Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

Financial Statements
31 December 2012

BOARD OF DIRECTORS

Mr Yi Huiman, *Non-Independent Non-Executive Director and Chairman*

Mr Tian Fenglin, *Non-Independent Executive Director*

YBhg Dato' Leong Khee Seong, *Independent Non-Executive Director*

Mr Ong Ah Tin @ Ong Chee Kwee, *Independent Non-Executive Director*

Ms Lan Li, *Non-Independent Non-Executive Director*

Mr Hong Guilu, *Non-Independent Non-Executive Director*

PROFILE OF DIRECTORS

Mr Yi Huiman

Age 48. Chinese. Non-Independent Non-Executive Director and Chairman of the Board of Directors. Appointed to the Board on 3 June 2010. Attended all the six Board meetings held in the financial year. Holds a PhD in Economics from Nanjing University, China. Has been with Industrial and Commercial Bank of China Limited Group ("ICBC Group") for the last 28 years holding various positions, such as President of Beijing branch, President of Jiangsu branch, Vice President of Zhejiang branch and President of Hangzhou branch. Currently holds the position of Executive Vice President of ICBC Group.

Mr Yi Huiman has no conflict of interest with the Bank and has no family relationship with any other Director.

Mr Tian Fenglin

Age 45. Chinese. Non-Independent Executive Director. Appointed to the Board on 28 January 2010. Attended all the six Board meetings held in the financial year. Holds a Masters degree from Macau University of Science and Technology. Corporate roles with ICBC Group include Senior Economist and Qualified Senior Credit Approval Official at head office, Manager at Nanjing branch (1992-1996), Head of International Department, Nanjing branch (1997-1999), President of Nanjing Xinjiekou sub-branch (2000-2002), Vice President of Nanjing Regional office (2002-2006) and Deputy General Manager of Singapore branch (2007-2009).

Mr Tian Fenglin has no conflict of interest with the Bank and has no family relationship with any other Director. He also sits in the Bank's Nominating Committee.

YBhg Dato' Leong Khee Seong

Age 74. Malaysian. Independent Non-Executive Director. Appointed to the Board on 3 June 2010. Attended all the six Board meetings held in the financial year. Engineer by profession with B.E. (Chemical Engineering) from the University of New South Wales, Australia. Served the Malaysian Government as the Minister of Primary Industries (1976-1986) and was a member of Parliament (1974-1990). YBhg Dato' Leong Khee Seong was also the Chairman of the Group of 14 ASEAN Economic Cooperation and Integration (1986-1987), Chairman of General Trade Agreement on Tariffs and Trade's Negotiating Committee on Tropical Products (1986-1990), acted as an Independent Non-Executive Director of Sin Chew Media Corporation (2004-2007) and Non-Independent Executive Director cum Executive Chairman of Nanyang Press Holdings Berhad (2007-2009). YBhg Dato' Leong Khee Seong also sits on the Board as an Independent Non-Executive Director of AirAsia Berhad (2004-current) and as an Independent Non-Executive Director in TSH Resources Berhad (2005-current). He is also the chancellor of HELP University Malaysia since April 2012.

YBhg Dato' Leong Khee Seong has no conflict of interest with the Bank and has no family relationship with any other Director. He is also the chairman of the Audit Committee and Nominating Committee and a member of the Risk Management Committee and Remuneration Committee of the Bank.

PROFILE OF DIRECTORS *(continued)*

Mr Ong Ah Tin @ Ong Chee Kwee

Age 62. Malaysian. Independent Non-Executive Director. Appointed to the Board on 3 June 2010. Attended all the six Board meetings held in the financial year. Holds a Bachelor of Arts in Economics from the University of Malaya and Diploma in Banking from Institute of Bankers, London.

Mr Ong Ah Tin started his banking career with Citibank Malaysia (then known as First National City Bank) as a Management Trainee in 1973 and held various positions in Operations, Credits and Marketing until August 1988 when he left as the Vice President of Credit Risks Management Department. In 1988, he joined Malaysian French Bank as an Assistant General Manager until 1994, thereafter he joined OUB Finance Berhad as Director/General Manager. After the merger of OUB Finance Berhad with its parent bank, Overseas Union Bank (M) Berhad in 1997, he was assigned to Overseas Union Bank (M) Berhad as Head of Enterprise Banking until 2002. Following that, he joined Alliance Finance Berhad as Acting CEO to manage the finance company's operations and to undertake the merger of Alliance Finance Berhad with its parent bank, Alliance Bank Berhad. Upon the successful completion of the merger in 2004, he was assigned as a Senior General Manager and Head of Consumers Banking of Alliance Bank Berhad until August 2005, when he retired from the banking industry. Mr Ong Ah Tin served as an Independent Non-Executive Director of Hock Sin Leong Group Berhad from April 2006 to December 2006.

Mr Ong Ah Tin has no conflict of interest with the Bank and has no family relationship with any other Director. He is also the chairman for the Risk Management Committee and Remuneration Committee, as well as being a member of the Audit Committee and Nominating Committee of the Bank.

Ms Lan Li

Age 49. Chinese. Non-Independent Non-Executive Director. Appointed to the Board on 16 January 2012. Attended all the six Board meetings held in the financial year. Holds a PhD in Economics and Bachelor of Finance from Tianjin University of Finance Economics, China and Master of Finance from Nankai University, China. Served various roles with ICBC Group as Manager, Accounting and Settlement Department, ICBC's Frankfurt Office (July 1999 - August 2002), General Manager, International Banking Department and President of Ronghui Branch, Tianjin Regional Headquarters (August 2002 - October 2004), Vice Head of Internal Audit (October 2004 - May 2005), Deputy Head, Tianjin Regional Headquarters (June 2005 - December 2010), Vice Head of Internal Auditing (December 2010 - July 2011) and Director, Administration Office of Directors and Supervisors to Subsidiaries (July 2011 - current).

Ms Lan Li has no conflict of interest with the Bank and has no family relationship with any other Director. She is a member of the Audit Committee, Nominating Committee and Remuneration Committee of the Bank.

Mr Hong Guilu

Age 46. Chinese. Non-Independent Non-Executive Director. Appointed to the Board on 16 January 2012. Attended all the six Board meetings held in the financial year. Holds a Bachelor of Engineering and Master of Economics (Industrial Economics) from Harbin Institute of Technology, China and People's University of China, respectively, and Master of Accounting from George Washington University, United States. Prior to joining ICBC Group, Mr Hong Guilu was appointed Manager, State Property Administration Bureau, Ministry of Finance (July 1993 - June 2000) and Deputy Director, Board of Supervisors, Agricultural Bank of China (July 2000 - June 2003). He was appointed Director, Board of Supervisors, ICBC Group in July 2003 prior to his appointment as Director, Administration Office of Directors and Supervisors to the Subsidiaries in December 2005 until current.

Mr Hong Guilu has no conflict of interest with the Bank and has no family relationship with any other Director. He is a member of the Risk Management Committee, Nominating Committee and Remuneration Committee of the Bank.

FINANCIAL PERFORMANCE DURING THE FINANCIAL YEAR

The Malaysian economy expanded at a healthy rate of 5.6% in the year 2012, supported by the boost in private sector consumption and investment activities and the increase in public sector spending. Stable financial and monetary conditions promote favourable economic growth prospects. The banking industry remained resilient, with strong level of capitalisation, robust financing demand as well as good profitability and liquidity positions.

During the financial year 2012, the Bank has launched the cards and wealth management business segments, tapping on innovative product offerings in reaching out to the increasingly diversified financial needs of the customers. The Bank has further strengthened its footprint in the local market with the establishment of its first regional branch in Kuching, East Malaysia. All business segments of the Bank have delivered sustainability performance, riding on common values and accommodative strategy initiatives. For the financial year 2012, the Bank has achieved a satisfactory financial performance with a profit before taxation of RM15.6 million. The main sources of revenue income were derived from interest income, fee income and trading income from treasury business activities. The increase in the operating expenses for the financial year 2012 is mainly due to the expansion in the business operations of the Bank.

OUTLOOK FOR 2013

The global economy is expected to remain uncertain in early 2013. Despite this, the Malaysian economy is projected to be balanced and has a steady growth. Market forecasts the countries annual GDP growth to hover around 5%, underpinned by domestic demands.

In this challenging economic environment, the Bank will closely monitor the Malaysian economy including the Bank’s targeted business segments and clientele. The Bank adopts a dynamic process to formulate strategies in response to the changing market conditions. These strategies include capturing new business opportunities, enlarging the Bank’s customer base and offering innovative financial products and services via the opening of new branches and e-banking services. The Bank strives to maximise profits and shareholders’ returns.

Moving forward in 2013, the Bank aims to grow in strength, lay a solid foundation in the Malaysian market and build a larger customer base with the objective of meeting ICBC’s globalisation vision. The Bank will continue to tap on niche opportunities in the growing bilateral trade between Malaysia and China by targeting reputable business individuals and corporate clientele. In addition, the Bank will continue to provide a range of diversified financial services covering corporate and retail financing, cross-border Renminbi business, investment banking, loan syndication, global financing and also leverage on ICBC’s strong global network. The Bank aims to be an anchor bank in the trade and cross-border Renminbi financing business between China and Malaysia.

On the Malaysian domestic market front, ICBC will continue to localise by leveraging on the liberalised rules on new branch opening by foreign banks. ICBC plans to open 2 new branches in 2013, covering the core economic areas in the central and southern regions of Malaysia. The Bank’s branding strategy includes promoting new retail banking products to the mass market segment in 2013, such as dual currency credit cards, mortgage financing, physical gold, wealth management and others.

Under the strong visionary leadership of the Board of Directors and the Senior Management, the Bank continues with its commitment to maintain a high standard of corporate governance and risk management processes. It is the ultimate objective of the Bank to become a solid, well-managed, harmonious and localised bank in Malaysia.

CORPORATE GOVERNANCE STATEMENT

The Board of Industrial and Commercial Bank of China (Malaysia) Berhad ("the Bank") fully appreciates the importance of adopting high standards of corporate governance within the Bank in order to safeguard stakeholders' interests as well as enhancing shareholders' value. The Board views corporate governance to be synonymous with four key concepts; namely transparency, accountability, integrity and corporate responsibilities.

The Board of the Bank believes in inculcating a culture that seeks to balance conformance requirements with the need to deliver long-term strategic success through performance, predicated on entrepreneurship, control and ownership, without compromising personal or corporate ethics and integrity.

A. Directors

The Board

The Board plays a pivotal role in the stewardship of the Bank's direction and operations, including enhancing long-term shareholders' value. In order to fulfill this role, the Board is explicitly responsible for reviewing and adopting a strategic plan for business performance; overseeing the proper conduct of the Bank's business; identifying principal risks and ensuring the implementation of systems to manage risks; succession planning; and reviewing the adequacy and integrity of the Bank's internal control systems and management information systems.

The role and function of the Board, which includes the complementing roles of Executive Director and Non-Executive Directors as well as the schedule of matters reserved for the Board, are clearly delineated in the Terms of Reference of the Board of Directors.

Composition of the Board

The Board currently comprises of six (6) members, one (1) Non-Independent Executive Director, two (2) Independent Non-Executive Directors and three (3) Non-Independent Non-Executive Directors. A brief profile of each Director is presented on pages 2 and 3 of these financial statements.

The Directors, with their differing backgrounds and specialisations, collectively bring with them a wide range of experience and expertise in areas such as finance, corporate affairs, marketing and operations. The Executive Director, in particular, is responsible for implementing the policies and decisions of the Board, overseeing the operations as well as co-ordinating the development and implementation of business and corporate strategies.

The Independent Non-Executive Directors contribute significantly and bring forth independent judgement in areas relating to policy and strategy, business performance, resources allocation as well as improving governance and controls. Together with the Executive Director who has intimate knowledge of the business, the Board is constituted of individuals who are committed to business integrity and professionalism in all its activities.

The distinct and separate duties and responsibilities of the Chairman and Chief Executive Officer (“CEO”) of the Bank ensure the balance of power and authority towards the establishment of a fully effective Board. The Chairman is responsible for ensuring the integrity and effectiveness of the governance process of the Board and acts as a facilitator at Board meetings. The CEO, supported by the management team, is responsible for the day-to-day management of the Bank as well as the effective implementation of the strategic plan and policies established by the Board. Currently, the Board is led by Mr Yi Huiman as the Non-Independent Non-Executive Director cum Chairman, while the executive management of the Bank is helmed by Mr Tian Fenglin, CEO of the Bank.

CORPORATE GOVERNANCE STATEMENT *(continued)*

Board Meetings and Access to Information

The Board ordinarily meets at least six (6) times a year with additional meetings convened when urgent and important decisions need to be taken between the scheduled meetings. Due notice is given for scheduled meetings and matters to be dealt with. All Board meeting proceedings are minuted, including the issues discussed and the conclusions made in discharging its duties and responsibilities.

The agenda for each Board meeting and papers relating to the agenda items are disseminated to all Directors well before the meeting, in order to provide sufficient time for the Directors to review the Board papers and seek clarifications, from the Management, if required. Where urgency prevails and if appropriate, decisions are also taken by way of a Directors' Circular Resolution in accordance with the Bank's Articles of Association.

The Board is able to seek clarifications and advice as well as request for information on matters pertaining to the Bank from the Senior Management and the Company Secretary. Should the need arises, the Directors may also seek independent professional advices, at the Bank's expense, when deemed necessary for the proper discharge of their duties.

The Board convened six (6) meetings in the financial year ended 31 December 2012. The attendance of each Director in office at the Board meetings held during the financial year is as follows:-

Meetings attended (out of 6)

Directors	**Independent / Non-Independent**	**Attendance at meetings**
Yi Huiman	Chairman/Non-Independent Non-Executive Director	6/6 (100%)
Tian Fenglin	Non-Independent Executive Director	6/6 (100%)
Dato' Leong Khee Seong	Independent Non-Executive Director	6/6 (100%)
Ong Ah Tin @ Ong Chee Kwee	Independent Non-Executive Director	6/6 (100%)
Lan Li	Non-Independent Non-Executive Director	6/6 (100%)
Hong Guilu	Non-Independent Non-Executive Director	6/6 (100%)

Appointments and Re-election to the Board

The Bank is governed by Bank Negara Malaysia's ("BNM") guidelines on the appointment of new Directors and the re-appointment of its existing Directors upon the expiry of their respective tenures of office as approved by BNM. The Nominating Committee reviews and assesses the appointment/re-appointment of Directors. The recommendation thereof will be presented to the Board. Upon approval by the Board, the application for the appointment/re-appointment of Directors will be submitted to BNM for approval.

Article 73 of the Bank's Articles of Association provides that at least one-third (1/3) of the Board is subject to retirement by rotation at each Annual General Meeting. Retiring Directors can offer themselves for re-election. Directors who are appointed during the financial year are subject to re-election by shareholders at the next Annual General Meeting held following their appointments.

CORPORATE GOVERNANCE STATEMENT *(continued)*

Board Performance Evaluation

During the financial year, the Board had undertaken a Board Performance Evaluation exercise on the Board and Board Committees with the objective of assessing the effectiveness of the Board and Board Committees as a whole, as well as the individual directors. The evaluation is based on a combination of self and peer assessment methodologies performed via a customised questionnaire. The results of the evaluation exercise were presented to the Nominating Committee and Board for consideration.

Board Committees

The Board has delegated certain responsibilities to the following Board Committees, which operate within a clearly defined terms of reference:

(i) Audit Committee;
(ii) Risk Management Committee;
(iii) Nominating Committee; and
(iv) Remuneration Committee.

The minutes of meetings of the above Board Committees are also tabled to the Board for notation.

Audit Committee

The Bank's Audit Committee (“AC”) comprises of two (2) Independent Non-Executive Directors of whom one (1) is the Chairman and a Non-Independent Non-Executive Director. A total of four (4) meetings were held during the financial year and the details of the attendance of each member in office are as follows:-

Members of AC	**Independent / Non-Independent**	**Attendance at meetings**
Dato’ Leong Khee Seong	Chairman/Independent Non-Executive Director	4/4 (100%)
Ong Ah Tin @ Ong Chee Kwee	Independent Non-Executive Director	4/4 (100%)
Lan Li	Non-Independent Non-Executive Director	4/4 (100%)

The objectives of the AC is primarily to assist the Board in providing independent oversight of the Bank’s financial reporting, internal control system, risk management functions and governance processes. The salient terms of reference of the AC are as follows:-

- shall comprise non-executive directors with at least three (3) members, of which the majority should be independent directors;
- shall meet as frequently as may be necessary, but at least four (4) times a year and in any case upon requisition of any member of the AC;
- shall have two (2) members present in person with a majority being independent non-executive director to form a quorum;
- to oversee the functions of the Internal Audit Department and ensuring compliance with BNM/GP10 requirement;
- to review and approve the annual audit plan including its audit objectives, scope and resources allocation;
- to review with the internal and external auditors, their findings on their evaluation of the system of internal controls with particular attention to material internal controls, including financial, operational and compliance controls and risk management;
- to select the external auditors for appointment by Board annually, including reviewing the audit fee and any questions of resignation or dismissal;

CORPORATE GOVERNANCE STATEMENT *(continued)*

Board Committees *(continued)*

Audit Committee (continued)

- to review and discuss with the external auditors and management on the fairness of presentation and reporting of the financial statements;
- to review and approve any provision of non-audit service by external auditor so as to ensure that the provision of non-audit services does not interfere with the exercise of independent judgement of auditors; and
- to review all related party transactions and keep the Board informed of such transactions.

Internal Audit Activities

The AC has active oversight on the internal audit's independence, scope of work and resources. It regularly reviews the actions taken on internal control issues identified in reports prepared by the Internal Audit Department ("IAD") and evaluates the effectiveness and adequacy of the Bank's risk management functions, internal control system and governance processes.

The fundamental framework for the internal audit function is based on the Committee of Sponsoring Organisations of the Treadway Commission ("COSO") framework, a well-recognised risk and control framework for the evaluation of the design and operating effectiveness of internal control. The use of the COSO framework is integrated into the activities of IAD.

During the financial year, IAD conducted audits/reviews to examine and assess the adequacy, effectiveness and efficiency of financial and operating controls and highlight significant risks and non-compliance impacting the Bank. The Bank's internal audit function is also supervised by the Group Internal Audit Department of the parent bank.

The scope of the audits/reviews is focused on areas of priority as identified by risk analysis; and in accordance with the annual internal audit plan approved by the AC. IAD has defined procedures to report control deficiencies or breaches noted which includes obtaining management action plans for correction. Follow-up and escalation procedures are in place for tracking all deficiencies or breaches to full resolution.

Nonetheless, the system is designed to manage the Bank's risks within an acceptable risk profile and the AC acknowledges that the system, by its nature, can only provide reasonable assurance and not absolute assurance against material misstatement of financial information, records or against financial losses or fraud.

CORPORATE GOVERNANCE STATEMENT *(continued)*

Board Committees *(continued)*

Risk Management Committee

The Risk Management Committee ("RMC") comprises of two (2) Independent Non-Executive Directors of whom one (1) is the Chairman and a Non-Independent Non-Executive Director. During the financial year, a total of seven (7) meetings were held and the details of the attendance of each member in office are as follows:-

Members of RMC	Independent / Non-Independent	Attendance at meetings
Ong Ah Tin @ Ong Chee Kwee	Chairman/Independent Non-Executive Director	7/7 (100%)
Dato' Leong Khee Seong	Independent Non-Executive Director	7/7 (100%)
Hong Guilu	Non-Independent Non-Executive Director	6/6* (100%)

* Based on the number of meetings attended since his appointment as a member on 16 January 2012.

The salient terms of reference of the Committee are as follows:-

- to review and recommend risk management strategies, policies and risk tolerance for Board's approval;
- to review and assess the adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively;
- to ensure infrastructure, resources and systems are in place for risk management, including ensuring that staff responsible for implementing risk management systems perform their duties independent of the Bank's risk taking activities;
- to review Management's periodic reports on risk exposure, risk portfolio composition and risk management activities; and
- to evaluate and provide input on such strategies and/or policies to suit local conditions and make appropriate recommendations thereof to the Board where risk strategies and policies are driven by the parent bank.

CORPORATE GOVERNANCE STATEMENT *(continued)*

Board Committees *(continued)*

Nominating Committee

The Nominating Committee ("NC") comprises of two (2) Independent Non-Executive Directors of whom one (1) is the Chairman, two (2) Non-Independent Non-Executive Directors and a Non-Independent Executive Director. During the financial year, a total of three (3) meetings were held and the details of the attendance of each member in office are as follows:-

Members of NC	**Independent / Non-Independent**	**Attendance at meetings**
Dato' Leong Khee Seong	Chairman/Independent Non-Executive Director	3/3 (100%)
Ong Ah Tin @ Ong Chee Kwee	Independent Non-Executive Director	3/3 (100%)
Tian Fenglin	Non-Independent Executive Director	3/3 (100%)
Lan Li	Non-Independent Non-Executive Director	2/2* (100%)
Hong Guilu	Non-Independent Non-Executive Director	2/2* (100%)

* Based on the number of meetings attended since his/her appointment as a member on 16 January 2012.

The salient terms of reference of the Committee are as follows:-

- to establish minimum requirements for the Board with the required mix of skills, experience, qualification and other core competencies required of a director. The Committee is also responsible for establishing minimum requirements for the CEO. The requirements and criteria should be approved by the full Board;

- to recommend and assess 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 BNM. The final decision on the nomination and appointment of Board and Committee rests with the Board;

- to oversee 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;

- to recommend to the Board the removal of a director or CEO from the Board or management if the director or CEO is ineffective, errant and negligent in discharging his responsibilities; and

- to establish a mechanism for the formal assessment on the effectiveness of the Board as a whole and the contribution of each director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the CEO and other key senior management officers. Annual assessment should be conducted based on an objective performance criteria. Such performance criteria should be approved by the full Board.

CORPORATE GOVERNANCE STATEMENT *(continued)*

Board Committees *(continued)*

Remuneration Committee

The Remuneration Committee ("RC") comprises of two (2) Independent Non-Executive Directors of whom one (1) is the Chairman and two (2) Non-Independent Non-Executive Directors. During the financial year, a total of two (2) meetings were held and the details of the attendance of each member in office are as follows:-

Members of RC	Independent / Non-Independent	Attendance at meetings
Ong Ah Tin @ Ong Chee Kwee	Chairman/Independent Non-Executive Director	2/2 (100%)
Dato' Leong Khee Seong	Independent Non-Executive Director	2/2 (100%)
Lan Li	Non-Independent Non-Executive Director	1/1* (100%)
Hong Guilu	Non-Independent Non-Executive Director	1/1* (100%)

* Based on the number of meetings attended since his/her appointment as a member on 16 January 2012.

The salient terms of reference of the Committee are as follows:-

- to recommend a framework of remuneration for directors, CEO and key senior management officers for the full Board's approval. The remuneration framework should support the Bank's culture, objectives and strategy and should reflect the responsibility and commitment, which goes with Board membership and responsibilities of the CEO and senior management officers. There should be a balance in determining the remuneration package, which should be sufficient to attract and retain directors of calibre, and yet not excessive to the extent the Bank's funds are used to subsidise the excessive remuneration packages. The framework should cover all aspects of remuneration including director's fees, salaries, allowances, bonuses, share options and benefits-in-kind; and

- to recommend specific remuneration packages for executive directors and the CEO. The remuneration package should be structured such that it is competitive and consistent with the Bank's culture, objectives and strategy. Salary scales drawn up should be within the scope of the general business policy and not be based on short-term performance to avoid incentives for excessive risk-taking. As for non-executive directors and independent directors, the level of remuneration should be linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board. In addition, the remuneration of each Board member may differ based on their level of expertise, knowledge and experience.

The details of the nature and amount of each major element of the remuneration of the Executive Director and the Independent Non-Executive Directors of the Bank for the financial year ended 31 December 2012 are disclosed in Note 24 (c) to the financial statements.

CORPORATE GOVERNANCE STATEMENT *(continued)*

B. Accountability and audit

Financial reporting

It is the Board's commitment to present a balanced and meaningful assessment of the Bank's financial performance and prospects at the end of the financial year, primarily through the annual financial statements to BNM. The Board is assisted by the Audit Committee to oversee the Bank's financial reporting process and the quality of its financial reporting.

Directors' responsibility statement in respect of the preparation of the audited financial statements

The Board is responsible for ensuring that the financial statements give a true and fair view of the state of affairs of the Bank as at the end of the accounting period and of its operation results and cash flows for the year then ended. In preparing the financial statements, the Directors have ensured the preparation and fair presentation of these financial statements in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirement of the Companies Act, 1965 in Malaysia in all respects and other legal requirements.

Relationship with the Auditor

Key features underlying the relationship of the Audit Committee with the external auditors are included in the Audit Committee's terms of reference.

DIRECTORS' REPORT
For the year ended 31 December 2012

The Directors have pleasure in submitting their report and the audited financial statements of the Bank for the financial year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in the provision of banking and other related financial services.

RESULTS

	RM'000
Profit before taxation	15,580
Tax expense	(4,062)
Profit for the year	11,518

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.

DIVIDENDS

No dividend was paid during the financial year and the Directors do not recommend any dividend to be paid for the financial year.

DIRECTORS OF THE BANK

Directors who held office during the year since the date of the last report are:

Mr Yi Huiman
Mr Tian Fenglin
YBhg Dato' Leong Khee Seong
Mr Ong Ah Tin @ Ong Chee Kwee
Ms Lan Li
Mr Hong Guilu

Pursuant to Section 129 of the Companies Act 1965, YBhg Dato' Leong Khee Seong retires at the forthcoming Annual General Meeting of the Bank and being eligible, offers himself for re-election.

In accordance with Article 73 of the Bank’s Articles of Association, Mr Yi Huiman retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

DIRECTORS' INTEREST

None of the Directors holding office as at 31 December 2012 had any interest in the ordinary shares and options over shares of the Bank and of its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of 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 or of related corporations as shown in Note 24 (c) to the financial statements) by reason of a contract made by the Bank 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.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

ISSUE OF SHARES AND DEBENTURES

There were no 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.

BANK RATINGS

The Bank has not been rated by any external agencies.

HOLDING COMPANY

The Directors regard Industrial and Commercial Bank of China Limited, a company incorporated in China, as the holding company of the Bank.

OTHER STATUTORY INFORMATION

Before the financial statement of the Bank were made out, the Directors took reasonable steps to ascertain that:

i) adequate provision has been made for doubtful debts; and

ii) any current assets 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:

i) that would render the amount of the provision for doubtful debts in the Bank inadequate to any substantial extent; or

ii) that would render the value attributed to the current assets in the financial statements of the Bank misleading; or

iii) which has arisen which render adherence to the existing method of valuation of assets and liabilities of the Bank misleading or inappropriate; or

iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Bank misleading.

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 became enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Bank to meet its obligations as and when they fall due.

In the opinion of the Directors, the financial performance of the Bank for the financial year ended 31 December 2012 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.

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.

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Tian Fenglin

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Dato' Leong Khee Seong

Kuala Lumpur, Malaysia
Date: 29 March 2013

STATEMENT BY DIRECTORS PURSUANT TO SECTION 169 (15) OF THE COMPANIES ACT, 1965

We, Tian Fenglin and Dato' Leong Khee Seong being two of the directors of Industrial and Commercial Bank of China (Malaysia) Berhad, do hereby state on behalf of the directors that, in our opinion, the financial statements set out on pages 21 to 68 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirement of 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 December 2012 and of its financial performance and cash flows of the Bank for the year then ended.

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

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Tian Fenglin

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Dato' Leong Khee Seong

Kuala Lumpur, Malaysia
Date: 29 March 2013

STATUTORY DECLARATION PURSUANT TO
SECTION 169 (16) OF THE COMPANIES ACT, 1965

I, Tian Fenglin, being the Director primarily responsible for the financial management of Industrial and Commercial Bank of China (Malaysia) Berhad, do solemnly and sincerely declare that, to the best of my knowledge and belief, the financial statements set out on pages 21 to 68 are 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, Malaysia on 29 March 2013.

…………………………………………………………
Tian Fenglin

BEFORE ME:

…………………………………………………………

Independent Auditors' Report to the Member Of Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Industrial and Commercial Bank of China (Malaysia) Berhad, which comprise the statement of financial position as at 31 December 2012 of the Bank, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 21 to 68.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirement of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements 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 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 Bank'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.

(Company No. 839839 M)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2012 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 requirement 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

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

Foong Mun Kong
Partner
Approval Number: 2613/12/14(J)

Petaling Jaya, Malaysia

Date: 29 March 2013

Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
ASSETS				
Cash and short-term funds	4	1,335,609	846,191	321,307
Deposits and placements with banks and other financial institutions	5	1,372,551	499,729	568,236
Financial investment available-for-sale	6	51,065	-	-
Loans, advances and financing	7	367,459	360,164	120,165
Other assets	8	15,945	6,176	6,774
Tax recoverable		1,831	-	-
Plant and equipment	9	4,289	2,550	1,001
Intangible asset	10	2,384	-	-
Deferred tax assets	11	1,034	1,178	429
TOTAL ASSETS		3,152,167	1,715,988	1,017,912
LIABILITIES				
Deposits from customers	12	661,992	386,572	32,030
Deposits and placements of banks and other financial institutions	13	2,106,214	962,658	645,430
Other liabilities	14	24,483	18,762	4,639
Provision for taxation		-	86	1,683
TOTAL LIABILITIES		2,792,689	1,368,078	683,782
EQUITY				
Share capital	15	331,000	331,000	331,000
Reserves	16	28,478	16,910	3,130
EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE BANK		359,478	347,910	334,130
TOTAL LIABILITIES AND EQUITY		3,152,167	1,715,988	1,017,912
COMMITMENTS AND CONTINGENCIES	26	1,445,488	586,493	442,319

The notes set out on pages 25 to 68 form an integral part of these financial statements.

Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 RM'000	2011 RM'000
Interest income	17	83,431	40,960
Interest expense	17	(47,666)	(19,156)
Net interest income	17	35,765	21,804
Net fee income	18	7,330	1,240
Net trading income	19	7,877	17,332
Other operating income		153	-
Net operating income		51,125	40,376
Other operating expenses	20	(32,756)	(20,845)
Operating profit		18,369	19,531
Allowance for impairment on loans, advances and financing	21	(2,789)	(728)
Profit before taxation		15,580	18,803
Tax expense	22	(4,062)	(5,023)
Profit for the year		11,518	13,780
Other comprehensive income, net of tax			
Fair value reserve			
- Net changes in fair value		66	-
- Deferred tax adjustment		(16)	-
Total other comprehensive income for the year		50	-
Total comprehensive income for the year		11,568	13,780
Basic earnings per ordinary share (sen):	23	3.48	4.16

Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

	Non-distributable			Distributable	
	Share Capital RM'000	Statutory Reserve RM'000	Available-for-sale Reserve RM'000	Retained Earnings RM'000	Total Equity RM'000
At 1 January 2011	331,000	1,060	-	2,070	334,130
Total comprehensive income for the year					
Profit for the year	-	-	-	13,780	13,780
Total comprehensive income for the year	-	-	-	13,780	13,780
Transfer to statutory reserve	-	5,809	-	(5,809)	-
At 31 December 2011	331,000	6,869	-	10,041	347,910
At 1 January 2012	331,000	6,869	-	10,041	347,910
Total comprehensive income for the year					
Profit for the year	-	-	-	11,518	11,518
Other comprehensive income, net of tax					
Fair value reserve					
- Net changes in fair value	-	-	66	-	66
- Deferred tax adjustment	-	-	(16)	-	(16)
Total other comprehensive income for the year	-	-	50	-	50
Total comprehensive income for the year	-	-	50	11,518	11,568
Transfer to statutory reserve	-	5,760	-	(5,760)	-
At 31 December 2012	331,000	12,629	50	15,799	359,478
	Note 15	Note 16.1	Note 16.2	Note 16.3	

The notes set out on pages 25 to 68 form an integral part of these financial statements.

Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 RM'000	2011 RM'000
Cash flows from operating activities			
Profit before taxation		15,580	18,803
Adjustments for:			
Depreciation of plant and equipment		1,097	822
Amortisation of intangible asset		216	-
Allowance for impairment on loans, advances and financing		2,789	728
Net unrealised losses/(gains) arising from derivative trading		61	(594)
Operating profit before working capital changes		19,743	19,759
(Increase)/ Decrease in operating assets			
Deposits and placements with banks and other financial institutions		(872,822)	68,507
Loans, advances and financing		(10,084)	(240,727)
Other assets		(4,287)	1,194
Increase in operating liabilities			
Deposits from customers		275,420	354,542
Deposits and placements of banks and other financial institutions		1,143,556	317,228
Other liabilities		301	14,121
Cash generated from operations		551,827	534,624
Income taxes paid		(5,851)	(7,369)
Net cash generated from operating activities		545,976	527,255
Cash flows used in investing activities			
Purchase of plant and equipment		(2,836)	(2,371)
Purchase of investment securities available-for-sale		(51,122)	-
Purchase of intangible asset		(2,600)	-
Net cash used in investing activities		(56,558)	(2,371)
Net increase in cash and cash equivalents		489,418	524,884
Cash and cash equivalents at beginning of the financial year		846,191	321,307
Cash and cash equivalents at end of the financial year		1,335,609	846,191
Cash and cash equivalents comprise:			
Cash and short-term funds	4	1,335,609	846,191
		1,335,609	846,191

The notes set out on pages 25 to 68 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. General information

Industrial and Commercial Bank of China (Malaysia) Berhad is a public limited liability company incorporated and domiciled in Malaysia. The Bank is principally engaged in the provision of banking and other related financial services. The addresses of its registered office and principal place of business are as follows:

Registered office	Principal place of business
Level 34C, Menara Maxis	Level 35, Menara Maxis
Kuala Lumpur City Centre	Kuala Lumpur City Centre
50088 Kuala Lumpur.	50088 Kuala Lumpur.

The financial statements were authorised for issue by the Board of Directors on 29 March 2013.

2. Basis of preparation

(a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirement of the Companies Act, 1965 in Malaysia. This is 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.

In the previous financial year, the financial statements of the Bank were presented in accordance with Financial Reporting Standards ("FRSs") applicable in Malaysia as modified by Bank Negara Malaysia ("BNM") Guidelines. The financial impact arising on the adoption of MFRSs are disclosed in Note 34.

The Bank has early adopted the amendments to MFRS 101, *Presentation of Financial Statements* which are effective for annual period beginning on or after 1 July 2012. The early adoption of the amendments to MFRS 101 has no impact on the financial statements other than the presentation format of the statement of profit or loss and other comprehensive income.

The following are accounting standards, amendments and interpretations of the MFRS framework have been issued by Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Bank.

MFRSs/ Interpretations	Effective date
MFRS 10, *Consolidated Financial Statements*	1 January 2013
MFRS 11, *Joint Arrangements*	1 January 2013
MFRS 12, *Disclosure of Interests in Other Entities*	1 January 2013
MFRS 13, *Fair Value Measurement*	1 January 2013
MFRS 119, *Employee Benefits (2011)*	1 January 2013
MFRS 127, *Separate Financial Statements (2011)*	1 January 2013
MFRS 128, *Investments in Associates and Joint Ventures (2011)*	1 January 2013
IC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*	1 January 2013
Amendments to MFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*	1 January 2013
Amendments to MFRS 1, *First-time Adoption of Financial Reporting Standards - Government Loans*	1 January 2013
Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)*	1 January 2013
Amendments to MFRS 101, *Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)*	1 January 2013
Amendments to MFRS 116, *Property, plant and equipment (Annual Improvements 2009-2011 Cycle)*	1 January 2013
Amendments to MFRS 132, *Financial instruments: Presentation (Annual Improvements 2009-2011 Cycle)*	1 January 2013
Amendments to MFRS 134, *Interim Financial Statements (Annual Improvements 2009-2011 Cycle)*	1 January 2013

2. Basis of preparation *(continued)*

(a) Statement of compliance *(continued)*

MFRSs/ Interpretations	**Effective date**
Amendments to MFRS 10, *Consolidated Financial Statements - Transition Guidance*	1 January 2013
Amendments to MFRS 11, *Joint Arrangements - Transition Guidance*	1 January 2013
Amendments to MFRS 12, *Disclosure of Interests in Other Entities - Transition Guidance*	1 January 2013
Amendments to MFRS 132, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*	1 January 2014
MFRS 9, *Financial Instruments (2009)*	1 January 2015
MFRS 9, *Financial Instruments (2010)*	1 January 2015
Amendments to MFRS 7, *Financial Instruments: Disclosures - Mandatory Date of MFRS 9 and Transition Disclosures*	1 January 2015

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

- from the annual period beginning on 1 January 2013 for those standards, amendments or interpretations that will be effective for the annual period beginning on or after 1 January 2013, except for MFRS 10, MFRS 11, MFRS 12, MFRS 127, MFRS 128 and IC Interpretation 20, Amendments to MFRS 134, Amendments to MFRS 10, Amendments to MFRS 11 and Amendments to MFRS 12 as they are not applicable to the Bank.

- from the annual period beginning on 1 January 2014 and 1 January 2015 respectively for those standards, amendments or interpretations that will be effective for the annual periods beginning on or after 1 January 2014 and 1 January 2015 respectively.

The initial applications of the other standards, amendments and interpretations are not expected to have any material impact on the financial statements of the Bank upon their first adoption, except for those discussed below:

MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets. Upon adoption of MFRS 9, financial assets will be measured at either fair value or amortised cost.

The adoption of MFRS 9 will result in a change in accounting policy. The Bank is currently assessing the financial impact of adopting MFRS 9.

(b) Basis of measurement

The financial statements of the Bank have been prepared on the historical cost basis, except for the financial investments available-for-sale and derivative financial instruments as disclosed in the notes to the financial statements.

(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 financial information and 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 estimate is revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in Note 33.

3. 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 MFRS statement of financial position of the Bank at 1 January 2011 (the transition date to MFRS framework), unless otherwise stated.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies 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 date 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 reporting date except for those that are measured at fair value which 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 debt instruments which are recognised in other comprehensive income.

(b) Interest recognition

Interest income and expense are recognised in the statement of comprehensive income 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 net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

Interest expense on deposits and borrowings of the Bank are recognised on an accrual basis.

(c) Fees recognition

Loan arrangement fees which are material are recognised as income when all conditions precedent are fulfilled. Guarantee fees and commitment fees which are material are recognised as income based on time apportionment.

Other fee income on services and facilities extended to customers are recognised as the related services are performed.

Other fee expense relating mainly to transaction and service fees, are expensed off as the services are received.

(d) Operating lease payments

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. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

(e) Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

3. Significant accounting policies *(continued)*

(e) Income tax expense *(continued)*

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

Deferred tax is recognised using the liability method, providing for temporary differences 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 affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

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

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

(f) Financial instruments

i) Initial recognition and measurement

The Bank initially recognises loans and advances, deposits and debt securities issued on the date they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value, for a financial instrments not at fair value through profit or loss, plus transaction costs that are directly attributable to its acquisition or issue.

ii) Derecognition

Financial assets are derecognised when the contractual right to receive cash flows from the assets has expired; or when the Bank has transferred its contractual right to receive the cash flows of the financial assets, and either:
- substantially all the risks and rewards of ownership have been transferred; or
- the Bank has neither retained nor transferred substantially all the risks and rewards, but has not retained control.

On derecognition of a financial asset, the difference between the carrying amount and the sum of 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 the profit or loss.

Financial liabilities are derecognised when the Bank's contractual obligations are discharged, cancelled, or expire.

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.

iii) Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realised the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under the MFRSs.

3. Significant accounting policies *(continued)*

(g) Cash and cash equivalents

Cash and cash equivalents consist of notes and coins on hand, unrestricted balances held with BNM and highly liquid financial assets maturing within one month, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

(h) Derivative financial instruments

Derivatives are recognised at fair value in the statement of financial position. Gains and losses (realised and unrealised) arising from changes in the fair value are recognised in profit or loss.

(i) Forward Foreign Exchange Contracts
Forward contracts are valued at the prevailing forward rates of exchange at the reporting date. The resultant unrealised gains and losses are recognised in profit or loss.

(ii) Currency Swaps
The Bank acts as an intermediary for counterparties who wish to swap their foreign currency obligations. The resultant realised and unrealised gains and losses are recognised in profit or loss.

(i) Financial investments

Available-for-sale
Available-for-sale investments are non-derivative financial assets that are not classified as held-for-trading or held-to-maturity investments; and are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income in 'Fair value reserve' until the financial assets are either sold or become impaired. When available-for-sale financial assets are sold, cumulative gains or losses previously recognised in other comprehensive income are recognised in the statement of profit or loss and comprehensive income as 'Net gains/losses arising from the sale of financial investments available-for-sale'.

Investment in debt securities instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost.

Interest income earned is recognised on available-for-sale debt securities using the effective interest rate method, calculated over the asset's expected life. Premiums and/or discounts arising on the purchase of dated investment securities are included in the calculation of their effective interest rates.

An assessment is made at each reporting date as to whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or 'events') has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

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

If, in a subsequent period, the fair value of a debt instruments increases and the increase can be objectively related to an event occuring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extend 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.

(j) Loans, advances and financing

Loans, advances and financing are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Bank does not intend to sell immediately or in the near term.

The loans, advances and financing are carried at their outstanding unpaid principal and interest balances, net of individual and collective assessment impairment allowances. The carrying amount of the Bank’s loans, advances and financing are reviewed at each reporting date to determine whether there is objective evidence of impairment. If such evidence exists, the recoverable amount of the loans, advances and financing is estimated.

3. Significant accounting policies *(continued)*

(k) Impairment of loans, advances and financing

A collective impairment allowance is performed on "collective basis" on the Bank's loan portfolio using statistical techniques with the necessary model risk adjustments to the credit grades and probability of defaults of the respective credit grade band of the loans in order to guard against the risk of judgment error in the credit grading process. Although the credit grading process would involve qualitative assessment which is subject to judgment error, the loans within the same credit grade band generally share the similar credit risk characteristics for collective assessment. Given the lack of historical loss experience, the relevant market data will be taken for consideration to derive the model risk adjustment.

In the case of individual assessment, a loan is deemed as impaired if there is objective evidence of impairment which is triggered by certain events. In general, loans that are not repaid on time as they come due, be it the principal or interests, will be monitored closely as the likelihood of impairment from these past due loans is expected to be higher. Individual impairment allowances are made for loans, advances and financing which have been individually reviewed and specifically identified as impaired. Individual impairment allowances are provided if the recoverable amount (present value of estimated future cash flows discounted at original effective interest rate) is lower than the carrying value of the loans, advances and 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.

Impaired loans, advances and financing are measured at their estimated recoverable amount based on the discounted cash flow methodology. Loans, advances and financing (and related allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, advances and financing, when the proceeds from the realisation of security have been received.

(l) Plant and equipment

Recognition and measurement

All purchases above RM1,000 are capitalised. Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. 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 or 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 the item of plant and equipment, and are recognised net within "other income" or "other expense" respectively in profit or loss.

Subsequent costs

The cost of replacing a component of an item of plant or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part 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.

Depreciation

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 since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The plant and equipment are depreciated in the subsequent month of addition, and depreciation is accounted for in the month of disposal.

3. Significant accounting policies *(continued)*

(l) Plant and equipment *(continued)*

	Depreciation rate per annum (%)
Electronic equipment	33.33
Office equipment, fixtures and fittings	20
Computer software	10
Improvement on leased assets	Over the leasehold period

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

(m) Intangible asset

Intangible asset represents admission fee and is measured at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets is calculated to write off the cost of the intangible assets on a straight line basis over the estimated useful life of 5 years. Intangible assets are subject to any impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

(n) Impairment

The carrying amounts of the Bank's non-financial assets (except for deferred tax asset) 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 or cash-generating unit.

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

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit or the group of cash-generating units and then to reduce the carrying amount of the other assets in the cash-generating unit (or a group of cash-generating units) on a *pro rata* basis.

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.

(o) Provisions

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

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

3. Significant accounting policies *(continued)*

(p) 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 expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus 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) Defined contribution plan

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.

(q) Other receivables

Other receivables are initially recognised at their costs when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, other receivables are measured at amortised cost using the effective interest method.

(r) Liabilities

Deposits from customers, deposits and placements of banks and other financial institutions are stated at placement values.

Other liabilities are measured initially and subsequently at cost. Other liabilities are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

4. Cash and short-term funds

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Cash and balances with banks and other financial institutions	17,660	287,004	14,551
Money at call and deposit placements maturing within one month	1,317,949	559,187	306,756
	1,335,609	846,191	321,307

5. Deposits and placements with banks and other financial institutions

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Licensed Malaysian banks	30,361	29,402	65,200
Foreign banks	1,342,190	470,327	503,036
	1,372,551	499,729	568,236

6. Financial investment available-for-sale

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
At fair value			
Money market instrument: Malaysian Government Securities	51,065	-	-
The maturity structure of investment securities available-for-sale is as follow:			
More than three years to five years	51,065	-	-

7. Loans, advances and financing

At amortised cost (i) By type	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Overdrafts	8,221	6,149	-
Term loans			
- housing loans	988	-	-
- other term loans	145,181	285,228	63,212
Bills receivable	130,303	13,876	397
Trust receipt	5,089	-	-
Revolving credit	52,014	20,007	-
Bankers' acceptances	28,602	36,093	57,017
Staff loans	863	-	-
Credit card loans	176	-	-
Gross loans, advances and financing	371,437	361,353	120,626
Less: Allowance for impairment			
- Collective allowance for impairment	(3,978)	(1,189)	(461)
Net loans, advances and financing	367,459	360,164	120,165

(ii) By type of customer	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Domestic non-bank financial institutions			
- Others	22,055	-	-
Domestic business enterprises			
- Small medium enterprises	8,447	4,018	-
- Others	116,336	105,085	57,414
Individuals	2,422	-	-
Foreign entities	222,177	252,250	63,212
	371,437	361,353	120,626

(iii) By interest rate sensitivity	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Fixed rate loans	36,146	12,839	57,414
Variable rate			
- Base Lending Rate plus	14,012	4,306	-
- Cost plus	268,228	331,714	-
- Other variable rates	53,051	12,494	63,212
	371,437	361,353	120,626

(iv) By sector	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Agriculture	-	-	56,970
Mining and quarrying	23,076	-	-
Manufacturing	21,913	39,592	47
Construction	4,700	59,354	-
Real estate	27,290	556	-
Wholesale & retail trade and restaurants & hotels	94,004	175,584	63,609
Transport, storage and communication	6,939	-	-
Finance, insurance and business services	190,548	86,267	-
Household	2,967	-	-
	371,437	361,353	120,626

7. Loans, advances and financing *(continued)*

(v) By purpose

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Purchase of landed properties			
- Non residential	35,712	10,652	-
- Residential	1,699	-	-
Purchase of transport vehicles	152	-	-
Construction	8,010	-	-
Credit card	176	-	-
Working capital	325,593	323,370	120,626
Other purpose	95	27,331	-
	371,437	361,353	120,626

(vi) By geographical distribution

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Within Malaysia	149,804	109,103	57,414
Outside Malaysia	221,633	252,250	63,212
	371,437	361,353	120,626

Concentration by location for loans, advances and financing is based on the location of the borrower.

(vii) By residual contractual maturity

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Maturity within one year	311,751	239,199	95,958
More than one year to three years	41,366	115,476	24,668
More than three years to five years	8,158	2,805	-
More than five years	10,162	3,873	-
	371,437	361,353	120,626

(viii) Movements in collective allowance for impairment on loans, advances and financing

	2012 RM'000	2011 RM'000
At 1 January	1,189	461
Allowance made during the financial year	7,310	1,274
Allowance written back	(4,521)	(546)
At 31 December	3,978	1,189
As % of gross loans, advances and financing (net of individual allowance for impairment)	1.1%	0.3%

8. Other assets

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Derivative financial assets (Note 30)	6,183	824	228
Interest receivable	5,339	4,164	4,804
Deposits	1,183	793	314
Other receivables and prepayments	3,240	395	1,428
	15,945	6,176	6,774

9. Plant and equipment

	Electronic equipment RM'000	Office equipment, fixtures and fittings RM'000	Computer software RM'000	Improvement on leased assets RM'000	Total RM'000
Cost					
At 1 January 2012	934	743	218	1,616	3,511
Additions	493	417	46	1,880	2,836
At 31 December 2012	1,427	1,160	264	3,496	6,347
Accumulated depreciation					
At 1 January 2012	398	122	27	414	961
Charge during the year	361	170	23	543	1,097
At 31 December 2012	759	292	50	957	2,058
Net carrying amount					
At 1 January 2012	536	621	191	1,202	2,550
At 31 December 2012	668	868	214	2,539	4,289

	Electronic equipment RM'000	Office equipment, fixtures and fittings RM'000	Computer software RM'000	Improvement on leased assets RM'000	Total RM'000
Cost					
At 1 January 2011	773	90	167	110	1,140
Additions	161	653	51	1,506	2,371
At 31 December 2011	934	743	218	1,616	3,511
Accumulated depreciation					
At 1 January 2011	116	4	8	11	139
Charge during the year	282	118	19	403	822
At 31 December 2011	398	122	27	414	961
Net carrying amount					
At 1 January 2011	657	86	159	99	1,001
At 31 December 2011	536	621	191	1,202	2,550

10. Intangible asset

	Admission fee RM'000
Cost	
At 1 January 2011/31 December 2011/1 January 2012	-
Addition	2,600
At 31 December 2012	2,600
Accumulated amortisation	
At 1 January 2011/31 December 2011/1 January 2012	-
Charge during the year	216
At 31 December 2012	216
Net carrying amount	
At 1 January 2011/31 December 2011/1 January 2012	-
At 31 December 2012	2,384

11. Deferred tax assets

	2012 RM'000	2011 RM'000
At 1 January	1,178	429
Recognised in profit or loss (Note 22)	(128)	749
Recognised in equity	(16)	-
At 31 December	1,034	1,178

The components and movements of deferred tax assets and liabilities during the financial year are as follows:

Deferred tax (assets)/ liabilities	Plant and equipment RM'000	Collective impairment allowance RM'000	Available-for-sale reserves RM'000	Others RM'000	Total RM'000
At 1 January 2012	199	(298)	-	(1,079)	(1,178)
Recognised in profit or loss (Note 22)	83	(353)	-	398	128
Recognised in equity	-	-	16	-	16
At 31 December 2012	282	(651)	16	(681)	(1,034)

Deferred tax (assets)/ liabilities	Plant and equipment RM'000	Collective impairment allowance RM'000	Available-for-sale reserves RM'000	Others RM'000	Total RM'000
At 1 January 2011	198	(114)	-	(513)	(429)
Recognised in profit or loss (Note 22)	1	(184)	-	(566)	(749)
At 31 December 2011	199	(298)	-	(1,079)	(1,178)

12. Deposits from customers

(i) By type of deposits

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Demand deposits	315,066	36,378	3,500
Fixed deposits	140,424	347,243	27,418
Savings deposits	6,886	2,951	1,112
Money market deposits	198,540	-	-
Others	1,076	-	-
	661,992	386,572	32,030

(ii) By type of customer

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Business enterprises	609,163	96,919	16,577
Individuals	37,761	26,755	14,392
Others	15,068	262,898	1,061
	661,992	386,572	32,030

12. Deposits from customers *(continued)*

(iii) By maturity structure of term deposits

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Due within six months	645,087	371,492	31,525
More than six months to one year	15,889	15,080	505
More than one year to three years	1,016	-	-
	661,992	386,572	32,030

13. Deposits and placements of banks and other financial institutions

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Licensed Malaysian banks	1,372,975	803,237	562,136
Licensed investment banks	20,025	25	-
Other financial institutions	186,148	-	-
Foreign banks	527,066	159,396	83,294
	2,106,214	962,658	645,430

14. Other liabilities

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Interest payable	10,581	5,630	2,307
Other payables and accruals	8,480	13,130	2,332
Derivative financial liabilities (Note 30)	5,422	2	-
	24,483	18,762	4,639

15. Share capital

	Number of ordinary share of RM1 each		
	31.12.2012 '000	**31.12.2011 '000**	**1.1.2011 '000**
Authorised			
Ordinary shares of RM1 each	380,000	380,000	380,000
Issued and fully paid			
Ordinary shares of RM1 each	331,000	331,000	331,000

	Amount		
	31.12.2012 RM'000	**31.12.2011 RM'000**	**1.1.2011 RM'000**
Authorised			
Ordinary shares of RM1 each	380,000	380,000	380,000
Issued and fully paid			
Ordinary shares of RM1 each	331,000	331,000	331,000

16. Reserves

16.1 Statutory reserve

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.

16.2 Available-for-sale reserve

Available-for-sale reserve captures the fair value adjustment on financial assets which are classified as available-for-sale and its corresponding effect on deferred tax. The reserve is non-distributable and cumulative fair value adjustments will be reversed to profit or loss upon disposal of the assets.

16. Reserves *(continued)*

16.3 Retained earnings

In accordance with the Finance Act 2007 which was gazetted on 28 December 2008, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). Hence, the Bank will be able to distribute dividends out of its entire retained earnings under the single tier system.

17. Interest income

	2012 RM'000	**2011 RM'000**
Loans, advances and financing:		
- Interest income other than from impaired loans	20,518	5,677
Money at call and deposit placements with financial institutions	61,912	35,283
Investment securities available-for-sale	992	-
Others	9	-
	83,431	40,960
Interest expense		
Deposits and placements of banks and other financial institutions	(41,656)	(16,334)
Deposits from customers	(6,009)	(2,808)
Others	(1)	(14)
	(47,666)	(19,156)
Net interest income	35,765	21,804

All items of interest income and expense were recognised from assets and liabilities that were not at fair value through profit or loss.

18. Fee income

	2012 RM'000	**2011 RM'000**
Fee income:		
- Service charges and fees	514	325
- Loan processing fees	68	48
- Guarantee fees	558	376
- Commitment fees	78	33
- Other loans related fee income	1,121	458
- Credit card	6	-
- Other fees income	4,988	-
	7,333	1,240
Fee expense:		
- Brokerage fees	(3)	-
Net fee income	7,330	1,240

19. Net trading income

	2012 RM'000	**2011 RM'000**
Net gains from dealing in foreign exchange	7,603	17,151
Net gains/ (losses) arising from derivative trading	316	(50)
Unrealised revaluation gains/ (losses) in foreign exchange	19	(363)
Net unrealised (losses)/ gains arising from derivative trading	(61)	594
	7,877	17,332

20. Other operating expenses

	2012 RM'000	2011 RM'000
Personnel costs:		
- Salaries, allowance and bonuses (excluding Directors' remuneration)	17,260	10,163
- Directors' remuneration (Note 24 (c))	1,051	1,008
- Pension fund contributions	1,798	699
- Other staff costs	2,273	653
Promotion and marketing related expenses:		
- Advertising and promotion	311	411
- Others	843	671
Establishment costs:		
- Depreciation of plant and equipment	1,097	822
- Amortisation of intangible asset	216	-
- Rental	2,648	2,399
- Others	722	681
Administrative expenses:		
- Auditors' remuneration		
• statutory audit fees	140	120
• audit related services	86	48
• other services	-	59
- Professional fees	702	523
- Licence fee	140	111
- Membership fee	95	31
- Others	3,374	2,446
	32,756	20,845

21. Allowance for impairment on loans, advances and financing

	2012 RM'000	2011 RM'000
Collective allowance for impairment		
- made during the financial year	7,310	1,274
- written back during the financial year	(4,521)	(546)
	2,789	728

22. Tax expense

	2012 RM'000	2011 RM'000
Malaysian income tax		
- Current financial year	4,852	6,598
- In respect of changes in tax treatment for collective allowance for impairment	-	(114)
- Over provision in prior year	(918)	(712)
Total current tax recognised in profit or loss	3,934	5,772
Deferred taxation (Note 11)		
Origination and reversal of temporary differences		
- Current financial year	(203)	(841)
- In respect of changes in tax treatment for collective allowance for impairment	-	114
- Under/(over) provision in prior year	331	(22)
Total deferred tax recognised in profit or loss	128	(749)
Total tax expense	4,062	5,023

22. Tax expense *(continued)*

	2012 RM'000	2011 RM'000
Reconciliation of tax expense		
Profit before taxation	15,580	18,803
Income tax using Malaysian tax rate @ 25%	3,895	4,701
Non-deductible expenses	754	1,056
Under/(over) provision of deferred tax in prior year	331	(22)
Over provision of income tax expense in prior year	(918)	(712)
Tax expense	4,062	5,023

23. Basic earnings per ordinary share

The basic earnings per ordinary share has been calculated based on the profit attributable to equity holder and 331,000,000 (2011: 331,000,000) ordinary shares of RM1 each in issue during the financial year.

24. Significant related party transactions and balances

(a) The significant transactions of the Bank with its holding company and other related entities are as follow:-

	2012		2011	
	RM'000 Holding company	**RM'000** Related companies	**RM'000** Holding company	**RM'000** Related companies
Income				
Interest income				
- Deposits and placements with banks and other financial institutions	122	45,929	112	23,119
Other fees income				
- Other fee income	-	1,122	-	-
Expenses				
Interest expense				
- Deposits and placements of banks and other financial institutions	-	18,769	-	1,490
Other operating expenses				
- Other charges	2	2	2	2

(b) The significant outstanding balances of the Bank with its holding company and other related entities are as follows:

	31.12.2012		31.12.2011		1.1.2011	
	RM'000 Holding company	**RM'000** Related companies	**RM'000** Holding company	**RM'000** Related companies	**RM'000** Holding company	**RM'000** Related companies
Amount due from						
- Cash and short-term funds	2,599	173,122	36,747	439,532	5,810	3,114
- Deposits and placements with banks and other financial institutions	-	1,342,190	-	470,327	-	517,792
- Other assets	-	3,694	-	3,319	1,185	3,882
Amount due to						
- Deposits and placements with banks and other financial institutions	19,332	507,734	6,132	153,263	12,347	72,654
- Other liabilities	-	7,897	-	682	-	60

24. Significant related party transactions and balances *(continued)*

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

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

(c) Key management personnel compensation

The remuneration of key management personnel, being the members of the Board of Directors of the Bank, during the financial year are shown below.

Aggregate remuneration of all Directors during the year are as follows:

	2012	**2011**
	RM'000	**RM'000**
Executive Director and CEO		
Mr. Tian Fenglin		
- salaries	466	439
- bonuses	363	369
	829	808
Non-Executive Directors' fees		
YBhg Dato' Leong Khee Seong	111	100
Mr. Ong Ah Tin @ Ong Chee Kwee	111	100
	222	200
	1,051	1,008
	Note 20	Note 20

25. Credit exposure to connected parties

The credit exposures of the Bank to connected parties, as defined by BNM's "Guidelines on Credit Transactions and Exposures with Connected Parties" are as follows:-

	31.12.2012	**31.12.2011**	**1.1.2011**
	RM'000	**RM'000**	**RM'000**
Aggregate value of outstanding credit exposures to connected parties	26,367	588	-
As a percentage of total credit exposures	0.78%	0.04%	0%
Percentage of outstanding credit exposures to connected parties which is non-performing or in default	0%	0%	0%

26. Commitments and contingencies

In the normal 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 commitments and contingencies constitute the following:

	31.12.2012			
	Principal amount RM'000	**Positive value of derivative contracts ^ RM'000**	**Credit equivalent amount * RM'000**	**Risk weighted assets * RM'000**
Credit-related exposures				
Transaction-related contingent items	372,395	-	186,197	108,597
Short term self-liquidating trade-related contingencies	3,584	-	717	717
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- exceeding one year	113,057	-	56,528	53,427
- not exceeding one year	351,861	-	70,372	68,141
Unutilised credit card lines	8,290	-	1,658	1,244
Derivative financial contracts				
Foreign exchange related contracts:				
- less than one year	596,301	6,183	14,443	7,225
Total	1,445,488	6,183	329,915	239,351
		Note 8, 30		

	31.12.2011			
	Principal amount RM'000	**Positive value of derivative contracts ^ RM'000**	**Credit equivalent amount * RM'000**	**Risk weighted assets * RM'000**
Credit-related exposures				
Transaction-related contingent items	235,255	-	117,628	68,851
Short term self-liquidating trade-related contingencies	1,894	-	379	379
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- exceeding one year	9,341	-	4,670	4,670
- not exceeding one year	117,430	-	23,486	18,969
Derivative financial contracts				
Foreign exchange related contracts:				
- less than one year	222,573	824	2,429	962
Total	586,493	824	148,592	93,831
		Note 8, 30		

^ The foreign exchange related contracts are off-balance sheet derivative financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates) of the underlying instruments. The tables above show the Bank's derivative financial instruments as at the respective reporting dates. The underlying principal amount of these derivative financial instruments and their corresponding gross positive (derivative financial asset) fair values as at respective reporting dates are as shown above.

* The credit equivalent and risk weighted amounts are computed using credit conversion factors and risk weighting rules as per BNM guidelines. The credit conversion factors and risk weighting rules were based on Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF".

26. Commitments and contingencies *(continued)*

		1.1.2011		
	Principal amount RM'000	Positive value of derivative contracts ^ RM'000	Credit equivalent amount * RM'000	Risk weighted assets * RM'000
Credit-related exposures				
Transaction-related contingent items	430,919	-	215,460	107,730
Derivative financial contracts				
Foreign exchange related contracts:				
- less than one year	11,400	228	427	384
Total	442,319	228	215,887	108,114
		Note 8, 30		

^ The foreign exchange related contracts are off-balance sheet derivative financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates) of the underlying instruments. The tables above show the Bank's derivative financial instruments as at the respective reporting dates. The underlying principal amount of these derivative financial instruments and their corresponding gross positive (derivative financial asset) fair values as at respective reporting dates are as shown above.

* The credit equivalent and risk weighted amounts are computed using credit conversion factors and risk weighting rules as per BNM guidelines. The credit conversion factors and risk weighting rules were based on Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF".

27. Lease commitments

The Bank has lease commitments in respect of rented premises, all of which are classified as operating leases. A summary of the long-term lease commitments is as follow:

	2012 RM'000	2011 RM'000
Within one year	2,974	2,328
After one year but not more than five years	2,563	1,667
	5,537	3,995

28. Capital adequacy

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

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Tier 1 capital			
Paid-up share capital	331,000	331,000	331,000
Retained earnings	15,799	10,041	2,070
Statutory reserves	12,629	6,869	1,060
	359,428	347,910	334,130
Less: Deferred tax assets	(1,050)	(1,178)	(429)
Total Tier 1 capital	358,378	346,732	333,701
Tier 2 capital			
Collective impairment allowance, representing total Tier 2 capital	3,978	1,189	461
Capital base	362,356	347,921	334,162
Core capital ratio	32.92%	54.23%	71.69%
Risk-weighted capital ratio	33.28%	54.42%	71.79%

Breakdown of gross risk-weighted assets ("RWA") in the various categories of risk-weights:

	31.12.2012		31.12.2011		1.1.2011	
	Principal RM'000	Risk-weighted RM'000	Principal RM'000	Risk-weighted RM'000	Principal RM'000	Risk-weighted RM'000
Total RWA for credit risk	3,477,013	1,019,938	1,863,766	586,363	1,233,605	436,205
Total RWA for market risk	-	3,372	-	2,733	-	4,498
Total RWA for operational risk	-	65,449	-	50,245	-	24,781
	3,477,013	1,088,759	1,863,766	639,341	1,233,605	465,484

Capital adequacy ratios of the Bank are computed in accordance with BNM's revised Risk Weighted Capital Adequacy Framework, "RWCAF": Standardised Approach for Credit Risk and Market Risk, and Basic Indicator Approach for Operational Risk (Basel 2).

28. Capital adequacy *(continued)*

The breakdown of RWA by exposures in each major risk category under standardised approach for the Bank are as follow:

			31.12.2012			
			Gross Exposures RM'000	Net Exposures RM'000	Risk Weighted Assets RM'000	Capital Requirements RM'000
Credit Risk						
On-Balance Sheet Exposures						
Sovereigns/Central Bank			1,162,105	1,162,105	-	-
Banks, Development Financial Institutions and MDBs			1,708,978	1,708,978	522,487	41,799
Corporates			251,777	251,777	240,277	19,222
Regulatory Retail			1,268	1,268	613	49
Residential Mortgages			1,699	1,699	775	62
Other assets			21,271	21,271	16,435	1,315
Total On-Balance Sheet Exposures			3,147,098	3,147,098	780,587	62,447
Off-Balance Sheet Exposures						
Credit-related off-balance sheet exposures			315,472	315,472	232,126	18,570
OTC derivatives			14,443	14,443	7,225	578
Total Off-Balance Sheet Exposures			329,915	329,915	239,351	19,148
Total On and Off-Balance Sheet Exposures			3,477,013	3,477,013	1,019,938	81,595
Large exposure risk requirement			-	-	-	-
Market Risk	Long position	Short position				
Foreign currency risk	554	3,372		3,372	3,372	270
Operational Risk	-	-		-	65,449	5,236
Total RWA and Capital Requirements					1,088,759	87,101

28. Capital adequacy *(continued)*

			31.12.2011			
			Gross Exposures RM'000	Net Exposures RM'000	Risk Weighted Assets RM'000	Capital Requirements RM'000
Credit Risk						
On-Balance Sheet Exposures						
Sovereigns/Central Bank			359,066	359,066	-	-
Banks, Development Financial Institutions and MDBs			984,786	984,786	253,221	20,257
Corporates			361,353	361,353	231,409	18,513
Other assets			9,969	9,969	7,902	632
Total On-Balance Sheet Exposures			1,715,174	1,715,174	492,532	39,402
Off-Balance Sheet Exposures						
Credit-related off-balance sheet exposures			146,163	146,163	92,869	7,430
OTC derivatives			2,429	2,429	962	77
Total Off-Balance Sheet Exposures			148,592	148,592	93,831	7,507
Total On and Off-Balance Sheet Exposures			1,863,766	1,863,766	586,363	46,909
Large exposure risk requirement			-	-	-	-
Market Risk	Long position	Short position				
Foreign currency risk	1,939	2,733		2,733	2,733	219
Operational Risk	-	-		-	50,245	4,020
Total RWA and Capital Requirements					639,341	51,148

28. Capital adequacy *(continued)*

			1.1.2011			
			Gross Exposures RM'000	**Net Exposures RM'000**	**Risk Weighted Assets RM'000**	**Capital Requirements RM'000**
Credit Risk						
On-Balance Sheet Exposures						
Sovereigns/Central Bank			173,896	173,896	-	-
Banks, Development Financial Institutions and MDBs			714,325	714,325	260,405	20,832
Corporates			120,626	120,626	60,138	4,811
Other assets			8,871	8,871	7,548	604
Total On-Balance Sheet Exposures			1,017,718	1,017,718	328,091	26,247
Off-Balance Sheet Exposures						
Credit-related off-balance sheet exposures			215,460	215,460	107,730	8,618
OTC derivatives			427	427	384	31
Total Off-Balance Sheet Exposures			215,887	215,887	108,114	8,649
Total On and Off-Balance Sheet Exposures			1,233,605	1,233,605	436,205	34,896
Large exposure risk requirement			-	-	-	-
Market Risk	Long position	Short position				
Foreign currency risk	4,498	-		4,498	4,498	360
Operational Risk	-	-		-	24,781	1,982
Total RWA and Capital Requirements					465,484	37,238

<u>Note:</u>
MDBs - Multilateral Development Banks
OTC - Over the counter

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28. Capital adequacy *(continued)*

(b) The breakdown of credit risk exposures by risk weights for the respective reporting dates are as follows:

31.12.2012 Risk Weights	Exposures after Netting and Credit Risk Mitigation: Sovereigns & Central Bank RM'000	Banks, MDBs and DFIs RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Other Assets RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
0%	1,162,105	-	12,839	-	-	4,836	1,179,780	-
20%	-	1,179,139	-	-	-	2,101	1,181,240	236,248
35%	-	-	-	1,441	4,293	-	5,734	2,007
50%	-	486,360	156,987	-	1,817	11,073	656,237	328,119
75%	-	-	-	1,834	-	-	1,834	1,376
100%	-	43,479	390,724	282	-	17,703	452,188	452,188
Total Exposures	1,162,105	1,708,978	560,550	3,557	6,110	35,713	3,477,013	1,019,938
Risk-Weighted Assets by Exposures	-	522,487	469,218	2,162	2,411	23,661	1,019,938	
Average Risk Weight	0.0%	30.6%	83.7%	60.8%	39.5%	66.3%	29.3%	
Deduction from Capital Base	-	-	-	-	-	-	-	

31.12.2011 Risk Weights	Exposures after Netting and Credit Risk Mitigation: Sovereigns & Central Bank RM'000	Banks, MDBs and DFIs RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Other Assets RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
0%	359,066	-	16,164	-	-	2,068	377,298	-
20%	-	797,238	-	-	-	1,803	799,041	159,808
50%	-	187,548	334,148	-	-	48	521,744	260,872
100%	-	-	157,204	-	-	8,479	165,683	165,683
Total Exposures	359,066	984,786	507,516	-	-	12,398	1,863,766	586,363
Risk-Weighted Assets by Exposures	-	253,222	324,278	-	-	8,864	586,363	
Average Risk Weight	0.0%	25.7%	63.9%	0.0%	0.0%	71.5%	31.5%	
Deduction from Capital Base	-	-	-	-	-	-	-	

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28. Capital adequacy *(continued)*

1.1.2011 Risk Weights	Exposures after Netting and Credit Risk Mitigation						Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Bank	Banks, MDBs and DFIs	Corporates	Regulatory Retail	Residential Mortgages	Other Assets		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	173,896	-	397	-	-	1,324	175,617	-
20%	-	322,524	-	-	-	53	322,577	64,515
50%	-	391,801	335,642	-	-	-	727,443	363,722
100%	-	-	47	-	-	7,921	7,968	7,968
Total Exposures	173,896	714,325	336,086	-	-	9,298	1,233,605	436,205
Risk-Weighted Assets by Exposures	-	260,405	167,868	-	-	7,932	436,205	
Average Risk Weight	0.0%	36.5%	49.9%	0.0%	0.0%	85.3%	35.4%	
Deduction from Capital Base	-	-	-	-	-	-	-	

The above are disclosures on credit risk by risk weight of the Bank as at the respective reporting dates as required with the adoption of the Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF".

<u>*Note:*</u>

MDBs - Multilateral Development Banks

DFIs - Development Financial Institutions

29. 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 December for the respective reporting dates are as follow:

	31.12.2012 Carrying Value RM'000	31.12.2012 Fair Value RM'000	31.12.2011 Carrying Value RM'000	31.12.2011 Fair Value RM'000	1.1.2011 Carrying Value RM'000	1.1.2011 Fair Value RM'000
Financial assets						
Cash and short-term funds	1,335,609	1,335,609	846,191	846,191	321,307	321,307
Deposits and placements with banks and other financial institutions	1,372,551	1,372,551	499,729	499,729	568,236	568,236
Financial investment available-for-sale	51,065	51,065	-	-	-	-
Loans, advances and financing	367,459	367,122	360,164	353,425	120,165	118,817
Financial liabilities						
Deposits from customers	661,992	661,992	386,572	386,572	32,030	32,030
Deposits and placements of banks and other financial institutions	2,106,214	2,106,214	962,658	962,658	645,430	645,430

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

(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 including interest-earning deposits, 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**

Fair values of securities that are actively traded is determined by quoted bid prices at the end of the reporting period.

(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 the respective reporting dates 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 and saving 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.

30. Derivative financial instruments

	31.12.2012		31.12.2011		1.1.2011	
	Assets RM'000	Liabilities RM'000	Assets RM'000	Liabilities RM'000	Assets RM'000	Liabilities RM'000
Foreign exchange derivatives	5,276	3,742	821	2	20	-
Currency swaps	907	1,680	3	-	208	-
Total recognised derivative assets/liabilities	6,183	5,422	824	2	228	-
(Notes 8, 14 and 26)						

31. Financial risk management

(a) Introduction and overview

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

• Credit risk
• Liquidity risk
• Market risk
• Operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risks, and the Bank's capital management.

Risk Management framework

The Bank's risk management policies are established to identify the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in the market condition, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

(b) Credit risk

Credit risk is the risk of financial loss to the Bank due to failure of the Bank's customers or counterparties in meeting their contractual financial obligation. The credit risk is primarily from the Bank's cash and deposits/placements, direct lending, trade finance and funding activities.

Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to the Credit Committee. The Credit Committee is supervised by the Senior Management. The functions of the Credit Committee are as follows:-

• *Formulating and reviewing credit policies*

Taking the parent company’s credit policies as reference and in consultation with business units, the Credit Committee is tasked to formulate the credit policies and set the underwritting standards that suit the local regulatory and business requirements. The credit policies, which encompass amongst others, the credit risk assessment, risk grading, collateral requirement, documentary and legal requirement, are to be reviewed from time to time to instill the industry's best practices.

31. Financial risk management *(continued)*

(b) Credit risk *(continued)*

• *Setting underwriting standards/lending direction*

The Credit Committee sets the underwriting standards/lending direction to ensure that the credit risks to be undertaken by the Bank are controlled even prior to the origination stage. The criteria set forth in the underwriting standards/lending direction will take into consideration the Bank's risk appetite and the client's credit profile. These underwriting standards are to be reviewed on an annual basis to reflect the dynamic changes in the industry and economic

• *Recommending approval on credit requests*

Each credit facility to be extended to clients is subject to independent credit assessment by the Bank's Risk Management department, which would then be supported by the Credit Committee prior to escalation to the approving authority for approval. Only credit requests which meet certain criteria, e.g. fully cash-backed facility will be escalated directly to the approving authority without going through the Credit Committee.

• *Monitoring and controlling exposures*

Ongoing monitoring of the Bank's exposures is vital to maintain the quality of the Bank's loan assets. The credit limits are monitored annually or on a more frequent basis depending on the risk level. Mitigation measures, such as collateral and covenants setting, are imposed to protect the Bank's interest. Concentration risk arising from over-exposure to counterparties, industries and geographies are managed through regular monitoring and reporting. Stress test is conducted in the event of a major shift in the economic indicators or whenever a major change is anticipated.

Allowances for impairment

The Bank employs a 14-grade credit risk grading system as a tool for determining the credit risk profile of borrowers using appropriate form of scorecards. The credit grades are used as a basis to support the underwriting of credit and are mapped accordingly to the credit rating scales of major international credit rating agencies.

A collective impairment allowance is performed on "collective basis" on the Bank's loan portfolio using statistical techniques with the necessary adjustments to the credit grades and probability of defaults of the respective credit grade band of the loans in order to guard against the risk of judgement error in the credit grading process. Although the credit grading process would involve qualitative assessment which is subject to judgement error, the loans within the same credit grade band generally share the similar credit risk characteristics for collective assessment. Given the lack of historical loss experience, the relevant market data will be taken for consideration to derive the model risk adjustment.

In the case of individual assessment, a loan is deemed as impaired if there is objective evidence of impairment which is triggered by certain events. In general, loans that are not repaid on time as they come due, be it the principal or interest, will be monitored closely as the likelihood of impairment from these past due loans is expected to be higher. The methodology adopted for collective impairment assessment and the list of trigger events for individual impairment assessment will be reviewed on a regular basis to suit with the Bank's policy and the traits of its loan portfolio.

Write-off policy

The Bank writes off a loan when the Credit Committee / Senior Management determines that the loan is uncollectible, subject to approval of the Board of Directors. The determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the exposure.

31. Financial risk management *(continued)*

(b) Credit risk *(continued)*

(i) Exposure to credit risk

31.12.2012	**Loans, advances and financing to customers RM'000**	**Loans, advances and financing to banks* RM'000**	**Investment Securities RM'000**
Carrying amount	367,459	2,708,160	51,065
Assets at amortised cost			
Individually impaired	-	-	-
Collective allowance for impairment	(3,978)	-	-
Neither past due nor impaired			
- Pass	371,437	2,708,160	51,065
Carrying amount-amortised cost	367,459	2,708,160	51,065
Avaliable-for-sale (AFS)			
Neither past due nor impaired			
- Pass	-	-	51,065
Carrying amount-fair value	-	-	51,065

In addition to the above, the Bank had entered into lending commitment of RM473 million. The Bank had also issued financial guarantee contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is RM376 million.

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

31.12.2011	**Loans, advances and financing to customers RM'000**	**Loans, advances and financing to banks* RM'000**	**Investment Securities RM'000**
Carrying amount	360,164	1,345,920	-
Assets at amortised cost			
Individually impaired	-	-	-
Collective allowance for impairment	(1,189)	-	-
Neither past due nor impaired			
- Pass	361,353	1,345,920	-
Carrying amount-amortised cost	360,164	1,345,920	-

In addition to the above, the Bank had entered into lending commitment of RM127 million. The Bank had also issued financial guarantee contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is RM237 million.

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

31. Financial risk management *(continued)*

(b) Credit risk *(continued)*

(i) Exposure to credit risk (continued)

1.1.2011	**Loans, advances and financing to customers RM'000**	**Loans, advances and financing to banks* RM'000**	**Investment Securities RM'000**
Carrying amount	120,165	889,543	-
Assets at amortised cost			
Individually impaired	-	-	-
Collective allowance for impairment	(461)	-	-
Neither past due nor impaired			
- Pass	120,626	889,543	-
Carrying amount-amortised cost	120,165	889,543	-

In addition to the above, the Bank had issued financial guarantee contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is RM431 million.

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

The Bank holds collateral against loans, advances and financing to customers in the form of fixed deposits, properties and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. There is no impaired loans as at the respective reporting dates, hence collateral held as security for past due nor impaired loans are not disclosed.

(ii) Concentration by sector and geographical location

The Bank monitors the concentration of credit risk by sector and by geographical distribution. An analysis of the concentration of credit risk as at the respective reporting dates are shown below:

	31.12.2012 Loans, advances and financing to banks* RM'000	**31.12.2011 Loans, advances and financing to banks* RM'000**	**1.1.2011 Loans, advances and financing to banks* RM'000**
Carrying amount	2,708,160	1,345,920	889,543
Concentration of credit risk based on sector			
Financial services	1,597,120	986,854	715,647
Government and central bank	1,111,040	359,066	173,896
	2,708,160	1,345,920	889,543
Concentration of credit risk based on geographical location			
Malaysia	1,190,249	394,188	362,827
China	1,062,237	674,017	526,716
Middle East	297,454	41,309	-
South East Asia	153,090	5,043	-
United States of America	4,885	231,363	-
European Union	245	-	-
	2,708,160	1,345,920	889,543

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

Concentration of credit risk by geographical distribution for loans, advances and financing is measured based on the location of the borrower.

31. Financial risk management *(continued)*

(b) Credit risk *(continued)*

(ii) Concentration by sector and geographical location (continued)

	31.12.2012 Investment Securities RM'000	**31.12.2011 Investment Securities RM'000**	**1.1.2011 Investment Securities RM'000**
Carrying amount	51,065	-	-
Concentration of credit risk based on sector			
Government and central bank	51,065	-	-
Concentration of credit risk based on geographical location			
Malaysia	51,065	-	-

Concentration of credit risk by geographical distribution for investment securities is measured based on the location of the issuer.

Concentration by sector and geographical distributionn for loans, advances and financing to customers are disclosed under Note 7 (iv) and 7 (vi) to the financial statements.

Derivatives risk

The Bank's derivatives may give rise to risks in the event the counterparty defaults. The derivatives risks are mitigated through hedging, by taking a position in one market to offset and balance against the risk adopted by assuming a position in a contrary or opposing market.

Settlement risk

The Bank's activities may give rise to risks at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash or other assets as contractually agreed.

(c) Liquidity risk

Liquidity risks are the risks 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, and daily management of its liquidity positions.

Management of liquidity risk

The management of liquidity and funding is mainly carried out in compliance with BNM's New Liquidity Framework; and practices and limits set by parent company, and the Asset and Liability Committee (ALCO). The Bank maintains a strong liquidity position and constantly manages the liquidity profile of its assets, liabilities and commitments to ensure that cash flow requirements are appropriately balanced and all obligations are met accordingly.

As an establishing financial institution in the local banking industry, it is imperative for the Bank to continuously seek and maintain new sources of funding to increase and diversify its funding base.

31. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

Cash flows payable by the Bank (financial liabilities) based on remaining contractual maturity:

	31.12.2012				
	On demand	Due within 3 months	Between 3 to 12 months	Between 1 to 3 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Deposits from customers	322,012	315,845	25,050	1,016	663,923
Deposits and placements of banks and other financial institutions	27,415	1,512,353	587,246	-	2,127,014
Derivative financial liabilities	5,422	-	-	-	5,422
Other liabilities	8,480	-	-	-	8,480
	363,329	1,828,198	612,296	1,016	2,804,839

	31.12.2011				
	On demand	Due within 3 months	Between 3 to 12 months	Between 1 to 3 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Deposits from customers	39,346	300,063	49,197	-	388,606
Deposits and placements of banks and other financial institutions	30,762	465,884	474,681	-	971,327
Derivative financial liabilities	2	-	-	-	2
Other liabilities	13,130	-	-	-	13,130
Provision for taxation	86	-	-	-	86
	83,326	765,947	523,878	-	1,373,151

	1.1.2011				
	On demand	Due within 3 months	Between 3 to 12 months	Between 1 to 3 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Deposits from customers	4,613	26,983	542	-	32,138
Deposits and placements of banks					-
and other financial institutions	4,364	211,967	431,443	-	647,774
Other liabilities	2,332	-	-	-	2,332
Provision for taxation	1,683	-	-	-	1,683
	12,992	238,950	431,985	-	683,927

The balances in the above table will not agree directly with the balances in the statement of financial position as the table incorporates, on an undiscounted basis, all cash flows relating to principal and future coupon payments.

Cash flows payable in respect of customer and savings accounts are primarily contractually repayable on demand or at short notice. However, in practice, short term deposit balances remain stable as inflows and outflows broadly match.

31. Financial risk management *(continued)*

(d) Market risk

Market risk is the risk of loss arising from movements in market variables, such as interest rates, credit spreads and foreign exchange rates.

Management of market risk

The Bank’s market risk management is the process of identifying, measuring, monitoring, controlling and reporting market risk for the purposes of setting up and enhancing the market risk management system, specifying responsibilities and process, determining and standardising the measurement approaches, limit management indicators and market risk reports, controlling and mitigating market risk and improving the level of market risk management. The objective of market risk management is to manage and control market risk exposures within a tolerable level and maximise risk-adjusted return according to the Bank’s risk preference.

As an establishing financial institution in the local banking industry, the Bank tries to minimise and preferably eliminate exposure to market risk. The Bank does not engage in any proprietary trading activities. Exposures arising from normal banking activities (deposits, loans, foreign exchange, etcetera) are hedged accordingly. All risks related to treasury money market activities will be managed according to, and within the authorised risk limits.

Foreign exchange risk

Foreign exchange risk is the risk that arises as a result of movements in the relative value of currencies. The Bank is exposed to foreign currency risk on transactions that are denominated in a currency other than its functional currency. The Bank minimises its exposure to foreign currency risk through hedging and limiting the net open position of the foreign exchange portfolio.

The following tables summarise the assets, liabilities and net open position by currency as at the reporting date, which mainly in Ringgit Malaysia, United States Dollars and Chinese Renminbi. Other currencies mainly include exposure to Euro, Australia Dollars, Great Britain Pounds, Hong Kong Dollars, Japanese Yen, Canadian Dollars and Singapore Dollars.

	Malaysia Ringgit RM'000	**United States Dollors RM'000**	**Chinese Renminbi RM'000**	**Others RM'000**	**Total RM'000**
31.12.2012					
ASSETS					
Cash and short-term funds	1,116,920	167,233	50,660	796	1,335,609
Deposits and placements with banks and other financial institutions	30,362	815,997	526,192	-	1,372,551
Financial investment available-for-sale	51,065	-	-	-	51,065
Loans, advances and financing	129,660	208,430	29,369	-	367,459
Other assets	9,303	3,300	3,342	-	15,945
Tax recoverable	1,831	-	-	-	1,831
Plant and equipment	4,289	-	-	-	4,289
Intangible asset	2,384	-	-	-	2,384
Deferred tax assets	1,034	-	-	-	1,034
TOTAL ASSETS	1,346,848	1,194,960	609,563	796	3,152,167
LIABILITIES					
Deposits from customers	326,138	220,912	114,715	227	661,992
Deposits and placements of banks and other financial institutions	645,464	954,302	506,432	16	2,106,214
Other liabilities	13,942	4,811	5,720	10	24,483
TOTAL LIABILITIES	985,544	1,180,025	626,867	253	2,792,689

31. Financial risk management *(continued)*

(d) Market risk *(continued)*

	Malaysia Ringgit RM'000	United States Dollors RM'000	Chinese Renminbi RM'000	Others RM'000	Total RM'000
31.12.2011					
ASSETS					
Cash and short-term funds	364,699	329,301	151,520	671	846,191
Deposits and placements with banks and other financial institutions	29,402	75,487	394,840	-	499,729
Loans, advances and financing	72,306	275,125	12,733	-	360,164
Other assets	2,857	434	2,885	-	6,176
Plant and equipment	2,550	-	-	-	2,550
Deferred tax assets	1,178	-	-	-	1,178
TOTAL ASSETS	475,227	680,347	561,978	671	1,715,988
LIABILITIES					
Deposits from customers	109,070	263,449	13,855	198	386,572
Deposits and placements of banks and other financial institutions	26,132	264,059	672,467	-	962,658
Other liabilities	4,831	4,369	9,560	2	18,762
Provision for taxation	86	-	-	-	86
TOTAL LIABILITIES	140,119	531,877	695,882	200	1,368,078

	Malaysia Ringgit RM'000	United States Dollors RM'000	Chinese Renminbi RM'000	Others RM'000	Total RM'000
1.1.2011					
ASSETS					
Cash and short-term funds	297,592	17,869	4,722	1,124	321,307
Deposits and placements with banks and other financial institutions	65,200	469,546	33,490	-	568,236
Loans, advances and financing	397	119,768		-	120,165
Other assets	2,835	3,795	144	-	6,774
Plant and equipment	1,001	-	-	-	1,001
Deferred tax assets	429	-	-	-	429
TOTAL ASSETS	367,454	610,978	38,356	1,124	1,017,912
LIABILITIES					
Deposits from customers	30,411	159	1,443	17	32,030
Deposits and placements of banks and other financial institutions	3,035	607,357	35,038	-	645,430
Other liabilities	2,271	2,335	33	-	4,639
Provision for taxation	1,683	-	-	-	1,683
TOTAL LIABILITIES	37,400	609,851	36,514	17	683,782

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31. Financial risk management *(continued)*

(d) Market risk *(continued)*

Interest rate risk

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following tables indicate their effective interest rates at the respective balance sheet dates and the periods in which they reprice or mature, whichever is earlier.

31.12.2012	Non-trading book 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 sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Assets									
Cash and short-term funds	1,327,587	-	-	-	-	8,022	-	1,335,609	2.68
Deposits and placements with banks and other financial institutions	-	879,787	492,764	-	-	-	-	1,372,551	2.04
Investment securities available-for-sale	-	-	-	51,065	-	-	-	51,065	3.27
Loans, advances and financing:									
- performing	144,617	42,487	179,542	164	649	-	-	367,459	3.51
Other assets ^	-	-	-	-	-	25,483	-	25,483	-
Total assets	1,472,204	922,274	672,306	51,229	649	33,505	-	3,152,167	
Liabilities									
Deposits from customers	528,049	102,286	24,342	-	-	7,315	-	661,992	1.53
Deposits and placements of banks and other financial institutions	536,732	978,481	571,653	-	-	19,348	-	2,106,214	2.15
Other liabilities	-	-	-	-	-	24,483	-	24,483	-
Total liabilities	1,064,781	1,080,767	595,995	-	-	51,146	-	2,792,689	
Equity	-	-	-	-	-	359,478	-	359,478	
Total liabilities and equity	1,064,781	1,080,767	595,995	-	-	410,624	-	3,152,167	
On-balance sheet interest sensitivity gap	407,423	(158,493)	76,311	51,229	649	(377,119)	-		
Total interest sensitivity gap	407,423	(158,493)	76,311	51,229	649	(377,119)	-		

^ Other assets include other assets, deferred tax assets, plant and equipment, intangible asset and tax recoverable as disclosed in the statement of financial position.

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31. Financial risk management *(continued)*

(d) Market risk *(continued)*

Interest rate risk (continued)

31.12.2011	**Non-trading book** 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 sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Assets									
Cash and short-term funds	596,955	-	-	-	-	249,236	-	846,191	2.33
Deposits and placements with banks and other financial institutions	-	328,791	170,938	-	-	-	-	499,729	3.31
Loans, advances and financing:									
- performing	150,783	141,090	68,291	-	-	-	-	360,164	3.19
Other assets ^	-	-	-	-	-	9,904	-	9,904	-
Total assets	747,738	469,881	239,229	-	-	259,140	-	1,715,988	
Liabilities									
Deposits from customers	69,421	232,258	48,515	-	-	36,378	-	386,572	1.55
Deposits and placements of banks and other financial institutions	325,061	164,024	467,441	-	-	6,132	-	962,658	1.65
Other liabilities #	-	-	-	-	-	18,848	-	18,848	-
Total liabilities	394,482	396,282	515,956	-	-	61,358	-	1,368,078	
Equity	-	-	-	-	-	347,910	-	347,910	
Total liabilities and equity	394,482	396,282	515,956	-	-	409,268	-	1,715,988	
On-balance sheet interest sensitivity gap	353,256	73,599	(276,727)	-	-	(150,128)	-		
Total interest sensitivity gap	353,256	73,599	(276,727)	-	-	(150,128)	-		

^ Other assets include other assets, deferred tax assets as well as plant and equipmentas disclosed in the statement of financial position.

Other liabilities include other liabilities and provision for taxation as disclosed in the statement of financial position.

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31. Financial risk management *(continued)*

(d) Market risk *(continued)*

Interest rate risk (continued)

1.1.2011	Non-trading book 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 sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Assets									
Cash and short-term funds	306,756	-	-	-	-	14,551	-	321,307	2.67
Deposits and placements with banks and other financial institutions	-	135,180	433,056	-	-	-	-	568,236	2.53
Loans, advances and financing:									
- performing	38,273	57,267	24,625	-	-	-	-	120,165	1.93
Other assets ^	-	-	-	-	-	8,204	-	8,204	-
Total assets	345,029	192,447	457,681	-	-	22,755	-	1,017,912	
Liabilities									
Deposits from customers	11,959	16,045	526	-	-	3,500	-	32,030	2.35
Deposits and placements of banks and other financial institutions	120,105	92,958	429,332	-	-	3,035	-	645,430	1.36
Other liabilities #	-	-	-	-	-	6,322	-	6,322	-
Total liabilities	132,064	109,003	429,858	-	-	12,857	-	683,782	
Equity	-	-	-	-	-	334,130	-	334,130	
Total liabilities and equity	132,064	109,003	429,858	-	-	346,987	-	1,017,912	
On-balance sheet interest sensitivity gap	212,965	83,444	27,823	-	-	(324,232)	-		
Total interest sensitivity gap	212,965	83,444	27,823	-	-	(324,232)	-		

^ Other assets include other assets, deferred tax assets as well as plant and equipment as disclosed in the statement of financial position.
# Other liabilities include other liabilities and provision for taxation as disclosed in the statement of financial position.

31. Financial risk management *(continued)*

(d) Market risk *(continued)*

Interest rate risk (continued)

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:

RM'000	100 bp* parallel increase	100 bp* parallel decrease
Sensitivity of projected net interest income		
2012		
At 31 December	3,265	(3,265)
2011		
At 31 December	5,360	(5,360)

**bp - basis point*

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risk.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each department. The responsibility is supported by the development of an overall Bank standard for the management of operational risk in the following areas:

• requirement for appropriate segregation of duties, including the independent authorisation of transactions
• requirements for the reconciliation and monitoring of transactions
• compliance with regulatory and other legal requirements
• documentation of controls and procedures
• development of contingency plans
• training and professional development
• ethical and business standards
• risk mitigation, including insurance where this is effective.

32. Capital management

Regulatory capital

The Bank's lead regulator, Bank Negara Malaysia, sets and monitors capital requirement for the Bank. The Bank is required to comply with the provisions of the Basel 2 framework in respect of regulatory capital adequacy, and use of Basic Indicator Approach for Operational Risk. The Bank adopts the Standardised approach for Credit risk and Market risk in its trading portfolios. Please refer to Note 28 to the financial statements, for the Bank's regulatory capital position under Basel 2.

The Bank's regulatory capital is analysed in two tiers:

• Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, statutory reserves and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purpose.

• Tier 2 capital, which includes collective impairment allowances (excluding collective impairment allowances attributable to financing classified as impaired).

33. Use of estimates and judgements

The results of the Bank are sensitive to accounting policies, assumptions and estimates that underline the preparation of its financial statements. The significant accounting policies used in the preparation of the financial statements are described in Note 3 to the financial statements.

The accounting policies that are deemed critical to the Bank's results and financial position, in terms of the materiality of the items to which the policy is applied, and which involve a high degree of judgement including the use of assumptions and estimates, are as follow:

(i) Impairment of loans, advances and financing

The Bank's accounting policy for losses arising from the impairment of customers' loans, advances and financing is described in Note 3(j) to the financial statements.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

(ii) Valuation of financial instruments

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

• Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

• Level 2: Valuation techniques based on observable inputs, either directly (as prices) or indirectly (derived from prices). This category includes instruments valued using: quoted prices for identical or similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.

• Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

33. Use of estimates and judgements *(continued)*

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used in the market. The objective of valuation techniques is to arrive at fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length.

The table below analyses financial instruments measured at fair value at the end of the respective reporting dates, by the level in the fair value hierarchy into which the fair value measurement is categorised.

31.12.2012

	Level 1	Level 2	Level 3	Total
Financial assets measured fair value	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial investment available-for-sale (Note 6)	-	51,065	-	51,065
Derivative financial assets (Note 8)	-	6,183	-	6,183
Total	-	57,248	-	57,248
Financial liabilities measured fair value				
Derivative financial liabilities (Note 14)	-	5,422	-	5,422

31.12.2011

	Level 1	Level 2	Level 3	Total
Financial assets measured fair value	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Derivative financial assets (Note 8)	-	824	-	824
Financial liabilities measured fair value				
Derivative financial liabilities (Note 14)	-	2	-	2

1.1.2011

	Level 1	Level 2	Level 3	Total
Financial assets measured fair value	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Derivative financial assets (Note 8)	-	228	-	228

34. Changes in Accounting Policies

(a) *Effects of Adopting MFRS Framework*

These financial statements are the Bank's first annual financial statements prepared under the MFRS framework. Accordingly, the Bank has applied MFRS 1 First-time adoption of Malaysian Financial Reporting Standards upon its adoption of the MFRS framework on 1 January 2012. The MFRS adoption did not result in any material financial impact to the Bank other than the financial impact arising from the change in accounting policy on collective assessment allowance.

The adoption of the MFRS framework has resulted in the following changes:

(i) ***MFRS 139 Financial Instruments: Recognition and Measurement ("MFRS 139") - Accounting Policy on Impairment of Collective Assessment for Loans, Advances and Financing***

Prior to the transition to MFRS 139, the Bank had maintained its collective impairment allowance at 1.5% of total outstanding loans, advances and financing, net of individual assessment allowance, in line with Bank Negara Malaysia 's transitional provisions under its Guidelines on Classification and Impairment Provisions for Loans/Financing. Upon the transition to MFRS 139 on 1 January 2012, these transitional provisions were removed and the Bank has applied the requirements of MFRS 139 in the determination of collective impairment allowance.

Under MFRS 139, A collective impairment allowance is performed on "collective basis" on the Bank's loan portfolio using statistical techniques with the necessary adjustments to the credit grades and probability of defaults of the respective credit grade band of the loans in order to guard against the risk of judgment error in the credit grading process. Although the credit grading process would involve qualitative assessment which is subject to judgment error, the loans within the same credit grade band generally share the similar credit risk characteristics for collective assessment. Given the lack of historical loss experience, the relevant market data will be taken for consideration to derive the model risk adjustment.

A summary of the financial impact of the change in accounting policy on the financial statements of the Bank is as follows:

Statement of Financial Position	**31.12.2011 RM'000**	**1.1.2011 RM'000**
Loans, Advances and Financing		
- Collective Impairment Allowance (Note 7)		
- As previously stated	5,420	1,809
- Effects of MFRS adoption	(4,231)	(1,348)
As restated	1,189	461
Deferred Tax Assets (Note 8)		
- As previously stated	2,235	766
- Effects of MFRS adoption	(1,057)	(337)
As restated	1,178	429
Retained Profits		
- As previously stated	6,867	1,059
- Effects of MFRS adoption	3,174	1,011
As restated	10,041	2,070

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34. Changes in Accounting Policies *(continued)*

(a) *Effects of Adopting MFRS Framework (continued)*

	2011
Income Statement	**RM'000**
Allowance for Impairment on Loans, Advances and Financing	
- Collective Impairment Allowance (Note 21)	
- As previously stated	3,611
- Effects of MFRS adoption	(2,883)
As restated	728
Tax Expense	
- As previously stated	4,303
- Effects of MFRS adoption	720
As restated	5,023

(b) *Financial Impact of Adoption of MFRS Framework*

As stated in note 2(a), these are the first financial statements of the Bank prepared in accordance with MFRSs.

The accounting policies set out in Note 3 have been applied in preparing the financial statements of the Bank for the financial year ended 31 December 2012, the comparative information presented in these financial statements for the financial year ended 31 December 2011 and in the preparation of the opening MFRS statements of financial position at 1 January 2011 (The Bank's date of transition of MFRSs)

In preparing the opening statement of financial position at 1 January 2011, the Bank has adjusted amounts reported previously in financial statements prepared in accordances with previous FRSs. A reconciliation of these changes is summarised in the following tables:

(i) **Statement of Financial Position**

As At 31 December 2011	**Under the FRS Framework RM'000**	**Effects of MFRS Adoption RM'000**	**Under the MFRS Framework RM'000**
ASSETS			
Cash and short-term funds	846,191	-	846,191
Deposits and placements with banks and other financial institutions	499,729	-	499,729
Loans, advances and financing	355,933	4,231	360,164
Other assets	6,176	-	6,176
Plant and equipment	2,550	-	2,550
Deferred tax assets	2,235	(1,057)	1,178
TOTAL ASSETS	1,712,814		1,715,988
LIABILITIES			
Deposits from customers	386,572	-	386,572
Deposits and placements of banks and other financial institutions	962,658	-	962,658
Other liabilities	18,762	-	18,762
Provision for taxation	86	-	86
TOTAL LIABILITIES	1,368,078		1,368,078
EQUITY			
Share capital	331,000	-	331,000
Reserves	13,736	(3,174)	16,910
EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE BANK	344,736		347,910
TOTAL LIABILITIES AND EQUITY	1,712,814		1,715,988

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34. Changes in Accounting Policies *(continued)*

(b) *Financial Impact of Adoption of MFRS Framework (continued)*

(i) **Statement of Financial Position**

As At 1 January 2011	**Under the FRS Framework RM'000**	**Effects of MFRS Adoption RM'000**	**Under the MFRS Framework RM'000**
ASSETS			
Cash and short-term funds	321,307	-	321,307
Deposits and placements with banks and other financial institutions	568,236	-	568,236
Loans, advances and financing	118,817	1,348	120,165
Other assets	6,774	-	6,774
Deferred tax assets	766	(337)	429
Plant and equipment	1,001	-	1,001
TOTAL ASSETS	1,016,901		1,017,912
LIABILITIES			
Deposits from customers	32,030	-	32,030
Deposits and placements of banks and other financial institutions	645,430	-	645,430
Other liabilities	4,639	-	4,639
Provision for taxation	1,683	-	1,683
TOTAL LIABILITIES	683,782		683,782
EQUITY			
Share capital	331,000	-	331,000
Reserves	2,119	(1,011)	3,130
EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE BANK	333,119		334,130
TOTAL LIABILITIES AND EQUITY	1,016,901		1,017,912

(ii) **Reconciliation of Statements of Profit or Loss and Other Comprehensive Income**

Statements of Profit or Loss and Other Comprehensive income

For the Year Ended 31 December 2011	**Under the FRS Framework RM'000**	**Effects of MFRS Adoption RM'000**	**Under the MFRS Framework RM'000**
Interest income	40,960	-	40,960
Interest expense	(19,156)	-	(19,156)
Net interest income	21,804		21,804
Net fee income	1,240	-	1,240
Net trading income	17,332	-	17,332
Net operating income	40,376		40,376
Other operating expenses	(20,845)	-	(20,845)
Operating profit	19,531		19,531
Allowance for impairment on loans, advances and financing	(3,611)	2,883	(728)
Profit before taxation	15,920		18,803
Tax expense	(4,303)	(720)	(5,023)
Profit for the year	11,617		13,780

Other comprehensive income, net of tax	-	-
Total comprehensive income for the year	11,617	13,780

34. Changes in Accounting Policies *(continued)*

(b) *Financial Impact of Adoption of MFRS Framework (continued)*

(iii) There are no material differences between the statement of cash flows presented under the MFRSs and the statement of cash flows presented under the FRSs.

(iv) **Capital Adequacy**

The adjustments to the financial statements of the Bank as a result of the transition to the MFRS framework and the changes in accounting policies, as discussed above, also had consequential effects on the comparative capital adequacy ratios. These are summarised below:

	31.12.2011		1.1.2011	
	As previous stated: Under the FRS Framework RM'000	As restated: Under the MFRS Framework RM'000	As previous stated: Under the FRS Framework RM'000	As restated: Under the MFRS Framework RM'000
Tier 1 capital	342,501	346,732	332,253	333,701
Capital base	347,921	347,921	334,162	334,162
Core capital ratio	53.57%	54.23%	71.40%	71.69%
Risk-weighted capital ratio	54.42%	54.42%	71.79%	71.79%