

Company No.

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SUMITOMO MITSUI BANKING CORPORATION MALAYSIA BERHAD

(Incorporated in Malaysia)

PILLAR 3 DISCLOSURES

31 MARCH 2012

SUMITOMO MITSUI BANKING CORPORATION MALAYSIA BERHAD**UNAUDITED PILLAR 3 DISCLOSURE****31 MARCH 2012****1. OVERVIEW**

The Pillar 3 Disclosure for financial reporting beginning 1 January 2010 is introduced under the Bank Negara Malaysia's Risk-Weighted Capital Adequacy Framework ("RWCAF"), which is the equivalent to Basel II issued by the Basel Committee on Banking Supervision (BCBS). Basel II consists of 3 Pillars as follows:

- (a) Pillar 1 outlines the minimum amount of regulatory capital that banking institutions must hold against credit, market and operational risks assumed.
- (b) Pillar 2 focuses on strengthening the supervisory review process in developing more rigorous risk management framework and techniques. The purpose is for banking institutions to implement an effective and rigorous internal capital adequacy assessment process that commensurate with the risk profile and business plans of the bank.
- (c) Pillar 3 sets out the minimum disclosure requirements of information on the risk management practices and capital adequacy of banking institution, aimed to enhance comparability amongst banking institutions.

The approaches adopted by Sumitomo Mitsui Banking Corporation Malaysia Berhad (the Bank), are shown in table below:

	Risk type	Approach adopted	Capital requirement assessment
1	Credit	Standardised Approach	Standard risk weights
2	Market	Standardised Approach	Standard risk weights
3	Operational	Basic Indicator Approach	Fixed percentage over average gross income for a fixed number of years

2. 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.

3. CAPITAL MANAGEMENT FRAMEWORK

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.

4. CAPITAL ADEQUACY

(a) The capital adequacy ratios of the Bank are as follows:

31 March 2012

Core capital ratio	40.63%
Risk-weighted capital ratio	41.27%

The capital adequacy ratios consist of capital base and risk-weighted assets derived from balances of the Bank. The minimum regulatory capital adequacy requirement is 8.00% for the risk-weighted capital ratio.

4. CAPITAL ADEQUACY (CONTINUED)

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

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 exposure	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
Foreign exchange risk	667	-	667	667
	1,365,198	1,354,111	11,807	83,620
(iv) Operational risk			95,511	7,641
Total RWA and capital requirements			860,368	68,829

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5. CAPITAL STRUCTURE

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

	31 March 2012 RM'000
<u>Tier-I Capital</u>	
Paid-up ordinary share capital	350,000
Accumulated losses	(2,332)
Statutory Reserve	2,132
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	349,800
Less: Deferred tax assets	(236)
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Total Tier-I Capital	349,564
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<u>Tier-II Capital</u>	
Collective allowance for impairment	5,539
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Total capital base	355,103
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6. 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 given by banks, shareholders or directors of customers are obtained, and credit evaluations are required to be performed on customers requiring credit.

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

6. CREDIT RISK

General Disclosure

(a) The following table presents the gross credit exposures of financial assets of the Bank analysed by economic sector:-

	Cash and short-term funds	Deposits and placements with banks and other financial institutions	Financial Investments available-for-sale	Loans, advances and financing (*)	Statutory Deposits with BNM	Derivative Financial assets	Plant and equipment	Other assets	Total on-balance sheet exposures	Total off-balance sheet exposures	Total exposures
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 March 2012											
Agriculture	-	-	-	1,003	-	-	-	-	1,003	3,000	4,003
Manufacturing	-	-	-	122,046	-	10,792	-	-	132,838	448,359	581,197
Electricity	-	-	-	153,270	-	-	-	-	153,270	-	153,270
Construction	-	-	-	-	-	396	-	-	396	51,391	51,787
Wholesale and retail trade, and restaurants and hotel	-	-	-	1,503	-	419	-	-	1,922	63,732	65,654
Finance, insurance and business services	741,953	251,532	19,825	91,403	674	6,777	11,551	10,520	1,134,235	964,502	2,098,737
Renting of machinery and equipment	-	-	-	-	-	-	-	-	-	1,500	1,500
	741,953	251,532	19,825	369,225	674	18,384	11,551	10,520	1,423,664	1,532,484	2,956,148
Allowance for collective impairment	-	-	-	(5,539)	-	-	-	-	(5,539)	-	(5,539)
Other Assets not subject to credit risk	-	-	-	-	-	-	-	236	236	-	236
	741,953	251,532	19,825	363,686	674	18,384	11,551	10,756	1,418,361	1,532,484	2,950,845

(*) Exclude allowance for collective impairment on loans, advances and financing

6. CREDIT RISK (CONTINUED)

General Disclosure (Continued)

(b) The following table presents the gross credit exposures of financial assets of the Bank analysed by geographical location based on where the credit risk resides:-

	Cash and short-term funds	Deposits and placements with banks and other financial institutions	Financial Investments available-for-sale	Loans, advances and financing (*)	Statutory Deposits with BNM	Derivative Financial assets	Plant and equipment	Other assets	Total on-balance sheet exposures	Total off-balance sheet exposures	Total exposures
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 March 2012											
Malaysia	253,413	250,000	19,825	369,225	674	18,243	11,551	10,520	933,451	1,432,677	2,366,128
Other countries	488,540	1,532	-	-	-	141	-	-	490,213	99,807	590,020
	741,953	251,532	19,825	369,225	674	18,384	11,551	10,520	1,423,664	1,532,484	2,956,148

(*) Exclude allowance for collective impairment on loans, advances and financing

6. **CREDIT RISK (CONTINUED)****General Disclosure (Continued)**

(c) The following table presents the residual contractual maturity breakdown by major types of gross credit exposures for on-balance sheet exposures of financial assets. Approximately 98% of the Bank's exposures to customers is short term, having contractual maturity of one year or less:-

	Cash and short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial Investments available-for- sale RM'000	Loans, advances and financing (*) RM'000	Statutory Deposits with BNM RM'000	Derivative Financial assets RM'000	Plant and equipment RM'000	Other assets RM'000	Total on- balance sheet exposures RM'000
31 March 2012									
Up to 1 month	741,953	-	-	281,981	-	-	-	8,810	1,032,744
1 to 3 months	-	251,532	-	85,879	-	-	-	666	338,077
3 to 12 months	-	-	19,825	1,365	-	9	-	82	21,281
1 to 5 years	-	-	-	-	674	18,375	11,551	962	31,562
	741,953	251,532	19,825	369,225	674	18,384	11,551	10,520	1,423,664

(*) Exclude allowance for collective impairment on loans, advances and financing.

The residual contractual maturity for off-balance sheet exposures is not presented as the total off-balance sheet exposures do not represent future receivables since the Bank expects many of these commitments (such as undrawn credit facilities) to expire or unconditionally cancelled by the Bank without them being called or drawn upon.

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6. **CREDIT RISK (CONTINUED)**

General Disclosure (Continued)

(d) The following table presents the collective allowance for impairment on loans, advances and financing of the Bank analysed by economic sector:-

	Agriculture RM'000	Manufacturing RM'000	Electricity RM'000	Wholesale and retail trade, and restaurants and hotel RM'000	Finance, insurance and business services RM'000	Total RM'000
31 March 2012						
Loans, advances and financing	15	1,830	2,300	23	1,371	5,539
	15	1,830	2,300	23	1,371	5,539

(e) The following table presents the collective allowance for impairment on loans, advances and financing of the Bank analysed by geographical location based on where the credit risk resides:-

	Malaysia RM'000	Other countries RM'000	Total RM'000
31 March 2012			
Loans, advances and financing	5,539	-	5,539
	5,539	-	5,539

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6. **CREDIT RISK (CONTINUED)**

General Disclosure (Continued)

(f) Movements in collective allowance for impairment on loans, advances and financing:-

	31 March 2012
	RM'000
At beginning of the financial period	-
Allowance made during the financial period	5,539
At end of the financial period	<u>5,539</u>
As % of gross loans, advances and financing (net of individual allowance)	<u>1.5%</u>

6. CREDIT RISK (CONTINUED)

Disclosure for portfolios under Standardised Approach

The Bank refers to the credit ratings assigned by credit rating agencies in its calculation of credit risk-weighted assets. The following are the External Credit Assessment Institutions ("ECAI") ratings used by the Bank and are recognised by BNM in the RWCAF:

- (a) Standard & Poor's Rating Services ("S & P")
- (b) Moody's Investors Service ("Moody's")
- (c) Fitch Ratings ("Fitch")
- (d) RAM Rating Services Berhad ("RAM")
- (e) Malaysian Rating Corporation Berhad ("MARC")
- (f) Rating and Investment Information, Inc. ("R&I")

The ECAI ratings accorded to the following counterparty exposure classes are used in the calculation of risk-weighted assets for capital adequacy purposes:

- (a) Sovereigns and Central Bank
- (b) Banking Institutions
- (c) Corporates

Rated and Unrated Counterparties

In general, the issue rating i.e. the rating specific to the credit exposure is used. When there is no specific rating available, the credit rating assigned to the issuer or counterparty of the particular credit exposure is used. In cases where an exposure has neither an issue or issuer rating, it is deemed as unrated.

Where a counterparty or an exposure is rated by more than one ECAI, all available external ratings of the counterparty will be captured and the following rules will be observed:

- Where 2 recognised external ratings are available, the lower rating is to be applied;
or
- Where 3 or more recognised external ratings are available, the lower of the highest 2 ratings will be used for the capital adequacy calculation purposes.

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6. **CREDIT RISK (CONTINUED)**

Disclosure for portfolios under Standardised Approach (Continued)

The following is a summary of the rules governing the assignment of risk weights and rating categories under the Standardised Approach.

Sovereigns and Central Banks

Rating Category	S&P	Moody's	Fitch	Risk Weight
1	AAA to AA-	Aaa to Aa3	AAA to AA-	0%
2	A+ to A-	A1 to A3	A+ to A-	20%
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	50%
4	BB+ to B-	Ba1 to B3	BB+ to B-	100%
5	CCC+ to D	Caa1 to C	CCC+ to D	150%
Unrated				100%

Banking Institutions

Rating Category	S&P	Moody's	Fitch	RAM	MARC	R&I	Risk Weight	Risk weight (original maturity of <=6 months)	Risk weight (original maturity of <=3 months)
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA3	AAA to AA-	AAA to AA-	20%	20%	20%
2	A+ to A-	A1 to A3	A+ to A-	A1 to A3	A+ to A-	A+ to A-	50%	20%	
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBB1 to BBB3	BBB+ to BBB-	BBB+ to BBB-	50%	20%	
4	BB+ to B-	Ba1 to B3	BB+ to B-	BB1 to B3	BB+ to B-	BB+ to B-	100%	50%	
5	CCC+ to D	Caa1 to C	CCC+ to D	C1 to D	C+ to D	CCC+ to C	150%	150%	
Unrated							50%	20%	

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6. **CREDIT RISK (CONTINUED)**

Disclosure for portfolios under Standardised Approach (Continued)

Corporate

Rating Category	S&P	Moody's	Fitch	RAM	MARC	R&I	Risk Weight
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA3	AAA to AA-	AAA to AA-	20%
2	A+ to A-	A1 to A3	A+ to A-	A1 to A3	A+ to A-	A+ to A-	50%
3	BBB+ to BB-	Baa1 to Ba3	BBB+ to BB-	BBB1 to BB3	BBB+ to BB-	BBB+ to BB-	100%
4	B+ to D	B1 to C	B+ to D	B1 to D	B+ to D	B+ to D	150%
Unrated							100%

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6. CREDIT RISK (CONTINUED)

Disclosure for portfolios under Standardised Approach (Continued)

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

← Exposure after Netting and Credit Risk Mitigation →

31 March 2012	Sovereigns/ Central Banks	Banks, Development Financial Institutions and MDBs	Corporates	Other Assets	Total Exposure after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
Risk Weights	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
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	0.0%	20.4%	91.6%	99.5%	42.4%	
Deduction from capital base	-	-	-	-	-	

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6. **CREDIT RISK (CONTINUED)**

Disclosure for portfolios under Standardised Approach (Continued)

The following table presents the on and off balance sheet credit exposures, categorized according to the credit quality rating as at 31 March 2012:

	Rating Categories					
	1	2	3	4	5	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Sovereign and Central Bank	-	-	-	-	-	127,884
Banks, Development Financial Institutions and MDBs	-	939,884	11,329	-	-	-
Corporates	-	83,227	-	-	-	410,787
Other assets	-	-	-	-	-	35,361

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6. CREDIT RISK (CONTINUED)

General Disclosure for Off-Balance Sheet Exposure and Counterparty Credit Risk (CCR)

The following table presents the Bank's off-balance sheet exposure and counterparty credit risk:

31 March 2012	Principal amount	Positive Fair Value of Derivative Contracts	Credit equivalent amount	Risk weighted assets
Description	RM'000	RM'000	RM'000	RM'000
Transaction related contingent Items	18,770		9,635	9,635
Foreign exchange related contracts				
One year or less	516,759	-	11,243	7,445
Over one year to five years	829,743	-	122,110	81,572
Interest/Profit rate related contracts				
Over one year to 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

7. MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other prices that will affect the Bank's financial position or cash flows. The objective of market risk management is to manage and control market risk exposures within the predetermined limits which are in line with the risk appetite of the Bank.

The Risk Management Committee approves the Bank's market risk appetite taking account of market volatility, the range of traded products and assets classes, the business volumes and transaction sizes. Market risk appetite has remained broadly stable in 2011.

The Risk Management Committee is responsible for the setting limit at a business level. The Risk Management Committee is also responsible for policies and other standards for the control of market risk and overseeing their effective implementation. These policies cover both trading and non-trading books of the Bank.

All permanent limits are approved by the Board/ the Risk Management Committee prior to implementation. Exceptions are escalated to the Board/the Risk Management Committee.

Interest rate risk management

Interest rate risk refers to the volatility in net interest incomes as a result of changes in the levels of interest rate and shifts in the composition of the assets and liabilities. Bank's ALM/Risk Management Committee regularly reviews the interest rate outlook, assessed the vulnerability of net interest income and develops strategies to mitigate interest rate risk.

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.

7. MARKET RISK (CONTINUED)

The following tables present the minimum disclosure on regulatory capital requirements on market risk.

	Long position RM'000	Short position RM'000	Risk- Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
Interest rate risk	1,364,531	1,354,111	82,953	6,636
Foreign exchange risk	667	-	667	53
	<u>1,365,198</u>	<u>1,354,111</u>	<u>83,620</u>	<u>6,689</u>

8. LIQUIDITY RISK

Liquidity risk is the risk when the Bank fails to raise funds to meet the present or future demand of customers or counterparties at a reasonable cost. The potential liquidity risks of the Bank mainly include customers' premature and collective withdrawal, overdue payment of the debtors, mismatched asset-liability maturity structure and difficulties in realisation of assets.

The primary tool used for monitoring liquidity is the Bank Negara Malaysia New Liquidity Framework ("NLF"). The NLF is further supplemented with the internal liquidity risk management policies set by the Board of Directors and incorporated in the Asset and Liability Management policies and procedures. These policies ensure that the liquidity surpluses are within the limit. The ALM/Risk Management Committee is responsible for the liquidity risk management. The liquidity risk management activities are carried out through a combination of Cash Flow Reports that can readily converted to cash, diversification of the funding base and proactive management of Bank's customer deposits.

9. OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal process, 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 Committees 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 2012.

The following tables present the minimum disclosure on regulatory capital requirements on operational risk.

	Risk-Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
Operational Risk	95,511	7,641

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SUMITOMO MITSUI BANKING CORPORATION MALAYSIA BERHAD

UNAUDITED PILLAR 3 DISCLOSURE

31 MARCH 2012

CHIEF EXECUTIVE OFFICER ATTESTATION

In accordance with Bank Negara Malaysia's Risk Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3), I hereby attest that to the best of my knowledge, the disclosures contained in Sumitomo Mitsui Banking Corporation Malaysia Berhad's Pillar 3 Disclosure report for the financial year ended 31 March 2012 are consistent with the manner the Bank assesses and manages its risk, accurate, complete and not misleading in any particular way.

Hitoshi Suyama
Chief Executive Officer