which the revised accounting policy is described below.

This change in accounting policy has been accounted for retrospectively and has resulted in a decrease in the collective allowance for impairment charged in the income statement for year ended 31 March 2012 and a write back of collective allowance to the opening retained profits and opening collective allowance in the statement of financial position as at 1 April 2012. A summary of the financial impact of the change in accounting policy on the financial statements of the Bank is reflected in Note 33.

Impairment is assessed on a collective basis to cover losses which have been incurred but not yet been identified on loans/financing subject to individual assessment. 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.

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)*

The collective impairment allowance 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 allowance against the individual loan.

(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 hedge 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)).

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

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

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.

(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.

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.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

(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) the derecognition of an asset that is sold, the 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 the profit or loss.

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 hedge 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 hedge item categorised as available-for-sale, the fair value gain or loss attributable to the hedge 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.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

(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 the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. 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 stated at cost less accumulated depreciation and any accumulated impairment losses.

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 income” and “other expenses” respectively in profit or loss.

2. Significant accounting policies (continued)

(c) Plant and equipment (continued)

(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 part 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 part of an item of plant and equipment.

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.

(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.

2. Significant accounting policies (continued)

(e) Cash and short-term funds

Cash and short-term funds consist of cash in hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value with original maturities of one month or less, and held by the Bank in the management of their short term commitments.

(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 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 financial asset's recourse amount is estimated.

An impairment loss in respect of loans and receivables 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 the other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

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.

2. Significant accounting policies (continued)

(f) Impairment (continued)

(i) Financial assets (continued)

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 (known as cash-generating unit).

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

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. 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.

2. Significant accounting policies (continued)

(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. Once the contributions have been paid, the Bank has no further payment obligations.

(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.

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

Interest income is recognised in profit or loss using the effective interest method. The effective interest 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.

2. Significant accounting policies (continued)

(i) Revenue and other income (continued)

(i) Interest income (continued)

The calculation of the effective interest rate includes all fees and points paid or received that are 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 other income

Commitment fees and guarantee fees which are material are recognised as income based on time apportionment.

Other fee income such as services charges and processing fees are recognised as the related services are performed.

(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 on the taxable income using tax rates enacted at the statement of financial position date, 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 goodwill, 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.

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2. Significant accounting policies (continued)

(j) Tax expense (continued)

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.

3. Cash and short-term funds

| | 31 March 2013 RM'000 | 31 March 2012 RM'000 | 1 April 2011 RM'000 |
|--|----------------------------|----------------------------|---------------------------|
| Cash and balances with banks and other financial institutions | 16,068 | 5,769 | 31,553 |
| Money at call and deposit placements maturing within one month | 1,079,851 | 736,184 | 300,000 |
| | <u>1,095,919</u> | <u>741,953</u> | <u>331,553</u> |

4. Deposits and placements with banks and other financial institutions

| | 31 March 2013 RM'000 | 31 March 2012 RM'000 | 1 April 2011 RM'000 |
|--|----------------------------|----------------------------|---------------------------|
| Licensed Malaysian banks and foreign banks | 250,000 | 251,532 | - |
| | <u>250,000</u> | <u>251,532</u> | <u>-</u> |

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5. Investments securities available-for-sale

| | 31 March 2013 RM'000 | 31 March 2012 RM'000 | 1 April 2011 RM'000 |
|--|----------------------------|----------------------------|---------------------------|
| At fair value | | | |
| Bank Negara Malaysia bills | 54,714 | 19,825 | - |
| Malaysian Government treasury bills | 9,942 | - | - |
| | <u>64,656</u> | <u>19,825</u> | <u>-</u> |

6. Loans, advances and financing

| | 31 March 2013 RM'000 | 31 March 2012 RM'000 | 1 April 2011 RM'000 |
|---|----------------------------|----------------------------|---------------------------|
| (a) By type: | | | |
| At amortised cost: | | | |
| Syndicated term loans | 290,607 | 83,227 | - |
| Other term loans | 360,515 | 97,016 | - |
| Trade bills discounted | 2,859 | - | - |
| Revolving credits | 450,289 | 188,982 | - |
| Gross loans, advances and financing | 1,104,270 | 369,225 | - |
| Less: Impairment provision | (8,283) | (2,770) | - |
| Net loans, advances and financing | <u>1,095,987</u> | <u>366,455</u> | <u>-</u> |
| (b) By geographical distribution: | | | |
| Malaysia | 893,691 | 369,225 | - |
| Other countries | 210,579 | - | - |
| Gross loans, advances and financing | <u>1,104,270</u> | <u>369,225</u> | <u>-</u> |
| (c) By type of customer: | | | |
| Domestic non-bank financial institutions | 253,838 | 91,404 | - |
| Domestic business enterprises | 639,853 | 277,821 | - |
| Foreign entities | 210,579 | - | - |
| Gross loans, advances and financing | <u>1,104,270</u> | <u>369,225</u> | <u>-</u> |

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6. Loans, advances and financing (continued)

| | 31 March 2013 RM'000 | 31 March 2012 RM'000 | 1 April 2011 RM'000 |
|--|----------------------------|----------------------------|---------------------------|
| (d) By interest rate sensitivity: | | | |
| Fixed rate | | | |
| - Other fixed rate loans | 73,146 | 26,974 | - |
| Variable rate | | | |
| - Cost-plus | 539,600 | 342,251 | - |
| - Other variable rates | 491,524 | - | - |
| Gross loans, advances and financing | <u>1,104,270</u> | <u>369,225</u> | <u>-</u> |
| (e) By economic purposes: | | | |
| Purchase of non-residential property | | | |
| - Commercial complexes | 117,720 | - | - |
| Purchase of fixed assets other than land and building | 7,597 | - | - |
| Construction | 9,536 | - | - |
| Working Capital | 861,588 | 369,225 | - |
| Other purpose | 107,829 | - | - |
| Gross loans, advances and financing | <u>1,104,270</u> | <u>369,225</u> | <u>-</u> |
| (f) By sector: | | | |
| Primary agriculture | - | 1,003 | - |
| Manufacturing | 412,579 | 122,047 | - |
| Electricity, gas and water | 77,631 | 153,269 | - |
| Construction | 1,050 | - | - |
| Wholesale and retail trade, and restaurants and hotels | 60,508 | 1,502 | - |
| Transport, storage and communication | 80,028 | - | - |
| Finance, insurance, real estate and business services | 472,474 | 91,404 | - |
| Gross loans, advances and financing | <u>1,104,270</u> | <u>369,225</u> | <u>-</u> |

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6. Loans, advances and financing (continued)

| | 31 March 2013 RM'000 | 31 March 2012 RM'000 | 1 April 2011 RM'000 |
|--|----------------------------|----------------------------|---------------------------|
| (g) By residual contractual maturity: | | | |
| Maturing within one year | 427,128 | 279,702 | - |
| One year to three years | 106,608 | 89,523 | - |
| Three years to five years | 379,140 | - | - |
| More than five years | 191,394 | - | - |
| Gross loans, advances and financing | <u>1,104,270</u> | <u>369,225</u> | <u>-</u> |
| (h) Movements in collective impairment provision on loans, advances and financing: | | | |
| At beginning of financial year | 2,770 | - | - |
| Made during the financial year (Note 20) | 5,513 | 2,770 | - |
| At end of financial year | <u>8,283</u> | <u>2,770</u> | <u>-</u> |
| (As % of gross loans, advances and financing (net of individual allowance)) | <u>0.75%</u> | <u>0.75%</u> | <u>-</u> |

7. Other assets

| | 31 March 2013 RM'000 | 31 March 2012 RM'000 | 1 April 2011 RM'000 |
|---|----------------------------|----------------------------|---------------------------|
| Interest receivable | 3,813 | 790 | 24 |
| Amount due from related parties | 11 | 4,095 | - |
| Other receivables, deposits and prepayments | 4,048 | 5,635 | 892 |
| | <u>7,872</u> | <u>10,520</u> | <u>916</u> |

8. Statutory deposits with Bank Negara Malaysia

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act 1958 (revised 1994) to satisfy the Statutory Reserve Requirement (“SRR”); 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 |
|-----------------------------------|-------------------------------|--|--|--------------------------------------|-------------------------|
| <i>Cost</i> | | | | | |
| At 1 April 2011 | 5,136 | 5,109 | 1,867 | 1,393 | 13,505 |
| Additions | 74 | 1,030 | 100 | - | 1,204 |
| Written off | (2) | - | - | - | (2) |
| Reclassifications | 158 | (158) | - | - | - |
| At 31 March 2012/ 1 April 2012 | 5,366 | 5,981 | 1,967 | 1,393 | 14,707 |
| Additions | 47 | 332 | 12 | 276 | 667 |
| Reclassifications | - | 12 | (12) | - | - |
| At 31 March 2013 | 5,413 | 6,325 | 1,967 | 1,669 | 15,374 |
| <i>Accumulated depreciation</i> | | | | | |
| At 1 April 2011 | 124 | 88 | 54 | 19 | 285 |
| Charge for the year | 527 | 1,805 | 260 | 279 | 2,871 |
| Written off | - | - | - | - | - |
| Reclassifications | 13 | (13) | - | - | - |
| At 31 March 2012/ 1 April 2012 | 664 | 1,880 | 314 | 298 | 3,156 |
| Charge for the year | 541 | 2,025 | 262 | 334 | 3,162 |
| Reclassifications | - | 2 | (2) | - | - |
| At 31 March 2013 | 1,205 | 3,907 | 574 | 632 | 6,318 |
| <i>Net book value</i> | | | | | |
| At 1 April 2011 | 5,012 | 5,021 | 1,813 | 1,374 | 13,220 |
| At 31 March 2012 | 4,702 | 4,101 | 1,653 | 1,095 | 11,551 |
| At 31 March 2013 | 4,208 | 2,418 | 1,393 | 1,037 | 9,056 |

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10. Deposits from customers

| | 31 March 2013 RM'000 | 31 March 2012 RM'000 | 1 April 2011 RM'000 |
|--|-------------------------------------|-------------------------------------|------------------------------------|
| (a) By type of deposits: | | | |
| Demand deposits | 453,839 | 473,832 | - |
| Fixed deposits | 322,685 | 151,665 | - |
| Short-term deposits | 505,222 | 250,967 | - |
| | <u>1,281,746</u> | <u>876,464</u> | <u>-</u> |
| Maturity structure of fixed deposits is as follows: | | | |
| Due within six months | 316,119 | 149,665 | - |
| Six months to one year | 6,566 | 2,000 | - |
| | <u>322,685</u> | <u>151,665</u> | <u>-</u> |
| (b) By type of customers: | | | |
| Domestic non-bank financial institutions | 62,737 | 20,281 | - |
| Domestic business enterprises | 1,209,422 | 855,673 | - |
| Foreign non-bank entities | 9,587 | 510 | - |
| | <u>1,281,746</u> | <u>876,464</u> | <u>-</u> |

11. Deposits and placements of banks and other financial institutions

| | 31 March 2013 RM'000 | 31 March 2012 RM'000 | 1 April 2011 RM'000 |
|----------------|-------------------------------------|-------------------------------------|------------------------------------|
| Licensed banks | 80,000 | 80,000 | - |
| Foreign banks | 448,355 | 93,156 | - |
| | <u>528,355</u> | <u>173,156</u> | <u>-</u> |

12. Other liabilities

| | 31 March 2013 RM'000 | 31 March 2012 RM'000 | 1 April 2011 RM'000 |
|------------------------------------|-------------------------------------|-------------------------------------|------------------------------------|
| Interest payable | 2,399 | 1,421 | - |
| Amount due to related companies | 1,137 | 4,783 | 7 |
| Other payables and accruals | 11,401 | 1,052 | 65 |
| | <u>14,937</u> | <u>7,256</u> | <u>72</u> |

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13. Share capital

| | Amount 31 March 2013 RM'000 | Number of shares 31 March 2013 '000 | Amount 31 March 2012 RM'000 | Number of shares 31 March 2012 '000 | Amount 1 April 2011 RM'000 | Number of shares 1 April 2011 '000 |
|------------------------------------|--------------------------------------|---|--------------------------------------|---|-------------------------------------|--|
| Ordinary shares of RM1 each | | | | | | |
| Authorised: | <u>1,200,000</u> | <u>1,200,000</u> | <u>1,200,000</u> | <u>1,200,000</u> | <u>1,200,000</u> | <u>1,200,000</u> |
| Issued and fully paid up: | | | | | | |
| At beginning of the year | 350,000 | 350,000 | 350,000 | 350,000 | -* | -* |
| Issued during the year | <u>350,000</u> | <u>350,000</u> | <u>-</u> | <u>-</u> | <u>350,000</u> | <u>350,000</u> |
| At end of the year | <u>700,000</u> | <u>700,000</u> | <u>350,000</u> | <u>350,000</u> | <u>350,000</u> | <u>350,000</u> |

* On date of incorporation, 100 subscriber's shares were issued for cash consideration of RM1 each.

Ordinary shares

The holder of ordinary shares is 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.

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14. Reserves

| | 31 March 2013 RM'000 | 31 March 2012 RM'000 | 1 April 2011 RM'000 |
|--|-------------------------------------|-------------------------------------|------------------------------------|
| <i>Non-distributable:</i> | | | |
| Statutory reserves | 19,256 | 3,170 | - |
| Available-for-sale ("AFS") reserves | (42) | (5) | - |
| | <u>19,214</u> | <u>3,165</u> | <u>-</u> |
| <i>Distributable:</i> | | | |
| Retained earnings /(Accumulated losses) | 14,792 | (1,293) | (4,463) |
| | <u>34,006</u> | <u>1,872</u> | <u>(4,463)</u> |

The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 (BAFIA) and is not distributable as cash dividends.

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

15. Interest income

| | 2013 RM'000 | 2012 RM'000 |
|---|------------------------|------------------------|
| Loans, advances and financing - Interest income | 23,594 | 7,731 |
| Money at call and deposit placements with banks and other financial institutions | 31,485 | 19,749 |
| Accretion of discount on debt securities held | 1,648 | 42 |
| | <u>56,727</u> | <u>27,522</u> |

16. Interest expense

| | 2013 RM'000 | 2012 RM'000 |
|---|------------------------|------------------------|
| Deposits and placements of bank and other financial institutions | 2,609 | 2,422 |
| Deposits from customers | 20,578 | 10,242 |
| Others | 55 | - |
| | <u>23,242</u> | <u>12,664</u> |

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17. Other operating income

| | 2013 | 2012 |
|---|---------------|---------------|
| | RM'000 | RM'000 |
| Fee and commission income | | |
| - Service charges/ fees | 56 | 55 |
| - Guarantee fees | 108 | 49 |
| - Loan related fees | 1,175 | - |
| - Commitment fees | 143 | - |
| | <u>1,482</u> | <u>104</u> |
| Gain from derivative financial instruments | <u>4,662</u> | <u>557</u> |
| Unrealised net gain on revaluation of derivatives | <u>29,116</u> | <u>10,011</u> |
| Foreign exchange net gain | <u>19,942</u> | <u>20,003</u> |
| Other income | | |
| - Management fees | 2,186 | 4,095 |
| - Rental of fixed assets | 1,371 | 1,409 |
| - Miscellaneous income | 317 | 78 |
| | <u>3,874</u> | <u>5,582</u> |
| | <u>59,076</u> | <u>36,257</u> |

18. Other operating expenses

| | 2013 | 2012 |
|----------------------------------|---------------|---------------|
| | RM'000 | RM'000 |
| Personnel costs | | |
| Salaries, allowances and bonuses | 12,160 | 9,561 |
| Employees' provident fund | 907 | 778 |
| Staff training expenses | 193 | 278 |
| Staff welfare expenses | 86 | 28 |
| Other personnel expenses | 2,790 | 1,299 |
| | <u>16,136</u> | <u>11,944</u> |
| Establishment costs | | |
| Rental of premises | 922 | 853 |
| Depreciation | 3,162 | 2,871 |
| Repair and maintenance | 100 | 646 |
| Other establishment expenses | 5,909 | 4,985 |
| | <u>10,093</u> | <u>9,355</u> |

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18. Other operating expenses (continued)

| | 2013 RM'000 | 2012 RM'000 |
|--|------------------------------|------------------------------|
| Marketing expenses | | |
| Advertisement and publicity | 112 | 410 |
| Other marketing expenses | 89 | 288 |
| | <u>201</u> | <u>698</u> |
| Administration and general expenses | | |
| Auditors' remuneration | | |
| - Statutory audit | 180 | 160 |
| - Other services | 100 | 38 |
| Professional fees | 313 | 513 |
| Communication expenses | 248 | 183 |
| Management fees | 13,649 | 11,982 |
| License fees and stamp duties | 110 | 28 |
| Non-executive directors' fees and allowances | 218 | 194 |
| Other administration and general expenses | 2,415 | 4,891 |
| | <u>17,233</u> | <u>17,989</u> |
| | <u>43,663</u> | <u>39,986</u> |

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19. Directors' remuneration

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

| | 2013 | | | | | 2012 | | | | |
|---|--|------------|------------|-----------------|--------------|--|------------|------------|-----------------|------------|
| | Salary and other remuneration, including meeting allowance | Bonus | Fees | Benefit-in-kind | Total | Salary and other remuneration, including meeting allowance | Bonus | Fees | Benefit-in-kind | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Executive Director and Chief Executive Officer | | | | | | | | | | |
| Mr. Hitoshi Suyama | 491 | 165 | - | 334 | 990 | 480 | 147 | - | 118 | 745 |
| Non-executive Directors | | | | | | | | | | |
| Mr. Razman Hafidz bin Abu Zarim | 6 | - | 113 | - | 119 | 9 | - | 93 | - | 102 |
| Mr. Masayuki Shimura | - | - | - | - | - | - | - | - | - | - |
| Mr. Hiroshi Irie | - | - | - | - | - | - | - | - | - | - |
| Mr. Lim Choon Eng | 6 | - | 93 | - | 99 | 9 | - | 83 | - | 92 |
| | <u>503</u> | <u>165</u> | <u>206</u> | <u>334</u> | <u>1,208</u> | <u>498</u> | <u>147</u> | <u>176</u> | <u>118</u> | <u>939</u> |

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20. Provision for loans, advances and financing

| | 2013 RM'000 | 2012 RM'000 |
|---|------------------------------|------------------------------|
| Collective impairment provision (Note 6(h)) | 5,513 | 2,770 |

21. Tax expense

Recognised in profit or loss

| | 2013 RM'000 | 2012 RM'000 |
|----------------------------|------------------------------|------------------------------|
| Malaysia income tax | | |
| - Current year | 14,060 | 1,561 |
| - Prior year overprovision | (520) | - |
| | <u>13,540</u> | <u>1,561</u> |

Deferred tax expense

| | | |
|---|---------------|--------------|
| Origination/reversal of temporary differences | (2,326) | 458 |
| Total tax expense | <u>11,214</u> | <u>2,019</u> |

Reconciliation of effective tax expense

| | | |
|---|---------------|--------------|
| Profit before taxation | <u>43,385</u> | <u>8,359</u> |
| Income tax calculated using Malaysian tax rate of 25% | 10,847 | 2,090 |
| Tax exempt income | - | (245) |
| Non-deductible expenses | 887 | 174 |
| Overprovision in respect of prior year | (520) | - |
| | <u>11,214</u> | <u>2,019</u> |

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22. Deferred tax

Recognised deferred tax assets/ (liabilities)

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| Plant and equipment | - | - | (797) | (1,150) | (797) | (1,150) |
| Collective impairment on loans, advances and financing | 2,070 | 692 | - | - | 2,070 | 692 |
| Available-for-sale reserves | 14 | 2 | - | - | 14 | 2 |
| Other items | 595 | - | - | - | 595 | - |
| Tax assets/ (liabilities) | 2,679 | 694 | (797) | (1,150) | 1,882 | (456) |
| Set off of tax | (797) | (694) | 797 | 694 | - | - |
| Net tax assets/ (liabilities) | 1,882 | - | - | (456) | 1,882 | (456) |

Movement in temporary differences during the year

| | At 1.4.2011 RM'000 | Recognised in profit or loss RM'000 | Recognised directly in equity RM'000 | At 31.3.2012 RM'000 | Recognised in profit or loss RM'000 | Recognised directly in equity RM'000 | At 31.3.2013 RM'000 |
|--|--------------------------|--|---|---------------------------|--|---|---------------------------|
| Plant and equipment | - | (1,150) | - | (1,150) | 353 | - | (797) |
| Collective impairment on loans, advances and financing | - | 692 | - | 692 | 1,378 | - | 2,070 |
| Available-for-sale reserves | - | - | 2 | 2 | - | 12 | 14 |
| Other items | - | - | - | - | 595 | - | 595 |
| | - | (458) | 2 | (456) | 2,326 | 12 | 1,882 |

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23. Earnings per ordinary share

Basic earnings per ordinary share

The calculation of the basic earnings per ordinary share at 31 March 2013 was based on the profit attributable to ordinary shareholder and the weighted average number of ordinary shares outstanding during the financial year:-

| | 2013 RM'000 | 2012 RM'000 |
|--|---|---|
| Net profit attributable to ordinary shareholder | <u>32,134</u> | <u>6,340</u> |
| | 2013 Number ('000) | 2012 Number ('000) |
| Weighted average number of ordinary shares outstanding | <u>612,500</u> | <u>350,000</u> |
| | 2013 | 2012 |
| Basic earnings per ordinary shares (sen) | <u>5.25</u> | <u>1.81</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 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 or common significant influence. Related parties may be individuals or other entities.

Key management personnel are 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 |
|--|---|---|---|---|--|
| 2013 | | | | | |
| Immediate holding company | | | | | |
| Income | | | | | |
| - Interest income from deposits and placements with banks and other financial institutions | 40 | - | - | - | - |
| Expenses | | | | | |
| - Interest expense on deposits and placements of banks and other financial institutions | - | - | - | - | - |
| Other operating expenses | 5,761 | - | - | - | - |
| Amount due from | | | | | |
| - Cash and short-term funds | - | 159,777 | - | 159,777 | - |
| - Deposits and placements with banks and other financial institutions | - | - | - | - | - |
| - Derivative financial assets | - | 755 | - | 755 | - |
| - Other assets | - | 2 | - | 2 | - |

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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 |
|--|---|--|---|---|---|
| 2013 | | | | | |
| Immediate holding company (continued) | | | | | |
| Amount due to | | | | | |
| - Deposits and placements of banks and other financial institutions | - | 869 | - | 869 | - |
| - Derivative financial liabilities | - | 7,147 | - | 7,147 | - |
| - Other liabilities | - | 262 | - | 262 | - |
| Other related companies | | | | | |
| Income | | | | | |
| - Interest income from deposits and placements with banks and other financial institutions | 431 | - | - | - | - |
| - Interest income from loans, advances and financing | 2,834 | - | - | - | - |
| - Fee and commission income | 823 | - | - | - | - |
| - Other income | 3,688 | - | - | - | - |

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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 |
|--|---|--|---|---|--|
| 2013 | | | | | |
| Other related companies (continued) | | | | | |
| Expenses | | | | | |
| - Interest expense on deposits from customers | 41 | - | - | - | - |
| - Interest expense on deposits and placements of banks and other financial institutions | 1,690 | - | - | - | - |
| Other operating expenses | 13,762 | - | - | - | - |
| Amount due from | | | | | |
| - Cash and short-term funds | - | 7,027 | - | 7,027 | - |
| - Deposits and placements with banks and other financial institutions | - | - | - | - | - |
| - Loans, advances and financing | - | 77,659 | (583) | 77,076 | (247) |
| - Derivative financial assets | - | 233 | - | 233 | - |
| - Other assets | - | 12 | - | 12 | - |
| Amount due to | | | | | |
| - Deposits from customers | - | 4,459 | - | 4,459 | - |
| - Deposits and placements of banks and other financial institutions | - | 447,486 | - | 447,486 | - |
| - Bill and acceptances payable | - | - | - | - | - |
| - Derivative financial liabilities | - | 198 | - | 198 | - |
| - Other liabilities | - | 1,122 | - | 1,122 | - |

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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 |
|---|---|---|---|---|--|
| 2012 | | | | | |
| Immediate holding company | | | | | |
| Income | | | | | |
| - Interest income from deposits and placements with banks and other financial institutions | 54 | - | - | - | - |
| Other operating expenses | 4,758 | - | - | - | - |
| Amount due from | | | | | |
| - Cash and short-term funds | - | 80,467 | - | 80,467 | - |
| - Deposits and placements with banks and other financial institutions | - | - | - | - | - |
| - Derivative financial assets | - | 104 | - | 104 | - |

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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 |
|--|---|--|---|---|---|
| 2012 | | | | | |
| Immediate holding company (continued) | | | | | |
| Amount due to | | | | | |
| - Deposits and placements of banks and other financial institutions | - | 499 | - | 499 | - |
| - Derivative financial liabilities | - | 1,401 | - | 1,401 | - |
| - Other liabilities | - | 207 | - | 207 | - |
| Other related companies | | | | | |
| Income | | | | | |
| - Interest income from deposits and placements with banks and other financial institutions | 220 | - | - | - | - |
| - Interest income from loans, advances and financing | 1,030 | - | - | - | - |
| - Other income | 5,511 | - | - | - | - |
| Expenses | | | | | |
| - Interest expense on deposits from customers | 34 | - | - | - | - |
| - Interest expense on deposits and placements of banks and other financial institutions | 148 | - | - | - | - |
| Other operating expenses | 12,398 | - | - | - | - |

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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 |
|--|---|--|---|---|---|
| 2012 | | | | | |
| Other related companies (continued) | | | | | |
| Amount due from | | | | | |
| - Cash and short-term funds | - | 314,608 | - | 314,608 | - |
| - Deposits and placements with banks and other financial institutions | - | 1,532 | - | 1,532 | - |
| - Loans, advances and financing | - | 44,864 | (336) | 44,528 | (336) |
| - Derivative financial assets | - | 29 | - | 29 | - |
| - Other assets | - | 4,100 | - | 4,100 | - |
| Amount due to | | | | | |
| - Deposits from customers | - | 2,085 | - | 2,085 | - |
| - Deposits and placements of banks and other financial institutions | - | 92,658 | - | 92,658 | - |
| - Bill and acceptances payable | - | 48 | - | 48 | - |
| - Derivative financial liabilities | - | 203 | - | 203 | - |
| - Other liabilities | - | 4,585 | - | 4,585 | - |

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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 |
|----------------------------------|---|---|---|---|--|
| 2011 | | | | | |
| Immediate holding company | | | | | |
| Amount due to | 15,032 | - | - | - | - |
| Related companies | | | | | |
| Amount due from | (926) | - | - | - | - |
| Amount due to | 7 | 7 | - | 7 | - |
| | | | | | |

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.

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24. Related parties (continued)

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

| | 2013 | 2012 |
|-------------------------------------|---------------|---------------|
| | RM'000 | RM'000 |
| Executive Directors: | | |
| - Remuneration | 656 | 627 |
| - Other short term employee benefit | 334 | 118 |
| | <u>990</u> | <u>745</u> |
| Non-executive Directors: | | |
| - Fees | 206 | 176 |
| - Allowances | 12 | 18 |
| | <u>218</u> | <u>194</u> |
| Other key management personnel: | | |
| - Short term employee benefits | <u>5,036</u> | <u>5,749</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:

| | 2013 | 2012 |
|--|---------------|---------------|
| | RM'000 | RM'000 |
| Aggregate value of outstanding credit exposures to connected parties | 77,659 | 44,864 |
| As a percentage of total credit exposure | 7.03% | 12.15% |

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

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26. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

| | 2013 RM'000 | 2012 RM'000 |
|----------------------------|------------------------------|------------------------------|
| Less than one year | 1,341 | 2,011 |
| Between one and five years | - | 1,341 |
| | <u>1,341</u> | <u>3,352</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 |
|--|--|---|---|
| 31 March 2013 | | | |
| Transaction related contingent items | 87,084 | 43,542 | 30,546 |
| Short-term self liquidating trade-related contingencies | 929 | 186 | 186 |
| Foreign exchange related contracts: | | | |
| - Less than one year | 1,886,538 | 43,716 | 26,535 |
| - One year to less than five years | 1,506,424 | 185,273 | 67,612 |
| - Five years and above | 71,930 | 36,247 | 9,672 |
| Interest/ profit rate related contracts | | | |
| - Less than one year | 22,000 | 70 | 14 |
| - One year to less than five years | 174,673 | 7,048 | 4,973 |
| - Five years and above | 197,763 | 20,816 | 16,348 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year | 51,186 | 25,593 | 25,593 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year | 304,449 | 60,890 | 60,890 |
| Total | 4,302,976 | 423,381 | 242,369 |

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27. Commitments and contingencies (continued)

| | Principal amount RM'000 | Credit equivalent amount* RM'000 | Risk-weighted assets RM'000 |
|--|------------------------------------|---|--|
| 31 March 2012 | | | |
| Transaction related contingent items | 18,770 | 9,635 | 9,635 |
| Foreign exchange related contracts: | | | |
| Less than one year | 516,759 | 11,243 | 7,445 |
| One year to less than five years | 829,743 | 122,110 | 81,572 |
| Interest/ profit rate related contracts | | | |
| One year to less than five years | 27,000 | 350 | 70 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year | 44,753 | 22,377 | 22,377 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year | 95,459 | 19,092 | 19,092 |
| Total | 1,532,484 | 184,807 | 140,191 |

* *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) Other liabilities at amortised cost (“OL”)

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28. Financial instruments (continued)

28.1 Categories of financial instruments (continued)

| 31 March 2013 | Carrying amount RM'000 | L&R / OL RM'000 | FVTPL -HFT RM'000 | AFS RM'000 |
|---|---------------------------------------|------------------------------------|----------------------------------|-----------------------|
| <u>Financial Assets</u> | | | | |
| Cash and short term funds | 1,095,919 | 1,095,919 | - | - |
| Deposits and placements with banks and other financial institutions | 250,000 | 250,000 | - | - |
| Investment securities available-for-sale | 64,656 | - | - | 64,656 |
| Loans, advances and financing | 1,095,987 | 1,095,987 | - | - |
| Derivative financial assets | 63,274 | - | 63,274 | - |
| Other assets | 7,683 | 7,683 | - | - |
| Total financial assets | 2,577,519 | 2,449,589 | 63,274 | 64,656 |
| <u>Financial Liabilities</u> | | | | |
| Deposits from customers | (1,281,746) | (1,281,746) | - | - |
| Deposits and placements of banks and other financial institutions | (528,355) | (528,355) | - | - |
| Bills and acceptances payable | (2,684) | (2,684) | - | - |
| Derivative financial liabilities | (22,210) | - | (22,210) | - |
| Other liabilities | (14,699) | (14,699) | - | - |
| Total financial liabilities | (1,849,694) | (1,827,484) | (22,210) | - |

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28. Financial instruments (continued)

28.1 Categories of financial instruments (continued)

| | Carrying amount RM'000 | L&R / OL RM'000 | FVTPL -HFT RM'000 | AFS RM'000 |
|---|------------------------------|-----------------------|-------------------------|---------------|
| 31 March 2012 | | | | |
| <u>Financial Assets</u> | | | | |
| Cash and short term funds | 741,953 | 741,953 | - | - |
| Deposits and placements with banks and other financial institutions | 251,532 | 251,532 | - | - |
| Investment securities available-for-sale | 19,825 | - | - | 19,825 |
| Loans, advances and financing | 366,455 | 366,455 | - | - |
| Derivative financial assets | 18,384 | - | 18,384 | - |
| Other assets | 10,345 | 10,345 | - | - |
| Statutory deposit with Bank Negara Malaysia | 674 | 674 | - | - |
| Total financial assets | 1,409,168 | 1,370,959 | 18,384 | 19,825 |
| <u>Financial Liabilities</u> | | | | |
| Deposits from customers | (876,464) | (876,464) | - | - |
| Deposits and placements of banks and other financial institutions | (173,156) | (173,156) | - | - |
| Bills and acceptances payable | (2,973) | (2,973) | - | - |
| Derivative financial liabilities | (8,336) | - | (8,336) | - |
| Other liabilities | (6,510) | (6,510) | - | - |
| Total financial liabilities | (1,067,439) | (1,059,103) | (8,336) | - |

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28. Financial instruments (continued)

28.1 Categories of financial instruments (continued)

| 1 April 2011 | Carrying amount RM'000 | L&R / OL RM'000 | FVTPL -HFT RM'000 | AFS RM'000 |
|------------------------------------|---------------------------------------|------------------------------------|----------------------------------|-----------------------|
| <u>Financial Assets</u> | | | | |
| Cash and short term funds | 331,553 | 331,553 | - | - |
| Other assets | 916 | 916 | - | - |
| Total financial assets | 332,469 | 332,469 | - | - |
| <u>Financial Liabilities</u> | | | | |
| Other liabilities | (72) | (72) | - | - |
| Total financial liabilities | (72) | (72) | - | - |

28.2 Net gains and losses arising from financial instruments

| | 2013 RM'000 | 2012 RM'000 |
|--|------------------------|------------------------|
| Net gains/ (losses) arising on: | | |
| Fair value through profit or loss: | 53,720 | 30,571 |
| - Held for trading | 49,509 | 30,572 |
| - Held for hedging | 4,211 | (1) |
| Available-for-sale financial assets | 1,611 | 37 |
| - Accretion of discount on debt securities held recognised in profit and loss | 1,648 | 42 |
| - Revaluation on available-for-sale investment securities recognised in other comprehensive income | (37) | (5) |
| Loans and receivables | 49,730 | 24,814 |
| Financial liabilities measured at amortised cost | (23,242) | (12,664) |
| | 81,819 | 42,758 |

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29. Financial risk management

The Bank adopts 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

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established Risk Management Committee (RMC), 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 ALM/Risk Management Committee 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 policy, 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. Normally financial guarantees issued by banks, shareholders or directors of the customers are obtained, and credit evaluations are required to be performed on customers requiring credit.

29. Financial risk management (continued)

(a) Credit risk (continued)

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 the Note 3, 4, 5 and 6 to financial statements.

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

The ALM/Risk Management Committee 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 financing share/unit trust.

(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 2013 and 31 March 2012, 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 statements of financial position. For off-balance sheet financial instruments, the maximum exposure to credit risk represented the contractual nominal amount.

| | 2013 | 2012 |
|--|------------------|------------------|
| | RM'000 | RM'000 |
| <u>On-balance sheet assets</u> | | |
| Cash and short-term funds | 1,095,919 | 741,953 |
| Deposits and placements with banks and other financial institutions | 250,000 | 251,532 |
| Investment securities available-for-sale | 64,656 | 19,825 |
| Loans, advances and financing | 1,095,987 | 366,455 |
| Statutory deposits with BNM | - | 674 |
| Derivative financial assets | 63,274 | 18,384 |
| Other assets | 7,683 | 10,345 |
| | <u>2,577,519</u> | <u>1,409,168</u> |
| <u>Off-balance sheet assets</u> | | |
| Contingent commitment | 87,084 | 18,770 |
| Undrawn irrevocable standby facilities, credit line and other commitments to lend | 355,635 | 140,212 |
| | <u>442,719</u> | <u>158,982</u> |
| Total maximum exposure to credit risk | <u>3,020,238</u> | <u>1,568,150</u> |

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29. Financial risk management (continued)

(a) Credit risk (continued)

(i) Summary analysis of loan, advances and financing

| | Loans, advances and financing to customers RM'000 | Loans, advances and financing to banks* RM'000 |
|-------------------------------------|--|---|
| 31 March 2013 | | |
| Carrying amount | 1,095,987 | 1,345,919 |
| Assets at amortised cost | | |
| Neither past due nor impaired: | 1,104,270 | 1,345,919 |
| Collective allowance for impairment | (8,283) | - |
| | <u>1,095,987</u> | <u>1,345,919</u> |
| | | |
| | Loans, advances and financing to customers RM'000 | Loans, advances and financing to banks* RM'000 |
| 31 March 2012 | | |
| Carrying amount | 366,455 | 993,485 |
| Assets at amortised cost | | |
| Neither past due nor impaired: | 369,225 | 993,485 |
| Collective allowance for impairment | (2,770) | - |
| | <u>366,455</u> | <u>993,485</u> |

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29. Financial risk management (continued)

(a) Credit risk (continued)

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 |
|---|--|---|
| 31 March 2013 | | |
| Carrying amount | <u>1,104,270</u> | <u>1,345,919</u> |
| Concentration of credit risk based on geographical location of customers | | |
| Malaysia | 893,691 | 1,169,910 |
| Other countries | | |
| - Singapore | - | 5,518 |
| - Japan | - | 159,777 |
| - Others | 210,579 | 10,714 |
| | <u>1,104,270</u> | <u>1,345,919</u> |
| 31 March 2012 | | |
| Carrying amount | <u>369,225</u> | <u>993,485</u> |
| Concentration of credit risk based on geographical location of customers | | |
| Malaysia | 369,225 | 595,335 |
| Other countries | | |
| - Singapore | - | 314,894 |
| - Japan | - | 80,468 |
| - Others | - | 2,788 |
| | <u>369,225</u> | <u>993,485</u> |

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

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29. Financial risk management (continued)

(a) Credit risk (continued)

29.1 Deposit placements maturing within one month and deposits and placements with banks and other financial institutions.

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

| 31 March 2013 | Fitch RM'000 | Moody's RM'000 | R&I RM'000 | RAM RM'000 | S&P RM'000 |
|---------------|-------------------------------|---------------------------------|---------------------------------|-----------------------------|---------------------------------|
| AAA | - | - | - | 300,000 | - |
| AA- to AA+ | - | - | - | - | - |
| A- to A+ | 166,797 | - | - | - | - |
| A1 | - | - | - | 50,000 | - |
| AA1 | - | - | - | 8,827 | - |
| AA2 | - | 323 | - | 150,000 | - |
| | <u>166,797</u> | <u>323</u> | <u>-</u> | <u>508,827</u> | <u>-</u> |
| | | | | | |
| 31 March 2012 | Fitch RM'000 | Moody's RM'000 | R&I RM'000 | RAM RM'000 | S&P RM'000 |
| AAA | - | - | - | 46,000 | - |
| AA- to AA+ | - | - | - | - | 871 |
| A- to A+ | - | - | 486,997 | - | 672 |
| A1 | - | - | - | - | - |
| AA1 | - | - | - | 100,000 | - |
| | <u>-</u> | <u>-</u> | <u>486,997</u> | <u>146,000</u> | <u>1,543</u> |

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29. Financial risk management (continued)

(a) Credit risk (continued)

29.2 Summary analysis on securities portfolio

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

| | 2013 | 2012 |
|-------------------------------------|---------------|---------------|
| | RM'000 | RM'000 |
| Bank Negara Malaysia bills | 54,714 | 19,825 |
| Malaysian Government treasury bills | 9,942 | - |
| | <u>64,656</u> | <u>19,825</u> |

29.3 Credit quality of gross loans and advances

Gross loans and advances are analysed as follows:-

| | 2013 | 2012 |
|-------------------------------------|------------------|----------------|
| | RM'000 | RM'000 |
| Neither past due nor impaired | 1,104,270 | 369,225 |
| Collective allowance for impairment | (8,283) | (2,770) |
| | <u>1,095,987</u> | <u>366,455</u> |

29.4 Loans and advances neither past due nor impaired

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

| | 2013 | 2012 |
|---------------------------|------------------|----------------|
| Borrower's Grading | RM'000 | RM'000 |
| Good | 1,104,270 | 369,225 |
| Close Watch | - | - |
| | <u>1,104,270</u> | <u>369,225</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 President who is responsible for both the statutory and prudential liquidity.

The primary tool used to monitor the liquidity risk is the Bank Negara Malaysia's New Liquidity Framework (NLF) and the internal liquidity risk management policy set by ALM/RMC and Head Office. Under the NLF, the Bank must ensure that there is sufficient liquid assets surplus to cover heavy withdrawals of deposits in the one week and one month periods. 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 2013, the minimum liquid assets surplus and money gap limits are as follows:-

| BNM's NLF | | Internal Policy | | | |
|-------------------------------|----------------------|--------------------------------|----------|----------|-----------|
| Minimum Liquid Assets Surplus | | Money Gap Limits (USD million) | | | |
| One Week | One Month | One day | Two days | One week | One month |
| 3% of Total Deposits | 5% of Total Deposits | -20 | -30 | -40 | -50 |

To prepare for the implementation of the Basel 3 Liquidity Framework, the Bank also monitors its Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Under the Basel 3 requirements, the initial minimum ratio requirements will be 60% for LCR and 100% for NSFR.

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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:

| 31 March 2013 | 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 | 1,281,746 | 0.0% to 3.3% | 1,283,603 | 1,244,822 | 38,781 | - |
| Deposits & placements of banks & other financial institutions | 528,355 | 0.0% to 3.2% | 535,984 | 134,026 | 117,664 | 284,294 |
| Bills and acceptances payable | 2,684 | - | 2,684 | 2,684 | - | - |
| Other liabilities | 14,699 | - | 14,699 | 10,466 | 4,095 | 138 |
| Total liabilities | 1,827,484 | - | 1,836,970 | 1,391,998 | 160,540 | 284,432 |
| Derivative financial liabilities, Gross settled | | | | | | |
| Outflows | 813,379 | - | 1,965,591 | 452,536 | 602,186 | 910,869 |
| Inflows | (835,589) | - | (2,944,452) | (453,162) | (555,140) | (1,936,150) |
| | (22,210) | - | (978,861) | (626) | 47,046 | (1,025,281) |
| Grand Total | 1,805,274 | - | 858,109 | 1,391,372 | 207,586 | (740,849) |

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29. Financial risk management (continued)

(b) Liquidity risk (continued)

| 31 March 2012 | 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 | 876,464 | 0.0% to 3.3% | 877,441 | 859,734 | 17,707 | - |
| Deposits & placements of banks & other financial institutions | 173,156 | 0.0% to 3.2% | 173,230 | 173,230 | - | - |
| Bills and acceptances payable | 2,973 | - | 2,973 | 2,973 | - | - |
| Other liabilities | 6,510 | - | 6,510 | 4,849 | 1,661 | - |
| Total liabilities | 1,059,103 | - | 1,060,154 | 1,040,786 | 19,368 | - |
| Derivative financial liabilities, Gross settled | | | | | | |
| Outflows | 423,354 | - | 398,498 | 116,156 | 43,277 | 239,065 |
| Inflows | (415,018) | - | (362,442) | (94,417) | (46,760) | (221,265) |
| | 8,336 | - | 36,056 | 21,739 | (3,483) | 17,800 |
| Grand Total | 1,067,439 | - | 1,096,210 | 1,062,525 | 15,885 | 17,800 |
| 1 April 2011 | | | | | | |
| Other liabilities | 72 | - | 72 | 72 | - | - |

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 categorized 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.

Asset Liability Management/Risk Management Committee (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 tool 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 Asset Liability Management/Risk Management Committee (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 matching 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 currency exchange risk arises from exchange rate movements, which affects the profit of the Bank from its foreign exchange open positions taken from the time to time. This risk is principally managed by setting predetermined limits on open foreign exchange positions against these limits 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 currency risk.

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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 → | | | | | Non-interest bearing RM'000 | 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 | | | |
| 31 March 2013 | | | | | | | | |
| <u>Assets</u> | | | | | | | | |
| Cash and short-term funds | 1,079,907 | - | - | - | - | 16,012 | - | 1,095,919 |
| Deposits and placements with banks and other financial institutions | - | 250,000 | - | - | - | - | - | 250,000 |
| Investment securities available-for-sale | 9,989 | 54,667 | - | - | - | - | - | 64,656 |
| Loans, advances and financing | 695 | 658 | 5,485 | 675,031 | 422,401 | (8,283) ^ | - | 1,095,987 |
| Other assets | 5,826 | 867 | - | - | - | 990 | - | 7,683 |
| Derivative assets | 2,188 | 2,493 | 10,310 | 1,128 | 3,017 | - | 44,138 | 63,274 |
| Total assets | 1,098,605 | 308,685 | 15,795 | 676,159 | 425,418 | 8,719 | 44,138 | 2,577,519 |

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

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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 | | |
| 31 March 2013 | | | | | | | | |
| <u>Liabilities</u> | | | | | | | | |
| Deposits from customers | (682,313) | (107,315) | (38,281) | - | - | (453,837) | - | (1,281,746) |
| Deposits and placements of banks and other financial institutions | (98,980) | (33,750) | (117,346) | (163,167) | (113,849) | (1,263) | - | (528,355) |
| Other liabilities | (1,088) | (440) | (733) | (45) | (93) | (12,300) | - | (14,699) |
| Derivative liabilities | - | - | - | - | - | - | (22,210) | (22,210) |
| Total liabilities | (782,381) | (141,505) | (156,360) | (163,212) | (113,942) | (467,400) | (22,210) | (1,847,010) |
| On balance sheet interest rate gap | 316,224 | 167,180 | (140,565) | 512,947 | 311,476 | (458,681) | 21,928 | 730,509 |
| Off balance sheet interest rate gap | (500) | 394,436 | (21,500) | (174,673) | (197,763) | - | - | - |
| Total interest rate gap | 315,724 | 561,616 | (162,065) | 338,274 | 113,713 | (458,681) | 21,928 | 730,509 |

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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 | Non- interest bearing RM'000 | | |
| 31 March 2012 | | | | | | | |
| <u>Assets</u> | | | | | | | |
| Cash and short-term funds | 736,184 | - | - | - | 5,769 | - | 741,953 |
| Deposits and placements with banks and other financial institutions | - | 251,532 | - | - | - | - | 251,532 |
| Investment securities available-for-sale | - | - | 19,825 | - | - | - | 19,825 |
| Loans, advances and financing | 281,981 | 58,879 | 1,365 | 27,000 | (2,770) [^] | - | 366,455 |
| Other assets | 4,470 | - | - | - | 5,875 | - | 10,345 |
| Derivative assets | - | 46 | - | - | - | 18,338 | 18,384 |
| Statutory deposits with BNM | - | - | - | - | 674 | - | 674 |
| Total assets | 1,022,635 | 310,457 | 21,190 | 27,000 | 9,548 | 18,338 | 1,409,168 |

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

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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 | Non- interest bearing RM'000 | | |
| 31 March 2012 | | | | | | | |
| <u>Liabilities</u> | | | | | | | |
| Deposits from customers | (309,697) | (75,434) | (17,500) | - | (473,833) | - | (876,464) |
| Deposits and placements of banks and other financial institutions | (171,921) | - | - | - | (1,235) | - | (173,156) |
| Other liabilities | - | - | - | - | (6,510) | - | (6,510) |
| Derivative liabilities | - | (8) | - | - | - | (8,328) | (8,336) |
| Total liabilities | (481,618) | (75,442) | (17,500) | - | (481,578) | (8,328) | (1,064,466) |
| On balance sheet interest rate gap | 541,017 | 235,015 | 3,690 | 27,000 | (472,030) | 10,010 | 344,702 |
| Off balance sheet interest rate gap | - | 27,000 | - | (27,000) | - | - | - |
| Total interest rate gap | 541,017 | 262,015 | 3,690 | - | (472,030) | 10,010 | 344,702 |

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 Period (100 basis points) Hike | | Impact on Positions as at Reporting Period (100 basis points) Hike | |
|---------------------|--|----------------------|--|----------------------|
| | Decline in profit before taxation | Decline in equity | Decline in profit before taxation | Decline in equity |
| | 2013 RM'000 | 2013 RM'000 | 2012 RM'000 | 2012 RM'000 |
| JPY | (7) | (5) | (6) | (5) |
| USD | (181) | (136) | (33) | (25) |
| MYR | (720) | (540) | (400) | (300) |

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

| | 2013 | | 2012 | |
|--|----------|----------|----------|----------|
| | MYR % | USD % | MYR % | USD % |
| <u>Financial assets</u> | | | | |
| Cash and short-term funds | 3.08 | 0.14 | 3.03 | 0.18 |
| Deposits and placements with banks and other financial institutions | 3.19 | - | 3.14 | 0.40 |
| Loans, advances and financing | 4.04 | 1.51 | 3.95 | 1.60 |
| <u>Financial liabilities</u> | | | | |
| Deposits from customers | 3.02 | 0.18 | 3.07 | 0.14 |
| Deposits and placements of banks and other financial institutions | 3.10 | 0.38 | 3.04 | 0.28 |

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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.

| 31 March 2013 | MYR RM'000 | USD RM'000 | JPY RM'000 | Others RM'000 | Total RM'000 |
|--|-----------------------|-----------------------|-----------------------|--------------------------|-------------------------|
| <u>Financial Assets</u> | | | | | |
| Cash and short term funds | 919,910 | 134,702 | 25,385 | 15,922 | 1,095,919 |
| Deposits and placements with banks and other financial institutions | 250,000 | - | - | - | 250,000 |
| Investment securities available-for-sale | 64,656 | - | - | - | 64,656 |
| Loans, advances and financing | 481,549 | 495,227 | 6,918 | 120,576 | 1,104,270 |
| Derivative financial assets | 2,769 | 51,232 | 8,717 | 556 | 63,274 |
| Other assets | 7,675 | 7 | - | 1 | 7,683 |
| Total Financial Assets | 1,726,559 | 681,168 | 41,020 | 137,055 | 2,585,802 |

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29. Financial risk management (continued)

(c) Market risk (continued)

Currency risk

| 31 March 2013 | MYR RM'000 | USD RM'000 | JPY RM'000 | Others RM'000 | Total RM'000 |
|---|--------------------|------------------|-----------------|------------------|--------------------|
| <u>Financial Liabilities</u> | | | | | |
| Deposits from customers | (929,190) | (306,338) | (32,388) | (13,830) | (1,281,746) |
| Deposits and placements of banks and other financial institutions | (81,263) | (326,895) | - | (120,197) | (528,355) |
| Derivative financial liabilities | (14,749) | (219) | (7,049) | (193) | (22,210) |
| Other liabilities | (11,642) | (2,706) | (264) | (87) | (14,699) |
| Total Financial Liabilities | (1,036,844) | (636,158) | (39,701) | (134,307) | (1,847,010) |
| | | | | | |
| Total foreign currency sensitivity gap | 689,715 | 45,010 | 1,319 | 2,748 | 738,792 |

Stress test has been performed on foreign currency trading positions to assess impact of a 10% weakening in Malaysia Ringgit exchange rates, adjusted to incorporate impact of correlation between different currencies. The impact has been assessed to be a decrease of RM4,908,000 in profit before tax and RM3,681,000 in equity. This analysis assumes that all variables, in particular interest rates, remained constant.

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29. Financial risk management (continued)

(c) Market risk (continued)

Currency risk

| 31 March 2012 | MYR RM'000 | USD RM'000 | JPY RM'000 | Others RM'000 | Total RM'000 |
|--|----------------|----------------|---------------|------------------|------------------|
| <u>Financial Assets</u> | | | | | |
| Cash and short term funds | 253,414 | 405,321 | 80,467 | 2,751 | 741,953 |
| Deposits and placements with banks and other financial institutions | 250,000 | 1,532 | - | - | 251,532 |
| Investment securities available-for-sale | 19,825 | - | - | - | 19,825 |
| Loans, advances and financing | 341,743 | 24,712 | - | - | 366,455 |
| Derivative financial assets | 46 | 16,701 | 1,595 | 42 | 18,384 |
| Other assets | 10,332 | 13 | - | - | 10,345 |
| Statutory deposit with Bank Negara Malaysia | 674 | - | - | - | 674 |
| Total Financial Assets | 876,034 | 448,279 | 82,062 | 2,793 | 1,409,168 |

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29. Financial risk management (continued)

(c) Market risk (continued)

Currency risk (continued)

| 31 March 2012 | MYR RM'000 | USD RM'000 | JPY RM'000 | Others RM'000 | Total RM'000 |
|---|------------------|------------------|-----------------|------------------|--------------------|
| <u>Financial Liabilities</u> | | | | | |
| Deposits from customers | (448,314) | (346,968) | (80,276) | (906) | (876,464) |
| Deposits and placements of banks and other financial institutions | (81,235) | (91,921) | - | - | (173,156) |
| Derivative financial liabilities | (4,798) | (3,456) | (59) | (23) | (8,336) |
| Other liabilities | (5,204) | (1,305) | - | - | (6,509) |
| Total Financial Liabilities | (539,551) | (443,650) | (80,335) | (929) | (1,064,465) |
| Total foreign currency sensitivity gap | 336,483 | 4,629 | 1,727 | 1,864 | 344,703 |

Stress test has been performed on foreign currency trading positions to assess impact of a 10% weakening in Malaysia Ringgit exchange rates, adjusted to incorporate impact of correlation between different currencies. The impact has been assessed to be a decrease of RM822,000 in profit before tax and RM617,000 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/Risk Management Committee 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 asset as at 31 March 2013.

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30. Fair values of financial assets and financial liabilities

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 are as follows:

| | Carrying amount | | | Fair value | | |
|--|----------------------------|----------------------------|---------------------------|----------------------------|----------------------------|---------------------------|
| | 31 March 2013 RM'000 | 31 March 2012 RM'000 | 1 April 2011 RM'000 | 31 March 2013 RM'000 | 31 March 2012 RM'000 | 1 April 2011 RM'000 |
| <u>Financial Assets</u> | | | | | | |
| Cash and short term funds | 1,095,919 | 741,953 | 331,553 | 1,095,919 | 741,953 | 331,553 |
| Deposits and placements with banks and other financial institutions | 250,000 | 251,532 | - | 250,000 | 251,532 | - |
| Investment securities available-for-sale | 64,656 | 19,825 | - | 64,656 | 19,825 | - |
| Loans, advances and financing* | 1,104,270 | 369,225 | - | 1,039,992 | 369,225 | - |
| Derivative financial assets | 63,274 | 18,384 | - | 63,274 | 18,384 | - |
| Total financial assets | 2,578,119 | 1,400,919 | 331,553 | 2,513,841 | 1,400,919 | 331,553 |
| <u>Financial Liabilities</u> | | | | | | |
| Deposits from customers | 1,281,746 | 876,464 | - | 1,281,746 | 876,464 | - |
| Deposits and placements of banks and other financial institutions | 528,355 | 173,156 | - | 521,619 | 173,156 | - |
| Bills and acceptances payable | 2,684 | 2,973 | - | 2,684 | 2,973 | - |
| Derivative financial liabilities | 22,210 | 8,336 | - | 22,210 | 8,336 | - |
| Total financial liabilities | 1,834,995 | 1,060,929 | - | 1,828,259 | 1,060,929 | - |

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

30. Fair values of financial assets and financial liabilities (continued)

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

(a) Cash and short-term funds/ Deposits and placements with banks and other financial institutions

For cash and short-term funds and deposits and placements with banks and other financial institutions, the carrying amounts are a reasonable estimate of the fair values because of their short-term nature (less than one year) and limited credit risk.

(b) 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 instrument at the statements of financial position date.

(c) Loans, advances and financing

The fair values of fixed rate loans with remaining maturity less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate loans with maturities 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 reporting date offered for similar loans. In respect of impaired loans, the fair values are deemed to approximate the carrying values, net of individual assessment impairment allowance.

(d) Deposits from customers

The fair values of demand deposits maturing within a short period of time are the amounts payable on demand. Fair values of fixed deposits maturing within a year are estimated to approximate their carrying amounts.

(e) Deposits and placements of banks and other financial institutions

The fair values of non-interest bearing deposits are equal to amounts payable on demand. For deposits with maturity exceeding one year, fair values are estimated by discounting the estimated future cash flows based on the contracted maturity of the deposits.

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30. Fair values of financial assets and financial liabilities (continued)

Fair value hierarchy

The Bank measure 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 government and agency securities | Corporate and other government bonds and loans Over-the-counter ("OTC") derivatives | Private debt equity investments Corporate bonds in non-liquid market |
| Type of financial liabilities | - | OTC derivatives | - |

| | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total RM'000 |
|---|-------------------|-------------------|-------------------|-----------------|
| 31 March 2013 | | | | |
| Financial Assets | | | | |
| Financial assets held for trading | | | | |
| Derivative financial instruments | - | 63,274 | - | 63,274 |
| Investment securities available-for-sale | | | | |
| Bank Negara Malaysia Bills | - | 54,714 | - | 54,714 |
| Malaysian Government treasury bills | - | 9,942 | - | 9,942 |
| At 31 March 2013 | - | 127,930 | - | 127,930 |
| Financial Liabilities | | | | |
| Derivative financial instruments | - | 22,210 | - | 22,210 |
| At 31 March 2013 | - | 22,210 | - | 22,210 |

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30. Fair values of financial assets and financial liabilities (continued)

Fair value hierarchy (continued)

| 31 March 2012 | Level 1 | Level 2 | Level 3 | Total |
|---|----------------|----------------|----------------|---------------|
| Financial Assets | RM'000 | RM'000 | RM'000 | RM'000 |
| Financial assets held for trading | | | | |
| Derivative financial instruments | - | 18,384 | - | 18,384 |
| Investment securities available-for-sale | | | | |
| Bank Negara Malaysia Bills | - | 19,825 | - | 19,825 |
| At 31 March 2012 | - | 38,209 | - | 38,209 |
| Financial Liabilities | | | | |
| Derivative financial instruments | - | 8,336 | - | 8,336 |
| At 31 March 2012 | - | 8,336 | - | 8,336 |

Derivative financial instruments

Derivatives held for hedging

| | Principal amounts | Positive fair value | Negative fair value |
|--|--------------------------|----------------------------|----------------------------|
| | RM'000 | RM'000 | RM'000 |
| At 31 March 2013 | | | |
| Derivatives designated as fair value hedges: | | | |
| - Interest rate swaps | 394,436 | 4,166 | 126 |
| | <u>394,436</u> | <u>4,166</u> | <u>126</u> |
| Held for trading | | | |
| - Foreign exchange contracts | 1,886,538 | 14,970 | 12,584 |
| - Currency swaps | 1,578,354 | 44,138 | 9,500 |
| | <u>3,464,892</u> | <u>59,108</u> | <u>22,084</u> |
| | <u>3,859,328</u> | <u>63,274</u> | <u>22,210</u> |

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30. Fair values of financial assets and financial liabilities (continued)

Derivative financial instruments (continued)

Derivatives held for hedging (continued)

| | Principal amounts RM'000 | Positive fair value RM'000 | Negative fair value RM'000 |
|---|---|---|---|
| At 31 March 2012 | | | |
| Derivatives designated as fair value hedges: | | | |
| - Interest rate swaps | 27,000 | 46 | 8 |
| | <u>27,000</u> | <u>46</u> | <u>8</u> |
| Held for trading | | | |
| - Foreign exchange contracts | 516,759 | 4,068 | 3,538 |
| - Currency swaps | 829,743 | 14,270 | 4,790 |
| | <u>1,346,502</u> | <u>18,338</u> | <u>8,328</u> |
| | <u>1,373,502</u> | <u>18,384</u> | <u>8,336</u> |

Derivative financial instruments by sector:

| | Principal amounts RM'000 | Positive fair value RM'000 | Negative fair value RM'000 |
|---|---|---|---|
| At 31 March 2013 | | | |
| Manufacturing | 978,259 | 10,607 | 4,481 |
| Electricity | 7,586 | 716 | - |
| Construction | 34,881 | 19,408 | 21 |
| Wholesale and retail trade, and restaurants and hotels | 132,681 | 6,392 | 36 |
| Finance, insurance and business services | 2,705,921 | 26,151 | 17,672 |
| | <u>3,859,328</u> | <u>63,274</u> | <u>22,210</u> |

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30. Fair values of financial assets and financial liabilities (continued)

Derivative financial instruments (continued)

Derivative financial instruments by sector (continued)

| | Principal amounts RM'000 | Positive fair value RM'000 | Negative fair value RM'000 |
|---|---|---|---|
| At 31 March 2012 | | | |
| Manufacturing | 381,469 | 10,897 | 907 |
| Construction | 4,949 | 396 | - |
| Wholesale and retail trade, and restaurants and hotels | 53,732 | 287 | 106 |
| Finance, insurance and business services | 933,352 | 6,804 | 7,323 |
| | <u>1,373,502</u> | <u>18,384</u> | <u>8,336</u> |

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31. Capital adequacy

The components of Tier I and Tier II Capital of the Bank are as follows:

| | 31 March 2013 RM'000 | 31 March 2012 RM'000 |
|---|-------------------------------------|-------------------------------------|
| <u>Capital ratios</u> | | |
| Core capital ratio | 42.93% | 40.90% |
| Risk-weighted capital ratio | 43.41% | 41.22% |
| <u>Tier-1 capital</u> | | |
| Paid-up ordinary share capital | 700,000 | 350,000 |
| Retained earnings/ (Accumulated losses) | 14,792 | (1,293) |
| Statutory reserve | 19,256 | 3,170 |
| Available-for-sale reserve | (42) | - |
| | <u>734,006</u> | <u>351,877</u> |
| Less: Deferred tax assets | (1,882) | - |
| Total Tier-1 Capital | <u>732,124</u> | <u>351,877</u> |
| <u>Tier-2 capital</u> | | |
| Collective allowance for impairment | <u>8,283</u> | <u>2,770</u> |
| Total Tier-2 Capital | <u>8,283</u> | <u>2,770</u> |
| Total capital base | <u><u>740,407</u></u> | <u><u>354,647</u></u> |
| Breakdown of risk-weighted assets in the various categories of risk-weights are as follows : | | |
| Credit risk | 1,496,638 | 681,237 |
| Market risk | 74,439 | 83,620 |
| Operational risk | 134,531 | 95,511 |
| Total risk-weighted assets | <u><u>1,705,608</u></u> | <u><u>860,368</u></u> |

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31. Capital adequacy (continued)

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

| 31 March 2013 | | Gross exposures | Net exposures | Risk-weighted assets | Capital requirements |
|--|----------------------|------------------------|----------------------|-----------------------------|-----------------------------|
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| (i) Credit risk | | | | | |
| On-balance sheet exposures: | | | | | |
| Sovereigns/ central banks | | 484,495 | 484,495 | - | - |
| Banks, development financial institutions and MDBs | | 932,399 | 932,399 | 186,480 | 14,918 |
| Corporates | | 1,104,270 | 1,104,270 | 994,275 | 79,542 |
| Other assets | | 73,883 | 73,883 | 73,514 | 5,881 |
| Total on-balance sheet exposures | | 2,595,047 | 2,595,047 | 1,254,269 | 100,341 |
| Off-balance sheet exposures: | | | | | |
| Credit-related exposures | | 423,381 | 423,381 | 242,369 | 19,390 |
| Total off-balance sheet exposures | | 423,381 | 423,381 | 242,369 | 19,390 |
| Total on and off-balance sheet exposures | | 3,018,428 | 3,018,428 | 1,496,638 | 119,731 |
| (ii) Large exposure risk requirement | | | | | |
| | | - | - | - | - |
| (iii) Market risk | | | | | |
| | Long position | Short position | | | |
| Interest rate risk | 3,960,837 | 3,919,860 | 40,977 | 73,470 | 5,878 |
| Foreign exchange risk | 969 | - | 969 | 969 | 77 |
| | 3,961,806 | 3,919,860 | 41,946 | 74,439 | 5,955 |
| (iv) Operational risk | | | | 134,531 | 10,762 |
| Total RWA and capital requirements | | | | 1,705,608 | 136,448 |

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31. Capital adequacy (continued)

| 31 March 2012 | | | | | |
|--|---------------------------|-------------------------|--------------------------------|--------------------------------|-------|
| 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 | 127,884 | 127,884 | - | - | |
| Banks, development financial institutions and MDBs | 891,195 | 891,195 | 178,239 | 14,259 | |
| Corporates | 369,225 | 369,225 | 327,612 | 26,209 | |
| Other assets | 35,361 | 35,361 | 35,195 | 2,816 | |
| Total on-balance sheet exposures | 1,423,665 | 1,423,665 | 541,046 | 43,284 | |
| Off-balance sheet exposures: | | | | | |
| Credit-related exposures | 184,807 | 184,807 | 140,191 | 11,215 | |
| Total off-balance sheet exposures | 184,807 | 184,807 | 140,191 | 11,215 | |
| Total on and off-balance sheet exposures | 1,608,472 | 1,608,472 | 681,237 | 54,499 | |
| (ii) Large exposure risk requirement | | | | | |
| | - | - | - | - | |
| (iii) Market risk | | | | | |
| | Long position | Short position | | | |
| Interest rate risk | 1,364,531 | 1,354,111 | 10,420 | 82,953 | 6,636 |
| Foreign exchange risk | 667 | - | 667 | 667 | 53 |
| | 1,365,198 | 1,354,111 | 11,087 | 83,620 | 6,689 |
| (iv) Operational risk | | | | | |
| | | | 95,511 | 7,641 | |
| Total RWA and capital requirements | | | 860,368 | 68,829 | |

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31. Capital adequacy (continued)

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

| | ← Exposure after Netting and Credit Risk Mitigation → | | | | | |
|----------------------------------|---|--|----------------------|---------------------------|---|---|
| | Sovereigns/ Central Banks RM'000 | Banks, Development Financial Institutions and MDBs RM'000 | Corporates RM'000 | Other Assets RM'000 | Total Exposure after Netting & Credit Risk Mitigation RM'000 | Total Risk Weighted Assets RM'000 |
| 31 March 2013 | | | | | | |
| Risk Weights | | | | | | |
| 0% | 484,495 | - | - | 363 | 484,858 | - |
| 20% | - | 1,045,301 | 225,869 | - | 1,271,170 | 254,234 |
| 50% | - | 39,991 | - | - | 39,991 | 19,995 |
| 100% | - | - | 1,148,889 | 73,520 | 1,222,409 | 1,222,409 |
| Total | 484,495 | 1,085,292 | 1,374,758 | 73,883 | 3,018,428 | 1,496,638 |
| Risk-weighted assets by exposure | - | 229,055 | 1,194,063 | 73,520 | 1,496,638 | |
| Average risk weight | 0% | 21.1% | 86.9% | 99.5% | 49.6% | |
| Deduction from capital base | - | - | - | - | - | |

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31. Capital adequacy (continued)

| | ← Exposure after Netting and Credit Risk Mitigation → | | | | | |
|----------------------------------|---|--|------------|-----------------|---|----------------------------------|
| | Sovereigns/ Central Banks | Banks, Development Financial Institutions and MDBs | Corporates | Other Assets | Total Exposure after Netting & Credit Risk Mitigation | Total Risk Weighted Assets |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| 31 March 2012 | | | | | | |
| Risk Weights | | | | | | |
| 0% | 127,884 | - | - | 166 | 128,050 | - |
| 20% | - | 939,884 | - | - | 939,884 | 187,977 |
| 50% | - | 11,329 | 83,227 | - | 94,556 | 47,278 |
| 100% | - | - | 410,787 | 35,195 | 445,982 | 445,982 |
| Total | 127,884 | 951,213 | 494,014 | 35,361 | 1,608,472 | 681,237 |
| Risk-weighted assets by exposure | - | 193,641 | 452,401 | 35,195 | 681,237 | |
| Average risk weight | 0% | 20.4% | 91.6% | 99.5% | 42.4% | |
| Deduction from capital base | - | - | - | - | - | |

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32. 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. 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 31.

33. Explanation of Transition to MFRSs

The accounting policies set out in Note 2 have been applied in preparing the financial statements of the Bank for the financial year ended 31 March 2013, and the comparative information presented in these financial statements.

In preparing the opening MFRS statements of financial position as at 1 April 2011, the Bank has adjusted amounts reported previously in financial statements prepared in accordance with the previous FRSs. An explanation of how the transition from the previous FRSs to the new MFRSs has affected the Bank's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany these tables.

33.1 Reconciliation of Financial Position

| 31 March 2012 | FRSs RM'000 | Effect of transition to MFRSs RM'000 | MFRSs RM'000 |
|---|------------------------|---|-------------------------|
| Assets | | | |
| Cash and short-term funds | 741,953 | - | 741,953 |
| Deposits and placements with banks and other financial institutions | 251,532 | - | 251,532 |
| Investment securities available- for-sale | 19,825 | - | 19,825 |
| Loans, advances and financing | 363,686 | 2,769 | 366,455 |
| Derivative financial assets | 18,384 | - | 18,384 |
| Other assets | 10,520 | - | 10,520 |
| Statutory deposits with Bank Negara Malaysia | 674 | - | 674 |
| Plant and equipment | 11,551 | - | 11,551 |
| Deferred tax assets | 236 | (236) | - |
| Total assets | <u>1,418,361</u> | <u>2,533</u> | <u>1,420,894</u> |

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33. Explanation of Transition to MFRSs (continued)

33.1 Reconciliation of Financial Position (continued)

| 31 March 2012 | FRSs RM'000 | Effect of transition to MFRSs RM'000 | MFRSs RM'000 |
|---|------------------------|---|-------------------------|
| Liabilities | | | |
| Deposits from customers | 876,464 | - | 876,464 |
| Deposits and placements of banks and other financial institutions | 173,156 | - | 173,156 |
| Bills and acceptances payable | 2,973 | - | 2,973 |
| Derivative financial liabilities | 8,336 | - | 8,336 |
| Other liabilities | 7,256 | - | 7,256 |
| Tax payable | 381 | - | 381 |
| Deferred tax liabilities | - | 456 | 456 |
| Total liabilities | <u>1,068,566</u> | <u>456</u> | <u>1,069,022</u> |
| Equity | | | |
| Share capital | 350,000 | - | 350,000 |
| Reserves | (205) | 2,077 | 1,872 |
| Total equity attributable to equity holder of the Bank | <u>349,795</u> | <u>2,077</u> | <u>351,872</u> |
| Total liabilities and equity | <u>1,418,361</u> | <u>2,533</u> | <u>1,420,894</u> |
| Commitments and contingencies | <u>1,532,484</u> | <u>-</u> | <u>1,532,484</u> |

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33. Explanation of Transition to MFRSs (continued)

33.2 Reconciliation of Statements of Comprehensive Income For the year ended 31 March 2012

| | FRSs RM'000 | Effect of transition to MFRSs RM'000 | MFRSs RM'000 |
|---|---------------------|---|---------------------|
| Interest income | 27,522 | - | 27,522 |
| Interest expense | (12,664) | - | (12,664) |
| Net interest income | <u>14,858</u> | - | <u>14,858</u> |
| Other operating income | 36,257 | - | 36,257 |
| Net operating income | 51,115 | - | 51,115 |
| Other operating expenses | (39,986) | - | (39,986) |
| Operating profit | 11,129 | - | 11,129 |
| Provision for loans, advances and financing | (5,539) | 2,769 | (2,770) |
| Profit before taxation | <u>5,590</u> | <u>2,769</u> | <u>8,359</u> |
| Tax expense | (1,327) | (692) | (2,019) |
| Profit after taxation | <u>4,263</u> | <u>2,077</u> | <u>6,340</u> |
| Other comprehensive income for the year/ period, net of income tax | | | |
| Fair value changes of investment securities available-for-sale | (5) | - | (5) |
| Total comprehensive income for the year | <u><u>4,258</u></u> | <u><u>2,077</u></u> | <u><u>6,335</u></u> |
| Basic earnings per share (sen) | <u>1.22</u> | <u>0.59</u> | <u>1.81</u> |

33.3 Reserves

The changes that affected the reserves are as follows:

| | |
|---|-------------------------------------|
| | 31 March 2012 RM'000 |
| Provision for loans, advances and financing (net of tax effect) | <u><u>2,077</u></u> |

33 Explanation of transition to MFRSs (continued)

(i) Accounting policy on Impairment of Financial Assets – Loans, advances and financing

Prior to MFRSs, the Bank applied the transitional provision as stated in the BNM guidelines on Classification and Impairment Provisions for Loans/Financing and maintained collective impairment provisions at 1.5% of total outstanding loans, net of individual impairment provision.

With the adoption of MFRS139 Financial instruments: Recognition and Measurement (“MFRS139”), the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If the Bank determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in group of financial assets with similar credit risk characteristics and collectively assess them for impairment.

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

**Statement by Directors pursuant to Section 169(15)
of the Companies Act, 1965**

In the opinion of the Directors, the financial statements set out on pages 14 to 98 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 March 2013 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:

.....
Yasuhiro Oashi

.....
Razman Hafidz bin Abu Zarim

Kuala Lumpur

Date: 19 August 2013

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

**Statutory declaration pursuant to
Section 169(16) of the Companies Act, 1965**

I, Atsushi Morimoto, the chief financial 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 14 to 98 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur in the Federal Territory on 19 August 2013.

.....
Atsushi Morimoto

Before me:

Independent Auditors' Report to the Member of Sumitomo Mitsui Banking Corporation Malaysia Berhad

(Company No. 926374-U)

(Incorporated in Malaysia)

Report on the Financial Statements

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 2013 of the Bank, and the statements of comprehensive income, changes in equity and cash flows of the Bank for the period then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 14 to 98.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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| Company No. 926374-U |
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Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 31 March 2013 and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

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

Other Matters

As stated in Note 1(a) to the financial statements, Sumitomo Mitsui Banking Corporation Malaysia Berhad adopted Malaysia Financial Reporting Standards (“MFRS”) and International Financial Reporting Standards (“IFRSs”) on 1 April 2012 with a transition date of 1 April 2011. These standards were applied retrospectively by the Directors to the comparative information in these financial statements, including the statements of financial position as at 31 March 2012 and 1 April 2011, and the statements of comprehensive income, changes in equity and cash flows for the year ended 31 March 2012 and related disclosures. We were not engaged to report on the comparative information that is prepared in accordance with MFRSs and IFRSs, and hence it is unaudited. Our responsibilities as part of our audit of the financial statements of the Bank for the year ended 31 March 2013 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 April 2012 do not contain misstatements that materially affect the financial position as of 31 March 2013 and financial performance and cash flows for the year then ended.

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

KPMG
Firm Number: AF 0758
Chartered Accountants

Khaw Hock Hoe
Approval Number: 2229/04/14(J)
Chartered Accountant

Petaling Jaya,

Date: 19 August 2013