



ANNUAL REPORT 2012



For business. For growth. For life.



2012

VISION

A full-fledged specialized financial institution with global aspiration to nurture SMEs for nation building.

To support Government's economic agenda in developing SMEs as an engine of growth.

MISSION



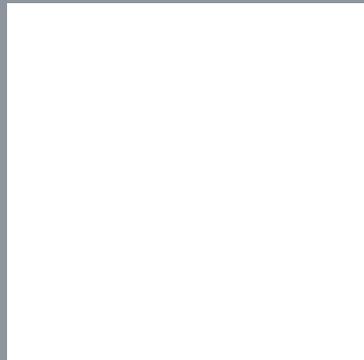
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**BOARD OF
DIRECTORS**



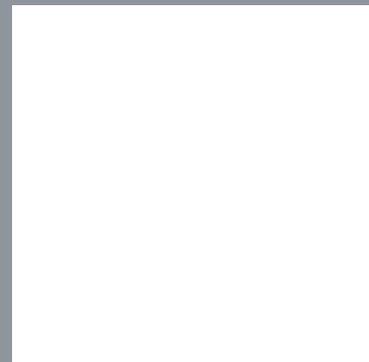


BOARD OF DIRECTORS





BOARD OF DIRECTOR'S PROFILE





Dato' Gumuri Hussain was appointed as the Non-Executive Chairman of SME Bank on 10 August 2005. After a career with Pricewaterhouse Coopers, the professional services firm from which he retired in June 2002 as a Senior Partner and Deputy Chairman of its Governance Board, he joined Penerbangan Malaysia Berhad as the Managing Director/ Chief Executive Officer until his retirement in 2004.

He currently sits on the Boards of Kurnia Setia Berhad, Metrod (Malaysia) Berhad, Media Prima Berhad and KUB Malaysia Berhad. He is also a member of the Securities Commission and has served as the Non-Executive Director of Bank Industri & Teknologi Malaysia Berhad, Malaysia Airline System Berhad, Sabah Bank Berhad and Rangkaian Hotel Seri Malaysia.

Dato' Gumuri is a Fellow of the Institute of Chartered Accountants in England and Wales, member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants.

Dato' Gumuri Hussain
Non-Executive Chairman



**Datuk Mohd Radzif
Mohd Yunus**

**Managing Director /
Non-Independent Executive Director**

Datuk Mohd Radzif Mohd Yunus was appointed as the Managing Director of SME Bank with effect from 1 July 2010.

Datuk Mohd Radzif comes from a diverse management background. Prior to joining SME Bank, Datuk Mohd Radzif was the Group Managing Director of IJN Holdings Sdn Bhd where he had led the restructuring of Institut Jantung Negara (IJN) in 2006. During his tenure there the expansion of IJN was undertaken and completed. It was also under his leadership that IJN gained accreditation as a Centre of Excellence, the most significant accreditation being from Joint Commission International or JCI, an internationally recognized accreditation standard for Healthcare.

Before joining IJN in 2003, Datuk Mohd Radzif was appointed as Chief Executive Officer of two pilgrimage funds companies, as part of the turnaround exercises of both companies.

Datuk Mohd Radzif has financial and banking industry experience having worked in the banking industry in the late 80's and early 90's.

Datuk Mohd Radzif has accumulated considerable professional experience over the years. He has been a primary speaker at many seminars and for financial courses in the local and international arenas.



Encik Khairuzzaman Muhammad was appointed as an Independent Non-Executive Director of SME Bank on 2 February 2011. An alumni of Victoria Institution, he holds a LLB (Hons) degree from the Essex Institute of Higher Education (now known as the Anglia Ruskin University), England (1988); the Degree of an Utter Barrister from the Honourable Society of Lincoln's Inn, England (1989); and a Graduate Diploma in Commercial Law from the University of Sydney, Australia (2000). Encik Khairuzzaman was enrolled as a Barrister-At-Law for England & Wales on 21 November 1989 and was admitted as an Advocate & Solicitor, High Court of Malaya on 21 September 1990.

Encik Khairuzzaman is currently a Partner in, and a member of, the team advising on land development and projects work in Messrs. Zul Rafique & Partners, an established legal firm in Kuala Lumpur. For the first 15 years of his practicing career, he had appeared in many landmark cases before the highest Courts in Malaysia involving commercial, banking, and administrative and constitutional law matters.

Encik Khairuzzaman Muhammad **Independent Non-Executive Director**

He has also advised the Government of Malaysia and its various agencies and Government Linked Companies. Encik Khairuzzaman's experience has also been tapped in the field of corporate governance, and the drafting of several legislations including the East Coast Economic Region Development Council Act 2008 which is to enable and facilitate the development of the East Coast states of Peninsular Malaysia namely Kelantan, Terengganu, Pahang and the district of Mersing in Johor. Encik Khairuzzaman is also involved in social work in the field of education and has a keen interest in the development of young children and secondary school students.



Dato' Adzmy Abdullah
Independent Non-Executive Director

Dato' Adzmy Abdullah joined the Board of SME Bank as an Independent Non-Executive Director on 1 April 2011. He was appointed as Advisor at the Chief Minister's Department in Sarawak after his retirement as Deputy Secretary General at Ministry of Entrepreneur and Co-operative Development (MECD) on November 2007.

He has held senior positions in the Ministry of Entrepreneur and Co-operative Development (MECD) since he joined the Ministry in 2005. Other Ministries he has served include the Prime Minister's Department, Ministry of Agriculture and Ministry of Coordination of Public Enterprise.

Dato' Adzmy was appointed as the Chairman of Design Development Center from 2007-2008. He had served as a Board Member of Sarawak State Economic Development Cooperation, University Teknikal Mara Sdn Bhd, Malaysian Franchise Association, Uda Holdings Berhad, Perbadanan Nasional Berhad and Perbadanan Usahawan Nasional Berhad.

Dato' Adzmy graduated with a Bachelor of Economics from University of Malaya in 1975 and obtained his Master in Economic Development from Vanderbilt University (USA) in 1985.



Encik Ishak Ismail was appointed as an Independent Non-Executive Director of SME Bank on 3 May 2011. He has wide experience in the field of management in the financial sector after having served more than 30 years with the Government as well as the private sector in various capacities. He has held numerous important positions throughout his tenure of service, amongst others as senior accountant in several government departments, senior managerial positions in Bank Negara Malaysia's various departments as well as serving as General Manager in Arab-Malaysian Assurance Berhad and AmBank (M) Berhad.

He has a Bachelor of Commerce degree from the University of Newcastle, NSW, Australia and is a member of the Institute of Chartered Accountants in Australia, Malaysian Institute of Accountants and a Certified Internal Auditor (USA).

Encik Ishak Ismail
Independent Non-Executive Director



Datuk Mohd Nasir Ahmad
Independent Non-Executive Director

Datuk Mohd Nasir bin Ahmad was appointed as an Independent Non-Executive Director of SME Bank on 20 September 2011. He has 32 years of working experience having served in various capacities in the National Electricity Board (Tenaga Nasional Berhad) before moving on to be the CEO of Malaysia Transformer Manufacturing Sdn Bhd (1994), Sharikat Permodalan Kebangsaan Berhad (2000) and Perbadanan Usahawan Nasional Berhad (2001-2011).

Datuk Mohd Nasir is a Fellow of the Association of Chartered Certified Accountants (United Kingdom) and a Chartered Accountant with the Malaysian Institute of Accountants. He also holds a Master of Business Administration (Finance) from Universiti Kebangsaan Malaysia.

He is the current President of the Malaysian Institute of Accountants (2011-2013).



Dato' Abdul Ghafar bin Musa was appointed as a Non-Independent Non-Executive Director of SME Bank on 2 May 2012. He has held various positions in the Ministry of International Trade and Industry (MITI) since he joined the Ministry in 1981. Previously Dato' Abdul Ghafar served in the Malaysian Embassy in Japan as an Assistant Trade Commissioner and was later posted to Osaka as Director of Malaysia External Trade Development Corporation (MATRADE). He also served in the Ministry of Finance (MoF) in 1999-2000.

Dato' Abdul Ghafar obtained a Bachelor of Social Science degree from University of Malaya in 1979 and a Diploma in Public Management from INTAN in 1981.

Currently, Dato' Abdul Ghafar also sits as a Board Member of Malacca State Development Corporation, Negeri Sembilan State Development Corporation and Halal Industry Development Corporation (HDC).

Dato' Abdul Ghafar bin Musa
Non-Independent Non-Executive Director



Encik Asri Hamidin @ Hamidon
Non-Independent Non-Executive Director

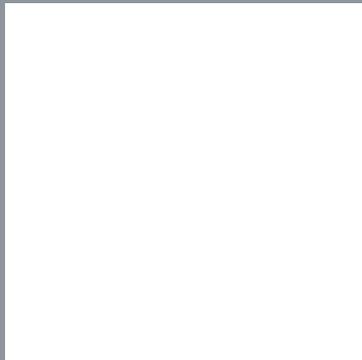
Encik Asri Hamidin @ Hamidon was recently appointed as a Non-Independent Non-Executive Director of SME Bank on 2 May 2013. He holds a Bachelor of Economics from University of Malaya and obtained his Masters Degree in Economics from Hiroshima University, Japan.

He has wide experience in the financial sector especially in the economic development sector after serving almost 20 years with the Government. He held numerous important positions throughout his tenure in service especially in the Economic Planning Unit, Prime Minister's Office and Ministry of Finance, Malaysia.

He is currently a Deputy Secretary (Economy) at Investment, MKD (Inc.) and the Privatization Division in the Ministry of Finance Malaysia. He is also a member of various organizations in Malaysia such as Institut Jantung Negara Sdn Bhd, Rangkaian Hotel Seri Malaysia Sdn Bhd, Sarawak Hidro Sdn Bhd, Dataran Perdana Sdn Bhd, Malaysia Convention & Exhibition Biro (MyGeb), and Syarikat Bekalan Air Selangor Sdn Bhd (SYABAS).



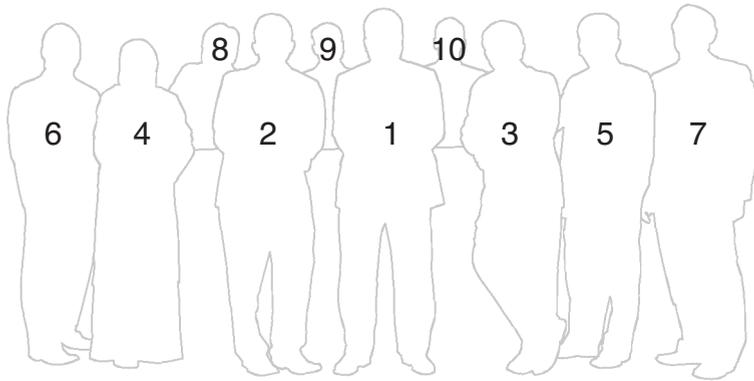
MANAGEMENT DIRECTORS





MANAGEMENT DIRECTORS





1 Datuk Radzif Mohd Yunus
MANAGING DIRECTOR

2 Encik Mohd Rizal Mohd Jaafar
CHIEF OPERATING OFFICER (COO)

3 Dr. Sheikh Ghazali Sheikh Abod
DIRECTOR, CENTRE FOR ENTREPRENEUR
DEVELOPMENT AND RESEARCH (CEDAR)

4 Puan Hasmah Razali
COMPANY SECRETARY

5 Encik Abdul Aziz Muhammad
DIRECTOR, FINANCIAL MANAGEMENT

6 Encik Mohamad Sabir Mohamad Sabri
DIRECTOR, STRATEGIC & RISK MANAGEMENT

7 Encik Razman Mohd Noor
DIRECTOR, CREDIT & OPERATIONS

8 Encik Asbullah Adnan
DIRECTOR, STAKEHOLDERS MANAGEMENT

9 Encik Ismail Kamaruddin
CHIEF INTERNAL AUDITOR

10 Datuk Kamaluddin Ismail
DIRECTOR, ENTERPRISE DEVELOPMENT BANKING



MANAGEMENT DIRECTORS



Datuk Mohd Radzif Mohd Yunus
MANAGING DIRECTOR



Encik Mohd Rizal Mohd Jaafar
CHIEF OPERATING OFFICER



Datuk Kamaluddin Ismail
DIRECTOR, ENTERPRISE
DEVELOPMENT BANKING



Encik Razman Mohd Noor
DIRECTOR, CREDIT
& OPERATIONS



Encik Abdul Aziz Muhammad
DIRECTOR, FINANCIAL
MANAGEMENT



Encik Asbullah Adnan
DIRECTOR, STAKEHOLDERS
MANAGEMENT



Dr. Sheikh Ghazali Sheikh Abod
DIRECTOR, CENTRE FOR
ENTREPRENEUR DEVELOPMENT
AND RESEARCH (CEDAR)



**Encik Mohamad Sabir
Mohamad Sabri**
DIRECTOR, STRATEGIC
& RISK MANAGEMENT



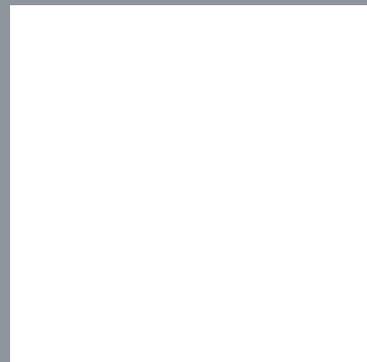
Encik Ismail Kamaruddin
CHIEF INTERNAL AUDITOR



Puan Hasmah Razali
COMPANY SECRETARY



**SHARIAH
COMMITTEE
MEMBERS**



SHARIAH COMMITTEE MEMBERS



Prof. Dr. Abdul Basir Mohamad
CHAIRMAN



Prof. Madya Dr. Shofian Ahmad
MEMBER



Dr. Asmak Ab Rahman
MEMBER



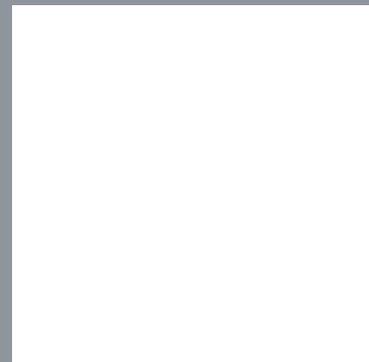
Tuan Haji Jalil Haji Said
MEMBER



Prof. Dr. Norhashimah Mohd Yasin
MEMBER



CHAIRMAN'S MESSAGE





Dato' Gumuri Hussain
CHAIRMAN •

ECONOMIC OUTLOOK

The world is still struggling to recover from the 2008 global financial crisis. A number of countries in the First World has fallen into a double-dip recession, caught in a downward spiral characterised by worsening sovereign debt distress, low demand, high unemployment and fragile financial markets. Major developing economies are also experiencing a negative economic growth, as they struggle with both external vulnerabilities as well as internal challenges.

Despite the uncertain and challenging external environment, Malaysia has done quite well. The Gross Domestic Product (GDP) growth for 2012 was 5.6% (2011: 5.1%), buoyed by strong domestic consumption and investment which pushed the nation to a creditable expansion. Going into 2013, growth in public and private investment is expected to remain strong and remain the key drivers of growth. The economy is expected to remain on a steady growth path with an expansion of 5-6% in 2013.

THE POSITION OF SMEs

Given the challenging external environment, supporting domestic demand is obviously a key priority. Enhancing the country's productive capacity will be a critical factor in Malaysia's transformation towards becoming a high-income nation. The private sector will need to play a major role, and this will require more participation from the business sector, particularly SMEs. The contribution of SMEs to the nation's Gross Domestic Product (GDP) has been at a stagnant 32% since 2010. In line with the nation's new economic model, the SME Masterplan (2012-2020) was introduced to boost the contribution of SMEs to the nation's GDP to 41% by 2020. The plan was formulated to create SMEs that can compete in the global market by lowering entry barriers and encouraging innovation and productivity. Financing remains the critical pillar that will define the success of the plan and the Government has introduced measures to make it easier for aspiring entrepreneurs to get started and for ongoing enterprises to grow.

The mandate given to SME Bank by the Government to develop and nurture the nation's SMEs was given a big boost when a total of RM2.25 billion was allocated to SME Bank in the 2013 National Budget. Tackling the global marketplace will be a challenge for our SMEs, especially the young newcomers, and SME Bank will have an important role in providing the required guidance and assistance. Our Centre for Entrepreneur Development and Research (CEDAR) was established to complement the developmental role of SME Bank with the vision to become a centre of excellence for entrepreneur development and transformation. It aims to ensure that the business growth of the SMEs is sustainable and subsequently contributes to the national economic development agenda. CEDAR will conduct and develop courses that will focus on three key areas - Entrepreneur Development, Research and Publications and Developing Development Bankers.

We have worked diligently to develop and enhance our partnerships with our customers. Our efforts were recognised by the SMEs, as SME Bank was voted the Most Preferred Brand for Banking in The BrandLaureate SMEs Best Brand Awards 2012. Training programs and bootcamps will further develop our own internal capabilities in order to further improve on delivery of services. Collaborations with other local, regional and international agencies and development financial institutions will expedite and develop our service delivery to a global standard. In 2012, we further expanded our reach throughout Malaysia. We now have Regional Centres in Central, Northern, Southern, East Coast & East Malaysia.



SUCCESS IN ADVERSITY

The year of 2012 was a tough and challenging year for the world economy. In fact, it had been a difficult few years for most of everybody. I consider it a matter of good fortune on one part and on the other part a matter of good governance, that Malaysia has been able to stay relatively on steady footing in terms of where we are and where we aspire to be. By fortune or by excellence, the nation's solid economic performance over the past year can be partly attributed to the success stories of our many SME partners. 2012 had been a year where there were plenty of entrepreneurial successes in the SME sector and we are exceedingly proud to have played our part in their accomplishments.

As a nation we have navigated through difficult and challenging terrains, there had been moments of doubt and self-reflection, moments of wondering if 2020 was coming too fast. But introspection stops the moment we step out of our front doors and set out to work. When we brush elbows with colleagues and partners who all share the same vision and determination, there is only one thing on our minds – 'Let's make it great!'

I end with a heartfelt expression of gratitude and appreciation to everyone who has contributed to the story of SME Bank, who provided the impetus and spark, the support and rapport that have driven our journey.

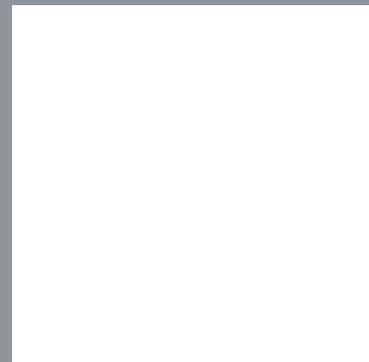
For business. For growth. For life.

DATO' GUMURI HUSSAIN

Chairman, SME Bank



MANAGING DIRECTOR'S MESSAGE





Datuk Mohd Radzif Mohd Yunus
MANAGING DIRECTOR •



INTRODUCTION

It has been yet another challenging and stimulating year for SME Bank. We are now entering the second phase of our 5-year Transformation Program. We started the transformation journey in 2010 with huge challenges, but holding firm to our goals, we succeeded in our process to pave a new way of conducting our business. Foundations for growth and ascendancy are frequently strongest when forged in the most difficult circumstances. The teamwork, the shared vision and the collective strength that characterized our turnaround last year now stands us in good stead for 2013 and the future.

SME Bank now aims for further expansion and market outreach. In our forward momentum, we aim to strike a balance between self-sustainability and maximum performance, to reach and maintain an optimal operating position that will carry us through to our 2015 target as well as our nation's goal of 2020.

ALIGNING OUR ROLE IN SUPPORT OF THE GOVERNMENT'S AGENDA

The Government recognizes that SMEs have a very significant role in the national economic development agenda. As indicated in the SME Masterplan 2012-2020, more than 97.3% of businesses in the country are categorized as SMEs, and the Government recognizes SME activities impact on almost all segments of the nation's economic value chain. In the 10th Malaysia Plan (2011-2015), SME Bank has been entrusted to assist SMEs especially those in the 'Development and Growth Stage' of their business life cycle. In alignment to these objectives, SME Bank has a two-pronged mandate - to finance as well as guide and develop SMEs in this country, particularly the Bumiputera.

THE YEAR 2012

In order to strengthen the position of the Bank, a number of initiatives were crafted and implemented, anchored by our 5-year Transformation Program. These initiatives are meant to enhance our business model and service delivery and improve the bank's infrastructure and processes. At the same time, greater focus and efforts were put in place to support business expansion, strengthen market outreach as well as provide far-reaching development role via intervention initiatives towards the success of SMEs.

To strengthen and expand our market presence and outreach, we added to our Enterprise & Business Centres / UTC Outlets from 17 in 2010 to 22 nation-wide in 2012. We also have 25 factory outlets or Enterprise Premise Complexes (EPC) throughout the nation for entrepreneurs to let. We set up a payment gateway arrangement with Bank Simpanan Nasional (BSN), as well as collaborations with TERAJU, the Sarawak State Government, Sabah Economic Development & Investment Authority, Sabah Economic Development Corporation and Sabah Electricity Sdn. Bhd.

2012 was a year in which our role in supporting the nation's SMEs brought about encouraging results. Our collaboration with TERAJU created the TERAS Funding Program worth RM500 million, where RM180.42 million in loans were approved to twenty six customers. We also launched the SME Revitalization Fund to assist SMEs that need a helping hand reviving their businesses.

Financing approval for the year reached RM2.91 billion, granted to a total of 1,803 SMEs. Two new products, the Islamic Variable Rate (iVR) and i-Enterprise Premise Financing (i-EPF) were launched. Thirteen companies succeeded in obtaining soft loans/ grants via IQ Dagang, with approved loans totaling RM21.7 million.



Memorandums of Understanding (MoU) that were signed with the SME Bank of Russia and JFC Micro (the Micro Business and Individual Unit of the Japan Finance Corporation) as well as international collaborations with three banks in Turkey created excellent avenues for capacity building for our staff where technical expertise and experience were shared for mutual advancement.

The importance SME Bank places on the youth of the nation is reflected in our Program Inovasi Usahawan Muda “SME Bank Y- Biz Challenge” which was organized for secondary school students throughout Malaysia. This Signature Program was created to specifically stimulate and promote entrepreneurship and innovation amongst those who we believe will take our nation to greater heights of entrepreneurial endeavor.

2012 was also the year we established the Centre for Entrepreneur Development & Research (CEDAR). CEDAR aspires to be a centre of excellence for entrepreneur development and transformation. Its mission is to continuously develop the capability of entrepreneurs towards sustaining their business growth in support of the national economic agenda. CEDAR was set up to address the need to build capacity not only among entrepreneurs but also among the workforce who are involved in the development of SMEs.

RECOGNITION FOR SME BANK

SME Bank was recognized for excellence in diverse disciplines in 2012. At the Malaysia Green Tech Awards 2012, we won for Best Supporting Green Tech Financing. We were voted by SMEs as the Most Preferred Brand for Banking in The BrandLaureate SMEs Best Brand Awards 2012.

Recognition and acclaim at the Sahabat Negara SME Award 2011 and 2012 organized by the SME Association of Malaysia is another indication of our strategy and approach bearing fruit. Our website was awarded a 5-Star rating for two consecutive years (2011 and 2012) in the Malaysia Government Portals and Websites Assessment (MGPWA) organized by Multimedia Development Corporation (MDeC). This diverse mix of awards shows that we are being recognized for our efforts in developing a comprehensive dedicated platform for SME growth.

LOOKING FORWARD

The uncertainties in the European Union and possibly the United States lurk in our journey forward. We are optimistic of a stable economic outlook for Malaysia, supported by domestic consumption and investments. The economic activity generated by the SMEs can take on a significant weight in this respect, and thus it is imperative that SME Bank delivers the required support that will be needed.

As a Development Financial Institution (DFI), the supervision role in serving the underserved and unserved market of SMEs is inevitable, especially during periods of crisis when credit is tightened. In supporting the Government's agenda for SMEs, we will be playing the counter-cyclical role by scaling-up lending to spur the country's economic activity, given our mandated roles.

LOOKING FORWARD (CONT'D.)

On the other hand, another area of strategic aim for SME Bank is to address the issue of legacy impaired financing. There is an immediate need to implement a proactive and structural reform program to resolve this issue and free the Bank's capital from the non-earning assets, hence allowing it to focus on its main roles.

We will focus on three key areas – assisting the upward migration of SMEs by prioritizing innovation and implementation of direct and general intervention programs, providing greater access to financing, and the building of entrepreneur capability via CEDAR.

In the National Budget 2013, over RM4 billion has been allocated for the financing and development of the SMEs, of which RM2.25 billion will be channelled through four programs created to address different needs and achieve different positions namely the SME Development Fund, Divestment Financing Scheme, Halal Industry Fund and Young Entrepreneur Fund.

Many factors will shape our journey and eventual destination. But having gone through the last few years with our able team and having seen how we could rise to the challenges that came our way, I am optimistic future challenges will serve to make us even stronger and better. Having seen the talent and motivation of the dynamic entrepreneurs that are our partners, I am confident SME Bank will achieve its transformation targets by 2015, and the nation will achieve its target for 2020.

I end with wishes of gratitude and goodwill to all our SME partners, our key stakeholders, the Board of Directors, the management team and the staff. Let's look to grow even more, reach further and higher and achieve all our ambitions.

For business. For growth. For life.

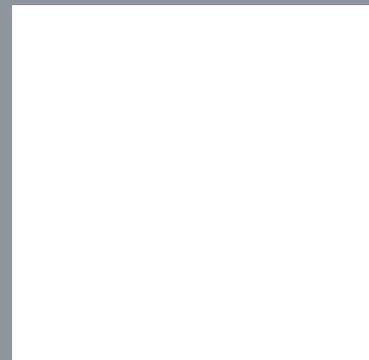


DATUK MOHD RADZIF MOHD YUNUS

Managing Director, SME Bank



**STATEMENT OF
CORPORATE
GOVERNANCE**





STATEMENT OF CORPORATE GOVERNANCE

The Board of Directors of Bank Perusahaan Kecil & Sederhana Malaysia Berhad is committed to high standards of Corporate Governance and subscribes to Bank Negara Malaysia's Guideline on Corporate Governance Standards on Directorship for Development Financial Institutions (BNM/RH/GL 005-14) in achieving an optimal governance framework and maximising the shareholder value of the Bank.

BOARD OF DIRECTORS

The Board is governed by eight (8) members Board of Directors i.e. one (1) Non-Executive Chairman, one (1) Executive Director who is the Bank's Managing Director, two (2) Non-Independent Non-Executive Directors and four (4) Independent Non-Executive Directors.

The diversity of the Directors' background, accumulated from the fields of management, banking, finance, accounting, legal, and entrepreneur development while serving both in private and government sectors, brings the necessary range of expertise and experience required by the Board to effectively perform its functions.

The Chairman and all the Directors are experts in their respective fields and have contributed significantly to the Board's decision-making process. The Managing Director executes the policies of the Board and manages the day-to-day affairs of the Bank.

The Board is responsible to ensure the effectiveness of the Bank's operations. This includes determining the Bank's overall strategic direction, approval of performance targets, monitoring of management achievements, providing overall policy guidance and ensuring that policies and procedures for internal control systems and succession planning are in place.

The Board of Directors meet at least once a month to discuss matters relating to policies, strategies, performance, resources, overall conduct of the Bank's business and financial matters as well as to monitor the Bank's overall performance.

The appointment of the Chairman and all the Directors are in accordance to the Guidelines on Corporate Governance for DFIs and the Bank's Articles of Association.



For the year 2012, thirteen meetings were held. The record of attendance of Directors at the Board Meetings for 2012 is as follows:

Name of Director	Designation	Number of Committee Meetings	
		Held	Attended
Dato' Gumuri Hussain	Non-Executive Chairman	13	13
Datuk Mohd Radzif Mohd Yunus	Managing Director	13	13
Dato' Abdul Ghafar Musa	Non-Independent Non-Executive Director (Appointed w.e.f. 2 May 2012)	8	7
Datuk Mohd Nasir Ahmad	Independent Non-Executive Director	13	13
Dato' Adzmy Abdullah	Independent Non-Executive Director	13	13
Encik Ishak Ismail	Independent Non-Executive Director	13	13
Encik Khairuzzaman Muhammad	Independent Non-Executive Director	13	13
Dato' Maliami Hamad	Non-Independent Non-Executive Director (Ceased w.e.f. 31 October 2012)	12	9*

* Reflects the number of meetings attended during the time the Director held office.

SUPPLY OF INFORMATION

Directors are provided with notices and Board papers prior to Board Meetings to give Directors time to read for informed deliberation and decision at meetings.

All Directors have direct access to the services of the Company Secretary and the Senior Management. Independent professional advice is also made available to Directors in furtherance to their duties in the event such services are required.



TRAINING OF DIRECTORS

It is the Bank's practice that each new Director is given a Board Kit and Onboarding Session to provide briefing on the Bank's history, operations and financial performance to give them first-hand understanding of the Bank's operations.

The members of the Board keep abreast with developments in the banking industry by attending conferences and seminars held in Malaysia and abroad.

The Bank also organizes AMLA talk and talks of relevant topics and encourages Directors to attend talks, training programmes and seminars to update themselves on new developments in the business environment.

In 2012, the Directors of the Bank attended the Financial Institutions Directors' Education (FIDE) Program organized by The Iclif Leadership and Governance Centre.

BOARD COMMITTEES

There are five Board Committees established to assist the Board in discharging its duties and responsibilities, namely the Audit and Examination Committee (AEC), Nomination Committee (NC), Remuneration Committee (RC), Risk Management Committee (RMC) and Value Creation Committee (VCC) .



AUDIT & EXAMINATION COMMITTEE (AEC)

OBJECTIVE

The objective of the Audit & Examination Committee (AEC) shall be to provide the Board of Directors with independent assurance on the adequacy and effectiveness of the risk management system, internal control and governance processes and ensure checks and balances within the Bank.

COMPOSITION AND ATTENDANCE

The Committee shall be appointed by the Board of Directors and shall consist of not less than three (3) Board members, none of whom shall be full-time Executive Directors of the Bank.

The details of attendance of each member at the Committee meetings held for the year 2012 are as follows :

Name of Director	Designation	Number of Committee Meetings	
		Held	Attended
Datuk Mohd Nasir Ahmad	Chairman/ Independent Non-Executive Director	6	6
Dato' Adzmy Abdullah	Independent Non-Executive Director	6	6
Dato' Maliami Hamad	Non-Independent Non- Executive Director (Ceased w.e.f. 31 October 2012)	4*	4*
Encik Khairuzzaman Muhammad	Independent Non-Executive Director	6	6

* Reflects the number of meetings attended during the time the Director held office.

ROLES AND RESPONSIBILITIES

The roles and responsibilities of the AEC are as follows:

- (a) Recommend to the Board of Directors on the appointment of External Auditors, the fee and other matters pertaining to the resignation or termination or change of External Auditors;
- (b) Review with the External Auditors the following:
 - The scope of the External Auditors' audit plan.
 - The system of internal accounting controls.
 - The External Auditors' audit report.
 - The External Auditors' management letter and management's response.
 - The assistance given by management and staff to the External Auditors.





ROLES AND RESPONSIBILITIES (CONT'D.)

- (c) Monitor and assess the External Auditors' performance and their independence and objectivity.
- (d) Carry out the following with regards to the internal audit function:
 - Review the adequacy of scope, functions and resources of the Audit Division and that it has the necessary authority to carry out its work.
 - Review and approve the internal audit plan, audit methodology and audit processes.
 - Review audit reports and assess the adequacy of management's actions taken on audit observations or recommendations.
 - Decide on the selection, retention, evaluation and compensation of the Chief Internal Auditor.
- (e) Review and deliberate on reports relating to the perpetration and prevention of fraud.
- (f) Review the Bank's compliance with related government regulations.
- (g) Review the half-yearly results and the year-end financial statements prior to approval by the Board of Directors.
- (h) With reference to the year-end financial statements, the External Auditors will conduct the presentation to AEC with particular focus on the following:
 - Any changes in or implementation of major accounting policies.
 - Adequacy of provisions against contingencies and impairment.
 - Significant and unusual events.
 - Compliance with the applicable Financial Reporting Standards and other legal requirements.
- (i) Ensure prompt publication of annual accounts.
- (j) Discuss any issues and reservations arising from the interim and final audits and any matters the External Auditors may wish to discuss (in the absence of management where necessary).
- (k) Review any related party transactions and conflict of interest situation that may arise in the Bank including any transactions, procedures or conducts that raises questions of Management integrity.
- (l) Review and endorse the status and progress of Management's response and corrective measures on issues raised in the Bank Negara Malaysia Examination Report, before it is tabled to the Board of Directors for approval.

The AEC shall update the Board of Directors on the issues and concerns discussed during its meetings including those raised by the External Auditors, and where appropriate, make the necessary recommendations to the Board of Directors.

The performance and contribution of AEC shall be formally assessed by the Nomination Committee, as stipulated in BNM/RH/GL 005-14 and in line with the terms of reference of the Nomination Committee. The Nomination Committee shall report its recommendations relating to AEC to the Board of Directors for decision.

TRAINING

Conferences, seminars and training programs attended by the Committee members in 2012 are listed below:-

1. Financial Institution Directors' Education Program (FIDE)
2. Audit Committee
3. Governance In Groups
4. Financial Institution Statement Fundamentals – What is the Number
5. Banking Fundamentals
6. Internal Capital Adequacy Assessment Process
7. Corporate Finance
8. Risk Management for Takaful



NOMINATION COMMITTEE (NC)

OBJECTIVE

The primary objective of the Nomination Committee (NC) is to establish a documented, formal and transparent procedure for the appointment of Directors, Managing Director and Senior Management (Management Director and above) and to assess the effectiveness of individual Directors, the Board of Directors and the various committees of the Board, the Managing Director and Senior Management.

COMPOSITION AND ATTENDANCE

The Nominating Committee shall consist of a minimum of five (5) members of which at least four (4) must be Non-Executive Directors. The committee should be chaired by an Independent Director.

The details of attendance of each member at the Committee meetings held for the year 2012 are as follows:

Name of Director	Designation	Number of Committee Meetings	
		Held	Attended
Dato' Adzmy Abdullah	Chairman/ Independent Non-Executive Director	5	5
Datuk Mohd Radzif Mohd Yunus	Managing Director/ Executive Director	5	5
Dato' Abdul Ghafar Musa	Non-Independent Non-Executive Director (Appointed w.e.f. 30 October 2012)	-	-
Datuk Mohd Nasir Ahmad	Independent Non-Executive Director	5	5
Encik Ishak Ismail	Independent Non-Executive Director		
Dato' Maliami bin Hamad	Non-Independent Non-Executive Director (Ceased w.e.f. 31 October 2012)	5	5



ROLES AND RESPONSIBILITIES

The roles and responsibilities of the NC shall be:

- To carry out annual assessment in evaluating effectiveness of each individual director, the Board as a whole, and the various committees of the Board, the Managing Director and Senior Management (Management Director and above);
- To carry out annual assessment on the overall composition of the Board in terms of the appropriate size, the balance between Executive Directors, Non-Executive Directors and Independent Directors, the mix of skills, experience and required core competencies within the Board of Directors;
- To recommend and assess the nominees for directorship, the Directors to fill up board committees, as well as nominees for the Managing Director position. This includes assessing Directors and the Managing Director proposed for reappointment, before an application is submitted to Bank Negara Malaysia;
- To assess the effectiveness of the Board as a whole, the contribution by each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the Managing Director;
- To recommend to the Board on removal of a Director / Managing Director if he is ineffective, errant or negligent in discharging his responsibilities;
- To oversee appointment, management succession planning and performance evaluation of Senior Management (Management Director and above), and to recommend to the Board the removal of Senior Management (Management Director and above) if they are ineffective, errant and negligent in discharging their responsibilities;
- To ensure that members of the Board of Directors receive continuous training programs; and
- To ensure that new Directors and reappointed Directors who have yet to attend the mandatory training programs prescribed by the Malaysia Securities Exchange Berhad for listed companies or Suruhanjaya Syarikat Malaysia (CCM) attend the said programs within 6 months of their appointment.



REMUNERATION COMMITTEE (RC)

OBJECTIVE

The primary objective of the Remuneration Committee (RC) is to provide a formal and transparent procedure for developing a remuneration policy for Directors, Managing Director and Senior Management (Management Director and above) and ensuring that compensation is competitive and consistent with the Bank's culture, objectives and strategy.

COMPOSITION AND ATTENDANCE

The Remuneration Committee shall comprise only Non-Executive Directors with at least three (3) members and should be chaired by an Independent Director.

The details of attendance of each member at the Committee meetings held for the year 2012 are as follows:

Name of Director	Designation	Number of Committee Meetings	
		Held	Attended
Encik Khairuzzaman Muhammad	Chairman/ Independent Non-Executive Director	3	3
Dato' Maliami Hamad	Non-Independent Non-Executive Director (Ceased w.e.f. 31 October 2012)	3	3
Datuk Mohd Nasir Ahmad	Independent Non-Executive Director	3	3
Encik Ishak Ismail	Independent Non-Executive Director	3	3

ROLES AND RESPONSIBILITIES

The roles and responsibilities of the RC are as follows:

- i. Recommending a framework of remuneration for Directors, Managing Director and Senior Management (Management Director and above). The remuneration policy should:
 - Be documented and approved by the full Board and any changes thereto should be subject to the endorsement of the full Board;
 - Reflect the experience and level of responsibility borne by each individual Director, Managing Director and Senior Management (Management Director and above);





ROLES AND RESPONSIBILITIES (CONT'D.)

- Be sufficient to attract and retain Directors, Managing Director and Senior Management (Management Director and above) of calibre needed to manage the Bank successfully; and
 - Be balanced against the need to ensure that the funds of the Bank are not used to subsidise excessive remuneration packages.
- ii. Recommending specific remuneration packages for Directors, Managing Director and Senior Management (Management Director and above). The Remuneration Packages should:
- Be based on an objective consideration and approved by the Full Board;
 - Take due consideration of the assessments of the RC of the effectiveness and contribution of the Director, Managing Director or Senior Management (Management Director and above) concerned;
 - Not be decided by the exercise of sole discretion or any one individual or restricted group of individuals; and
 - Be competitive and is consistent with the Bank's culture, objective and strategy.
- iii. Endorsing any changes deemed necessary to the schemes, terms of services and new terms for Executives and Staff of SME Bank before submission to the Board of Directors for final approval.



VALUE CREATION COMMITTEE (VCC)

OBJECTIVE

The objective of the Value Creation Committee (VCC) is to provide leadership and direction to ensure all transformation initiatives are carried out successfully in line with the major thrusts of the Bank.

COMPOSITION AND ATTENDANCE

The composition of the VCC and the details of attendance of each member at the Committee meetings held for the for the year 2012 are as follows:

Name of Director	Designation	Number of Committee Meetings	
		Held	Attended
Dato' Adzmy Abdullah	Chairman/ Independent Non-Executive Director	6	6
Datuk Mohd Radzif Mohd Yunus	Managing Director/ Executive Director	6	6
Encik Khairuzzaman Muhammad	Independent Non-Executive Director	6	6
Datuk Mohd Nasir Ahmad	Independent Non-Executive Director	6	4
Encik Ishak Ismail	Independent Non-Executive Director	6	6
Dato' Abdul Ghafar Musa	Non-Independent Non-Executive Director (Appointed w.e.f. 30 May 2012)	3	3



ROLES AND RESPONSIBILITIES

The VCC shall undertake the following roles and responsibilities:

- To provide advisory and support to the Management on all transformation initiatives.
- To review the progress of all transformation initiatives via monitoring report as provided by STMO.
- To report to the Board on the progress of transformation initiatives on a quarterly basis.
- To recommend to the Board appropriate performance-based incentive arrangements for those who achieved desired outcomes of transformation initiatives.

All projects of Value Creation Programs have been fully completed and closed based on the achievements of all key deliverables outlined except for IT Infrastructure (Core Banking System - CBS) which would run until September 2013.

The VCC had successfully performed its roles and function towards creating value to the transformation of the Bank.



RISK MANAGEMENT COMMITTEE (RMC)

OBJECTIVE

The Board of Directors (Board) is ultimately responsible in managing the risks of the Bank. The Board through the RMC maintains overall responsibility of risk oversight within the Bank. The RMC further strengthens the Bank's risk management process and enhances corporate governance. The RMC also reviews the adequacy and effectiveness of risk management, internal control and governance instituted at the Bank.

In line with Bank Negara Malaysia's (BNM) requirements, the RMC is chaired by an Independent Non-Executive Director. The primary objective of the RMC is to oversee the senior management's activities in managing the key risk areas of the Bank and to ensure that the risk management process is in place and running effectively.

COMPOSITION AND ATTENDANCE

The RMC meets once every quarter at minimum or as and when the need arises. During the financial year ended 31 December 2012, the RMC held ten (10) meetings.

The Managing Director of the Bank and Director, Strategic & Risk Management are invited to attend the Committee's meetings, where applicable.

After each Committee meeting, the Committee shall report and update the Board on significant issues and concerns discussed and deliberated during the meetings and where appropriate, make the necessary recommendations to the Board.

Three (3) members of the Committee shall constitute a quorum. The details of attendance of the RMC members are as follows:

Name of Director	Designation	Number of Committee Meetings	
		Held	Attended
Encik Ishak Ismail	Chairman/ Independent Non-Executive Director	10	10
Dato' Adzmy bin Abdullah	Independent Non-Executive Director	10	10
Dato' Abdul Ghafar Musa	Non-Independent Non-Executive Director (Appointed w.e.f. 30 May 2012)	5	5
Dato' Maliami Hamad	Non-Independent Non-Executive Director (Ceased w.e.f 31 October 2012)	9	8



ROLES AND RESPONSIBILITIES

- Formulating strategies to manage the overall risks associated with the Bank's activities.
- Recommending appropriate risk management policies, procedures and processes in key risk areas such as market risk, credit risk, investment risk and operational risk in line with the Bank's mandated role as a development bank.
- Reviewing the adequacy of risk management policies and systems and the extent to which these are operating effectively.
- Promoting an integrated approach to evaluate and monitor interrelated risks.
- Ensuring that infrastructure, resources and systems are in place to identify, measure, monitor and control risks.
- Reviewing management's periodic information on risk exposures in relation to the Bank's risk tolerance and appetite and risk management activities.
- Formulating contingency plans i.e. business continuity plans for worst-case scenarios.

The roles and responsibility of the RMC is enhanced to meet the additional requirements as specified in the BNM Guidelines on Best Practices for the Management of Credit Risk for Development Financial Institutions. These include:

- Review the adequacy of strategies to manage the overall credit risk associated with the Bank's activities.
- Oversee the formal development of credit policies within the Bank, encompassing all products and businesses, and ensure the development of policy, manual and procedures.
- Monitor, assess and advise the credit risk portfolio composition of the Bank.
- Evaluate risks under stress scenarios and the capacity of the Bank's capital to sustain such risks.
- Assess the risk-return trade-off.
- Review reports of the credit review process, asset quality and ensure that corrective actions are taken.
- Review and evaluate the various credit products engaged by the Bank to ensure that it is conducted within the standards and policies set by the Board.



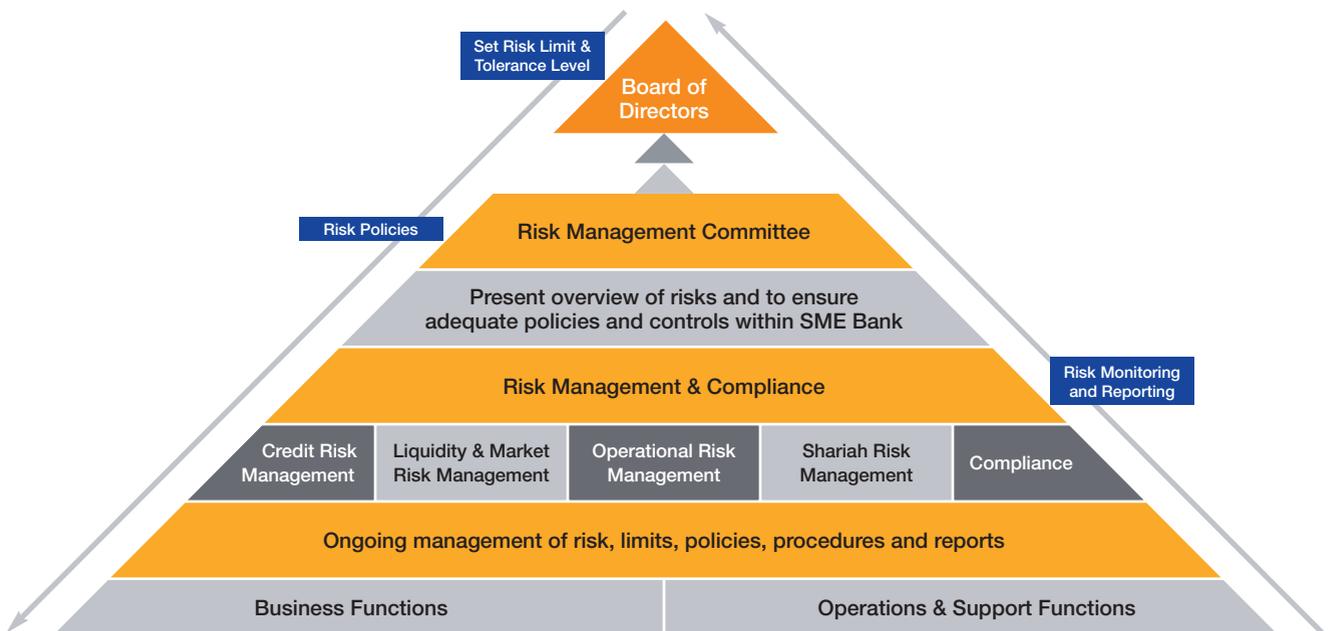
RISK MANAGEMENT AND COMPLIANCE

The Bank as a development financial institution is mandated by the Government to develop and nurture the Small and Medium Enterprises. The need to play the developmental role while at the same time remain sustainable poses a great challenge to the Bank's Board of Directors, Risk Management Committee (RMC) and Management to effectively and efficiently manage risk arising from the Bank's business activities and operations.

The Bank recognizes that effective and robust risk management and compliance is a crucial and integral part of the Bank's business activities and operations. The Bank has put in place an ongoing process for identifying, evaluating, managing and reporting on the significant risks and compliance requirements that may affect the Bank's strategic direction and achievement. The Bank's risk management and compliance is applied on a consistent and integrated approach across the Bank.

The Board of Directors, the RMC, the Management and the staff are always committed to improve the Bank's risk management function in response to the constantly evolving business and operational conditions while embracing risk management standards and best practices.

In managing risk, the Bank is guided by its risk management principles which outline an integrated risk management effort via structured risk and compliance governance. The Bank is committed in developing and enhancing the core competency of human capital within the Risk Management and Compliance function to support an effective and robust risk management process.



RISK MANAGEMENT FRAMEWORK

At the Business, Operations and Support units, the respective functions are the risk owners and are accountable for the risks inherent in their business and operations and manage the day-to-day risks of their respective operations.

Risk Management and Compliance monitors and reports the Bank's Credit Risk, Liquidity Risk, Market Risk, Operational Risk, Shariah Risk and Compliance to the RMC on periodic basis.



The RMC deliberates and evaluates the reports prepared by Risk Management and Compliance on the adequacy and effectiveness of the controls to mitigate the Bank's risks and thereafter reports and provides updates to the Board, and where appropriate, makes the necessary recommendations to the Board.

At the pinnacle of the Risk Management framework, the Board has the overall responsibility to ensure that there is proper oversight of the management of risks in the Bank. The Board sets the risk appetite and tolerance level that is consistent with the Bank's overall business objectives and the desired risk profile.

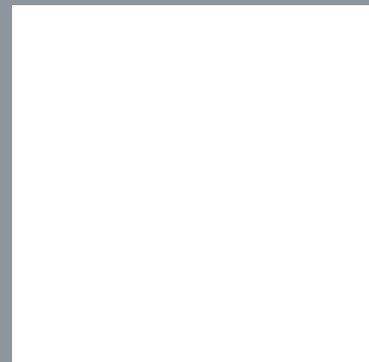
The Bank continues to pursue efforts to inculcate a strong risk and compliance culture bank-wide at all levels of the staff through training, clear policies, procedures, roles and responsibilities as well as effective communications. The business activities and support functions of the Bank have been governed by the establishment of policies, guidelines and procedures that serve as internal controls.

In addition to oversight performed by the independent functions in assessing and managing the level of risk and compliance, a self-assessment program on risk and controls as well as on regulatory and Shariah compliance has been implemented to strengthen the culture and awareness of risk and compliance in the Bank.





**CORPORATE
RESPONSIBILITY
REPORT**



At SME Bank, we understand the importance of nurturing talented young minds to become successful entrepreneurs that will support the Government's Economic Agenda in developing SMEs as an engine of growth.

Guided by our Corporate Responsibility Statement, we are committed to organize programs that not only give the young entrepreneurs the opportunity to grow and improve, but that also enhance the Bank's reputation and strengthen business relationships, besides creating a positive impact to our stakeholders.

"To embark on a comprehensive Corporate Responsibility (CR) program focusing on entrepreneurship and sustainable activities that will bring impact to the Bank's image and business operations as well as create value for the stakeholder"
- CR Statement

NURTURING YOUNG MINDS - 'PROGRAM INOVASI USAHAWAN MUDA: SME BANK Y- BIZ CHALLENGE 2012'

'Program Inovasi Usahawan Muda : SME Bank Y-Biz Challenge 2012' was crafted as a Signature Event for SME Bank and targeted at secondary school students between the age of 13 to 18 years old. SME Bank collaborated with the Ministry of Education and Majlis Rekabentuk Malaysia to ensure that the desired results of organizing the program are achieved.

"The objective of this program is to groom and nurture future entrepreneurs by creating interest in entrepreneurship and providing the opportunity for students to explore their creativity and innovativeness "

The SME Bank Y-Biz Challenge had benefited 405 students and 114 teachers from 110 schools during the road shows to 6 zones throughout Malaysia. Talks on entrepreneurship were also conducted during the road shows.



Group discussion during the Semi-final Q&A session.

> 32 out of 82 groups were chosen to go to the semi-final round where they presented their proposal papers in front of judges comprising professionals who are experts in entrepreneurship, product design and commercialization from SME Bank, the Ministry of Education and Majlis Rekabentuk Malaysia.



- > 16 finalists of the competition attended a 3-day boot camp at A'Famosa Hotel and Resort, Melaka, where they were given extensive knowledge on Intellectual Property (IP) Rights, designing and developing a product, leadership skills and also activities that ignite their creativity and innovativeness.



Teachers showing off mock cheques for seed capital, posing with Datuk Mohd Radzif, SME Bank Managing Director and En. Khairuzzaman Muhammad, Board Member.



Students with their 'Straw Tower' during the creativity challenge.

- > Study visit to the SME Bank Entrepreneur Premises Complex (EPC) in Telok Mas, Melaka gave the students a firsthand look at the manufacturing and marketing processes of a product.



Students and teachers were briefed by En. Razali Mohd Yunus, owner of Zaliza Food Industries during the visit.

- > Every finalist also received RM2,000.00 each as seed capital to assist them in building a prototype of their products which were presented to the panel of judges during the final round.



Samples of Mahogany Chocolate by SMK Mutiara, W.P. Labuan, were distributed to the panel of judges.



> The prize-giving ceremony was held during a dinner on 14th December 2012 at the Marriott Putrajaya Hotel. The dinner was graced by the presence of the Deputy Minister of Education, Dr. Haji Mohd Puad Zarkashi, who gave away the prizes and also launched the SME Bank Y-Biz Challenge 2013.



Winners of SME Bank Y-Biz Challenge 2012 pose with Dr. Hj. Mohd Puad Zarkashi, Deputy Minister of Education, and Senior Management staff of SME Bank.

BUILDING AN ICT NATION

SME Bank had continued its computer donation program to schools and community centres, especially in the rural areas, to enrich the knowledge of students and accelerate the growth of the economy towards becoming a high-income nation. A total of 255 units of computers were donated in 2012.

No.	Beneficiary	No. of Beneficiaries	Units of Computers
1.	Community Centre	25	117
2.	1Malaysia Computer Centre	3	60
3.	Rural School	11	55
4.	Orphanage Home	2	7
5.	Village Computer Centre	1	10
6.	School for special children	1	6

Table 1: List of beneficiaries of SME Bank Computer Donation Program



JANUARY 2012

Datuk Seri Diraja Dr. Zambry Abd Kadir, Chief Minister of Perak presenting a computer to one of the recipients in Pangkor Island.



FEBRUARY 2012

Dato' Noriah Kasnon, Deputy Minister KeTTHA, presenting a computer to one of the recipients in Sg. Besar, Selangor.



MARCH 2012

Encik Asbullah Adnan, Director of Stakeholders Management presenting a computer to Sr. Haji Muhammad Farid Saad, ADUN Pulau Betong on behalf of Pusat Internet Desa Baik Pulau, Pulau Pinang.



APRIL 2012

Tun Dr. Mahathir Mohammad, former Prime Minister of Malaysia presenting a computer to one of the recipients in Pulau Langkawi, Kedah.



CELEBRATING FESTIVE SEASONS TOGETHER

Besides focusing on the Signature Event and computer donations, SME Bank also organized special corporate responsibility programs in conjunction with festive seasons. In the spirit of 'sharing is caring', food hampers and duit raya were distributed to the underprivileged and orphans as well as children at pediatric wards. This program was also extended to the staff of SME Bank whereby goodie bags were distributed to all staff during the month of Ramadhan. Similar activity was also carried out at the Sg. Besi Toll Plaza in Kuala Lumpur for road users travelling along the Kuala Lumpur – Seremban highway.



FEBRUARY 2012

Dato' Paduka Mukhriz Tun Mahathir, Deputy Minister MITI, presenting school bags to students during a Chinese New Year Celebration in Sg. Petani, Kedah. The school bags were donated by SME Bank.



JULY 2012

Encik Abdul Aziz Muhamad, Director, Finance Management presenting *Bubur Lambuk* and cookies to a patient of Pediatric Ward, Pusat Perubatan Universiti Malaya.



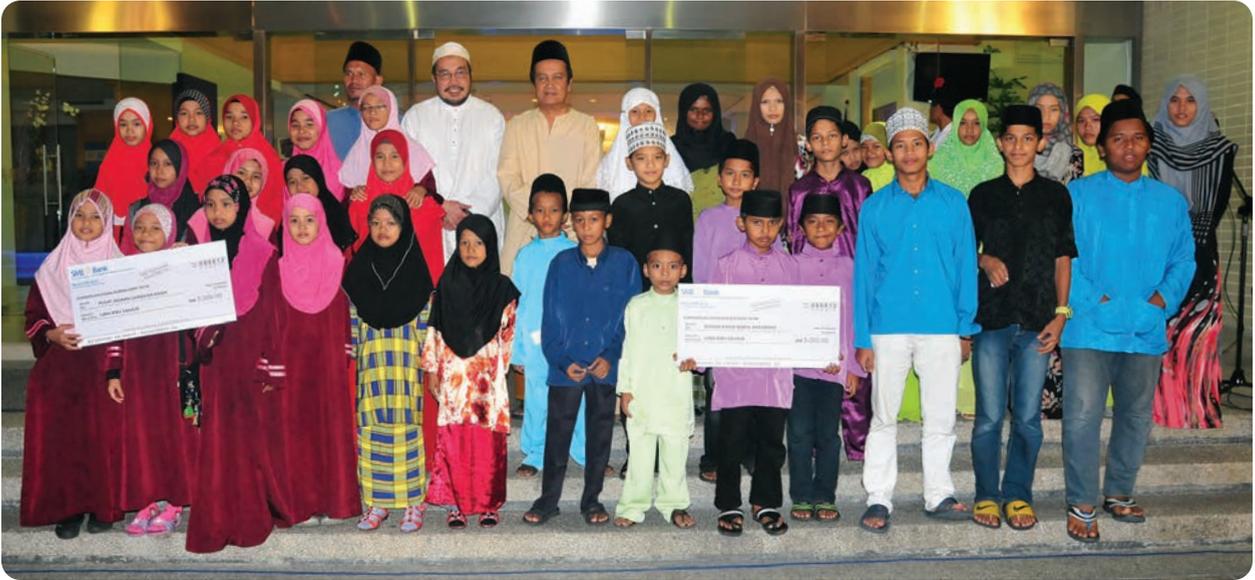
AUGUST 2012

SME Bank and Kuwait Finance House (KFH) representatives giving away Ramadhan goodie bags to road users at the Sg. Besi Toll Plaza.



AUGUST 2012

Staff of SME Bank were delighted to receive goodie bags from SME Bank's Management during the month of Ramadhan.



AUGUST 2012

Dato' Gumuri Hussain, Chairman, SME Bank and Datuk Mohd Radzif Mohd Yunus, Managing Director, with orphans from Pusat Jagaan Lambaian Kasih and Rumah Nurul Hasanah during Majlis Berbuka Puasa.



OCTOBER 2012

Tan Sri Nor Mohamed Yacop, Minister in the Prime Minister's Department distributing *Duit Raya* and food hampers to old folks in Tasek Gelugor, Penang.



NOVEMBER 2012

One of the recipients receiving a food basket from Encik Tukiman Nail, YDP Majlis Daerah Hulu Selangor during the Deepavali Program in Kg. Kerling, Hulu Selangor.



A HELPING HAND TO WEATHER THE STORM

As a responsible corporate citizen, SME Bank is always committed to giving assistance to ease the burden of victims of natural calamities. Contributions were made in cash, food hampers and toiletry supply. In 2012, a total of RM43,000.00 was distributed to victims of storm, flood and fire.



SME Bank's staff, Encik Roshidi Mat whose house was hit by a storm, receiving cash contribution from Encik Nor Iskandar Naini, Head, Kangar Enterprise Centre.



Deputy Prime Minister, Tan Sri Muhyiddin Yassin presenting a donation cheque to a fire victim during an event in Pagoh, Johor. Also present were Datuk Mohd Radzif Mohd Yunus, SME Bank Managing Director and Encik Asbullah Adnan, Director, Stakeholders Management.



Head, Liaison and Networking, Encik Wan Baharudin Wan Ismail distributing food hampers to flood victims in Kuala Langat, Selangor.

EMERGENCY FUND FOR GAZA

The country has launched a nationwide campaign to raise funds to alleviate the sufferings of the Palestinian people in the war-torn Gaza Strip. To support this effort, SME Bank had organized a donation appeal among the Bank's staff to raise funds for the Emergency Fund for Gaza. A total of RM40,400.00 was raised through this effort which was later presented by Y.B. Dato' Paduka Mukhriz Tun Mahathir, Deputy Minister of MITI, on behalf of Perdana Global Peace Foundation.



Datuk Mohd Radzif Mohd Yunus, Managing Director and senior management of SME Bank during the cheque presentation to Dato' Paduka Mukhriz at his office in MITI.



PROVIDING THE OPPORTUNITY TO LEARN

SME Bank participated in a program organized by Yayasan Minda Kebangsaan to provide books and reading materials to rural schools. The Bank sponsored RM15,000.00 worth of books for selected school libraries to enable school children in rural areas to receive quality reading material and encourage them to read.

SME Bank also sponsored 20 less-fortunate students from the International Islamic University of Malaysia to attend the 'SBA Leadership Excellence Course'. Through this course, the participants were given training on management and leadership with added Islamic values. It is hoped that all these participants will become successful Standard Bearers of Islam.

ENRICHING THE QUALITY OF LIFE THROUGH HEALTH AND WELLNESS

Enriching quality of life through providing proper health and wellness facilities especially for the poor and rural community has been one of the prime areas of corporate responsibility of SME Bank. We have collaborated with the Ministry of Health to donate an ultrasound machine which was placed at the Radiology Department in Hospital Selayang. The ultrasound machine will enable Hospital Selayang to receive more patients for checkups and early detection of breast cancer.



Head of Corporate Responsibility, Puan Saripah Radziah attending the Testing, Commissioning and Acceptance Meeting at Hospital Selayang.

FOR BUSINESS, FOR GROWTH, FOR LIFE

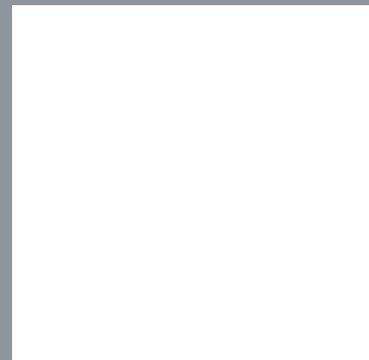
As SME Bank moves forward to continue on the mandate that it has been entrusted with, corporate responsibility will always be one of the Bank's commitments toward meeting the equilibrium between having healthy business growth and enhancing the quality of life for the community.





CEDAR

CENTRE FOR ENTREPRENEUR
DEVELOPMENT AND RESEARCH



CEDAR - DRIVING ENTREPRENEURS AND TRANSFORMING NATIONAL SMEs

ABOUT CEDAR

The Centre for Entrepreneur Development and Research (CEDAR) is a specialized entrepreneur development centre for training, consultancy and research focusing on Small and Medium Enterprises (SMEs) and Development Financial Institutions (DFIs). The Centre was officially launched by the Minister in the Prime Minister's Department, Tan Sri Nor Mohamed Yakcop on 6 November 2012 and was fully incorporated as a subsidiary of SME Bank on 16 April 2013.



CEDAR takes off

SME Bank, Teraju bincang suntikan dana tambahan program Teras

KUALA LUMPUR - Bank Perusahaan Kecil & Sederhana Malaysia Bhd. (SME Bank) kini sedang mengadakan perbincangan dengan Unit Peneraju Agenda Bumiputera (Teraju) bagi kemunculan mengemukakan suntikan dana tambahan ke dalam program pembiayaan Syarikat Bumiputera Berprestasi Tinggi (Teras).

Pengerah Lirasan SME Bank, Datuk Mohd. Radzif Mohd. Yunus berkata, daripada RM600 juta yang dipuratakan bagi dana itu pada peringkat awal, iaitu RM190 juta telah diluluskan untuk 16 permohonan di bawah program berkenaan. "Dana permulaan yang diperlukan untuk baki 104 syarikat berpotensi di bawah Teraju dijangka berjumlah sekitar RM470 juta. Ragu-ragu, tidak semua syarikat berpotensi akan memerlukan dana itu.

"Kami telah berjumpa dengan kesemua 120 syarikat berpotensi dan sedang meneliti 29 permohonan daripada baki 104 syarikat itu," katanya pada majlis



NOR MOHAMED menunjukkan Buku Lonjakan Berganda CEDAR Sebagai Wahana Pemacu Transformasi Usahawan Dan PKS Negara semasa diperibadikan Gumuri (dua kiri) pada majlis menetara persetujuan Dana Hibrid dan pelancaran CEDAR di Kuala Lumpur semalam.

memandatangani persetujuan pada majlis menetara persetujuan Dana Hibrid antara SME Bank dengan Teraju di sini semalam.

Objektif perjanjian itu ialah mewujudkan hubungan rasmi antara kedua-dua institusi dengan menggariskan komitmen dan hubungan perkongsian mereka dalam memulakan program pembiayaan Teras.

Majlis itu disaksikan oleh Menteri di Jabatan Perdana Menteri, Tan Sri Nor Mo-

hammed Yakcop dan Pengerah SME Bank, Datuk Gumuri Hussain.

Dalam ucapannya, Gumuri berkata, dana Teras ialah satu lagi langkah yang diambil untuk memperluaskan keupayaan usahawan bumiputera dengan SME Bank dan Teraju bekerjasama untuk membiayai dan memantau syarikat-syarikat yang terbit.

Pada majlis yang sama, SME Bank telah melancarkan Pusat Pembinaan

dan Penyelidikan Usahawan (CEDAR) yang akan menjadi pusat sumber bagi pembangunan dan transformasi usahawan tempatan.

Gumuri berkata, CEDAR akan memainkan peranan dalam pembangunan usahawan dengan menyediakan latihan dan khidmat perundingan, penyelidikan dan pembangunan, mengorganisasikan seminar dan persidangan serta menerbitkan bahan penyelidikan berkaitan. -Bernama

More funds for high performers

COLLABORATION:
SME Bank, Teraju
in talks to boost
loan facility

KUALA LUMPUR

SME Bank is in discussions with the Unit Teraju Agenda Bumiputera (Teraju), the Bumiputera agenda steering unit, for a possible additional funds injection into the Teras (High-performing Bumiputera companies) Funding programme.

SME Bank managing director Datuk Mohd Radzif Mohd Yunus said from the total of RM500 million Teras fund that has been allocated earlier, some RM190 million have been approved for 16 applications under the programme.

"The initial funds required for the remaining 104 potential companies under Teraju is expected to be around RM470 million. However, not all the potential companies need the fund.



SME Bank managing director **Datuk Mohd Radzif Mohd Yunus** (left) and Minister in the Prime Minister's Department **Tan Sri Nor Mohamed Yakcop** at the launch of SME Bank's Centre of Entrepreneur Development and Research yesterday. Pic by Izhari Ariffin

"Currently, we still have sufficient funds. We have met all the 120 potential companies and we are currently reviewing 29 applications from the remaining 104 companies

to be awarded with the remaining RM310 million funds," he told reporters after the signing of a collaboration agreement with Teraju, here yesterday.

The objective of the agreement is to establish a formal relationship between the two institutions by outlining their shared commitment and relationship in developing the Teras

Funding programme.

The signing was witnessed by Minister in the Prime Minister's Department Tan Sri Nor Mohamed Yakcop and SME Bank chairman Datuk Gumuri Hussain.

In his opening speech, Gumuri said: "The Teras Fund is the next step taken in expanding the capability of Bumiputera entrepreneurs, with SME Bank and Teraju collaborating to fund and oversee the Teras companies, respectively."

At the same event, SME Bank launched its new Centre of Entrepreneur Development and Research (Cedar), which will be a resource centre for entrepreneur development and transformation.

Gumuri said Cedar will implement its development role by providing training and consultancy, research and development, organising seminars and conferences as well as publication of research materials.

"Cedar will be a centre to develop not just entrepreneurs, but also employees of the development financial institutions to enable them to further uplift the level of Malaysian entrepreneurs," he added. -Bernama

CEDAR in the news



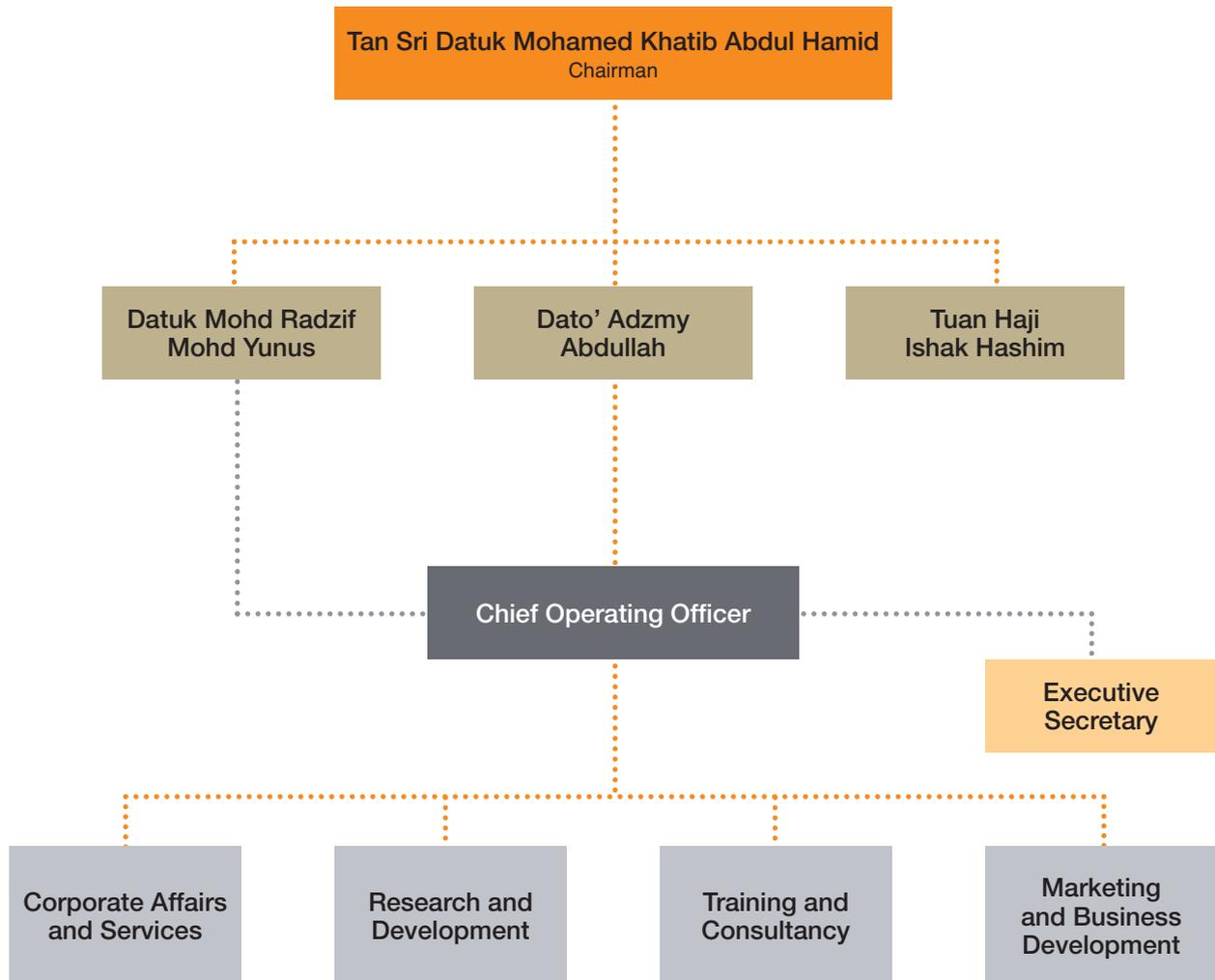
CEDAR was established to complement the developmental role of SME Bank with a vision to become a Centre of Excellence for entrepreneur development and transformation. Its mission is to continuously develop the capabilities of entrepreneurs towards sustaining their business growth in support of the national economic agenda.



Unique Selling Propositions of CEDAR



The organization structure of CEDAR is as follows:





STRATEGIC FOCUS AREAS OF CEDAR

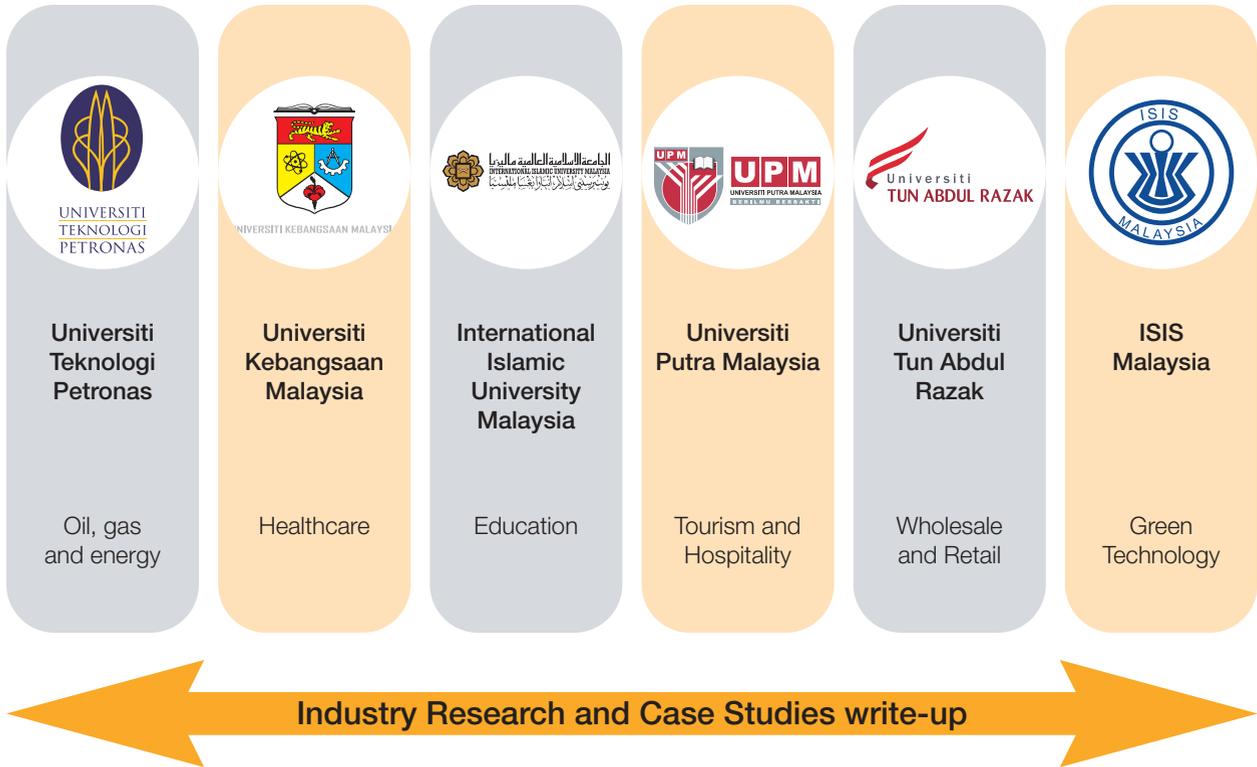
CEDAR conducts entrepreneur developmental activities such as training and consultancy, research and development, seminars and conferences as well as publications.



CEDAR aims to complement the existing training and consultancy service providers in the marketplace, with a particular focus on entrepreneur development. To achieve its goals, the centre continuously seeks collaborations with prestigious and established institutions to establish to set up joint programmes. Building regional and international networks that will aid in the development of entrepreneurs and SMEs is another vital strategic initiative.



STRATEGIC RESEARCH PARTNERS OF CEDAR



On entrepreneur development, the training and consultancy programmes of CEDAR have been formulated based on the stages of growth of the SMEs, with a focus on addressing its needs at each of these stages. A hybrid learning strategy of face-to-face and online sessions are used to deliver its training programmes, using various teaching pedagogy of inquiring, sharing, guiding and coaching, real-life case studies, role playing, team-based learning, as well as share-learn-teach approach and experiential learning processes.

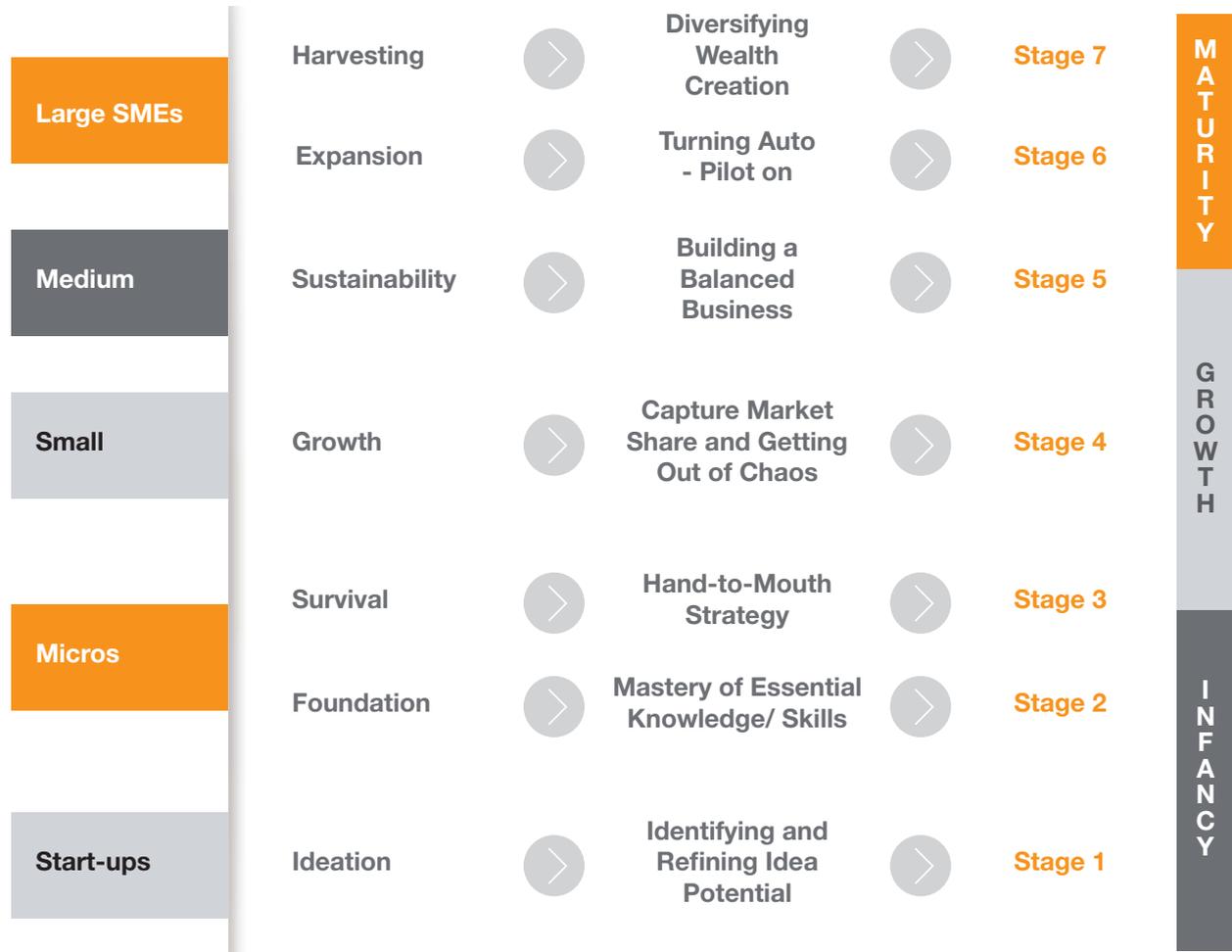


The first batch of participants for the Young Entrepreneur Programme, with Intel as a strategic partner.

ENTREPRENEUR DEVELOPMENT ROADMAP

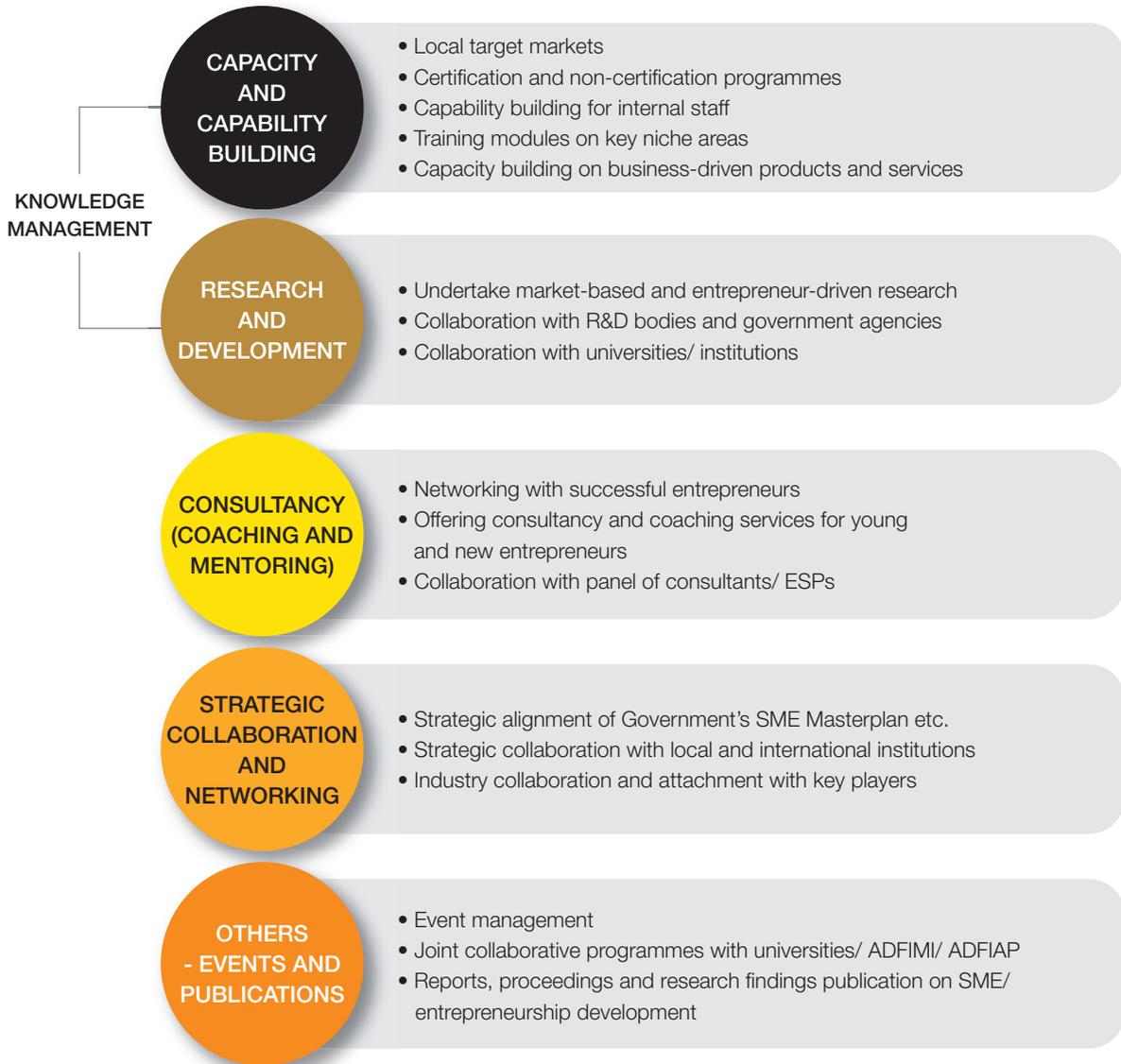


The entrepreneur development roadmap and programme matrix, outlining CEDAR's overall approach for training and development activities, vis-à-vis SMEs' stages of growth, are as follows:



ENTREPRENEUR DEVELOPMENT-PROGRAMME MATRIX

PHASE/ TARGET		STAGE	STRATEGY	STRATEGIC PROGRAMMES	
MATURITY	LARGE SMEs	7	HARVESTING (Diversifying Wealth Creation)	<ul style="list-style-type: none"> Harvesting Strategies 	<ul style="list-style-type: none"> Option of Turning Your Business Public
	MEDIUM	6	EXPANSION (Turning Auto-Pilot On)	<ul style="list-style-type: none"> Financial Management Business Modeling Strategic Business Planning 	<ul style="list-style-type: none"> Business and Systemization Succession Planning
GROWTH	SMALL	5	SUSTAINABILITY (Building a Balanced Business)	<ul style="list-style-type: none"> Professional Business Practices Financial Management Business Modeling 	<ul style="list-style-type: none"> Strategic Business Planning Business Turnaround Programme
	MICROS	4	GROWTH (Capture Market Share and Getting Out of Chaos)	<ul style="list-style-type: none"> Professional Business Practices Financial Management 	<ul style="list-style-type: none"> Managing Entrepreneurial Growth Business Modeling
INFANCY		START-UPS	3	SURVIVAL (Hand-to-Mouth Strategy)	<ul style="list-style-type: none"> Young Entrepreneur Development Intel® Learn Easy Steps Simple Steps to Profit
	2		FOUNDATION (Mastery of Essential Knowledge/ Skills)	<ul style="list-style-type: none"> PIUS SPED Young Entrepreneur Development 	<ul style="list-style-type: none"> Intel® Learn Easy Steps Simple Steps to Profits New Venture Creation and Business Modeling
	1		IDEATION (Identifying and Refining Idea Potential)	<ul style="list-style-type: none"> PIUS SPED Young Entrepreneur Development 	<ul style="list-style-type: none"> Intel® Learn Easy Steps New Venture Creation and Business Modeling



Human capital and entrepreneurial development is one of the six focus areas in the Government's SME Masterplan 2012-2020. CEDAR was established to address the need to build the capacity and capability of not only the entrepreneurs but also the workforce (including DFI staff) who are involved in the development of SME entrepreneurs, both locally and internationally.

The Government is committed in the development of SMEs, particularly the Bumiputera. Being mindful that they lack business experience and exposure, it is important that support activities and services such as training, counselling, advisory service, and various knowledge advancement efforts are implemented to ensure comprehensive solutions for the development of these entrepreneurs.

CEDAR will capitalise on the experiences of SME Bank as an industry player that has been directly involved in the entrepreneur financing and development sector for many years. This is a competitive advantage that can be utilized for the benefit of all entrepreneurs and SMEs.



2
DECEMBER
2011

Ministry of Finance (MOF) approval on SME Bank's subsidiaries



29
SEPTEMBER
2012

SME Bank Board of Director's approval on establishment of SME Development Entity, a pre-cursor to CEDAR



16
OCTOBER
2012

Submission to Bank Negara Malaysia seeking consent to establish CEDAR



30-31
OCTOBER
2012

Focus Group session with various stakeholders on activities of CEDAR



6
NOVEMBER
2012

CEDAR was launched by the Minister in the Prime Minister's Department

M I L E S



5
FEBRUARY
2013

Focus Group session with selected entrepreneurs (non-Bumiputera)



6
FEBRUARY
2013

Focus Group session with selected entrepreneurs (Bumiputera)



15-16
FEBRUARY
2013

CEDAR kicked off a series of roadshows for entrepreneurs in conjunction with the launching of SME Bank's Urban Transformation Centre (UTC) in Ipoh and Young Entrepreneur Fund (YEF) by Prime Minister of Malaysia



21
FEBRUARY
2013

CEDAR signed MOU with Intel Malaysia

- CEDAR roadshow for entrepreneurs in Klang Valley in conjunction with the launching of SME Development Scheme by Minister of International Trade and Industry of Malaysia



25
FEBRUARY
2013

CEDAR roadshow for entrepreneurs in Kota Kinabalu, Sabah



12
NOVEMBER
2012

Presentation on CEDAR's establishment to Bank Negara Malaysia

14
DECEMBER
2012

Focus Group session with all Vice Presidents and Head of Departments of SME Bank

9
JANUARY
2013

Preview session on Certificate of Islamic Banking and Finance (CIBF) attended by all executives of SME Bank

16
JANUARY
2013

Special Focus Group session with Vice Presidents of SME Bank

19-20
JANUARY
2013

1st cohort of SME Bank staff attended the Certificate of Islamic Banking and Finance (CIBF) first lecture

TONES

27
FEBRUARY
2013

CEDAR roadshow for entrepreneurs in Kuching, Sarawak

1
MARCH
2013

CEDAR roadshow for entrepreneurs in Miri, Sarawak

3
MARCH
2013

CEDAR roadshow for entrepreneurs in Kota Bharu, Kelantan

7
MARCH
2013

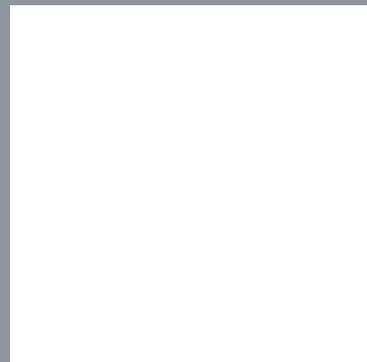
CEDAR roadshow for entrepreneurs in Johor Bahru, Johor

16
APRIL
2013

CEDAR received its certificate of incorporation as a wholly-owned subsidiary of SME Bank Malaysia



INTERVENTION PROGRAMS





SME BANK'S INTERVENTION PROGRAMS

SME Bank has a unique selling proposition, a tool no other commercial bank can boast of - a value creation business model to assist and nurture its customers - its intervention programs.

The main objectives of our intervention programs are as follows:

- 1) To create more resilient and sustainable SMEs
- 2) To improve customer's proposal for securing loans or financing facilities
- 3) To improve customers' performance by ensuring that their businesses grow, sustain and expand or turn around
- 4) To manage the credit risk of the bank.

Specific initiatives for intervention:

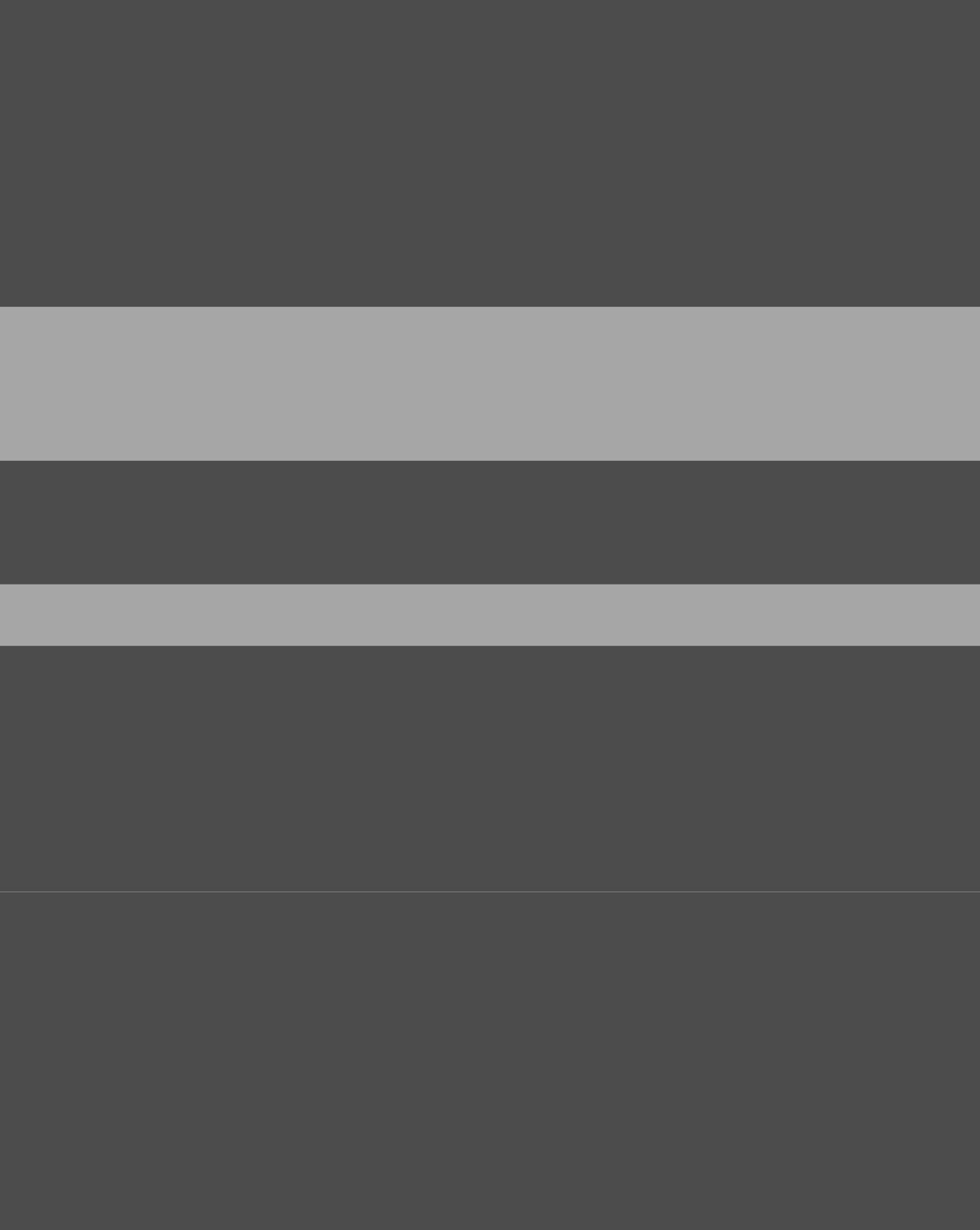
- IQ-Dagang
- "Bumiputera Entrepreneurs Of SME Bank In Teras" (B.E.S.T)

IQ-Dagang that was executed at the end of 2010 has shown an impressive success rate of 136% over our 2012 Key Performance Index target. Designed to screen for winning ideas that are creative, innovative and technology-based, this initiative has managed to create 77 innovators with potential into viable and bankable businesses as of 31st December 2012. Noteworthy successes that this initiative has produced include the first locally-produced Orthopaedic Trauma Implant and Biomedical Artificial Arteries & Veins.

The B.E.S.T program is aimed at helping existing customers with great potential go further in their industry especially those whose field of business is classified within Malaysia's National Key Economic Area (NKEA). Via intervention activities such as advisory, capacity & capability building, the B.E.S.T companies will eventually be nominated for the TERAS Program under TERAJU. Teras (High Performing Bumiputera SME) is a program initiated by the Government that has already approved 85 of SME Bank's customers as of 31st December 2012.

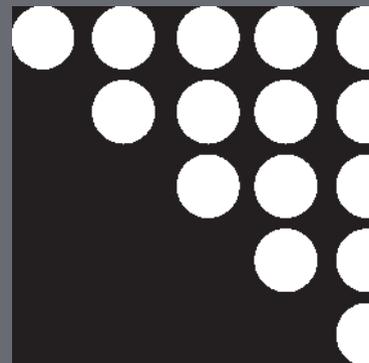
The success of our intervention programs will hasten the fulfillment of our end objective - to be able to empower our entrepreneurs to go the extra mile and uplift their businesses out of the SME category.







**SUCCESS
STORIES OF OUR
ENTREPRENEURS**





Mohd Fitri Md. Aris
Managing Director



INDUSTRIAL QUALITY MANAGEMENT

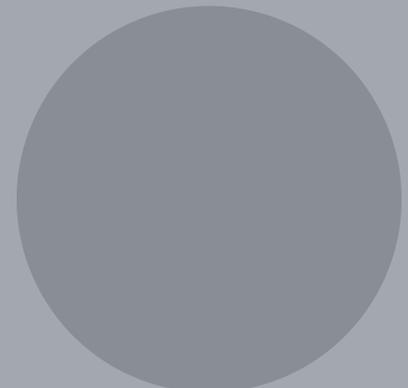
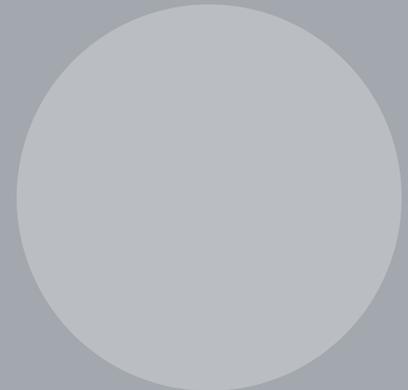
Industrial Quality Management Sdn. Bhd. (IQMSB) was established in February 1992 to support Malaysia's emerging automotive industry. The company designs, manufactures and assembles plastic and metal components for major automotive companies, including Proton, Perodua, Modenas, Hicom and Isuzu. The company has its headquarters in Shah Alam and has three manufacturing branches in Tanjung Malim in Perak, Gurun in Kedah and Bukit Beruntung in Selangor.

Funding support of over RM100 million from SME Bank helped the company to attain consistent growth via acquisition of premises and machinery. Excellent financial standing and sound management practices resulted not only in business expansion and strong operating foundation, the company even earned recognition from SME Bank as excellent paymasters.

The company's success has been attributed to prudent financial management, a commitment to quality as well as maintaining a viable workforce. They had also greatly improved their management and business expertise by enrolling in the entrepreneur programmes conducted by SME Bank.

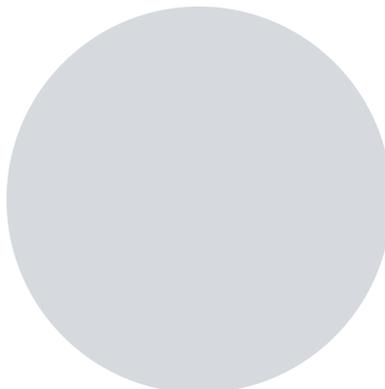
IQMSB plans for greater growth for 2013-2014. Acquisition of smaller or ailing companies had greatly expanded operational and production capacity and the company is targetting to acquire even bigger companies that will further improve its position. There are also plans to acquire new machinery and equipment which can further improve production.

The company will continue to look to SME Bank as a vital partner in its push to attain greater growth. Since embarking on its transformation programme, SME Bank had greatly improved its services and the Bank's extra assistance programmes beyond financing had been invaluable tools for the company in its journey towards success.





Md Idris Ab Aziz
Managing Director



PERNIAGAAN WAFADA SDN BHD

Perniagaan Wafada was established in 1986 as a small family business. A multi-faceted ability to adopt and adapt to business opportunities took the company on a trajectory along the commercial lanes that has over the years encompassed varied enterprises such as retail, food and beverage, furnishings, interior designing, landscaping and even building maintenance. In 2000, funding from SME Bank allowed the company to acquire retail space and set up shop at the the main terminal of the Kuala Lumpur International Airport (KLIA).

The many years in business gave the company in-depth knowledge of what sells and what doesn't, and within a short amount of time, the company was able to expand to the Low Cost Carrier Terminal (LCCT). In fact, the company engendered an uplifting outlook at all their outlets, with staff encouraged to assume a front-line position as the nation's mini ambassadors to foreign tourists. The company expanded into the food and beverage line with the opening of a 'kopitiam'-style restaurant, 'Oh Malaya Kopitiam' near KLIA.

The company upholds a high level of standard in all aspects of their many businesses and they pride themselves on offering products and services that are consistent across all outlets. Close rapport with the executives at SME Bank was a distinct advantage, as the company was able to tap into invaluable technical know-how through friendly consultation sessions. The excellent collaborative conditions also resulted in efficient funding approval for their projects. In fact the trust and co-operation between the two sides was so solid that SME Bank approved RM1.2 million in funds to the company without asking for collateral. Access to this kind of funding and support has been the primary reason Wafada was able to be competitive and grow alongside the nation, and has allowed them the luxury of a confident outlook in all their future enterprises.



Datin Rosnah Abdul Latif
Managing Director



MARIWASA KRAFTANGAN SDN BHD

Just as the early medals this company created had symbolised recognition for excellence and achievement, Mariwasa Kraftangan Sdn Bhd has over the years symbolised excellence and achievement in its own right. Established almost four decades ago in 1975, the company was previously known as Saunders Medallist (M) Sdn Bhd and specialised in creating premium giftware, medals and award decorations and uniform accessories. The company took on its current name in 1979 to better reflect its Malaysian identity and has come a long way from its modest beginnings operating with a team of six working in a small workshop in the outskirts of Kuala Lumpur. In 1989 the company moved its operation to Kuala Kangsar and has not looked back since then. Today the company is run by an impressive team of 125. Its efforts to promote and develop the art of exquisite crafts in Kuala Kangsar has yielded rewards - it has ensured a steady supply of quality craftsmen and as a direct result improved the economy of the locals.

Today, a steady supply of conferment medallions, premium silverware and pewter, uniform accessories and regalia comes out of Kuala Kangsar and reaches far and wide. The company sells its wares to numerous government bodies, and with the help of the Malaysian Government is now even exporting to countries such as Kuwait and the Maldives.

SME Bank became a valuable ally in 2006/2007 when the company was in need of financing support due to its rapid expansion. The Bank facilitated the hire purchase of high-end equipment and machinery from Europe which enabled the company to come up with products of even higher quality. As demand for its products increased, the company had to build new factories to cope, and again SME Bank was there to provide the required funding. Partnering with SME Bank had resulted in improved quality products, solid financial footing and efficient capital flow. The company has been able to constantly introduce new products; in a nutshell the company's sales had gone up by 25% since it first collaborated with SME Bank. With the Bank's continued support, the company hopes to open more international markets and compete with the European heavyweights in the industry.





Tun Sarimah Mohd Sharif
Executive Director

Ku Azhar Ku Abdul Razak
Managing Director



JMV FERRY SERVICE SDN BHD

JMV Ferry Services Sdn Bhd was established in 2002 when four ferry companies were acquired and merged. It is one of the largest passenger ferry operators in Langkawi and Malaysia. Its high speed luxury ferries ply the sea lanes between Langkawi, Kuala Kedah and Kuala Perlis.

The company's strategic expansion plan took it on a natural path – from ferries plying tourism routes to a travel agency, and from that, naturally to the hotel industry. In 2010, MyHotel Langkawi started operations with a total of 154 rooms. It caters mainly to government and state departments seeking a venue for meetings and training programmes.

Both primary business milestones of the company had been attained by the assistance of SME Bank. The acquisition of the four ferry companies was done with funding from SME Bank. The hotel was the result of SME Bank providing the funding to take over a dormant project. The company has plans to further expand and improve their fleet of ferries as well as embark on a second phase of development for the hotel. The ambitious plans for the hotel include a swimming pool, shopping complex, larger conference meeting rooms, a seaside restaurant and even a drive-thru outlet. With the helping and guiding hand of SME Bank, the company is confident of more successful steps in their quest for business achievement.





Abu Bakar Ismail
Group Managing Director



HIG LANGKAWI HOLDINGS SDN BHD

The Haji Ismail Group of companies was created in 1987 as a small trading company at the MARA bazaar in Kuah, Langkawi. The Malaysian Government's decision to turn Pulau Langkawi into a duty-free shopping haven that year turned out to be a major event in the company's history. What had started out as a small family business dealing in kitchen and dining ware, batik and confectioneries had good fortune on their side. The family's determination and teamwork soon resulted in expansion to multiple outlets and locations. The company became renowned for its quality products and competitive prices.

Today, the group of companies has seven subsidiaries involved in retail trading and real estate. It has five outlets for its retail activities and even its own building, Kompleks HIG, considered the symbol of the group's success. Kompleks HIG had a difficult beginning when it was first planned in 2005. The company was unable to obtain funding for their ambitious plan. It was only when the company approached SME Bank that they were able to finally obtain the funds required to purchase the land and start the construction of the complex. Today Kompleks HIG is a high-activity commercial center standing proudly along Jalan Penarak in Kuah, Langkawi, home to 40 units of shoplots and a hotel with 112 rooms.

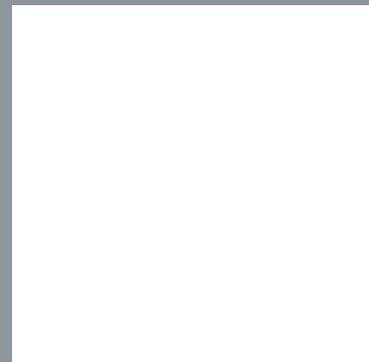
Ambition remains one of the driving forces that influences the company's decisions. The company will be seeking to develop a second hotel in Pantai Cenang. And obviously visitors as well as the people of Langkawi can look forward to even more retail outlets as the company sets about their plan for market domination.



2012



**CALENDAR
OF EVENTS**





Study visit from the Nigerian Delegation



Study visit from the Nigerian delegation at Menara SME Bank on 7th January 2012.

Financial Aid Information Seminar for Malaysian Indian Entrepreneurs



Encik Asbullah Adnan, Director of Stakeholders Management giving a briefing at a half-day seminar for Indian Entrepreneurs at SME Corporation Malaysia on 19th January 2012.

Media Luncheon with Media Prima



Media Luncheon on 6th February 2012 at The InterContinental Hotel, Kuala Lumpur.

Launching of Rural Transformation Centre



Datuk Mohd Radzif Mohd Yunus, Managing Director and Datuk Seri Ahmad Husni Hanadzlah handing over Zakat donation to Majlis Agama Islam Perak during the launching of the Rural Transformation Centre at Gopeng on 16th February 2012.

MoU Signing Ceremony between JFC Micro and SME Bank



Datuk Mohd Radzif Mohd Yunus, Managing Director and Mr. Tadaaki Ud, Managing Executive Officer of International Affairs, Japan Finance Corporation exchanging agreements during the MoU Signing Ceremony between JFC Micro and SME Bank on 16th February 2012 at Menara SME Bank.



Launching of the Internal Facebook & Smile Campaign



Dato' Gumuri Hussain, Chairman, Dato' Paduka Mukhriz Tun Mahathir, Deputy Minister of International Trade and Industry (MITI), and Datuk Mohd Radzif Mohd Yunus, Managing Director, pressing the launch pad which symbolizes the launching of the Internal Facebook & Smile Campaign at Menara SME Bank on 22nd February 2012.

Walkabout Program to Enterprise Centre and EPC Shah Alam



Dato' Paduka Mukhriz Tun Mahathir, Deputy Minister of International Trade and Industry (MITI) on walkabout program to the Enterprise Centre and Entrepreneur Premises Complex, Shah Alam on 29th February 2012.



Launch of the Service Transformation for Excellence Performance (S.T.E.P)



Datuk Mohd Radzif Mohd Yunus giving his opening remarks during the launching of the Service Transformation for Excellence Performance (S.T.E.P) on 1st March 2012 at Grand Millenium Hotel, Kuala Lumpur.

Sempoi Café Shop Launch



Launching of Sempoi Café shop in Bangi on 13th March 2012 by Encik Zainal Osman, Head of Business Banking and Encik Aliman Ali, Head of Retail and Financing.

“Malam Wartawan Malaysia 2012”



Cheque Presentation Ceremony for “Malam Wartawan Malaysia 2012” on 16th March 2011 at the Royale Chulan Hotel, Kuala Lumpur.



Internal Soft Launching 2nd Chance (SRS) Program



Management Directors during the Internal Soft Launching of 2nd Chance (SRS) Programme on 19th April 2012 at SME Bank Auditorium, Menara SME Bank.

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Staff Appreciation Night



Staff Appreciation Night was held on 3rd May 2012 at Menara SME Bank.

Announcement of the 2011 Financial Results



Encik Mohd Rizal Mohd Jaafar, Chief Operating Officer, Datuk Mohd Radzif Mohd Yunus, Managing Director and Encik Abdul Aziz Muhamad, Director, Financial Management, at the announcement of the 2011 Financial Results on 3rd May 2012 at Menara SME Bank.

Stakeholders Appreciation Night



SME Bank's Board of Directors during the Stakeholders Appreciation Night on 9th May 2012 at the Double Tree Hotel, Kuala Lumpur.

SME Bank Family Day

SME Bank Family Day was held on 12th May 2012 at Bukit Kiara Equestrian & Country Resort, Kuala Lumpur.

Study visit from the Bhutan Development Bank Corporation

Study visit from the Bhutan Development Bank Corporation on 14th May 2012 to Menara SME Bank and Entrepreneur Premises Complex (EPC), Shah Alam.

SME Bank - GMB - CEO Tea Talk



SME Bank and Generasi Muda Berjaya (GMB) - CEO Tea Talk Programme on 15th May 2012 at Menara SME Bank.

Launching of the Internalising Business Mindset & Shared Values Program (In-Minds)



Datuk Mohd Radzif Mohd Yunus, Managing Director during the launching of the Internalising Business Mindset & Shared Values Program (In-Minds) on 24th May 2012 at SME Bank Auditorium, Menara SME Bank.



Study Visit from the Department of Trade and Industry, South Africa

Study Visit from the Department of Trade and Industry, South Africa at Menara SME Bank on 28th May 2012.

“Karnival Jelajah Niaga 2012”



The first carnival organized by SME Bank to help SMEs promote their businesses as well as creating awareness of SME Bank’s services and financial assistance at Suria Mall, Kota Kinabalu.



Launching of Bumiputra Entrepreneur of SME Bank in Teras (B.E.S.T)



Dato' Paduka Mukhriz Tun Mahathir, Deputy Minister of International Trade and Industry (MITI) with SME Bank's Board of Directors and Managing Director during the launching of Bumiputra Entrepreneur of SME Bank in Teras (B.E.S.T) on 14th June 2012 at Menara SME Bank.

Signing Ceremony of Payment Gateway Collaboration Program



Signing Ceremony of Payment Gateway Collaboration Program between SME Bank and Bank Simpanan Nasional on 19th June 2012 at Menara SME Bank.

A Talk on Building a Culture of Integrity & Anti-Corruption

A talk by Suruhanjaya Pencegahan Rasuah Malaysia (SPRM) on Building a Culture of Integrity & Anti-Corruption on 26th June 2012 at Menara SME Bank.

SME Bank-ADFIMI International Development Forum 2012



SME Bank collaborated with the Association of Development Finance Institution of Member Countries of the Islamic Development Bank (ADFIMI) to organise the SME Bank-ADFIMI International Development Forum 2012 on the 5th and 6th of July 2012 at the InterContinental Hotel, Kuala Lumpur.



SUKUK Signing Ceremony



Dato' Seri Ahmad Husni Hanadzlah, Minister of Finance II witnessed the Signing Ceremony of SME Bank's RM3 Billion Government Guaranteed Sukuk. He also officiated the 1-SME Rationalised Fund and launched the SME Revitalisation Scheme on 20th July 2012 at the Mandarin Oriental Hotel, Kuala Lumpur.

Study visit from the Ministry of Plenipotentiary Commercial, Republic of Egypt



Study visit from the Ministry of Plenipotentiary Commercial, Republic of Egypt , Mr Amin Subry Amin Abdel Megud to Menara SME Bank on 25th July 2012.



Champions of In-Minds



Presentation of certificates to the Champions of In-Minds on 8th August 2012 at Menara SME Bank.

SME Bank CSR Program with less fortunate community at Jeli



Encik Mohd Rizal Mohd Jaafar, Chief Operating Officer presenting a contribution to one of the recipients at Kg Bukit Bunga, Jeli on 8th August 2012.

“Kurma” Distribution Program in Collaboration with Kuwait Finance House (M) Berhad



Kurma distribution during Ramadhan program at Sungai Besi Toll on 14th August 2012.



Official Opening of Sarawak Trade and Industry Seminar



Official Opening of Sarawak Trade and Industry Seminar on 10th September 2012 at the Four Points Hotel Kuching, Sarawak.

New Core Banking System (CBS) Project Kick Off



Datuk Mohd Radzif Mohd Yunus officiating the New Core Banking System (CBS) by touching the screen of an iPad to launch the Project Kick Off on 26th September 2012 at Menara SME Bank.

Customer Engagement Sessions



Customer Engagement Sessions were held in Melaka, Kuala Lumpur, Kuching, Alor Setar and Kota Kinabalu from 13th to 26th September 2012.



MAHA 2012



SME Bank's booth at MAHA Exposition biennial series, Malaysia's leading agricultural show located in MAEPS, Serdang from 23rd October to 2nd November 2012.

Study Visit from the Saudi Credit and Savings Bank



Study visit from the Saudi Credit and Savings Bank on 18th October 2012 at Menara SME Bank.

Launching of CEDAR & MoU Agreement Signing Ceremony



Tan Sri Nor Mohamed Yacop, Minister in Prime Minister's Office poses with Dato' Gumuri Hussain, Chairman and Datuk Mohd Radzif Mohd Yunus, Managing Director, during the launching of CEDAR on 6th November 2012 at the Grand Hyatt Hotel, Kuala Lumpur.

MoU Agreement Signing Ceremony between SME Bank and TERAJU



Datuk Mohd Radzif Mohd Yunus, Managing Director, SME Bank, exchanging agreements with Encik Husni Salleh, Chief Executive Officer of TERAJU at the MoU Agreement Signing Ceremony between SME Bank and TERAJU on 6th November 2012 at the Grand Hyatt Hotel, Kuala Lumpur.

“Pertandingan Sketsa sempena bulan bahasa MITI & Agensi”

SME Bank organized “Pertandingan Sketsa sempena bulan bahasa MITI & Agensi” on the 8th November 2012 at Menara SME Bank.



Exchanging of MoU between SME Bank and MTDC



Datuk Mohd Radzif Mohd Yunus exchanging the MoU with Encik Azlin Alias, MTDC's Chief Executive Officer on 6th December 2012.

Sahabat Negara Award 2012



Encik Mohd Rizal Mohd Jaafar, Chief Operating Officer receiving SMI Sahabat Negara Award 2012 organized by SMI Association of Malaysia on 13th December 2012 at the Royale Bintang Hotel, Petaling Jaya, Selangor.

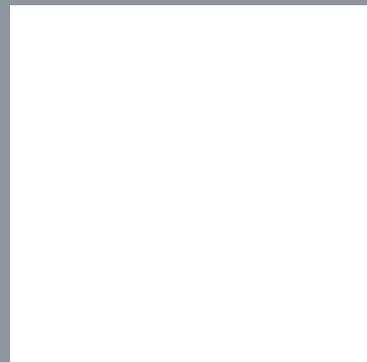
Jelajah Dagang



Dato' Seri Ahmad Husni Hanadzlah, Minister of Finance II officiating the "Jelajah Dagang" Carnival at Dataran Ipoh that was held from the 21st to 23rd December 2012



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DIRECTORS' REPORT

The Directors are pleased to present their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are those of development banking, both Islamic and Conventional and related financial services. The principal activities of the subsidiaries and associates are described in Note 10 and Note 11 respectively to the financial statements. There have been no significant changes in the nature of the Group's and the Bank's activities during the financial year.

RESULTS

	Group RM'000	Bank RM'000
Profit before tax expense and zakat:	88,063	122,947
Taxation	(15,401)	(14,649)
Zakat	1,160	1,160
Net profit for the year	<u>73,822</u>	<u>109,458</u>
Profit attributable to:		
Owner of the Bank	73,822	109,458
Non-controlling interest	-	-
	<u>73,822</u>	<u>109,458</u>

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

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



DIVIDENDS

At the forthcoming Annual General Meeting, a tax exempt dividend in respect of the financial year ended 31 December 2012, of 0.5% on 1,350,000,000 ordinary shares, amounting to a dividend payable of RM6,750,000 (0.50 sen net per ordinary share) will be proposed for the shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2013.

DIRECTORS

The names of the Directors of the Bank in office since the date of the last report and at the date of this report are:

Y.Bhg. Dato' Gumuri bin Hussain (Chairman)
Y.Bhg. Datuk Mohd Radzif bin Mohd Yunus
En. Khairuzzaman Muhammad
Y.Bhg. Dato' Adzmy bin Abdullah
En. Ishak bin Ismail
Y.Bhg. Datuk Mohd Nasir bin Ahmad
Y.Bhg. Dato' Abdul Ghafar bin Musa (appointed on 2 May 2012)
En. Maliami bin Hamad (resigned on 31 October 2012)

DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in Note 28 or the fixed salary of a full time employee of the Bank) by reason of a contract made by the Bank or a related corporation with any 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.

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, none of the Directors in office as at 31 December 2012 had any interest in the ordinary shares of the Bank and of its related corporations during the financial year.



OTHER STATUTORY INFORMATION

- (a) Before the statements of financial position and statements of comprehensive income of the Group and of the Bank were made out, the Directors took reasonable steps:
 - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances which would render:
 - (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Bank inadequate to any substantial extent; and
 - (ii) the values attributed to the current assets in the financial statements of the Group and of the Bank misleading.
- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate.
- (d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Bank which would render any amount stated in the financial statements misleading.
- (e) At the date of this report, there does not exist:
 - (i) any charge on the assets of the Group or of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Group or of the Bank which has arisen since the end of the financial year.
- (f) In the opinion of the Directors:
 - (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Bank to meet their obligations when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Bank for the financial year in which this report is made.



AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the Directors dated 28 March 2013.

Dato' Gumuri bin Hussain

Datuk Mohd Radzif bin Mohd Yunus

Kuala Lumpur, Malaysia



STATEMENT BY DIRECTORS

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

We, Dato' Gumuri bin Hussain and Datuk Mohd Radzif bin Mohd Yunus, being two of the Directors of Bank Perusahaan Kecil & Sederhana Malaysia Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 10 to 145 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2012 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 28 March 2013.

Dato' Gumuri bin Hussain

Datuk Mohd Radzif bin Mohd Yunus

Kuala Lumpur, Malaysia

STATUTORY DECLARATION

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



We, Dato' Gumuri bin Hussain and Datuk Mohd Radzif bin Mohd Yunus, being the Director and Managing Director respectively, primarily responsible for the financial management of Bank Perusahaan Kecil & Sederhana Malaysia Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 10 to 145 are in our opinion correct and we make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed at Kuala Lumpur in
the Federal Territory
on

Before me,



H-1-10,
Plaza Damas,
Jalan Sri Hartamas 1,
50480 Kuala Lumpur

Dato' Gumuri bin Hussain

Mohd Radzif bin Mohd Yunus



SHARIAH COMMITTEE'S REPORT

In the Name of Allah, The Compassionate, The Most Merciful

We have reviewed the principles and the contracts relating to the transactions and applications introduced by Bank Perusahaan Kecil & Sederhana Malaysia Berhad (SME Bank) during the financial year ended 31 December 2012. We have also conducted our review to form an opinion as to whether SME Bank has complied with the Shariah principles and with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions made by us.

The management of SME Bank is responsible for ensuring that the conducts all of its Islamic Banking operations are in accordance with Shariah principles. It is our responsibility to form an independent opinion, based on our review of the Islamic Banking operations of the SME Bank, and to report to you.

We have assessed the work carried out by Shariah review which included examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by SME Bank.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to obtain sufficient evidence to give reasonable assurance that SME Bank has not violated the Shariah principles.

In our opinion:

- i) The contracts, transactions and dealings entered into by SME Bank during the financial year ended 31 December 2012 that we have reviewed are in compliance with the Shariah principles;
- ii) The allocation of profit and charging of losses relating to Islamic investment accounts conform to the basis that had been approved by us in accordance with Shariah principles; and
- iii) The calculation and distribution of zakat is in compliance with Shariah principles.

We, the members of the Shariah Committee of SME Bank, do hereby confirm that the Islamic Banking operations of SME Bank for the financial year ended 31 December 2012 have been conducted in conformity with the Shariah principles.

We beg Allah the Almighty to Grant us all the Success and Straight-Forwardness and Allah Knows Best.

Prof Dr. Abdul Basir bin Mohamad
Dr. Asmak bt Ab Rahman
Chairman of the Committee

Dr. Asmak bt Ab Rahman
Member of the Committee

Kuala Lumpur, Malaysia

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BANK PERUSAHAAN KECIL & SEDERHANA MALAYSIA BERHAD (INCORPORATED IN MALAYSIA)



REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Bank Perusahaan Kecil & Sederhana Malaysia Berhad, which comprise the statements of financial position as at 31 December 2012 of the Group and of the Bank, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 145.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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.



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BANK PERUSAHAAN KECIL & SEDERHANA MALAYSIA BERHAD (CONT'D.) (INCORPORATED IN MALAYSIA)

OPINION

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2012 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 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 the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- (b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Bank are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.
- (c) The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

OTHER MATTERS

This report is made solely to the members 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.

Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia

Nik Rahmat Kamarulzaman bin Nik Ab Rahman
No. 1759/02/14(J)
Chartered Accountant

STATEMENTS OF CONSOLIDATED FINANCIAL POSITION

AS AT 31 DECEMBER 2012



		GROUP		
	Note	As at 31 December 2012 RM'000	As at 31 December 2011 RM'000	As at 1 January 2011 RM'000
ASSETS				
Cash and short term funds	4	1,462,147	3,347,701	1,975,145
Deposits and placements with banks and other financial institutions	5	867,028	64,648	529,212
Available-for-sale financial investments	6	937,073	410,734	232,464
Held-to-maturity financial investments	7	263,967	197,565	70,129
Loans, advances and financing	8	3,819,974	3,516,321	3,274,045
Tax recoverable		15,769	8,891	16,313
Other assets	9	87,478	130,619	136,450
Investments in associates	11	7,321	57,537	56,243
Property, plant and equipment	12	147,778	129,635	133,483
Investment properties	13	143,276	159,988	162,878
Deferred tax asset	14	16,596	34,613	-
		7,768,407	8,058,252	6,586,362
Assets of a subsidiary classified as held for sale	15	-	-	66,025
TOTAL ASSETS		7,768,407	8,058,252	6,652,387
LIABILITIES				
Deposits from customers	16	2,293,395	3,153,347	1,664,055
Deposits from other financial institutions	17	325,000	-	-
Medium term note	18	500,000	-	-
Term loans	19	3,078,091	3,413,674	3,598,333
Other liabilities	20	228,945	187,551	214,472
Government funds	21	312,574	345,518	366,173
		6,738,005	7,100,090	5,843,033
Liabilities of a subsidiary classified as held for sale	15	-	-	2,955
TOTAL LIABILITIES		6,738,005	7,100,090	5,845,988
EQUITY				
Share capital	22	1,350,000	1,350,000	1,350,000
Accumulated losses		(331,616)	(404,429)	(556,591)
Other reserves	23	12,018	12,591	13,005
Equity attributable to owner of the Bank		1,030,402	958,162	806,414
Non-controlling interests		-	-	(15)
TOTAL EQUITY		1,030,402	958,162	806,399
TOTAL LIABILITIES AND EQUITY		7,768,407	8,058,252	6,652,387
COMMITMENTS AND CONTINGENCIES	33	1,352,015	939,900	1,351,936

The accompanying notes form an integral part of the financial statements.



STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

		BANK		
	Note	As at 31 December 2012 RM'000	As at 31 December 2011 RM'000	As at 1 January 2011 RM'000
ASSETS				
Cash and short term funds	4	1,461,752	3,347,193	1,974,736
Deposits and placements with banks and other financial institutions	5	867,028	64,648	529,212
Available-for-sale financial investments	6	937,073	410,734	232,464
Held-to-maturity financial investments	7	263,967	197,565	70,129
Loans, advances and financing	8	3,819,974	3,516,321	3,274,045
Tax recoverable		15,769	8,890	16,313
Other assets	9	86,789	130,023	135,746
Investments in subsidiaries	10	_*	_*	_*
Investments in associates	11	750	8,305	8,305
Property, plant and equipment	12	147,778	129,635	133,483
Investment properties	13	143,276	159,988	162,878
Deferred tax asset	14	16,596	34,613	-
		7,760,752	8,007,915	6,537,311
Assets of a subsidiary classified as held for sale	15	-	-	63,140
TOTAL ASSETS		7,760,752	8,007,915	6,600,451
LIABILITIES				
Deposits from customers	16	2,293,395	3,153,347	1,664,055
Deposits from other financial institutions	17	325,000	-	-
Medium term note	18	500,000	-	-
Term loans	19	3,078,091	3,413,674	3,598,333
Other liabilities	20	228,170	179,730	206,649
Government funds	21	312,574	345,518	366,173
TOTAL LIABILITIES		6,737,230	7,092,269	5,835,210
* Denotes RM2				
EQUITY				
Share capital	22	1,350,000	1,350,000	1,350,000
Accumulated losses		(338,496)	(446,945)	(597,764)
Other reserves	23	12,018	12,591	13,005
TOTAL EQUITY		1,023,522	915,646	765,241
TOTAL LIABILITIES AND EQUITY		7,760,752	8,007,915	6,600,451
COMMITMENTS AND CONTINGENCIES	33	1,352,015	939,900	1,351,936

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012



	Note	GROUP		BANK	
		2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Interest income	24	141,540	199,957	141,540	199,957
Interest expense	25	(112,235)	(108,028)	(112,235)	(108,028)
Net interest income		29,305	91,929	29,305	91,929
Gross income from Islamic banking business	38	170,298	115,839	170,298	115,839
Other operating income	26	37,362	35,765	69,010	35,751
Net income		236,965	243,533	268,613	243,519
Other operating expenses	27	(141,234)	(170,212)	(122,634)	(167,964)
Operating profit		95,731	73,321	145,979	75,555
(Allowance)/writeback for impairment loss:					
- loans, advances and financing	29	(11,657)	8,535	(11,657)	8,535
- financial investments	30	(11,375)	(586)	(11,375)	(586)
Writeback of provision for liabilities		-	42,198	-	42,198
		72,699	123,468	122,947	125,702
Share of profit after tax of equity accounted associated companies		15,364	1,294	-	-
Profit before tax expense and zakat		88,063	124,762	122,947	125,702
Tax expense/ (credit)	31	(15,401)	30,201	(14,649)	30,203
Zakat	31	1,160	(5,086)	1,160	(5,086)
Profit from continuing operation, net of tax		73,822	149,877	109,458	150,819
Profit from discontinued operation, net of tax		-	2,285	-	-
Profit for the year, net of tax		73,822	152,162	109,458	150,819
Other comprehensive loss:					
Unrealised loss on revaluation of available-for-sale financial investments		(1,582)	(414)	(1,582)	(414)
Other comprehensive loss for the year		(1,582)	(414)	(1,582)	(414)
Total comprehensive income for the year		72,240	151,748	107,876	150,405





STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONT'D.)

		GROUP		BANK	
	Note	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Profit for the year attributable to:					
Owner of the Bank		73,822	152,162	109,458	150,819
Non-controlling interests		-	-	-	-
		<u>73,822</u>	<u>152,162</u>	<u>109,458</u>	<u>150,819</u>
Total comprehensive income attributable to:					
Owner of the Bank		72,240	151,748	107,876	150,405
Non-controlling interests		-	-	-	-
		<u>72,240</u>	<u>151,748</u>	<u>107,876</u>	<u>150,405</u>
Profit per share from continuing operations attributable to owner of the Bank (sen)					
- Basic	32	<u>5.47</u>	<u>11.10</u>	<u>8.11</u>	<u>11.17</u>
Profit per share from discontinued operation attributable to owner of the Bank (sen)					
- Basic	32	<u>-</u>	<u>0.17</u>		

Statements of changes in equity
For the year ended 31 December 2012

Group	<=====Attributable to Owner of the Bank=====>							Total equity RM'000	
	Share capital RM'000	distributable sale reserve RM'000	Non- distributable for- equalisation reserve RM'000	Non- distributable profit reserve RM'000	Distributable general reserve RM'000	Accumulated losses RM'000	Total RM'000		Non- controlling interests RM'000
At 1 January 2012 under FRS	1,350,000	2,477	-	-	10,114	(453,041)	909,550	-	909,550
- effects of MFRS adoption (Note 39)	-	-	-	-	-	48,612	48,612	-	48,612
At 1 January 2012 under MFRS	1,350,000	2,477	-	-	10,114	(404,429)	958,162	-	958,162
Unrealised loss on revaluation of available-for- sale financial investments	-	(1,582)	-	-	-	-	(1,582)	-	(1,582)
Profit equalisation reserve for the year	-	-	1,009	-	-	(1,009)	-	-	-
Net profit for the year	-	-	-	-	-	73,822	73,822	-	73,822
Total comprehensive income for the year	-	(1,582)	1,009	-	-	72,813	72,240	-	72,240
At 31 December 2012	1,350,000	895	1,009	10,114	(331,616)	1,030,402	1,030,402	-	1,030,402



Statements of changes in equity
For the year ended 31 December 2012 (cont'd.)

<=====Attributable to Owner of the Bank=====>

Group	Share capital RM'000	Non- distributable available-for- sale reserve RM'000	Non- distributable profit equalisation reserve RM'000	Distributable general reserve RM'000	Accumulated losses RM'000	Total RM'000	Non- controlling interests RM'000	Total equity RM'000
At 1 January 2011 under FRS	1,350,000	2,891	-	10,114	(566,668)	796,337	(15)	796,322
- effects of MFRS adoption (Note 39)	-	-	-	-	10,077	10,077	-	10,077
At 1 January 2011 under MFRS	1,350,000	2,891	-	10,114	(566,591)	806,414	(15)	806,399
Unrealised loss on revaluation of available-for- sale financial investments	-	(414)	-	-	-	(414)	-	(414)
Net profit for the year	-	-	-	-	152,162	152,162	-	152,162
Total comprehensive income for the year	-	(414)	-	-	152,162	151,748	-	151,748
Effect of deconsolidation of a subsidiary	-	-	-	-	-	-	15	15
At 31 December 2011	1,350,000	2,477	-	10,114	(404,429)	958,162	-	958,162

Statements of changes in equity
For the year ended 31 December 2012 (cont'd.)

Bank	Share capital RM'000	Non- distributable available-for- sale reserve RM'000	Non- distributable equalisation reserve RM'000	Distributable general reserve RM'000	Accumulated losses RM'000	Total equity RM'000
At 1 January 2012 under FRS	1,350,000	2,477	-	10,114	(495,557)	867,034
- effects of MFRS adoption (Note 39)	-	-	-	-	48,612	48,612
At 1 January 2012 under MFRS	1,350,000	2,477	-	10,114	(446,945)	915,646
Unrealised loss on revaluation of available-for-sale financial investments	-	(1,582)	-	-	-	(1,582)
Profit equalisation reserve for the year	-	-	1,009	-	(1,009)	-
Net profit for the year	-	-	-	-	109,458	109,458
Total comprehensive income for the year	-	(1,582)	1,009	-	108,449	107,876
At 31 December 2012	1,350,000	895	1,009	10,114	(338,496)	1,023,522
At 1 January 2011 under FRS	1,350,000	2,891	-	10,114	(607,841)	755,164
- effects of MFRS adoption (Note 39)	-	-	-	-	10,077	10,077
At 1 January 2011 under MFRS	1,350,000	2,891	-	10,114	(597,764)	765,241
Unrealised loss on revaluation of available-for-sale financial investments	-	(414)	-	-	-	(414)
Net profit for the year	-	-	-	-	150,819	150,819
Total comprehensive income for the year	-	(414)	-	-	150,819	150,405
At 31 December 2011	1,350,000	2,477	-	10,114	(446,945)	915,646



STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	GROUP		BANK	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cash flows from operating activities				
Profit before tax and zakat from continuing operations	88,063	124,762	122,947	125,702
Profit before tax from discontinued operation (Note 15)	-	2,359	-	-
Profit before tax and zakat for the year	88,063	127,121	122,947	125,702
Adjustments for:				
(Gain)/loss on disposal of:				
- quoted investments	(303)	-	(303)	-
- unquoted investments	(91)	-	(91)	-
- associate investments	17,794	(5)	(40,231)	(5)
Allowance for diminution in value:				
- quoted investments	5,723	100	5,723	100
- unquoted investments	-	486	-	486
- associate	5,652	-	5,652	-
Allowance/ (write-back) for impairment loss of loans, advances and financing	30,659	(51,451)	30,659	(51,451)
Loans, advances and financing written-off	32,225	85,764	32,225	85,764
Recoveries from bad loans, advances and financing written-off	(51,227)	(42,848)	(51,227)	(42,848)
Share of profit of associates	(15,364)	(1,294)	-	-
Depreciation of property, plant and equipment	11,225	12,840	11,225	12,840
Depreciation of investment properties	3,661	2,890	3,661	2,890
Property, plant and equipment written-off	122	-	122	-
Government funds released	(22,022)	(20,394)	(22,022)	(20,394)
Interest expense	187,335	148,128	187,335	148,128
Interest income	(355,245)	(326,455)	(355,245)	(326,455)
Dividend income	(1,246)	(2,339)	(1,246)	(2,339)
Operating loss before working capital changes	(63,039)	(67,457)	(70,816)	(67,582)

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONT'D.)



	GROUP		BANK	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cash flows from operating activities (cont'd)				
Changes in working capital:				
Other assets	7,998	8,456	8,842	(194)
Loans, advances and financing	(330,549)	(296,472)	(330,549)	(296,472)
Deposits and placements with financial institutions	(652,380)	464,564	(652,380)	464,564
Deposits from other financial institutions	(859,952)	1,489,292	(859,952)	1,489,292
Other liabilities	325,000	-	325,000	-
Other liabilities	36,545	(13,327)	43,591	11,204
Cash (used in)/ generated from operations	(1,536,377)	1,585,056	(1,536,264)	1,600,812
Interest paid	(176,338)	(140,146)	(176,338)	(140,146)
Interest received	350,461	338,508	350,461	338,508
Tax paid	(3,484)	-	(3,484)	-
Tax refund	-	3,017	-	3,017
Zakat paid	(187)	(1,918)	(187)	(1,918)
Net cash (used in)/ generated from operating activities	<u>(1,365,925)</u>	<u>1,784,517</u>	<u>(1,365,812)</u>	<u>1,800,273</u>
Cash flows from investing activities				
Dividend received from investment	1,219	2,339	1,219	2,339
Purchase of quoted investments	-	(1,230)	-	(1,230)
Purchase of negotiable instrument deposits	(150,000)	-	(150,000)	-
Purchase of bonds	(2,155,000)	(1,096,706)	(2,155,000)	(1,096,706)
Purchase of property, plant and equipment	(16,439)	(8,992)	(16,439)	(8,992)
Proceeds from redemption of bond	1,552,453	790,000	1,552,453	790,000
Proceeds from disposal of subsidiary	-	63,140	-	63,140
Proceeds from disposal of:				
- quoted investments	1,145	1,230	1,145	1,230
- unquoted investments	539	-	539	-





STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONT'D.)

	GROUP		BANK	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cash flows from investing activities (cont'd.)				
Proceed from redemption of unquoted investments	1,260	-	1,260	-
Proceeds from disposal of investments in an associate	42,135	-	42,135	-
Net cash used in investing activities	(722,688)	(250,219)	(722,688)	(250,219)
Cash flows from financing activities				
Drawdown of term loans	556,549	57,378	556,549	57,378
Repayment of term loans	(853,490)	(234,975)	(853,490)	(234,975)
Proceeds from medium term notes	500,000	-	500,000	-
Net cash generated from/ (used in) financing activities	203,059	(177,597)	203,059	(177,597)
Net (decrease)/ increase in cash and cash equivalents	(1,885,554)	1,356,701	(1,885,441)	1,372,457
Cash and cash equivalents at beginning of year	3,347,701	1,991,000	3,347,193	1,974,736
Cash and cash equivalents at end of year	1,462,147	3,347,701	1,461,752	3,347,193
Cash and cash equivalents comprise:				
Cash and short term deposits of:				
- Continuing operations (Note 4)	1,462,147	3,347,701	1,461,752	3,347,193
	1,462,147	3,347,701	1,461,752	3,347,193

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2012



1. Corporate information

Bank Perusahaan Kecil dan Sederhana Malaysia Berhad ("SME Bank or "the Bank") is a public limited liability company, incorporated and domiciled in Malaysia.

The registered office of the Bank is at Aras 23, Menara SME Bank, Jalan Sultan Ismail, 50250 Kuala Lumpur. Principal place of business is at Menara SME Bank, Jalan Sultan Ismail, 50250 Kuala Lumpur.

The immediate and ultimate holding company of the Bank during the financial year is Ministry of Finance Incorporated.

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

There have been no significant changes in the nature of the principal activities during the financial year.

The principal activities of the subsidiaries and associates are described in Note 10 and Note 11, respectively.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 28 March 2013.

2. Summary of significant accounting policies

2.1 Statement of compliance and basis of preparation

The financial statements of the Bank have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS"), and the requirements of the Companies Act, 1965 in Malaysia.

For all the periods up to and including year ended 31 December 2011, the Bank prepared its financial statements in accordance with the Financial Reporting Standards ("FRS") in Malaysia as modified by Bank Negara Malaysia Guidelines. These financial statements for the year ended 31 December 2012, are the first financial statements that the Bank have prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"). Refer to the para below for the information on how the Bank adopted MFRS.

The financial statements are presented in Ringgit Malaysia ("RM") and values are rounded to the nearest thousand (RM'000) except when otherwise stated.

The financial statements of the Bank have been prepared under the historical cost convention unless otherwise indicated in the summary of significant accounting policies disclosed in Note 2.



2. Summary of significant accounting policies (cont'd.)

2.1 Statement of compliance and basis of preparation (cont'd.)

First-time adoption of Malaysian Financial Reporting Standards ("MFRS")

The financial statements of the Bank for the year ended 31 December 2012 are the first set of financial statements prepared in accordance with MFRSs, including MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards. Except for the change in accounting policy with regards to the computation of collective impairment allowance as disclosed in Note 39, the Bank has consistently applied the same accounting policies in its opening MFRS statement of financial position as at 1 January 2011 (transition date) and throughout all periods presented, as if these policies had always been in effect. Comparative figures for the financial year ended 31 December 2011 in these financial statements have been restated to give effect to these changes. The impact of the transition to MFRS on the Bank's reported financial position and financial performance are disclosed in Note 39. The transition from FRS to MFRS does not have a material impact on the statement of cash flows.

- (i) Exemption applied
MFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain MFRS. The Bank has elected not to apply any of the exemptions.
- (ii) Estimates
The estimates at 1 January 2011 and 31 December 2011 are consistent with those made for the same dates in accordance with FRS. The estimates used by the Bank to present these amounts in accordance with MFRS reflect conditions at 1 January 2011, the transition date to MFRS and as of 31 December 2011.

2.2 Changes in accounting policies

The new and revised MFRSs which are mandatory for companies with the financial period beginning on or after 1 January 2012 do not give rise to any significant effects on the financial statements of the Bank.



2. Summary of significant accounting policies (cont'd.)

2.3 Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

Description	Effective for annual periods beginning on or after
Amendments to MFRS 101 - Presentation of Items of Other Comprehensive Income	1 January 2013
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	1 January 2013
MFRS 127 Separate Financial Statements	1 January 2013
MFRS 128 Investment in Associate and Joint Ventures	1 January 2013
MFRS 127 Consolidated and Separate Financial Statements (IAS 27 as revised by IASB in December 2003)	1 January 2013
Amendments to MFRS 7 - Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to MFRS 1 - First-time Adoption of Malaysian Financial Reporting Standards - Government Loan	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 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 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 Interest in Other Entities Transition Guidance	1 January 2013
Amendments to MFRS 132 - Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to MFRS 10, MFRS 12 and MFRS 127 : Investment Entities	1 January 2014
MFRS 9 Financial Instrument	1 January 2015

The directors expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application.



2. Summary of significant accounting policies (cont'd.)

2.3 Standards issued but not yet effective (cont'd.)

MFRS 10 Consolidated Financial Statements

MFRS 10 replaces part of MFRS 127 Consolidated and Separate Financial Statements that deals with consolidated financial statements and IC Interpretation 112 Consolidation – Special Purpose Entities. Under MFRS 10, an investor controls an investee when:

- (a) the investor has power over an investee,
- (b) the investor has exposure, or rights, to variable returns from its involvement with the investee, and
- (c) the investor has ability to use its power over the investee to affect the amount of the of the investor's return

Under MFRS 127 Consolidated and Separate Financial Statements, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. MFRS 10 includes detailed guidance to explain when an investor has control over the investee. MFRS 10 requires the investor to take into account all relevant facts and circumstances.

MFRS 127 Separate Financial Statements

As a consequence of the new MFRS 10 and MFRS 12, MFRS 127 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements.

MFRS 128 Investments in Associates and Joint Ventures

As a consequence of the new MFRS 11 and MFRS 12, MFRS 128 is renamed as MFRS 128 Investments in Associates and Joint Ventures. This new standard describes the application of the equity method to investments in joint ventures in addition to associates.

MFRS 13 Fair Value Measurement

MFRS 13 establishes a single source of guidance under MFRS for all fair value measurements. MFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under MFRS when fair value is required or permitted.

Adoption of the standard is not expected to have a material impact on the financial position or performance of the Bank.



2. Summary of significant accounting policies (cont'd.)

2.3 Standards issued but not yet effective (cont'd.)

MFRS 119 Employee Benefits

The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the “corridor approach” as permitted under the previous version of MFRS 119 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to MFRS 119 require retrospective application with certain exceptions. Adoption of the standard is not expected to have a material impact on the financial position or performance of the Bank.

Amendments to MFRS 101 - Presentation of Items of Other Comprehensive Income

The amendments to MFRS 101 change the grouping of items presented in other comprehensive income (“OCI”). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). The amendment affects presentation only and has no impact on the Bank’s financial position or performance.





2. Summary of significant accounting policies (cont'd.)

2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at the reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Bank. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Acquisitions of subsidiaries are accounted for by applying the purchase method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Adjustments to those fair value relating to previously held interest are treated as a revaluation and recognised in other comprehensive income. The cost of a business combination is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the business combination. Any excess of the cost of business combination of the Group's share in the fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill on the statements of financial position.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.



2. Summary of significant accounting policies (cont'd.)

2.5 Subsidiaries

A subsidiary is an entity over which Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Bank's separate financial statements, investment in subsidiaries are accounted for at cost less impairment losses.

2.6 Associates

An associate is an entity, not being a subsidiary or a joint venture, in which the Group has significant influence. An associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

The Group's investments in associates are accounted for using the equity method. Under the equity method, the investment in associate is measured in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to associates is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment and is included as income in the determination of the Group's share of the associate's profit or loss for the period in which the investment is acquired.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associates is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in profit or loss.

The most recent available audited financial statements of the associates are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not coterminous with those of the Group, the share of results is arrived at from the last audited financial statements available and management financial statements to the end of the accounting period. Uniform accounting policies are adopted for like transactions and events in similar circumstances.

In the Bank's separate financial statements, investments in associates are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.





2. Summary of significant accounting policies (cont'd.)

2.7 Transactions with non-controlling interest

Non-controlling interests ("NCI") represent the portion of profit or loss and net assets in subsidiaries not held directly or indirectly by the Group. NCI are presented separately in profit or loss of the Group and within equity in the consolidated statements of financial position, separately from parent shareholders' equity.

Where losses applicable to the minority in a subsidiary company exceed the NCI in the equity of that subsidiary company, the excess and any further losses applicable to the minority are attributable against the Group's interest except to the extent that the minority has a binding obligation to, and is able to make additional investment to cover the losses. If the subsidiary company subsequently reports profits, such profits are allocated to the Group's interest until the minority's share of losses previously absorbed by the Group has been recovered.

Acquisitions of NCI are accounted for using the parent entity extension method, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognised as equity.

2.8 Property, plant and equipment and depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognised such parts as individual assets with specific useful lives and depreciation respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognised in profit or loss as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Building	50 years
Furniture and equipment	3 - 10 years
Office partition	3 years
Motor vehicles	5 years
Electrical and machinery	10 - 15 years



2. Summary of significant accounting policies (cont'd.)

2.8 Property, plant and equipment and depreciation (cont'd.)

Freehold land has an unlimited useful life and therefore is not depreciated.

Assets under construction included in property, plant and equipment are not depreciated as these assets are not yet available for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual values, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

2.9 Impairment of non-financial assets

The Group assesses at each reporting date whether there is indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGU")).

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in profit or loss except for an asset that was previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment loss is also recognised in other comprehensive income up to the amount of the previous revaluation.



2. Summary of significant accounting policies (cont'd.)

2.9 Impairment of non-financial assets (cont'd.)

An assessment is made each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case reversal is treated as revaluation increase. Impairment loss on goodwill is not reversed in a subsequent period.

2.10 Financial assets

Financial asset are recognised in the statements of financial position when, and only when, the Group and the Bank become a party to the contractual provision of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not a fair value through profit or loss, directly attributable transaction costs.

The Group and the Bank determine the classification of the financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss, loan and receivables, held-to-maturity investments and available-for-sale financial assets.

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Group and the Bank commit to purchase or sell the asset.



2. Summary of significant accounting policies (cont'd.)

2.10 Financial assets (cont'd.)

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

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or designated as such upon initial recognition. Financial assets held-for-trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other losses or other income.

The Group and the Bank have not designated any financial assets at fair value through profit or loss.

(b) Loan and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loan and receivables.

Subsequent to initial recognition, loan and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

(c) Held-to-maturity investment

Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.





2. Summary of significant accounting policies (cont'd.)

2.10 Financial assets (cont'd.)

(d) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are designated as available for sale are not classified in any of the three preceding categories.

After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as reclassification adjustment when the financial asset is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's and the Bank's right to receive payment is established.

Investment in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

2.11 Impairment of financial assets

The Group and the Bank assess at each reporting date whether there is any objective evidence that a financial asset is impaired.

(a) Loans and receivables and other financial assets carried at amortised costs

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group and the Bank consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as loan receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Group's and the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.



2. Summary of significant accounting policies (cont'd.)

2.11 Impairment of financial assets (cont'd.)

(a) Loans and receivables and other financial assets carried at amortised costs (cont'd.)

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When loans and receivables become uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

(b) Unquoted equity securities carried at costs

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on unquoted equity securities carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

(c) Available-for-sale financial assets

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired.





2. Summary of significant accounting policies (cont'd.)

2.11 Impairment of financial assets (cont'd.)

(c) Available-for-sale financial assets (cont'd.)

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss.

Impairment losses on available-for-sale equity investments are not reversed in profit or loss in the subsequent periods. Increase in fair value, if any, subsequent to impairment loss is recognised in other comprehensive income. For available-for-sale debt investments, impairment losses are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss in profit or loss.

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short term, highly liquid investment that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

2.13 Provisions

Provisions are recognised when the Group and the Bank have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of obligation can be estimate reliably. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.



2. Summary of significant accounting policies (cont'd.)

2.14 Government funds

Government funds are meant for the following purposes:

- (i) To finance the purchase of investment properties. The funds received are initially recognised at their fair values in the statements of financial position as deferred income where there is reasonable assurance that the funds will be received and all attaching conditions will be complied with. Government funds that compensate the Group and the Bank for expenses incurred are recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Government funds that compensate the Group and the Bank for the cost of an asset are recognised as income on a systematic basis over the useful life of the asset.
- (ii) To finance loans for specific projects and utilise against credit losses and charges arising from the financing of these projects. The Government funds are recognised at the fair value of the consideration received in the statements of financial position. The interest income earned on the loans financed by the government funds and any credit losses or charges as a result of the loans defaulted are recognised and utilised against the funds.

2.15 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of MFRS 139, are recognised in the statement of financial position when, and only when, the Group and the Bank become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

The Group and the Bank do not have any financial liabilities held for trading or financial liabilities designated upon initial recognition as at fair value through profit or loss as at the reporting.



2. Summary of significant accounting policies (cont'd.)

2.15 Financial liabilities (cont'd.)

(b) Other financial liabilities

The Group's and the Bank's other financial liabilities include deposits from customers and term loans.

Other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Term loans are recognised initially at fair value, net of transaction cost incurred, and subsequently measured at amortised cost using the effective interest method.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are recognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2.16 Borrowing costs

Borrowing costs are capitalised as part of the cost of qualifying asset if they are directly attributable to the acquisition, construction or production of the asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period they are incurred. Borrowing costs consist of interest and other costs that the Group and the Bank incurred in connection with the borrowing of funds.



2. Summary of significant accounting policies (cont'd.)

2.17 Employee benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group and the Bank. Short term accumulating compensated absences such as paid annual leaves are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leaves are recognised when the absences occur.

(i) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group and the Bank pay fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF").

2.18 Discontinued operation

A component of the Group is classified as a "discontinued operation" when the criteria to be classified as held for sale have been met or it has been disposed of and such a component represents a separate major line of business or geographical area of operations or is part of a single coordinated major line of business or geographical area of operations. A component is deemed to be held for sale if its carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

Upon classification as held for sale, non-current assets and disposal groups are not depreciated and are measured at the lower of carrying amount and fair value less costs to sell. Any differences are recognised in profit or loss.



2. Summary of significant accounting policies (cont'd.)

2.19 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the Bank and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

(a) Interest/profit income from loans, advances and financing

Interest/profit income is recognised in the profit or loss for all interest/profit bearing assets on an accrual basis using the effective interest/profit rate method.

When an account becomes impaired, interest/profit shall be recognised only to the extent that they are recoverable.

(b) Interest/profit income from deposits and other placement of fund

Interest/profit income is recognised on accrual basis using the effective interest/profit rate method.

(c) Dividend income

Dividend income is recognised when the Group's and the Bank's right to receive payment are established.

(d) Fee income

Fee income from bank guarantee arrangement and letter of credit is recognised on an accrual basis.

(e) Rental income

Rental income is accounted for on a straight-line basis over the term of the lease. The aggregate cost of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.



2. Summary of significant accounting policies (cont'd.)

2.20 Income taxes

(a) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose.

Deferred tax liabilities are recognised for all temporary differences, except;

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax asset are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.



2. Summary of significant accounting policies (cont'd.)

2.20 Income taxes (cont'd.)

(b) Deferred tax

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.21 Zakat

This represents business zakat. It is an obligatory amount payable by the Group and the Bank to comply with the principles of Shariah. Zakat is computed 2.5% on assets and liabilities eligible for zakat, as determined using the adjusted growth method.

2.22 Foreign currency

(a) Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Bank's functional currency.

(b) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Bank and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.



2. Summary of significant accounting policies (cont'd.)

2.22 Foreign currency (cont'd.)

All foreign currency losses out of the foreign currency loans are underwritten by the Government of Malaysia. Accordingly, these loans are carried as amount recoverable in the statement of financial position. Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income.

2.23 Share capital

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Bank after deducting all of its liabilities. Ordinary share is an equity instrument.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

2.24 Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non- occurrence of uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised in the statements of financial position of the Group.

2.25 Investment properties

Investment properties are investments in land and buildings which are held either to earn rental income or for capital appreciation or for both. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses. The policy for recognition and measurement of impairment losses is disclosed in Note 2.9.

The freehold element of an investment property is not depreciated due to the unlimited useful life and the building element is depreciated at an annual rate of 2%. Buildings which are situated on leasehold land are also depreciated at annual rate of 2%.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the disposal of an investment property are recognised in profit or loss in the year in which they arise.

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.



2. Summary of significant accounting policies (cont'd.)

2.26 Profit equalisation reserves ("PER")

PER is the amount appropriated out of the total gross income in order to maintain a certain level of return to depositors in conformity with Bank Negara Malaysia's "The Framework of the Rate of Return" (BNM/GP2-i). PER is appropriated from and written back to the total gross income in deriving the net distributable gross income. The amount appropriated is shared by the depositors and the Bank. The PER is deducted at a rate which does not exceed the maximum amount of the total of 15% of monthly gross income, monthly net trading income, other income and irregular income. PER is maintained up to the maximum of 30% of total capital fund.

The PER is accounted for as follows:

- (i) The creation of PER establishes an obligation to manage distribution to the Investment Account Holder ("IAH") from a Shariah perspective. The PER of the IAH is to be classified as liability and recognised at cost and subsequent apportionments will be treated as liability and recognised at cost. Subsequent apportionments will be recognised in the profit or loss. The eventual distribution of PER as profit distributable to IAH will be treated as an outflow of funds due to the settlement of obligation to the IAH.
- (ii) The PER of the IBI is to be classified as a separate reserve in equity. Subsequent apportionments from and distributions to retained profits will be treated as transfers between reserves.



3. Significant accounting judgement and estimates

3.1 Judgement made in applying accounting policies

In the process of applying the Bank's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the financial statements. The most significant use of judgement and estimates are as follows:

(a) Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(b) Income and deferred taxes

The Group and the Bank are subject to income taxes in Malaysia and significant judgement is required in estimating the provision for income taxes. There are many transactions and interpretations of tax law for which the final outcome will not be established until some time later. Liabilities for taxation are recognised based on estimates of whether additional taxes will be payable. The estimation process includes seeking expert advice where appropriate. Where the final liability for taxation is different from the amounts that were initially recorded, the differences will affect the income tax and deferred tax provisions in the period in which the estimate is revised or the final liability is established.

3.2 Key sources of estimation uncertainty

(a) Allowance for losses on loans, advances and financing

The Group and the Bank review the doubtful loans, advances and financing at each reporting date to assess whether allowances for impairment should be recorded in the financial statements. In particular, judgement is required in the identification of impaired loans, and the estimation of realisable amount from impaired loans when determining the level of allowance required.

The Bank assesses at the end of each reporting period whether there is objective evidence that a loan is impaired under the requirement of MFRS 139. Loans and advances that are individually significant are assessed individually. Those not individually significant are grouped together based on similar credit risks and assessed as a portfolio.





3. Significant accounting judgement and estimates (cont'd.)

3.2 Key sources of estimation uncertainty (cont'd.)

(a) Allowance for losses on loans, advances and financing (cont'd.)

Prior to the full compliance with MFRS 139, the Bank had maintained its collective assessment 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 Financing. Upon full compliance with MFRS 139 on 1st January 2012, these transitional provisions, which were allowed under the previous FRS framework were removed and the Bank has applied the requirements of MFRS 139 in the determination of collective assessment allowance.

Under MFRS 139, collective assessment is performed on loans, advances and financing which are not individually significant based on the incurred loss approach. Loans, advances and financing which are individually assessed and where there is no objective evidence of impairment are also included in the group of loans, advances and financing for collective assessment. These loans, advances and financing are pooled into groups with similar credit risk characteristics and the expected cash flows for each group is based on the historical loss experience for such assets. Collective assessment allowance is made on any shortfall in the expected cash flows against the carrying value of the group of loans, advances and financing.

(b) Impairment assessment of available-for-sale investments

The Bank reviews the securities portfolio and assesses at each reporting date whether there is any objective evidence that the investment is impaired, if there are indicators or objective evidence, the assets are subject to impairment review.

The impairment review comprises the following judgement made by management:

- (i) Determination whether its investment is impaired following certain indicators or triggers such as, amongst others, prolonged decline in fair value, significant financial difficulties of the issuer or obligors, the disappearance of an active trading market and deterioration of the credit quality of the issuers of obligors.
- (ii) Determination of "significant" or "prolonged" requires judgement and management evaluates various factors, such as historical fair value movement and the significant reduction in fair value.



3. Significant accounting judgement and estimates (cont'd.)

3.2 Key sources of estimation uncertainty (cont'd.)

(c) Fair value estimation of available-for-sale financial investments

The fair value of securities that are not traded in an active market are determined using valuation techniques based on assumptions of market conditions existing at the reporting date, including reference to quoted market prices and independent dealer quotes for similar securities.

(d) Impairment of investments in subsidiaries and associates

If indicators are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the investment and the investment's estimated recoverable amount.

Judgements made by management in the process of applying the Bank's accounting policies in respect of investments in subsidiaries and associates are as follows:

- (i) The Bank determines whether its investments are impaired following certain indications of impairment such as, amongst others, prolonged shortfall between market value and carrying amount, significant changes with adverse defects on the investment and deteriorating financial performance of the investment due to observed changes and fundamentals.
- (ii) Depending on their nature and industries in which the investments relate to, judgements are made by management to select suitable methods of valuation such as, amongst others, discounted cash flow and realisable net asset value.

Once a suitable method of valuation is selected, management makes certain assumptions concerning the future to estimate the recoverable amount of the investment. These assumptions and other key sources of estimation uncertainty at the reporting date, may have significant risk of causing a material adjustment to the carrying amounts of the investments within the next financial year. Depending on the specific individual investment, assumptions made by management may include, amongst others, assumptions on expected future cash flows, revenue growth, discount rate used for the purpose of discounting future cash flow which incorporates the relevant risks, and expected future outcome of certain past events.





4. Cash and short term funds

	GROUP		BANK	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cash at banks and on hand	39,464	23,487	39,069	22,979
Short term deposits maturing within three months:				
- Licensed banks	1,422,150	3,286,401	1,422,150	3,286,401
- Other financial institutions	533	37,813	533	37,813
	<u>1,462,147</u>	<u>3,347,701</u>	<u>1,461,752</u>	<u>3,347,193</u>

Cash at banks is placed in non-interest bearing accounts. Short-term deposit placements are made between one day to three months depending on the Group's and the Bank's cash requirements, and earn interest at the respective short-term deposit rates. The weighted average effective interest rate for short term deposits of the Group and the Bank is 3.23% (2011: 3.43%) per annum.

5. Deposits and placements with banks and other financial institutions

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Licensed banks	769,054	62,648
Other financial institutions	97,974	2,000
	<u>867,028</u>	<u>64,648</u>

Included in deposit and placements with licensed bank is a negotiable instrument of debt certificate ("NIDC") amounting to RM150 million. The profit rate on the NIDC is a minimum guaranteed return of 1% plus a variable profit rate that is based on the performance of a basket of underlying commodities. As at 31 December 2012, the fair value of the return on the variable profit rate is RM Nil.

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
The maturity structure of deposits and placements are as follows:		
Three months to six months	270,144	21,482
Six months to one year	446,884	43,166
One to five years	150,000	-
	<u>867,028</u>	<u>64,648</u>

The weighted average effective interest rate for deposits and placements with banks and other financial institutions is 3.45% (2011: 3.65%) per annum.



6. Available-for-sale financial investments

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
At fair value		
<u>Money market instruments:</u>		
Private debt securities	472,969	193,448
Malaysian Government Investment Issues	453,976	189,754
Malaysian Government Securities	-	10,078
	<hr/> 926,945	<hr/> 393,280
<u>Quoted securities:</u>		
Shares	1,005	6,673
Total at fair value	<hr/> 927,950	<hr/> 399,953
At cost		
<u>Unquoted securities:</u>		
Shares	9,123	10,781
Total at cost	<hr/> 9,123	<hr/> 10,781
Total available-for-sale financial investments	<hr/> 937,073	<hr/> 410,734

The maturity structure of available-for-sale money market instruments is as follows:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Within one year	30,116	10,017
More than one year to three years	85,921	60,845
More than three years to five years	5,145	102,464
More than five years	805,763	219,954
	<hr/> 926,945	<hr/> 393,280





7. Held-to-maturity financial investments

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
At amortised cost		
<u>Money market instruments:</u>		
Malaysian Government Investment Issues	90,334	90,385
Malaysian Government Securities	50,614	50,744
Cagamas bonds	10,083	10,127
	<u>151,031</u>	<u>151,256</u>
<u>Unquoted securities:</u>		
Private debt securities	112,936	46,309
Total held-to-maturity financial investments	<u>263,967</u>	<u>197,565</u>

The maturity structure of held-to-maturity money market instruments and private debt securities are as follows:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Within one year	-	-
More than one year to three years	50,141	40,169
More than three years to five years	55,614	10,041
More than five years	158,212	147,355
	<u>263,967</u>	<u>197,565</u>

The indicative market value of held-to-maturity money market instruments and private debt securities are as follows:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Malaysian Government Investment Issues	93,179	92,301
Malaysian Government Securities	51,737	51,705
Cagamas bonds	10,185	10,248
Private debt securities	114,694	47,774



8. Loans, advances and financing

GROUP AND BANK

	As at 31 December 2012 RM'000	As at 31 December 2011 RM'000	As at 1 January 2011 RM'000
Term loans			
- Hire purchase	231,440	236,807	235,217
- Leasing	249,507	247,671	244,716
- Other term loans	3,210,908	3,071,027	3,181,644
Revolving credits	355,598	270,251	276,314
Staff loans	37,340	39,243	42,362
Gross loans, advances and financing	4,084,793	3,864,999	3,980,253
Less: Allowance for impaired loans, advances and financing			
- Individual assessment allowance (Note vii)	(145,937)	(245,341)	(592,948)
- Collective assessment allowance (Note vii)	(118,882)	(103,337)	(113,260)
Net loans, advances and financing	3,819,974	3,516,321	3,274,045
Gross impaired loans, advances and financing (Note vi)	777,508	844,586	1,315,454

Included in loans, advances and financing are gross loans, advances and financing of RM104,516,000 (31 December 2011: RM100,865,000; 1 January 2011: RM117,018,000) financed by the Government funds. The treatment of the income earned and credit losses incurred for these loans, advances and financing are as disclosed in Note 2.14.

- (i) The maturity structure of gross loans, advances and financing are as follows:

GROUP AND BANK

	As at 31 December 2012 RM'000	As at 31 December 2011 RM'000	As at 1 January 2011 RM'000
Within one year	290,178	186,916	230,201
More than one year to three years	566,255	560,709	573,153
More than three years to five years	831,118	719,226	898,975
More than five years	2,397,242	2,398,148	2,277,924
	4,084,793	3,864,999	3,980,253





8. Loans, advances and financing (cont'd.)

(ii) Gross loans, advances and financing analysed by type of customers are as follows:

	GROUP AND BANK		
	As at 31	As at 31	As at 1
	December	December	January
	2012	2011	2011
	RM'000	RM'000	RM'000
Domestic business enterprise	4,019,215	3,808,903	3,937,891
Individual	65,578	56,096	42,362
	<u>4,084,793</u>	<u>3,864,999</u>	<u>3,980,253</u>

(iii) Gross loans, advances and financing analysed by industry are as follows:

	GROUP AND BANK		
	As at 31	As at 31	As at 1
	December	December	January
	2012	2011	2011
	RM'000	RM'000	RM'000
Import, export, wholesale, retail trade, restaurants and hotels	1,275,245	1,178,627	1,408,141
Manufacturing	944,786	916,298	959,833
Community, social and personal services	473,460	562,889	495,461
Transportation and communication	641,681	594,035	506,540
Financial, insurance, real estate and business services	250,700	249,816	272,031
Constructions	353,473	242,130	226,027
Mining and quarrying	33,132	23,729	20,428
Agriculture, forestry and fishing	18,611	22,327	26,845
Electricity, gas and water supply	28,127	19,052	22,585
Others	65,578	56,096	42,362
	<u>4,084,793</u>	<u>3,864,999</u>	<u>3,980,253</u>



8. Loans, advances and financing (cont'd.)

(iv) Gross loans, advances and financing analysed by interest/profit rate sensitivity are as follows:

	GROUP AND BANK		
	As at 31 December 2012 RM'000	As at 31 December 2011 RM'000	As at 1 January 2011 RM'000
	Fixed rate		
- Staff loan/financing	37,340	39,243	42,362
- Personal financing	28,238	16,853	-
- Hire purchase receivables	130,100	303,023	277,805
- Other term loans/financing	2,011,250	1,810,261	2,860,822
Variable rate			
- Term loans/financing (base lending rate plus)	1,877,865	1,695,619	799,264
	<u>4,084,793</u>	<u>3,864,999</u>	<u>3,980,253</u>

(v) Movements in impaired loans, advances and financing ("impaired loans") are as follows:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
At 1 January 2012/2011	844,586	1,315,454
Impaired during the year	241,020	72,065
Reclassified as non-impaired	(86,831)	(151,086)
Amount recovered	(74,524)	-
Amount written-off	(146,743)	(391,847)
At 31 December 2012/2011	<u>777,508</u>	<u>844,586</u>

Net impaired loans as % of net loans, advances and financing (excluding staff loans) are as follows:

- 31 December 2012	<u>16.7%</u>
- 31 December 2011	<u>17.2%</u>
- 1 January 2011	<u>22.4%</u>



8. Loans, advances and financing (cont'd.)

(vi) Impaired loans, advances and financing analysed by industry are as follows:

	GROUP AND BANK		
	As at 31 December 2012 RM'000	As at 31 December 2011 RM'000	As at 1 January 2011 RM'000
	Import, export, wholesale, retail trade, restaurants and hotels	370,449	339,385
Manufacturing	248,565	298,309	441,661
Community, social and personal services	63,733	70,507	130,824
Transportation and communication	52,206	68,340	88,744
Financial, insurance, real estate and business services	34,998	42,611	32,858
Electricity, gas and water supply	1,282	14,245	13,004
Constructions	5,940	10,706	58,979
Agriculture, forestry and fishing	335	410	350
Mining and quarrying	-	73	5,598
	777,508	844,586	1,315,454

(vii) Movements in the allowance for impaired loans advances and financing are as follows:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Individual assessment allowance		
At 1 January 2012/2011	245,341	592,948
Amount written-off	(114,518)	(306,079)
Allowance made during the year (Note 29)	178,836	162,752
Writeback made during the year (Note 29)	(163,722)	(204,280)
At 31 December 2012/2011	145,937	245,341
Collective assessment allowance		
At 1 January under FRS	98,992	141,576
- effects of MFRS adoption	4,345	(28,316)
At 1 January under MFRS	103,337	113,260
Allowance made during the year (Note 29)	67,126	64,275
Writeback made during the year (Note 29)	(51,581)	(74,198)
At 31 December 2012/2011	118,882	103,337



9. Other assets

GROUP		
Note	2012 RM'000	2011 RM'000
Fair value of financial guarantee from Government of Malaysia	(i) 38,716	82,158
Other receivables and prepayments	23,165	31,962
Interest receivables	25,597	16,499
	<u>87,478</u>	<u>130,619</u>

BANK		
Note	2012 RM'000	2011 RM'000
Amount due from subsidiaries	(ii) 3,248	3,243
Less: Allowance for impairment	<u>(3,248)</u>	<u>(3,243)</u>
	-	-
Fair value of financial guarantee from Government of Malaysia	(i) 38,716	82,158
Other receivables and prepayments	22,476	31,366
Interest receivable	25,597	16,499
	<u>86,789</u>	<u>130,023</u>

- (i) The amount relates to fair value of financial guarantee from Government of Malaysia on the foreign exchange loss suffered by the Bank on retranslation of Japanese Yen term loans that the Bank received from Japan International Cooperation Agency ("JICA") as disclosed in Note 19(b).
- (ii) The amount due from subsidiaries are unsecured, interest free and repayable on demand.



10. Investments in subsidiaries

	GROUP	
	2012 RM	2011 RM
Unquoted shares		
At cost		
At 1 January 2012/2011	2	2
At 31 December 2012/2011	2	2
Accumulated impairment losses		
At 1 January 2012/2011	-	-
Charge for the year	-	-
At 31 December 2012/2011	-	-
Carrying amount		
At 1 January 2012/2011	2	2
At 31 December 2012/2011	2	2

The subsidiaries, all of which are incorporated in Malaysia, are as follows:

Name of company	Principal activities	Effective ownership interest (%)	
		2012	2011
Held by the Bank:			
BI Nelayan Malaysia Sdn. Bhd.	Dormant	100	100
BI Nominees (Tempatan) Sdn. Bhd.	Nominee services	100	100
BI Walden Ventures ke Lima Sdn. Bhd.	Dormant	100	100
Golden Prominent Sdn. Bhd.	Dormant	100	100
Guardmont Industries Sdn. Bhd.	Dormant	100	100
Malaysian Technology Investments (L) Bhd.	Dormant	100	100
Metro Maple Sdn. Bhd.	Dormant	100	100
Metro Prominent Sdn. Bhd.	Dormant	100	100



11. Investments in associates

	GROUP		BANK	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
At cost:				
Quoted shares in Malaysia	-	1,903	-	1,903
Unquoted shares in Malaysia	7,576	7,576	7,576	7,576
	7,576	9,479	7,576	9,479
Share of post-acquisition reserves	6,571	49,232	-	-
	14,147	58,711	7,576	9,479
Less: Accumulated impairment losses of unquoted shares	(6,826)	(1,174)	(6,826)	(1,174)
	7,321	57,537	750	8,305
Fair value of investment in a quoted associate for which there is a published price quotation	-	37,250	-	37,250

The summarised financial statements of the associates, not adjusted for the proportion of ownership interest held by the Group, are as follows:

	2012 RM'000	2011 RM'000
Assets and liabilities		
Total assets	33,729	989,803
Total liabilities	(10,734)	(631,241)
Net assets of associates from continuing operations	22,995	358,562
Results		
Revenue	10,672	1,665,664
Expenses	(12,491)	(1,646,546)
Profit before tax	(1,819)	19,118
Taxation	-	(8,635)
Net (loss)/profit for the year	(1,819)	10,483



11. Investments in associates (cont'd.)

The associated companies, all of which are incorporated in Malaysia, are as follows:

Name of companies	Principal activities	Effective ownership interest (%)	
		2012	2011
Held by the Bank:			
Celcure Chemical Sdn. Bhd.	Manufacture of wood preservative	36	36
Metrod Malaysia Bhd.*	Manufacturing of electrical conductor	-	15
Capatronics (M) Sdn. Bhd.	Manufacturing of ceramic capacitor	30	30

* In 2011, although the Group holds less than 20% ownership interest and voting control in Metrod Malaysia Bhd., the Group has the ability to exercise significant influence through both its significant shareholding and its nominee's participation on the Board of Directors.

12. Property, plant and equipment

Group	Freehold land RM'000	Long term leasehold land RM'000	Building RM'000	Furniture and equipment RM'000	Office partition RM'000	Motor vehicles RM'000	Electrical and machinery RM'000	Work-in progress RM'000	Total RM'000
Cost									
At 1 January 2012	4,017	34,752	81,608	38,338	23,566	4,096	7,639	10,830	204,846
Reclassifications	-	-	36	(105)	-	-	-	69	-
Additions	-	-	-	4,309	2,180	-	29	9,921	16,439
Written off	-	-	-	(1,582)	(6)	(415)	(5)	-	(2,008)
At 31 December 2012	4,017	34,752	81,644	40,960	25,740	3,681	7,663	20,820	219,277
Accumulated depreciation									
At 1 January 2012	-	9,065	12,645	25,185	20,314	3,169	4,833	-	75,211
Transfer to investment properties (Note 13)	-	(6,514)	(6,537)	-	-	-	-	-	(13,051)
Charge for the year (Note 27)	-	640	1,773	5,771	1,520	365	1,156	-	11,225
Written off	-	-	-	(1,462)	(4)	(415)	(5)	-	(1,886)
At 31 December 2012	-	3,191	7,881	29,494	21,830	3,119	5,984	-	71,499
Net carrying amount	4,017	31,561	73,763	11,466	3,910	562	1,679	20,820	147,778



12. Property, plant and equipment (cont'd.)

Group	Freehold land		Long term leasehold land		Building		Furniture and equipment		Office partition		Motor vehicles		Electrical and machinery		Work-in progress		Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Cost																	
At 1 January 2011	4,017		34,752		81,608		26,198		22,237		3,913		7,599		16,527		196,851
Reclassifications	-		-		-		8,830		7		-		-		(8,837)		-
Additions	-		-		-		3,932		1,370		508		42		3,140		8,992
Disposal of subsidiary	-		-		-		(486)		(48)		-		(2)		-		(536)
Written off	-		-		-		(136)		-		(325)		-		-		(461)
At 31 December 2011	4,017		34,752		81,608		38,338		23,566		4,096		7,639		10,830		204,846
Accumulated depreciation																	
At 1 January 2011	-		-		10,116		18,966		19,036		3,009		3,280		-		62,832
Charge for the year (Note 27(iii))	-		640		2,529		6,355		1,278		485		1,553		-		12,840
Written off	-		-		-		(136)		-		(325)		-		-		(461)
At 31 December 2011	-		9,065		12,645		25,185		20,314		3,169		4,833		-		75,211
Net carrying amount	4,017		25,687		68,963		13,153		3,252		927		2,806		10,830		129,635

12. Property, plant and equipment (cont'd.)

Bank	Freehold land	Long term leasehold land	Building	Furniture and equipment	Office partition	Motor vehicles	Electrical and machinery	Work-in progress	Total
2012	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost									
At 1 January 2012	4,017	34,752	81,608	38,337	23,566	4,096	7,639	10,830	204,845
Reclassifications	-	-	36	(105)	-	-	-	69	-
Additions	-	-	-	4,309	2,180	-	29	9,921	16,439
Written off	-	-	-	(1,582)	(6)	(415)	(5)	-	(2,008)
At 31 December 2012	4,017	34,752	81,644	40,959	25,740	3,681	7,663	20,820	219,276
Accumulated depreciation									
At 1 January 2012	-	9,065	12,645	24,685	20,314	3,668	4,833	-	75,210
Transfer to investment properties (Note 13)	-	(6,514)	(6,537)	-	-	-	-	-	(13,051)
Charge for the year (Note 27(iii))	-	640	1,773	5,771	1,520	365	1,156	-	11,225
Written off	-	-	-	(1,462)	(4)	(415)	(5)	-	(1,886)
At 31 December 2012	-	3,191	7,881	28,994	21,830	3,618	5,984	-	71,498
Net carrying amount	4,017	31,561	73,763	11,965	3,910	63	1,679	20,820	147,778



12. Property, plant and equipment (cont'd.)

Bank	Freehold land RM'000	Long term leasehold land RM'000	Building RM'000	Furniture and equipment RM'000	Office partition RM'000	Motor vehicles RM'000	Electrical and machinery RM'000	Work-in progress RM'000	Total RM'000
2011									
Cost									
At 1 January 2011	4,017	34,752	81,608	25,711	22,189	3,913	7,597	16,527	196,314
Reclassifications	-	-	-	8,830	7	-	-	(8,837)	-
Additions	-	-	-	3,932	1,370	508	42	3,140	8,992
Written off	-	-	-	(136)	-	(325)	-	-	(461)
At 31 December 2012	4,017	34,752	81,608	38,337	23,566	4,096	7,639	10,830	204,845
Accumulated depreciation									
At 1 January 2011	-	8,425	10,116	18,466	19,036	3,508	3,280	-	62,831
Charge for the year (Note 27(iii))	-	640	2,529	6,355	1,278	485	1,553	-	12,840
Written off	-	-	-	(136)	-	(325)	-	-	(461)
At 31 December 2011	-	9,065	12,645	24,685	20,314	3,668	4,833	-	75,210
Net carrying amount	4,017	25,687	68,963	13,652	3,252	428	2,806	10,830	129,635



13. Investment properties

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
At cost		
At 1 January 2012/2011	188,066	188,066
Additions	-	-
At 31 December 2012/2011	<u>188,066</u>	<u>188,066</u>
Accumulated depreciation		
At 1 January 2012/2011	28,078	25,188
Transfer from property, plant and equipment (Note 12)	13,051	-
Charge for the year (Note 27(ii))	3,661	2,890
At 31 December 2012/2011	<u>44,790</u>	<u>28,078</u>
Carrying amount		
At 31 December 2012/2011	<u>143,276</u>	<u>159,988</u>
At 1 January 2011		<u>162,878</u>
Estimated fair value		
At 31 December 2012/2011	<u>219,848</u>	<u>193,204</u>
At 1 January 2011		<u>164,223</u>

The carrying amount of the investment properties is represented by:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Building	125,608	147,751
Freehold land	4,879	4,879
Leasehold land	12,789	7,358
	<u>143,276</u>	<u>159,988</u>

14. Deferred tax

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
At 1 January	34,613	-
Recognised in profit or loss (Note 31)	(18,017)	34,613
At 31 December	<u>16,596</u>	<u>34,613</u>



14. Deferred tax (cont'd.)

GROUP AND BANK

	As at 31 December 2012 RM'000	As at 31 December 2011 RM'000	As at 1 January 2011 RM'000
Presented after appropriate offsetting as follows:			
Deferred tax assets	52,194	67,780	33,716
Deferred tax liabilities	(35,598)	(33,167)	(33,716)
	16,596	34,613	-

The components and movement of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred tax assets of the Group and Bank:

	Collective impairment allowance RM'000	Unabsorbed business losses RM'000	Provision RM'000	Total RM'000
At 1 January 2012 under FRS	25,834	30,233	11,713	67,780
Effect of MFRS adoption	-	-	-	-
At 1 January 2012 under MFRS	25,834	30,233	11,713	67,780
Recognised in profit or loss	3,887	(12,409)	(7,064)	(15,586)
At 31 December 2012	29,721	17,824	4,649	52,194
At 1 January 2011 under FRS	5,586	-	-	5,586
Effect of MFRS adoption	20,248	30,233	11,713	62,194
At 1 January 2011 under MFRS	25,834	30,233	11,713	67,780
Recognised in profit or loss	-	-	-	-
At 31 December 2011	25,834	30,233	11,713	67,780

Deferred tax liabilities of the Group and Bank:

	Property, plant and equipment	Total RM'000
At 1 January 2012 under FRS	(33,167)	(33,167)
Effect of MFRS adoption	-	-
At 1 January 2012 under MFRS	(33,167)	(33,167)
Recognised in profit or loss	(2,431)	(2,431)
At 31 December 2012	(35,598)	(35,598)
At 1 January 2011 under FRS	(30,054)	(30,054)
Effect of MFRS adoption	(3,113)	(3,113)
At 1 January 2011 under MFRS	(33,167)	(33,167)
Recognised in profit or loss	-	-
At 31 December 2011	(33,167)	(33,167)



15. Assets/liabilities of a subsidiary classified as held for sale

On 15 December 2010, the Bank has accepted the offer from Bank Pembangunan Malaysia Berhad, to purchase its entire equity holding in a wholly owned subsidiary, SME Growth Acceleration Fund Sdn. Bhd. ("SME GAF"), for a consideration of RM63.14 million. The disposal of the subsidiary was completed on 6 September 2011 (date of disposal).

As at 31 December 2010, the assets and liabilities of SME GAF have been presented in the statements of financial position as "Assets of a subsidiary classified as held for sale" and "Liabilities of a subsidiary classified as held for sale" and its results are presented separately on the statements of comprehensive income as "Profit from discontinued operation, net of tax".

Statements of financial position disclosures

The major classes of assets and liabilities of SME GAF classified as held for sale as at the statements of financial position date are as follows:

Bank	2011 RM'000
Investment in subsidiary	
At cost	
At 1 January	162,000
Disposal during the year	<u>(162,000)</u>
At 31 December	<u>-</u>
Accumulated impairment losses	
At 1 January	(98,860)
Disposal during the year	<u>98,860</u>
At 31 December	<u>-</u>
Net carrying amount	<u>-</u>





15. Assets/liabilities of a subsidiary classified as held for sale (cont'd.)

Statements of comprehensive income disclosures

The results of SME GAF for the period until the date of disposal are as follows:

	1 January 2010 to date of disposal 2011 RM'000
Group	
Revenue	581
Other income	2,835
Operating and administrative expenses	(874)
Operating profit	<u>2,542</u>
Share of loss of associated companies	(183)
Profit before tax	<u>2,359</u>
Tax expense	(74)
Profit after tax	<u>2,285</u>

Statements of cash flow disclosures

	1 January 2010 to date of disposal 2011 RM'000
Group	
Operating cash inflows	-
Investing cash outflows	(1,528)
Net cash outflows	<u>(1,528)</u>



15. Assets/liabilities of a subsidiary classified as held for sale (cont'd.)

Disposal of subsidiary (cont'd.)

The disposal had the following effects on the financial position of the Group as at the end of the year:

Group	2011 RM'000
Property, plant and equipment	44
Receivables	9,186
Cash and bank balances	14,327
Investment in associates	27,760
Available-for-sale financial investment	19,995
Payables	(4,038)
Cumulative convertible redeemable preference shares - equity component	(1,973)
Non-controlling interest	69
Total disposal proceeds	<u>65,370</u>
Loss on disposal to the Group (Note 27(iv))	<u>63,140</u> <u>2,230</u>
Disposal proceeds settled by:	
Cash	<u>63,140</u>
Cash inflow arising on disposals:	
Cash consideration	63,140
Cash and cash equivalents of subsidiary disposed	(14,327)
Net cash inflows on disposal	<u>48,813</u>

16. Deposits from customers

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Fixed deposits and negotiable instruments of deposits less than one year	<u>2,293,395</u>	<u>3,153,347</u>



16. Deposits from customers (cont'd.)

(i) The deposits are sourced from the following types of customers:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Government and statutory bodies	2,146,287	2,690,035
Business enterprises	45,270	60,000
Others	101,838	403,312
	<u>2,293,395</u>	<u>3,153,347</u>

(ii) The deposits maturity structure are as follows:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Less than three months	813,289	2,436,345
Three months to six months	217,459	341,838
Six months to one year	1,225,145	122,921
More than one to three years	37,502	252,243
	<u>2,293,395</u>	<u>3,153,347</u>

17. Deposit from other financial institutions

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Licensed banks	<u>325,000</u>	-

(i) The deposits maturity structure is as follows:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Three months to six months	<u>325,000</u>	-

18. Medium term note

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Medium term note	<u>500,000</u>	-



18. Medium term note (cont'd.)

The Note was issued on 13 August 2012 and are guaranteed by the Government of Malaysia. The Note was issued in two tranches with maturity of 7 years (13 August 2019) and 10 years (12 August 2022) and carry coupon rates of 3.60% per annum (RM250.0 million) and 3.69% per annum (RM250.0 million) respectively.

(i) The maturity structure of medium term note are as follows:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
More than 5 years	500,000	-

19. Term loans

	GROUP AND BANK	
Note	2012 RM'000	2011 RM'000
Term loans - Unsecured	(a) 2,966,388	3,228,613
Term loans - Secured	(b) 111,703	185,061
	<u>3,078,091</u>	<u>3,413,674</u>

The maturity structure of the term loans are as follows:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Within twelve months	259,863	154,754
More than twelve months	2,818,228	3,258,920
	<u>3,078,091</u>	<u>3,413,674</u>

There were no new term loans obtained by the Group and the Bank during the current and previous financial year.





19. Term loans (cont'd.)

(a) Term loans - Unsecured

The unsecured term loans denominated in RM are sourced from the following:

		GROUP AND BANK	
	Note	2012 RM'000	2011 RM'000
Loans from:			
- Government of Malaysia	(i)	1,576,878	1,592,870
- Other financial institutions	(ii)	1,389,510	1,635,743
		<u>2,966,388</u>	<u>3,228,613</u>

(i) Loans from Government of Malaysia

The loans from the Government of Malaysia are repayable as follows:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Maturity structure:		
Due within one year	20,921	20,791
Due after one year	1,555,957	1,572,079
	<u>1,576,878</u>	<u>1,592,870</u>

The interest rates on the loans from Government of Malaysia ranges from 0% to 4% (2011: 0% to 4%) per annum during the year.

(ii) Loans from other financial institutions

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Bank Negara Malaysia	589,510	835,743
Employee Provident Fund	800,000	800,000
	<u>1,389,510</u>	<u>1,635,743</u>



19. Term loans (cont'd.)

(a) Term loans - Unsecured (cont'd)

(ii) Loans from other financial institutions (cont'd)

The loans from other financial institutions are repayable as follows:

	GROUP AND BANK	
	2012	2011
	RM'000	RM'000
Maturity structure:		
Due within one year	208,172	289,123
Due after one year	1,181,338	1,346,620
	1,389,510	1,635,743

The interest rates on the loans from other institutions range from 0.50 % to 5.23 % (2011: 0.50% to 5.23%) per annum.

(b) Term loans - Secured

The secured term loans represent the remaining loans balance from Japan International Cooperation Agency ("JICA") denominated in Japanese Yen which have been retranslated into RM based on the exchange rate at the reporting date. Details of the loans are as follows:

- (i) Initial loan of ¥5,716,228,574 (approximately RM203,360,548) principal repayable over a period of 19 years commencing 20 December 1995, after a grace period of 6 years. The loan will mature on 20 December 2013.
- (ii) Initial loan of ¥4,660,000,000 (approximately RM165,784,160) principal repayable over a period of 18 years commencing 20 May 2002, after a grace period of 7 years. The loan will mature on 20 May 2017.
- (iii) Loans received for Asean-Japan Development Fund (AJDF) and Small and Medium Industry Promotion Program (SMIPP) which are repayable in semi-annual instalments of Ringgit Malaysia equivalent of ¥281,921,000 and Ringgit Malaysia equivalent of ¥125,945,000 each commencing from December 1995 and May 1999 respectively.

The principal loan balance and foreign exchange fluctuation loss on these loans are guaranteed by the Government of Malaysia.

The interest rates on long term loans from Japan International Cooperation Agency ("JICA") range from 3.0% to 3.5% (2011: 3.0% to 3.5%) per annum.





20. Other liabilities

	GROUP	
	2012 RM'000	2011 RM'000
Other payables and accruals	75,716	51,140
Islamic margin account	54,057	-
Interest payables	63,744	57,548
Other provisions	23,574	47,958
Rental and security deposits	3,846	19,528
Profit equalisation reserve - depositors	5,049	-
Amount due to a fellow subsidiary	-	7,071
Provision for zakat	2,959	4,306
	<u>228,945</u>	<u>187,551</u>

	BANK	
	2012 RM'000	2011 RM'000
Other payables and accruals	74,941	50,390
Islamic margin account	54,057	-
Interest payables	63,744	57,548
Other provisions	23,574	47,958
Rental and security deposits	3,846	19,528
Profit equalisation reserve - depositors	5,049	-
Provision for zakat	2,959	4,306
	<u>228,170</u>	<u>179,730</u>



21. Government funds

GROUP AND BANK

		As at 31 December 2012 RM'000	As at 31 December 2011 RM'000	As at 31 December 2010 RM'000
	Note			
To finance:				
Investment properties	(a)	140,239	145,476	151,043
Loans, advances and financing	(b)	172,335	200,042	215,130
		312,574	345,518	366,173

(a) To finance the purchase of investment properties:

	Nursery Factory Scheme RM'000	Nursery Factory Scheme (RMK8) RM'000	Nursery Factory Scheme (RMK9) RM'000	Total RM'000
2012				
At 1 January	100,976	6,068	38,432	145,476
Utilised to offset depreciation charge for the year	(236)	(2,912)	(154)	(3,302)
Utilised to offset expenses	-	-	(1,935)	(1,935)
At 31 December	100,740	3,156	36,343	140,239
2011				
At 1 January	101,140	9,025	40,878	151,043
Utilised to offset depreciation charge for the year	(164)	(2,957)	(154)	(3,275)
Utilised to offset expenses	-	-	(2,292)	(2,292)
At 31 December	100,976	6,068	38,432	145,476



21. Government funds (cont'd.)

(b) To finance loans, advances and financing: (cont'd.)

Group and Bank	Soft Loan Scheme	Tabung Usahawan Pahang	Tabung Inkubator Pertanian Kelantan	Tabung Usahawan Siswazah (TUS)	Dana Usahawan Negeri Terengganu	SPEEDI	Balance c/f
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2011 under FRS	36,637	288	2,669	26,840	11,215	1,000	78,649
Effect of MFRS adoption (Note 39)	-	-	-	4,416	573	-	4,989
At 1 January 2011 under MFRS	36,637	288	2,669	31,256	11,788	1,000	83,638
Write-off	-	-	-	(4,205)	(65)	-	(4,270)
Write back of allowance	-	-	-	3,278	(561)	-	2,717
At 31 December 2011	36,637	288	2,669	30,329	11,162	1,000	82,085

Balance b/f	Program dan Skim Usahawan Batik	Soft Loan Scheme (SMA)	Pembangunan Ekonomi Desa Islamic	Skim Perumahan Kapital Tradisional - Grant	Program dan Skim Usahawan Kraf	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
78,649	4,144	30,686	75,762	3,000	4,649	196,890
4,989	501	3,101	9,475	-	174	18,240
83,638	4,645	33,787	85,237	3,000	4,823	215,130
(4,270)	(252)	(6,496)	(10,188)	-	(126)	(21,332)
2,717	(213)	-	6,810	-	142	9,456
-	-	5,163	(174)	-	-	4,989
-	-	-	(261)	-	-	(261)
82,085	4,180	32,454	81,424	3,000	4,839	207,982



22. Share capital

	Number of ordinary shares of RM1 each		Amount	
	2012 Unit '000	2011 Unit '000	2012 RM'000	2011 RM'000
Authorised:				
At 1 January/31 December	5,000,000	5,000,000	5,000,000	5,000,000
Issued and fully paid:				
At 1 January/31 December	1,350,000	1,350,000	1,350,000	1,350,000

23. Other reserves

Group and Bank	Non- available-for- sale reserve	Non- Distributable profit equalisation reserve	Distributable general reserve	Total
	RM'000	RM'000	RM'000	RM'000
At 1 January 2012	2,477	-	10,114	12,591
Movement in revaluation reserve of available-for-sale financial investments	(1,582)	-	-	(1,582)
Movement in profit equalisation reserves	-	1,009	-	1,009
At 31 December 2012	895	1,009	10,114	12,018
At 1 January 2011	2,891	-	10,114	13,005
Movement in revaluation reserve of available-for-sale financial investments	(414)	-	-	(414)
At 31 December 2011	2,477	-	10,114	12,591



24. Interest income

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Interest income from loans, advances and financing	83,426	115,985
Deposits and placements with banks and other financial institutions	51,308	70,058
Available-for-sale financial investments	4,743	12,089
Held-to-maturity financial investments	2,063	1,825
	<u>141,540</u>	<u>199,957</u>

25. Interest expense

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Deposits from customers	47,780	54,534
Deposits from other financial institutions	565	-
Term loans	63,890	53,493
Others	-	1
	<u>112,235</u>	<u>108,028</u>





26. Other operating income

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Fee income	1,245	1,581	1,233	1,569
Income from available-for-sale financial investments:				
- gain on disposal of quoted investments	303	-	303	-
- gain on disposal of unquoted investments	91	-	91	-
- gross dividend income from quoted investments	127	44	127	44
- gross dividend income from unquoted investments	-	600	-	600
	521	644	521	644
Investment in subsidiary:				
- gross dividend income	-	560	-	560
Investment in associates:				
- gain on disposal	778	5	40,231	5
- gross dividend income	1,119	1,135	1,119	1,135
	1,897	1,140	41,350	1,140
Other income:				
Government fund released	5,357	5,871	5,357	5,871
Government compensation	16,349	16,391	16,349	16,391
Others	11,993	9,578	4,200	9,576
	33,699	31,840	25,906	31,838
Total other operating income	37,362	35,765	69,010	35,751



27. Other operating expenses

	Note	Group		Bank	
		2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Personnel expenses	(i)	60,567	104,027	60,567	104,027
Establishment related expenses	(ii)	27,788	30,408	27,788	30,408
Promotion and marketing expenses	(iii)	4,475	3,472	4,475	3,472
Administration and general expenses	(iv)	48,404	32,305	29,804	30,057
		<u>141,234</u>	<u>170,212</u>	<u>122,634</u>	<u>167,964</u>
(i) Personnel expenses					
Salaries, allowances and bonuses		44,131	89,916	44,131	89,916
Social security cost		508	478	508	478
Contribution to Employee Provident Fund		7,738	6,667	7,738	6,667
Other staff related expenses		8,190	6,966	8,190	6,966
		<u>60,567</u>	<u>104,027</u>	<u>60,567</u>	<u>104,027</u>
(ii) Establishment related expenses					
Depreciation of property, plant and equipment (Note 12)		11,225	12,840	11,225	12,840
Depreciation of investment properties (Note 13)		3,661	2,890	3,661	2,890
Rental of premises		2,254	1,665	2,254	1,665
Repairs and maintenance of property, plant and equipment		10,648	13,013	10,648	13,013
		<u>27,788</u>	<u>30,408</u>	<u>27,788</u>	<u>30,408</u>
(iii) Promotion and marketing expenses					
Advertisement and publicity		4,475	3,472	4,475	3,472



27. Other operating expenses (cont'd.)

	Note	Group		Bank	
		2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
(iv) Administration and general expenses					
Loss on disposal of a subsidiary		-	2,230	-	-
Loss on disposal of an associate		18,572	-	-	-
Property, plant and equipment written-off		122	-	122	-
Administrative expenses		9,535	7,811	9,535	7,811
Auditors' remuneration					
- Statutory audit		303	284	284	284
- Other services		124	2,497	124	2,480
General expenses		19,748	19,483	19,739	19,482
		<u>48,404</u>	<u>32,305</u>	<u>29,804</u>	<u>30,057</u>

28. Directors' remuneration

The details of remuneration receivable by directors of the Bank during the year are as follows:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Directors' remuneration		
Executive director/managing director:		
Salaries and other emoluments	858	561
Defined contribution plan	141	95
Total	<u>999</u>	<u>656</u>
Non-executive directors:		
Fees	<u>450</u>	<u>251</u>
Total directors' remuneration of the Bank	<u>1,449</u>	<u>907</u>



28. Directors' remuneration (cont'd.)

The number of directors of the Group and the Bank whose total remuneration fell within the following bands are analysed below:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Number of executive director:		
RM800,001 to RM1,000,000	1	-
RM500,001 to RM800,000	-	1
RM400,001 to RM500,000	-	-
	<hr/>	<hr/>
Number of non-executive directors:		
RM100,001 to RM120,000	4	1
RM1 to RM50,000	3*	9**
	<hr/>	<hr/>
	7	10
	<hr/>	<hr/>

* Relates to the former non-executive director of the Bank who resigned on 31 October 2012.

** Includes two former non-executive directors of the Bank who resigned during the prior financial year.

29. Allowance/(writeback) for impairment on loans, advances and financing

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Allowance for impaired loans, advances and financing made during the year:		
- Individual assessment allowance (Note 8(vii))	178,836	162,752
- Collective assessment allowance (Note 8(vii))	67,126	64,275
	<hr/>	<hr/>
	245,962	227,027
Write back/recoveries of allowance for impaired loans, advances and financing made during the year:		
- Individual assessment allowance (Note 8(vii))	(163,722)	(204,280)
- Collective assessment allowance (Note 8(vii))	(51,581)	(74,198)
	<hr/>	<hr/>
	(215,303)	(278,478)
Loans, advances and financing written-off	<hr/>	<hr/>
	32,225	85,764





29. Allowance/(writeback) for impairment on loans, advances and financing (cont'd.)

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Recoveries from bad loans, advances and financing written-off	(51,227)	(42,848)
Total allowance/(writeback) for impairment on loans, advances and financing	11,657	(8,535)

30. Allowance for impairment on financial investments

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Allowance for diminution in value:				
- associates	5,652	-	5,652	-
- quoted investments	5,723	100	5,723	100
- unquoted investments	-	486	-	486
	11,375	586	11,375	586

31. Tax expense/ (credit) and zakat

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Income tax:				
Continuing operations:				
Tax expense for the year	780	3,411	28	3,409
(Over)/ underprovision in prior years	(3,396)	1,001	(3,396)	1,001
	(2,616)	4,412	(3,368)	4,410
Deferred income tax:				
Origination or reversal of temporary differences (Note 14)	18,017	(34,613)	18,017	(34,613)
	18,017	(34,613)	18,017	(34,613)
Total tax expense/ (credit) for the year	15,401	(30,201)	14,649	(30,203)



31. Tax expense/ (credit) and zakat (cont'd.)

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Zakat:				
Zakat for the year	1,110	3,870	1,110	3,870
(Over)/ underprovision of zakat in prior year	(2,270)	1,216	(2,270)	1,216
Total zakat for the year	(1,160)	5,086	(1,160)	5,086

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2011: 25%) of the estimated assessable profit for the year.

The reconciliation between tax expense and accounting profit of the Group and Bank multiplied by the applicable corporate tax rate are as follows:

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Profit before tax and zakat from continuing operations	88,063	124,762	122,947	125,702
Income tax at 25% (2011: 25%)	22,016	31,191	30,737	31,426
Non-deductible expenses	10,980	3,118	6,523	2,557
Non-taxable income	(9,059)	(33,198)	(9,059)	(33,198)
Tax exempt income	(104)	(1,029)	(10,156)	(1,029)
Effects of share of associates' post-tax (profit)/loss included in Group's profit before taxation	(3,841)	(324)	-	-
Deferred tax assets not recognised due to business loss	(1,195)	-	-	-
(Over) / underprovision of tax expenses in prior year	(3,396)	1,001	(3,396)	1,001
Utilisation of previously unrecognised tax losses	-	(30,960)	-	(30,960)
Total tax expense/ (credit) for the year	15,401	(30,201)	14,649	(30,203)

Tax savings during the financial year arising from:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Utilisation of previously unrecognised tax losses	49,454	97,072
Utilisation of capital allowances	5,195	26,767
	54,649	123,839



32. Profit per share

Basic profit per share amount is calculated by dividing profit for the year from net of tax, attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the financial year.

The following tables reflect the profit and share data used in the computation of basic profit per share for the years ended 31 December:

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Profit from continuing operations attributable to owner of the Bank, net of tax	73,822	149,877	109,458	150,819

	GROUP	
	2012 RM'000	2011 RM'000
Profit from discontinued operation attributable to owner of the Bank, net of tax	-	2,285

	GROUP AND BANK	
	2012 Units ('000)	2011 Units ('000)
Number of ordinary shares for basic profit/(loss) per share computation	1,350,000	1,350,000

(a) Continuing operations

Basic profit per share is calculated by dividing profit for the year from continuing operations, net of tax, attributable to the owner of the Bank by the weighted average number of ordinary shares outstanding during the financial year.



32. Profit per share (cont'd.)

(b) Discontinued operation

Basic profit per share from discontinued operation is calculated by dividing the profit from discontinued operation, net of tax, attributable to the owner of the Bank by the weighted average number of ordinary shares.

33. Commitments and contingencies

- (i) Loans, advances and financing related commitments and contingencies of the Group and the Bank are as follows:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Direct credit substitutes	228,480	141,891
Transaction-related contingent items	208,232	132,683
Irrevocable commitments to extend credit:		
- maturity exceeding one year	111,903	74,398
- maturity not exceeding one year	764,367	572,771
	<u>1,312,982</u>	<u>921,743</u>

- (ii) Capital expenditure commitments of the Group and the Bank are as follows:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Approved and contracted for:		
Property, plant and equipment	36,662	17,260
IT system	2,371	897
	<u>39,033</u>	<u>18,157</u>
Total commitments and contingencies	<u>1,352,015</u>	<u>939,900</u>



34. Related party transactions

(a) Parent entity

The Bank is a Government Linked Corporation, with all shares held by the Ministry of Finance Incorporated on behalf of the Government of Malaysia. All Government of Malaysia controlled entities meet the definition of related parties of the Bank.

(b) The significant transaction of the Group and the Bank with its related parties are as follows:

	2012 RM'000	2011 RM'000
Provision of IT services from a fellow subsidiary	-	26

(c) Compensation of key management personnel

The compensation of key management personnel other than to the directors of the Bank as disclosed in Note 27(i) is as follows:

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Salaries and other emoluments	8,546	5,982	8,546	5,982
Defined contribution plan	1,256	931	1,256	931
	<u>9,802</u>	<u>6,913</u>	<u>9,802</u>	<u>6,913</u>

(d) Amount owed to/ by related parties

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Long term loans from Ministry of Finance	1,367,017	1,380,069	1,367,017	1,380,069
Interest payable to Ministry of Finance	7,926	7,629	7,926	7,629
Deposit acceptance from government agencies	658,000	541,000	658,000	541,000
Interest payable to government agencies	5,567	2,427	5,567	2,427
Forex exchange payable by government	111,703	185,061	111,703	185,061
	<u>2,150,213</u>	<u>2,116,186</u>	<u>2,150,213</u>	<u>2,116,186</u>



35. Capital adequacy

Capital management

Capital policy

The overall objective of capital management is to maintain a strong capital position in order to provide opportunities for business growth and able to provide cushion for any potential losses. In line with this objective, the Bank views capital position as an important key barometer of financial health.

Regulatory capital

In order to support its mandated roles, the Bank must have strong and adequate capital to support its business activities on an on-going basis. In lieu to this, Bank Negara Malaysia has imposed several regulatory capital requirements whereby, the Bank must have an absolute minimum capital of RM300,000,000 and a minimum Risk Weighted Capital Ratio ('RWCR') of 8% at all times. The minimum capital funds refer to paid-up capital and reserves as defined in Section 3 of Development Financial Institution Act 2002.

The following table set forth capital resources and capital adequacy for the Bank as at reporting date:

	As at 31 December 2012 RM'000	Bank As at 31 December 2011 RM'000	As at 1 January 2011 RM'000
<u>Tier I Capital</u>			
Paid-up share capital	1,350,000	1,350,000	1,350,000
Accumulated losses	(338,496)	(446,945)	(597,764)
Other reserves	10,114	10,114	10,114
Total Tier I capital	<u>1,021,618</u>	<u>913,169</u>	<u>762,350</u>
<u>Tier II Capital</u>			
Collective allowance for loans, advances and financing *	87,043	53,945	58,583
Government funds	312,574	345,518	366,173
Total Tier II capital	<u>399,617</u>	<u>399,463</u>	<u>424,756</u>
Total capital	1,421,235	1,312,632	1,187,106
Less: Investment in subsidiaries	-	-	(63,140)
Total capital base	<u>1,421,235</u>	<u>1,312,632</u>	<u>1,123,966</u>



35. Capital adequacy (cont'd.)

Capital management

- * The eligible amount for Tier II Capital is only limited to collective allowance on unimpaired loans, advances and financing.

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

	As at 31 December 2012 RM'000	Bank As at 31 December 2011 RM'000	As at 1 January 2011 RM'000
10%	1,000	1,000	1,000
20%	464,128	685,357	505,120
50%	45,303	36,812	64,149
100%	4,658,019	4,179,120	3,958,511
	5,168,450	4,902,289	4,528,779

Before deducting proposed dividends:

	As at 31 December 2012	Bank As at 31 December 2011	As at 1 January 2011
Core capital ratio	19.77%	18.63%	16.83%
Risk-weighted capital ratio	27.50%	26.78%	24.82%
	27.50%	26.78%	24.82%

After deducting proposed dividends:

	As at 31 December 2012	Bank As at 31 December 2011	As at 1 January 2011
Core capital ratio	19.64%	18.63%	16.83%
Risk-weighted capital ratio	27.37%	26.78%	24.82%
	27.37%	26.78%	24.82%



35. Capital adequacy (cont'd.)

Capital monitoring

The Bank's capital is closely monitored and actively managed. Beside the regulatory capital requirement of 8%, the Bank sets an internal capital limit that would act as a trigger to the regulatory capital and as an indicator that affords the Bank a "well capitalised" status. The absolute capital shall be maintained based on the amount allocated under the Economic Capital Allocation. Internal capital limit and regulatory capital requirement shall be closely monitored regularly reviewed and reported to Management and Board of Directors.

36. Fair value of financial instruments

Financial instruments comprise financial assets and financial liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. The information presented herein represents best estimates of fair values of financial instruments at the reporting date.

For loans, advances and financing to customers, where such market prices are not available, various methodologies have been used to estimate the approximate fair values of such instruments. These methodologies are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in the assumptions could significantly affect these estimates and the resulting fair value estimates. Therefore, for a significant portion of the Group's and the Bank's financial instruments, including loans, advances and financing to customers, their respective fair value estimates do not purport to represent, nor should they be construed to represent, the amounts that the Group and the Bank could realise in a sale transaction at the reporting date. The fair value information presented herein should also in no way be construed as representative of the underlying value of the Group and the Bank as a going concern.

The on-balance sheet financial assets and financial liabilities of the Group and the Bank whose fair values are required to be disclosed in accordance with MFRS132 comprise all its assets and liabilities with the exception of investments in subsidiaries, investments in associated companies, property, plant and equipment, prepaid land lease payment, government funds and provision for current and deferred taxation.

The estimated fair values of those on-balance sheet financial assets and financial liabilities as at the reporting date approximate their carrying amounts as shown in the statements of financial position, except for the following financial assets and liabilities:





36. Fair value of financial instruments (cont'd.)

	Group		Bank	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
2012				
Financial assets:				
Financial investments:				
Available-for-sale				
- Unquoted shares, at cost*	9,123	9,123	9,123	9,123
Held-to-maturity, at cost	263,967	269,795	263,967	269,795
Loans, advances and financing	3,819,974	2,469,031	3,819,974	2,469,031
Financial liabilities:				
Term loans	3,078,091	2,319,122	3,078,091	2,319,122
2011				
Financial assets:				
Financial investments:				
Available-for-sale				
- Unquoted shares, at cost*	10,781	10,781	10,781	10,781
Held-to-maturity, at cost	197,565	202,028	197,565	202,028
Loans, advances and financing	3,516,321	3,230,171	3,516,321	3,230,171
Financial liabilities:				
Term loans	3,413,674	2,737,644	3,413,674	2,737,644

* Available-for-sale unquoted shares are stated at their carrying amounts as their fair value cannot be reliably measured in view that they do not have a quoted price in an active market, the range of reasonable fair value estimates is significant and the probabilities of various estimates cannot be reliably measured.

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

(a) Cash and bank balances, deposits and placements with banks and other financial institutions, and deposits from customers

The carrying amount approximates fair value due to the relatively short maturity of these financial instruments.

(b) Quoted equity instruments and quoted government bonds

The fair value is determined directly by reference to their published market bid price at the reporting date.



36. Fair value of financial instruments (cont'd.)

(c) Loans, advances and financing

The fair values of variable and fixed rate loans with remaining maturity of less than one year are estimated to approximate their carrying values. For fixed rate loans and Islamic financing 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 balance sheet date offered for similar loans to new borrowers with similar credit profiles, where applicable. For impaired loans, the fair values are deemed to approximate the carrying values, net of allowances for bad and doubtful debts and financing.

(d) Term loans

The fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at prevailing rates at the reporting date obtained for similar loans with similar maturities, where applicable.

(e) Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 : quoted (unadjusted) prices in active markets of identical asset or liabilities;

Level 2 : other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3 : techniques which use inputs which have significant effect on the fair value that are not based on observable market data.

Financial investment - Available-for-sale

Available-for-sale financial assets valued using valuation techniques or pricing models primarily consist of unquoted equities and debt securities.

(i) Private debt securities, Malaysian Government Securities and Malaysian Government Investment Issues

The fair values of private debt securities, Malaysian government securities and Malaysian government investment issues are determined by reference to the market value of these instruments published by pricing agency in Malaysia.

(ii) Quoted shares

The fair value of quoted shares is determined directly by reference to their published market bid price at the reporting date.



36. Fair value of financial instruments (cont'd.)

As at 31 December 2012, the Group and the Bank held the following financial instruments measured at fair value:

	Carrying amount RM'000	Group Bank		
		Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
31 December 2012				
Financial assets:				
Financial investments:				
Available-for-sale				
- Private debt securities	472,969	-	472,969	-
- Malaysian Government Investment Issues	453,976	-	453,976	-
- Quoted shares	1,005	1,005	-	-

	Carrying amount RM'000	Group Bank		
		Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
31 December 2011				
Financial assets:				
Financial investments:				
Available-for-sale				
- Private debt securities	193,448	-	193,448	-
- Malaysian Government Securities	10,078	-	10,078	-
- Malaysian Government Investment Issues	189,754	-	189,754	-
- Quoted shares	6,673	6,673	-	-



37. Financial risk management objectives and policies

The Group's financial risk management policies has been established with the objective to enhance shareholder's value. The Group focuses on the enterprise wide risk exposure, which include credit risk, market risk, operational risk and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management principles and strategies. Separate independent bodies and functions have been established and are responsible in assisting the Board of Directors in managing and monitoring risks, which are elaborated as follows:

(a) Board Risk Management Committee

The Board Risk Management Committee has the overall responsibilities for the development of the risk strategies and implementing principles, frameworks, policies and limits. The Risk Management Committee is responsible for managing risk decisions and monitoring risk levels.

(b) Risk Management and Compliance

The Risk Management and Compliance is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained.

Risk Management and Compliance is also responsible for monitoring and review of compliance with risk principles, policies and limits across the Bank as well as applicable laws and regulations. The function ensures the completeness of risk identification, measurement, monitoring and reporting.

(c) Treasury

Treasury and Balance Sheet Management and Fund Administration is responsible for managing the Bank's assets and liabilities and the overall financial structure. Treasury and Balance Sheet Management and Fund Administration are also responsible for the funding and liquidity of the Bank.

(d) Internal Audit

The Internal Audit function provides an on-going focus on the internal control systems and periodic reviews of the risk management processes. It also reviews compliance with approved policies, as well as applicable laws and regulations.

Internal Audit also evaluates the independence and overall effectiveness of the risk management systems. Internal Audit's assessment on the adequacy of internal controls will involve understanding, documenting, evaluating and testing the Bank's internal control system and follow-up on corrective actions and review of management's action to address material weaknesses.





37. Financial risk management objectives and policies (cont'd.)

(e) Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks on a timely basis. This information is presented to various committee at management level before submitting to the Board Risk Management Committee ("BRMC") and Board of Directors. The month report provides aggregate credit exposure, limit exceptions, liquidity ratios and risk profile changes including detailed reporting of industry and customer risks. Senior Management Committee ("SMC") assesses the appropriateness of the provision for credit losses on a monthly basis. The BRMC receives a comprehensive risk report which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

The main areas of financial risks faced by the Group are set out as follows:

(a) Credit risk

Credit risk is the potential loss arising from customers or counterparties failing to meet their financial contractual obligations. Management of credit risk is principally through lending directions and policies, which are instituted based on prevailing business and economic conditions. Credit processes are also structured to ensure adherence of credit policies and to establish impartiality in loan origination, approval, documentation, disbursement and settlement.

The Bank's Credit and Risk Management manages and reviews asset quality, reviews concentration limits, according to various categories such as customer, economic segment and product types and monitors credit portfolio risk. Industry risk is also evaluated and monitored as dynamic changes in the economic environment has a direct impact on the Bank's assets quality.

The internal credit risk rating system has been established to measure the credit worthiness of each customer. The primary objectives are to provide a consistent approach in risk grading of the Bank's borrowers.



37. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

The Bank adopts best practices as set out in BNM's Guidelines on Best Practices for the Management of Credit Risk for Development Financial Institutions. Credit Risk Management Framework has also been established in line with the best practices.

Internal single customer limits are regularly monitored to minimise the risk of over-concentration. The overall risk management is subjected to an on-going process for review and enhancement.

Credit reviews on loan applications before being approved by the approving authorities are performed. Various Credit Committees have been established to review all financing to be submitted for the approval of the respective approving authorities and Board of Directors of the Bank and subsidiaries. The respective credit committees have approving authority up to a specified limit.

(i) Credit exposure

The credit risk exposure of the Group and the Bank at the reporting date are as follows:

	GROUP	
	2012 RM'000	2011 RM'000
On balance sheet:		
Cash and short term funds	1,462,147	3,347,701
Deposits and placements with banks and other financial institutions	867,028	64,648
Available-for-sale financial investments	937,073	410,734
Held-to-maturity financial investments	263,967	197,565
Loans, advances and financing	3,819,974	3,516,321
Others	25,597	16,499
	<hr/>	<hr/>
	7,375,786	7,553,468
Other assets not subject to credit risk	392,621	504,784
	<hr/>	<hr/>
	7,768,407	8,058,252
Off balance sheet:		
Commitments (Note 33)	1,352,015	939,900
	<hr/>	<hr/>
	9,120,422	8,998,152



37. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(i) Credit exposure (cont'd.)

	BANK	
	2012 RM'000	2011 RM'000
On balance sheet:		
Cash and short term funds	1,461,752	3,347,193
Deposits and placements with banks and other financial institutions	867,028	64,648
Available-for-sale financial investments	937,073	410,734
Held-to-maturity financial investments	263,967	197,565
Loans, advances and financing	3,819,974	3,516,321
Others	25,597	16,499
	7,375,391	7,552,960
Other assets not subject to credit risk	385,361	454,955
	7,760,752	8,007,915
Off balance sheet:		
Commitments (Note 33)	1,352,015	939,900
	9,112,767	8,947,815

(ii) Gross loans, advances and financing are rated based on internal rating by the Bank:

2012	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Total RM'000
Risk rating category			
Highest safety *	68,896	40	68,936
Moderate safety**	2,510,361	131,477	2,641,838
High risk***	419,496	101,264	520,760
Non-rated	73,757	1,994	75,751
	3,072,510	234,775	3,307,285



37. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(ii) Gross loans, advances and financing are rated based on internal rating by the Bank: (cont'd.)

2011	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Total RM'000
Risk rating category			
Highest safety *	14,477	13,271	27,748
Moderate safety**	1,964,322	709,199	2,673,521
High risk***	154,789	126,497	281,286
Non-rated	19,802	18,056	37,858
	<u>2,153,390</u>	<u>867,023</u>	<u>3,020,413</u>

* Strong capacity to meet financial commitments

** Moderate capacity to meet financial commitments

*** Poor credit quality and high risk of default

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.





37. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(iii) The following table set out the credit risk concentration by industry sector (gross balances):

Group 2012	Short-term funds, and placements with financial institutions RM'000	Available- for-sale financial investments RM'000	Held-to- maturity financial investments RM'000	Loans, advances and financing RM'000	Other assets RM'000	Total Commitments	
						RM'000	RM'000
Government	-	453,976	140,948	-	-	594,924	-
Agriculture, forestry and fishing	-	-	-	18,611	-	18,611	-
Constructions	-	-	-	353,473	-	353,473	-
Community, social and personal services	-	-	-	473,460	-	473,460	-
Electricity, gas and water supply	-	-	-	28,127	-	28,127	-
Financial, insurance, real estate and business services	2,329,175	483,097	123,019	250,700	25,597	3,211,588	-
Import, export, wholesale and retail trade and restaurant and hotels	-	-	-	1,275,245	-	1,275,245	-
Manufacturing	-	-	-	944,786	-	944,786	-
Mining and quarrying	-	-	-	33,132	-	33,132	-
Transportation and communication	-	-	-	641,681	-	641,681	-
Others	-	-	-	65,578	-	65,578	1,352,015
Gross total	2,329,175	937,073	263,967	4,084,793	25,597	7,640,605	1,352,015
Less: Allowances for impairment	-	-	-	(264,819)	-	(264,819)	-
Other assets not subject to credit risk	2,329,175	937,073	263,967	3,819,974	25,597	7,375,786	1,352,015
	-	-	-	-	392,621	392,621	-
	2,329,175	937,073	263,967	3,819,974	418,218	7,768,407	1,352,015

37. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(iii) The following table set out the credit risk concentration by industry sector (gross balances): (cont'd.)

Group 2011	Short-term	Available-	Held-to-	Loans,	Other	Total
	funds, and placements with financial institutions RM'000	for-sale financial investments RM'000	maturity financial investments RM'000	advances and financing RM'000		
Government	-	199,832	141,129	-	-	340,961
Agriculture, forestry and fishing	-	-	-	22,327	-	22,327
Constructions	-	-	-	242,130	-	242,130
Community, social and personal services	-	-	-	562,889	-	562,889
Electricity, gas and water supply	-	-	-	19,052	-	19,052
Financial, insurance, real estate and business services	3,412,349	210,902	56,436	249,816	16,499	3,946,002
Import, export, wholesale and retail trade and restaurant and hotels	-	-	-	1,178,627	-	1,178,627
Manufacturing	-	-	-	916,298	-	916,298
Mining and quarrying	-	-	-	23,729	-	23,729
Transportation and communication	-	-	-	594,035	-	594,035
Others	-	-	-	56,096	-	56,096
Gross total	3,412,349	410,734	197,565	3,864,999	16,499	7,902,146
Less: Allowances for impairment	-	-	-	(348,678)	-	(348,678)
Other assets not subject to credit risk	3,412,349	410,734	197,565	3,516,321	16,499	7,553,468
	3,412,349	410,734	197,565	3,516,321	504,784	8,058,252
						939,900



37. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(iii) The following table set out the credit risk concentration by industry sector (gross balances): (cont'd.)

Bank 2012	Short-term funds, and placements with financial institutions RM'000	Available- for-sale financial investments RM'000	Held-to- maturity financial investments RM'000	Loans, advances and financing RM'000	Other assets RM'000	Total Commitments RM'000	RM'000
Government	-	453,976	140,948	-	-	594,924	-
Agriculture, forestry and fishing	-	-	-	18,611	-	18,611	-
Constructions	-	-	-	353,473	-	353,473	-
Community, social and personal services	-	-	-	473,460	-	473,460	-
Electricity, gas and water supply	-	-	-	28,127	-	28,127	-
Financial, insurance, real estate and business services	2,328,780	483,097	123,019	250,700	25,597	3,211,193	-
Import, export, wholesale and retail trade and restaurant and hotels	-	-	-	1,275,245	-	1,275,245	-
Manufacturing	-	-	-	944,786	-	944,786	-
Mining and quarrying	-	-	-	33,132	-	33,132	-
Transportation and communication	-	-	-	641,681	-	641,681	-
Others	-	-	-	65,578	-	65,578	1,352,015
Gross total	2,328,780	937,073	263,967	4,084,793	25,597	7,640,210	1,352,015
Less: Allowances for impairment	-	-	-	(264,819)	-	(264,819)	-
Other assets not subject to credit risk	2,328,780	937,073	263,967	3,819,974	25,597	7,375,391	1,352,015
	2,328,780	937,073	263,967	3,819,974	385,361	7,760,752	1,352,015

37. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(iii) The following table set out the credit risk concentration by industry sector (gross balances): (cont'd.)

Bank 2011	Short-term funds, and placements with financial institutions RM'000	Available- for-sale financial investments RM'000	Held-to- maturity financial investments RM'000	Loans, advances and financing RM'000	Other assets RM'000	Total Commitments RM'000	RM'000
Government	-	199,832	141,129	-	-	340,961	-
Agriculture, forestry and fishing	-	-	-	22,327	-	22,327	-
Constructions	-	-	-	242,130	-	242,130	-
Community, social and personal services	-	-	-	562,889	-	562,889	-
Electricity, gas and water supply	-	-	-	19,052	-	19,052	-
Financial, insurance, real estate and business services	3,411,841	210,902	56,436	249,816	16,499	3,945,494	-
Import, export, wholesale and retail trade and restaurant and hotels	-	-	-	1,178,627	-	1,178,627	-
Manufacturing	-	-	-	916,298	-	916,298	-
Mining and quarrying	-	-	-	23,729	-	23,729	-
Transportation and communication	-	-	-	594,035	-	594,035	-
Others	-	-	-	56,096	-	56,096	939,900
Gross total	3,411,841	410,734	197,565	3,864,999	16,499	7,901,638	939,900
Less: Allowances for impairment	-	-	-	(348,678)	-	(348,678)	-
Other assets not subject to credit risk	3,411,841	410,734	197,565	3,516,321	16,499	7,552,960	939,900
	-	-	-	-	454,955	454,955	-
	3,411,841	410,734	197,565	3,516,321	471,454	8,007,915	939,900



37. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(iv) Analysis of loans, advances and financing that are past due but not impaired and past due and impaired of the Group and Bank is as follows:

Group and Bank	Past due but not impaired				Past due and impaired RM'000	Total RM'000
	Up to 1 month RM'000	1 months RM'000	>2 - 3 months RM'000	>3 - 6 months RM'000		
2012						
Term loans						
- Hire purchase	119,281	61,553	4,502	4,222	41,881	231,439
- Leasing	147,028	45,521	20,384	9,042	27,531	249,506
- Other term loans	1,892,612	469,299	133,482	80,902	671,954	3,248,249
Revolving credits	254,097	45,778	16,482	3,100	36,142	355,599
	2,413,018	622,151	174,850	97,266	777,508	4,084,793

Group and Bank	Past due but not impaired				Past due and impaired RM'000	Total RM'000
	Up to 1 month RM'000	1 months RM'000	>2 - 3 months RM'000	>3 - 6 months RM'000		
2011						
Term loans						
- Hire purchase	141,013	22,259	10,529	9,816	53,190	236,807
- Leasing	177,204	11,928	18,887	15,491	24,161	247,671
- Other term loans	1,638,146	403,240	267,446	58,319	743,119	3,110,270
Revolving credits	212,953	23,906	5,130	4,146	24,116	270,251
	2,169,316	461,333	301,992	87,772	844,586	3,864,999



37. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(v) Collateral and credit enhancement

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral and credit enhancement obtained are charges over real estate properties, vehicles, plant and machinery, inventory, trade receivables, and guarantees.

Management monitors the market value of collateral and ascertain the market value of collateral obtained during its review for the adequacy of impairment losses.

(vi) Collateral and credit enhancement for loans, advances and financing

Collateral represents the asset pledged by a borrower and/or a third party on behalf of the customer, in whole or in part, to secure a credit exposure and/or potential credit exposure with the Bank.

The Group and the Bank shall consider accepting the collateral based on its marketability, measurability, stability, transferability, speed in realising the collateral value, enforceability and free from encumbrances. The collateral types and amounts held by the Group and the Bank are as follows:

2012	Gross loans	Estimated fair value of collateral (%)
Group and Bank		
Import, export, wholesale, retail trade, restaurants and hotels	1,275,245	74.4
Manufacturing	944,786	55.4
Community, social and personal services	473,460	72.3
Transportation and communication	641,681	64.0
Financial, insurance, real estate and business services	250,700	58.3
Constructions	353,473	41.7
Mining and quarrying	33,132	49.3
Agriculture, forestry and fishing	18,611	77.1
Electricity, gas and water supply	28,127	39.0
Others	65,578	0.0
	4,084,793	





37. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(vi) Collateral and credit enhancement for loans, advances and financing (cont'd.)

2011	Gross loans	Estimated fair value of collateral (%)
Group and Bank		
Import, export, wholesale, retail trade, restaurants and hotels	1,178,627	79.0
Manufacturing	916,298	65.2
Community, social and personal services	562,889	56.7
Transportation and communication	594,035	68.5
Financial, insurance, real estate and business services	249,816	78.0
Constructions	242,130	54.4
Mining and quarrying	23,729	42.9
Agriculture, forestry and fishing	22,327	81.6
Electricity, gas and water supply	19,052	29.0
Others	56,096	0.0
	<u>3,864,999</u>	

(vii) Restructured loans

Restructured loans refer to the financial assets that would otherwise be past due or impaired where there is fundamental revision in the principal terms and conditions of the facility. Restructuring shall be considered when the customer's business is still viable and is expected to remain viable after the restructuring. The gross and net total of restructured loans held by the Group and the Bank at the reporting date stood at RM504 million and RM441 million (2011: RM479 million and RM424 million), respectively.



37. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(viii) Credit quality for treasury credit risk exposures

The table below shows treasury credit risk exposures by the current counterparties' rating:

Group and Bank

Financial investments:

	Rating agency	Credit rating	Nominal value 2012 (RM'000)	Nominal value 2011 (RM'000)
Corporate bonds	RAM	AAA	35,000	50,000
Corporate bonds	MARC	AAA	35,000	-
Corporate bonds	RAM	AA1	135,000	145,000
Corporate bonds	MARC	AA+	65,000	15,000
Malaysian Government Bonds	N/A	Government guarantee	690,000	335,000
Government Guarantee Bonds	N/A	Government guarantee	225,000	40,000
Total			1,185,000	585,000

Deposits and placements with banks and other financial institutions:

Rating for counterparty	Total principal outstanding 2012 (RM'000)	Total principal outstanding 2011 (RM'000)
AAA	95,651	299,158
AA	1,222,033	2,177,850
A	650,053	772,725
Non-rated	244,871	139,129
Total	2,212,608	3,388,862





37. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(ix) Impairment assessment

For accounting purposes, the Group and Bank use an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed.

The main considerations for the loan impairment assessment include:

- (a) whether any payment of principal or interest is overdue by more than 180 days; or
- (b) whether there are any known difficulties in the cash flows of counterparties; or
- (c) when there has been requests for a rescheduling or restructuring of loan by the counterparty; or
- (d) when there has been an infringement of the original terms of the contract.

The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan, advance and financing to a counterparty on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen. The realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans, advances and financing and for held-to-maturity debt investments that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired. Allowances are evaluated separately.

In particular, for loans, advances and financing classified as impaired but which are not individually assessed for impairment, the Bank undertakes an assessment on the adequacy of provisions for such loans, advances and financing. The Bank provides additional collective impairment provisions for these loans, advances and financing where the amount provided under the transitional provision is inadequate.



37. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(x) Commitment and guarantees

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank. The table below shows the Bank's maximum credit risk exposure for commitments and guarantees.

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank could have to pay if the guarantee is called on. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment.

	2012 (RM'000)	2011 (RM'000)
Financial guarantees, Corporate Guarantee Schemes, Letters of Credit and others	228,480	141,891
Performance guarantees	208,232	132,683
Undisbursed commitments	876,270	647,169
	<u>1,312,982</u>	<u>921,743</u>

(b) Market risk

Asset and Liability Management Framework has been established in line with the best practices.

(i) Foreign exchange risk

The Group and the Bank are not subject to foreign exchange gain or loss on fluctuation of Japanese Yen ("JPY") exchange rate due to the foreign exchange gain or loss on settlement of the JPY term loans is compensated by the Government of Malaysia.

The financial liability of the Group and the Bank that is not denominated in its functional currency and guaranteed by the Government of Malaysia is as follows:





37. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

(i) Foreign exchange risk (cont'd.)

Functional currency of the Group and Bank	Financial liabilities held in non-functional currencies	
	2012 (RM'000)	2011 (RM'000)
Term loans - Japanese Yen (JPY)	111,703	185,061

(ii) Interest rate risk

Interest rate risk is the impact to earnings and economic value of the Group and the Bank due to fluctuations in interest rates.

Interest rate exposure arises from the differences in the maturities and repricing dates of assets, liabilities and off-balance sheet items. These mismatches are actively monitored and managed as part of the overall interest rate risk management process which is conducted in accordance with the Group's policies as approved by the Board.

The Group and the Bank may be exposed to a loss in earnings due to the interest rates structure of the statement of financial position arising from interest rates and yield curves changes. The sensitivity to interest rates arises from the mismatches in the repricing rates, cash flows and other characteristic of the assets and their corresponding liability funding. The Group and the Bank manages its interest rate risk exposure through the use of fixed/floating rate debts and financial instruments.

The table below shows the Group's and the Bank's interest income sensitivity based on possible parallel shift in interest rate.

	Group and Bank	
	2012 RM'000	2011 RM'000
Impact on profit or loss		
+ 50 basis points	2,946	2,443
- 50 basis points	(2,946)	(2,443)
Impact on reserves		
+ 50 basis points	5,925	2,925
- 50 basis points	(5,925)	(2,925)

37. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

(ii) Interest rate risk (cont'd.)

The table below summarises the Group's and Bank's exposure to interest rate risk. The table indicates effective average interest rates at the reporting date and the period in which the financial instruments repriced or mature, whichever is earlier.

Group 2012	Non-trading book							Effective interest rate %
	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	Total RM'000	
Assets								
Cash and short term funds	39,464	1,422,683	-	-	-	-	1,462,147	3.23
Deposits and placements with bank and other financial institutions	-	-	717,028	150,000	-	-	867,028	3.45
Available-for-sale financial investments	-	-	30,116	91,066	805,763	10,128	937,073	3.93
Held-to-maturity financial investments	-	-	-	105,755	158,212	-	263,967	4.19
Loans, advances and financing	12,161	8,079	268,932	1,208,046	2,322,756	-	3,819,974	5.29
Tax recoverable	-	-	-	-	-	15,769	15,769	
Other assets	-	2,654	9,699	1,081	12,163	61,881	87,478	3.70
Investments in associates	-	-	-	-	-	7,321	7,321	
Property, plant and equipment	-	-	-	-	-	147,778	147,778	
Investment properties	-	-	-	-	-	143,276	143,276	
Deferred tax assets	-	-	-	-	-	16,596	16,596	
	51,625	1,433,416	1,025,775	1,555,948	3,298,894	402,749	7,768,407	

37. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

(ii) Interest rate risk (cont'd.)

Group 2012 (cont'd.)	----- Non-trading book ----->					Effective interest rate %	
	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
Liabilities and shareholder's equity							
Deposits from customers	1,044,207	706,041	543,147	-	-	-	2,293,395
Deposits from other financial institutions	-	100,000	225,000	-	-	-	325,000
Medium term notes	-	-	-	500,000	-	-	500,000
Term loans	-	-	17,833	704,611	2,355,647	-	3,078,091
Other liabilities	884	716	20,875	589	40,680	165,201	228,945
Government funds	-	-	-	-	-	312,574	312,574
Total liabilities	1,045,091	806,757	806,855	1,205,200	2,396,327	477,775	6,738,005
Share capital	-	-	-	-	-	1,350,000	1,350,000
Accumulated losses	-	-	-	-	-	(331,616)	(331,616)
Other reserves	-	-	-	-	-	12,018	12,018
Total equity	-	-	-	-	-	1,030,402	1,030,402
Total liabilities and shareholder's equity	1,045,091	806,757	806,855	1,205,200	2,396,327	1,508,177	7,768,407
On-balance sheet interest sensitivity gap	(1,045,091)	(806,757)	(806,855)	(1,205,200)	(2,396,327)	(1,508,177)	
Off-balance sheet interest sensitivity gap	-	-	-	-	-	1,352,015	
Total interest sensitivity gap	(1,045,091)	(806,757)	(806,855)	(1,205,200)	(2,396,327)		

37. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

(ii) Interest rate risk (cont'd.)

Group 2011	----- Non-trading book ----->							Effective interest rate %
	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	Total RM'000	
Assets								
Cash and short term funds	2,024,185	1,323,516	-	-	-	-	3,347,701	3.43
Deposits and placements with bank and other financial institutions	-	-	64,648	-	-	-	64,648	3.65
Available-for-sale financial investments	-	-	27,472	163,309	219,953	-	410,734	3.62
Held-to-maturity financial investments	-	-	-	50,210	147,355	-	197,565	3.64
Loans, advances and financing	79,729	8,129	173,453	1,279,935	1,975,075	-	3,516,321	6.03
Tax recoverable	-	-	-	-	-	8,891	8,891	
Other assets	5,385	4,061	7,052	-	-	114,121	130,619	3.59
Investments in associates	-	-	-	-	-	57,537	57,537	
Property, plant and equipment	-	-	-	-	-	129,635	129,635	
Investment properties	-	-	-	-	-	159,988	159,988	
Deferred tax assets	-	-	-	-	-	34,613	34,613	
	2,109,299	1,335,706	272,625	1,493,454	2,342,383	504,785	8,058,252	



37. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

(ii) Interest rate risk (cont'd.)

Group 2011 (cont'd.)	----- Non-trading book ----->						Effective interest rate %
	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	
Liabilities and shareholder's equity							
Deposits from customers	1,412,696	1,361,440	279,211	100,000	-	-	3,153,347
Term loans	-	-	-	107,862	3,305,812	-	3,413,674
Other liabilities	131	11,384	29,320	3,964	-	142,752	187,551
Government funds	-	-	-	-	-	345,518	345,518
Total liabilities	1,412,827	1,372,824	308,531	211,826	3,305,812	488,270	7,100,090
Share capital	-	-	-	-	-	1,350,000	1,350,000
Accumulated losses	-	-	-	-	-	(404,429)	(404,429)
Other reserves	-	-	-	-	-	12,591	12,591
Total equity	-	-	-	-	-	958,162	958,162
Total liabilities and shareholder's equity	1,412,827	1,372,824	308,531	211,826	3,305,812	1,446,432	8,058,252
On-balance sheet interest sensitivity gap	696,472	(37,118)	(35,906)	1,281,628	(963,429)	(941,647)	
Off-balance sheet interest sensitivity gap	-	-	-	-	-	939,900	
Total interest sensitivity gap	696,472	(37,118)	(35,906)	1,281,628	(963,429)	939,900	

37. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

(ii) Interest rate risk (cont'd.)

Bank 2012	----- Non-trading book ----->						Effective interest rate %
	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	
Assets							
Cash and short term funds	39,069	1,422,683	-	-	-	-	1,461,752
Deposits and placements with bank and other financial institutions	-	-	717,028	150,000	-	-	867,028
Available-for-sale financial investments	-	-	30,116	91,066	805,763	10,128	937,073
Held-to-maturity financial investments	-	-	-	105,755	158,212	-	263,967
Loans, advances and financing	12,161	8,079	268,932	1,208,046	2,322,756	-	3,819,974
Tax recoverable	-	-	-	-	-	15,769	15,769
Other assets	-	2,654	9,699	1,081	12,163	61,192	86,789
Investments in subsidiaries	-	-	-	-	-	-*	-*
Investments in associates	-	-	-	-	-	750	750
Property, plant and equipment	-	-	-	-	-	147,778	147,778
Investment properties	-	-	-	-	-	143,276	143,276
Deferred tax assets	-	-	-	-	-	16,596	16,596
	51,230	1,433,416	1,025,775	1,555,948	3,298,894	395,489	7,760,752

* Denotes RM2.

37. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

(ii) Interest rate risk (cont'd.)

Bank 2012 (cont'd.)	----- Non-trading book ----->					Effective interest rate %	
	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
Liabilities and shareholder's equity							
Deposits from customers	1,044,207	706,041	543,147	-	-	-	2,293,395
Deposits from other financial institutions	-	100,000	225,000	-	-	-	325,000
Medium term notes	-	-	-	500,000	-	-	500,000
Term loans	-	-	17,833	704,611	2,355,647	-	3,078,091
Other liabilities	884	716	20,875	589	40,680	164,426	228,170
Government funds	-	-	-	-	-	312,574	312,574
Total liabilities	1,045,091	806,757	806,855	1,205,200	2,396,327	477,000	6,737,230
Share capital	-	-	-	-	-	1,350,000	1,350,000
Accumulated losses	-	-	-	-	-	(338,496)	(338,496)
Other reserves	-	-	-	-	-	12,018	12,018
Total equity	-	-	-	-	-	1,023,522	1,023,522
Total liabilities and shareholder's equity	1,045,091	806,757	806,855	1,205,200	2,396,327	1,500,522	7,760,752
On-balance sheet interest sensitivity gap	(993,861)	626,659	218,920	350,748	902,567	(1,105,033)	
Off-balance sheet interest sensitivity gap	-	-	-	-	-	(1,105,033)	
Total interest sensitivity gap	(993,861)	626,659	218,920	350,748	(963,429)		

37. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

(ii) Interest rate risk (cont'd.)

Bank 2011	Non-trading book						Non- interest sensitive RM'000	Total RM'000	Effective interest rate %
	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				
Assets									
Cash and short term funds	2,023,677	1,323,516	-	-	-	-	3,347,193	3.43	
Deposits and placements with bank and other financial institutions	-	-	64,648	-	-	-	64,648	3.65	
Available-for-sale financial investments	-	-	27,472	163,309	219,953	-	410,734	3.65	
Held-to-maturity financial investments	-	-	-	50,210	147,355	-	197,565	3.62	
Loans, advances and financing	79,729	8,129	173,453	1,279,935	1,975,075	-	3,516,321	6.03	
Tax recoverable	-	-	-	-	-	8,890	8,890		
Other assets	5,385	4,061	7,052	-	-	113,525	130,023	3.59	
Investments in subsidiaries	-	-	-	-	-	-*	-*		
Investments in associates	-	-	-	-	-	8,305	8,305		
Property, plant and equipment	-	-	-	-	-	129,635	129,635		
Investment properties	-	-	-	-	-	159,988	159,988		
Deferred tax assets	-	-	-	-	-	34,613	34,613		
	2,108,791	1,335,706	272,625	1,493,454	2,342,383	454,956	8,007,915		

* Denotes RM2.



37. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

(ii) Interest rate risk (cont'd.)

Bank 2011 (cont'd.)	----- Non-trading book ----->						Effective interest rate %
	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	
Liabilities and shareholder's equity							
Deposits from customers	1,412,696	1,361,440	279,211	100,000	-	-	3,153,347
Term loans	-	-	-	107,862	3,305,812	-	3,413,674
Other liabilities	131	11,384	29,320	3,964	-	134,931	179,73
Government funds	-	-	-	-	-	345,518	345,518
Total liabilities	1,412,827	1,372,824	1,372,824	211,826	3,305,812	480,449	7,092,269
Share capital	-	-	-	-	-	1,350,000	1,350,000
Accumulated losses	-	-	-	-	-	(446,945)	(446,945)
Other reserves	-	-	-	-	-	12,591	12,591
Total equity	-	-	-	-	-	915,646	915,646
Total liabilities and shareholder's equity	1,412,827	1,372,824	308,531	211,826	3,305,812	1,396,095	8,007,915
On-balance sheet interest sensitivity gap	695,964	(37,118)	(35,906)	1,281,628	(963,429)	(941,139)	
Off-balance sheet interest sensitivity gap	-	-	-	-	-	939,900	
Total interest sensitivity gap	695,964	(37,118)	(35,906)	1,281,628	(963,429)	939,900	

37. Financial risk management objectives and policies (cont'd.)

(c) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet its current and future payment obligations associated with financial obligations when they fall due. The liquidity and cash flow risks are managed by maintaining a diversity of funding sources and spreading debt repayments over a range of maturities.

The Bank manages its liquidity requirement on a day-to-day basis to ensure that funds are readily available for its operational needs, withdrawals of deposits and repayments to fund providers. The Bank may raise funds locally through government-to-government arrangements or direct negotiations.

The following table shows the maturity analysis of the Group's assets and liabilities based on undiscounted repayment obligations:

Group 2012	Non-trading book						Non- specific maturity RM'000	Total RM'000
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000			
Assets								
Cash and short term funds	39,464	1,425,336	-	-	-	-	1,464,800	
Deposits and placements with bank and other financial institutions	-	-	726,727	151,081	-	-	877,808	
Available-for-sale financial investments	-	-	30,116	91,066	814,162	10,128	945,472	
Held-to-maturity financial investments	-	-	-	105,755	161,977	-	267,732	
Loans, advances and financing	12,161	8,079	268,932	1,208,046	2,322,75	-	3,819,974	
Tax recoverable	-	-	-	-	-	15,769	15,769	
Other assets	-	-	-	-	-	61,881	61,881	
Investments in associates	-	-	-	-	-	7,321	7,321	
Property, plant and equipment	-	-	-	-	-	147,778	147,778	
Investment properties	-	-	-	-	-	143,276	143,276	
Total undiscounted financial assets	51,625	1,433,415	1,025,775	1,555,948	3,298,895	386,153	7,751,811	



37. Financial risk management objectives and policies (cont'd.)

(c) Liquidity risk (cont'd.)

The following table shows the maturity analysis of the Group's assets and liabilities based on undiscounted repayment obligations:

Group 2012 (cont'd.)	----- Non-trading book ----->						Total RM'000
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- specific maturity RM'000	
Liabilities							
Deposits from customers	1,044,567	706,757	564,611	-	-	-	2,315,935
Deposits from other financial institutions	-	100,524	225,000	-	-	-	325,524
Medium term notes	-	-	-	500,000	-	-	500,000
Term loans	-	-	17,833	704,611	2,389,191	-	3,111,635
Other liabilities	-	-	-	-	-	165,201	165,201
Government funds	-	-	-	-	-	312,574	312,574
Total undiscounted financial liabilities	1,044,567	807,281	807,444	1,204,611	2,389,191	477,775	6,730,869
Net maturity mismatches	(992,942)	626,134	218,331	351,337	909,704	(91,622)	1,020,942

37. Financial risk management objectives and policies (cont'd.)

(c) Liquidity risk (cont'd.)

The following table shows the maturity analysis of the Group's assets and liabilities based on undiscounted repayment obligations:

Group 2011	----- Non-trading book ----->						Non- specific maturity RM'000	Total RM'000
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000			
Assets								
Cash and short term funds	2,023,677	1,324,024	-	-	-	-	3,347,701	
Deposits and placements with banks and other financial institutions	10,770	8,122	55,707	-	-	-	74,599	
Available-for-sale financial investments	-	-	-	190,781	226,500	-	417,281	
Held-to-maturity financial investments	-	-	-	50,210	147,355	-	197,565	
Loans, advances and financing	99,729	50,984	233,453	1,359,935	1,772,220	-	3,516,321	
Tax recoverable	-	-	-	-	-	8,891	8,891	
Other assets	-	-	-	-	-	114,121	114,121	
Investments in associates	-	-	-	-	-	57,537	57,537	
Property, plant and equipment	-	-	-	-	-	129,635	129,635	
Investment properties	-	-	-	-	-	159,988	159,988	
Total undiscounted financial assets	2,134,176	1,383,130	289,160	1,600,926	2,146,075	470,172	8,023,639	
Liabilities								
Deposits from customers	1,412,696	1,361,440	279,211	112,749	-	-	3,166,096	
Term loans	262	22,768	58,640	115,790	3,261,013	-	3,458,473	
Other liabilities	-	-	-	-	-	130,003	130,003	
Government funds	-	-	-	-	-	345,518	345,518	
Total undiscounted financial liabilities	1,412,958	1,384,208	337,851	228,539	3,261,013	475,521	7,100,090	
Net maturity mismatches	721,218	(1,078)	(48,691)	1,372,387	(1,114,938)	(5,349)	923,549	



37. Financial risk management objectives and policies (cont'd.)

(c) Liquidity risk (cont'd.)

The following table shows the maturity analysis of the Bank's assets and liabilities based on undiscounted repayment obligations.

Bank 2012	----- Non-trading book ----->						Non- specific maturity RM'000	Total RM'000
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000			
Assets								
Cash and short term funds	39,069	1,425,336	-	-	-	-	-	1,464,405
Deposits and placements with banks and other financial institutions	-	-	726,727	151,081	-	-	-	877,808
Available-for-sale financial investments	-	-	30,116	91,066	814,162	-	10,128	945,472
Held-to-maturity financial investments	-	-	-	105,755	161,977	-	-	267,732
Loans, advances and financing	12,161	8,079	268,932	1,208,046	2,322,756	-	-	3,819,974
Tax recoverable	-	-	-	-	-	-	15,769	15,769
Other assets	-	-	-	-	-	-	61,192	61,192
Investments in associates	-	-	-	-	-	-	750	750
Property, plant and equipment	-	-	-	-	-	-	147,778	147,778
Investment properties	-	-	-	-	-	-	143,276	143,276
	51,230	1,433,415	1,025,775	1,555,948	3,298,895	-	378,893	7,744,156

37. Financial risk management objectives and policies (cont'd.)

(c) Liquidity risk (cont'd.)

Bank 2012 (cont'd.)	----- Non-trading book ----->					Non- specific maturity RM'000	Total RM'000
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000		
Liabilities							
Deposits from customers	1,044,567	706,757	564,611	-	-	-	2,315,935
Deposits from other financial institutions	-	100,524	225,000	-	-	-	325,524
Medium term notes	-	-	-	500,000	-	-	500,000
Term loans	-	-	17,833	704,611	2,389,191	-	3,111,635
Other liabilities	-	-	-	-	-	164,426	164,426
Government funds	-	-	-	-	-	312,574	312,574
Total undiscounted financial liabilities	1,044,567	807,281	807,444	1,204,611	2,389,191	477,000	6,730,094
Net maturity mismatches	(993,337)	626,134	218,331	351,337	909,704	(98,107)	1,014,062



37. Financial risk management objectives and policies (cont'd.)

(c) Liquidity risk (cont'd.)

The following table shows the maturity analysis of the Bank's assets and liabilities based on undiscounted repayment obligations.

Bank 2011	----- Non-trading book ----->						Non- specific maturity RM'000	Total RM'000
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000			
Assets								
Cash and short term funds	2,023,677	1,323,516	-	-	-	-	-	3,347,193
Deposits and placements with banks and other financial institutions	10,770	8,122	55,707	-	-	-	-	74,599
Available-for-sale financial investments	-	-	-	190,781	226,500	-	-	417,281
Held-to-maturity financial investments	-	-	-	50,210	147,355	-	-	197,565
Loans, advances and financing	99,729	50,984	233,453	1,359,935	1,772,220	-	-	3,516,321
Tax recoverable	-	-	-	-	-	-	8,890	8,890
Other assets	-	-	-	-	-	-	113,525	113,525
Investments in associates	-	-	-	-	-	-	8,305	8,305
Property, plant and equipment	-	-	-	-	-	-	129,635	129,635
Investment properties	-	-	-	-	-	-	159,988	159,988
	2,134,176	1,382,622	289,160	1,600,926	2,146,075	420,343	7,973,302	

37. Financial risk management objectives and policies (cont'd.)

(c) Liquidity risk (cont'd.)

Bank 2011 (cont'd.)	Non-trading book						Non- specific maturity RM'000	Total RM'000
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000			
Liabilities								
Deposits from customers	1,412,696	1,361,440	279,211	112,749	-	-	3,166,096	
Term loans	262	22,768	58,640	115,790	3,261,013	-	3,458,473	
Other liabilities	-	-	-	-	-	122,182	122,182	
Government funds	-	-	-	-	-	345,518	345,518	
Total undiscounted financial liabilities	1,412,958	1,384,208	337,851	228,539	3,261,013	467,700	7,092,269	
Net maturity mismatches	721,218	(1,586)	(48,691)	1,372,387	(1,114,938)	(47,357)	881,033	

The Bank is subject to liquidity requirements to support calls under outstanding contingent liabilities and undrawn credit facility commitments as disclosed in Notes 32. These have been incorporated in the net off-balance sheet position for year ended 31 December 2012. The total outstanding contractual amounts of these items do not represent future cash requirements since the Bank expects many of these contingent liabilities and commitments (such as direct credit substitutes and undrawn credit facilities) to expire without being called or drawn upon, and many of the contingent liabilities (such as letters of credit) are reimbursable by customers.



37. Financial risk management objectives and policies (cont'd.)

(d) Operational risk

Operational risk, which inherent in all business activities, is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Operational Risk Management ("ORM") takes place in a day-to-day basis at each business unit level. The Bank mitigates its operational risk by having comprehensive internal controls, conduct risk assessments through Risk Control Self Assessment ("RCSA"), fraud and loss analysis, system and procedures, which are reviewed regularly and subjected to periodical audits by Internal Auditors.



38. Islamic banking business

The state of affairs as at 31 December 2012 and results for the financial year then ended under the Islamic Banking business of the Bank and included in the Group and the Bank financial statements are summarised as follows:

Statements of financial position As at 31 December 2012

GROUP AND BANK				
	Notes	As at 31 December 2012 RM'000	As at 31 December 2011 RM'000	As at 1 January 2011 RM'000
Assets				
Cash and short-term funds	(a)	848,639	1,183,848	156,673
Deposits and placements with banks and other financial institutions	(b)	506,663	26,198	366
Available-for-sale financial investments	(c)	871,292	286,039	-
Held-to-maturity financial investments	(d)	208,308	141,750	-
Advances and financing	(e)	2,433,918	1,953,956	1,504,723
Other assets	(f)	19,804	9,887	6,677
Property and equipment		61,876	43,313	76,568
Investment properties		143,276	159,988	133,483
Deferred tax assets	(g)	-	4,105	-
Total assets		5,093,776	3,809,084	1,878,490
Liabilities				
Mudharabah deposit acceptance	(h)	1,189,534	1,233,301	-
Deposits from other financial institutions	(i)	50,000	-	-
Medium term note		500,000	-	-
Long term financing	(j)	1,039,623	699,716	721,822
Other liabilities	(k)	1,617,748	1,220,992	505,488
Government funds		161,005	188,593	203,140
Deferred tax liabilities	(g)	6,888	-	-
Total liabilities		4,564,798	3,342,602	1,430,450
Islamic general fund		528,978	466,482	448,040
Total liabilities and Islamic banking funds		5,093,776	3,809,084	1,878,490
Commitments	(t)	392,203	206,319	191,579



38. Islamic banking business (cont'd.)

Statements of comprehensive income For the financial year ended 31 December 2012

		GROUP AND BANK	
	Note	2012 RM'000	2011 RM'000
Income from Islamic banking business	(l)	245,398	155,939
Profit expense attributable to Islamic banking business	(n)	(70,051)	(40,100)
Net provision for profit equalisation reserve	(o)	(5,049)	-
Gross income from Islamic banking business		170,298	115,839
Other operating expenses		(74,407)	(77,000)
Operating profit	(p)	95,891	38,839
Writeback/(allowance) for impairment on advances and financing	(q)	(25,083)	(18,433)
Profit before taxation and zakat		70,808	20,406
Tax expense/ (credit)	(r)	(8,959)	2,071
Zakat	(s)	1,160	(5,086)
Net profit for the year		63,009	17,391
Other comprehensive income:			
Unrealised (loss) / profit on revaluation of available-for-sale financial investments		(513)	1,051
Other comprehensive income for the year		(513)	1,051
Total comprehensive income for the year		62,496	18,442

38. Islamic banking business (cont'd.)

Statements of changes in equity
For the financial year ended 31 December 2012

Group and Bank	Capital funds RM'000	Non- distributable available- for-sale reserve RM'000	Non- distributable equalisation reserve RM'000	Non- distributable profit	Accumulated losses RM'000	Total equity RM'000
At 1 January 2012 under FRS	550,564	1,051	-	-	(115,430)	436,185
- effects of MFRS adoption (Note 39)	-	-	-	-	30,297	30,297
At 1 January 2012 under MFRS	550,564	1,051	-	-	(85,133)	466,482
Unrealised loss on revaluation of available-for-sale financial investments	-	(513)	-	-	-	(513)
Net provision of profit equalisation reserve for the year	-	-	1,009	-	(1,009)	-
Net profit for the year	-	-	-	-	63,009	63,009
Total comprehensive income for the year	-	(513)	1,009	-	62,000	62,496
At 31 December 2012	550,564	538	1,009	-	(23,133)	528,978
At 1 January 2011 under FRS	550,564	-	-	-	(118,116)	432,448
- effects of MFRS adoption (Note 39)	-	-	-	-	15,592	15,592
At 1 January 2011 under MFRS	550,564	-	-	-	(102,524)	448,040
Unrealised profit on revaluation of available-for-sale financial investments	-	1,051	-	-	-	1,051
Net profit for the year	-	-	-	-	17,391	17,391
Total comprehensive income for the year	-	1,051	-	-	17,391	18,442
At 31 December 2011	550,564	1,051	-	-	(85,133)	466,482



38. Islamic banking business (cont'd.)

Statements of cash flows For the financial year ended 31 December 2012

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Cash flows from operating activities		
Profit before taxation and zakat	70,808	20,406
Adjustments for:		
Allowance/ (writeback) for impairment on advances and financing	(3,180)	21,449
Advances and financing written-off	51,340	5,599
Recoveries from bad loans	(23,077)	(8,615)
Government funds released	(16,665)	(14,523)
Depreciation of property and equipment	6,605	6,005
Operating profit before working capital changes	85,831	30,321
Changes in working capital:		
Other assets	(7,883)	(3,210)
Deposits and placements with financial institutions	(330,465)	(25,832)
Deposits from customers	(43,767)	1,233,301
Deposit from other financial institutions	50,000	-
Advances and financing	(515,968)	(474,173)
Other liabilities	398,102	718,581
Cash (used in)/ generated from operations	(364,150)	1,478,988
Zakat paid	(187)	(1,918)
Net cash (used in)/generated from operating activities	(364,337)	1,477,070
Cash flow from investing activities		
Purchase of property, plant and equipments	(8,455)	-
Purchase of negotiable instrument deposits	(150,000)	-
Proceeds from redemption of private debt securities	1,337,674	-
Purchase of private debt securities	(1,990,000)	(427,789)
Net cash used in investing activities	(810,781)	(427,789)



38. Islamic banking business (cont'd.)

Statements of cash flows For the financial year ended 31 December 2012 (cont'd.)

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Cash flows from financing activities		
Drawdown from long-term advances	427,061	-
Repayment of long-term advances	(87,152)	(22,106)
Proceeds from medium term notes	500,000	-
Net cash generated from/(used in) financing activities	<u>839,909</u>	<u>(22,106)</u>
Net (decrease)/ increase in cash and cash equivalents	(335,209)	1,027,175
Cash and cash equivalents at beginning of year	<u>1,183,848</u>	<u>156,673</u>
Cash and cash equivalents at end of year	<u>848,639</u>	<u>1,183,848</u>

Cash flows from financing activities

For the purpose of statements of cash flows, cash and cash equivalents represent the following items in the statements of financial position:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Cash and short term funds	<u>848,639</u>	<u>1,183,848</u>

Notes to the financial statements for the financial year ended 31 December 2012

(a) Cash at banks and on hand

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Cash at banks and on hand	27,230	11,635
Money at call and deposit placements maturing within three months	<u>821,409</u>	<u>1,172,213</u>
	<u>848,639</u>	<u>1,183,848</u>





38. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2012 (cont'd.)

(b) Deposits and placements with banks and other financial institutions

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Licensed banks	408,689	24,198
Other financial institutions	97,974	2,000
	<u>506,663</u>	<u>26,198</u>

The maturity structure of deposits and placements are as follows:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Three months to six months	186,207	20,499
Six months to one year	170,456	5,699
One to five years	150,000	-
	<u>506,663</u>	<u>26,198</u>

The weighted average effective profit rate for deposits and placements with banks and other financial institutions is 3.29% (2011: 3.65%) per annum.

(c) Available-for-sale financial investments

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
At fair value		
Money market instruments:		
Private debt securities	417,316	96,285
Malaysian Government Investment issue	453,976	189,754
Total available-for-sale financial investment	<u>871,292</u>	<u>286,039</u>



38. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2012 (cont'd.)

(c) Available-for-sale financial investments (cont'd.)

The maturity structure of available-for-sale money market instruments are as follows:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Within one year	-	10,017
More than one year to three years	75,738	15,209
More than three years to five years	5,145	97,357
More than five years	790,409	163,456
	<u>871,292</u>	<u>286,039</u>

(d) Held-to-maturity financial investments

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
At amortised cost		
<u>Money market instruments:</u>		
Malaysian Government Investment issue	90,334	90,385
Cagamas bonds	5,038	5,057
	<u>95,372</u>	<u>95,442</u>
<u>Unquoted securities:</u>		
Private debt securities	112,936	46,308
Total held-to-maturity financial investments	<u>208,308</u>	<u>141,750</u>

The maturity structure of held-to-maturity money market instruments and private debt securities are as follows:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Within one year	-	-
More than one year to three years	45,095	35,098
More than three years to five years	-	10,041
More than five years	163,213	96,611
	<u>208,308</u>	<u>141,750</u>



38. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2012 (cont'd.)

(d) Held-to-maturity financial investments (cont'd.)

The indicative market value of held-to-maturity money market instruments are as follows:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Malaysian Government Investment Issues	93,179	92,300
Cagamas bonds	10,185	5,116
Private debt securities	114,694	47,774

(e) Advances and financing

	GROUP AND BANK		
	As at 31 December 2012 RM'000	As at 31 December 2011 RM'000	As at 1 January 2011 RM'000
Bai Bithaman Ajil	1,343,491	1,112,202	934,444
Ijarah	242,882	234,269	511,880
Murabahah	40,091	16,362	8,454
Bai' Dayn	60,389	54,105	25,810
Istisna	438,661	320,842	157,695
Ijarah Thumma Al-Bai	222,883	224,014	90,656
Murabahah Dayn	191,279	120,055	73,963
Mali	19,049	117,302	58,931
Maluk	206	3,428	3,887
Bai' Inah - Personal Micro Financing	258,837	14,233	89
Staff financing	31,477	31,422	32,784
	<u>2,849,245</u>	<u>2,248,234</u>	<u>1,898,593</u>
Less: unearned income	(327,042)	(150,970)	(150,473)
Gross advances and financing	<u>2,522,203</u>	<u>2,097,264</u>	<u>1,748,120</u>
Less: allowance for impairment on advances and financing			
- Individual assessment allowance	(45,674)	(92,010)	(191,653)
- Collective assessment allowance	(42,611)	(51,298)	(51,744)
Net advances and financing	<u>2,433,918</u>	<u>1,953,956</u>	<u>1,504,723</u>



38. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2012 (cont'd.)

(e) Advances and financing (cont'd.)

The maturity profile of the gross advances and financing are as follows:

	GROUP AND BANK		
	As at 31 December 2012 RM'000	As at 31 December 2011 RM'000	As at 1 January 2011 RM'000
	Maturity within one year	227,579	123,035
More than one year to three years	418,175	346,673	304,028
More than three years to five years	725,233	543,981	428,679
More than five years	1,151,216	1,083,575	717,398
	<u>2,522,203</u>	<u>2,097,264</u>	<u>1,748,120</u>

(f) Other assets

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Other receivables and prepayments	4,043	3,310
Income receivables	15,761	6,577
	<u>19,804</u>	<u>9,887</u>

(g) Deferred tax

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
At 1 January 2012/2011	4,105	-
Recognised in profit or loss (Note r)	(10,993)	4,105
At 31 December 2012/2011	<u>(6,888)</u>	<u>4,105</u>
Presented after appropriate offsetting as follows:		
Deferred tax assets	25,561	35,071
Deferred tax liabilities	(32,449)	(30,966)
	<u>(6,888)</u>	<u>4,105</u>





38. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2012 (cont'd.)

(g) Deferred tax (cont'd.)

The components and movement of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred tax assets of the Group and Bank:

	Collective impairment allowance RM'000	Unabsorbed business losses RM'000	Provision RM'000	Total RM'000
At 1 January 2012 under FRS	13,842	15,301	5,928	35,071
Effect of MFRS adoption	-	-	-	-
At 1 January 2012 under MFRS	13,842	15,301	5,928	35,071
Recognised in profit or loss	2,371	(7,571)	(4,310)	(9,510)
At 31 December 2012	16,213	7,730	1,618	25,561
At 1 January 2011 under FRS	3,594	-	-	3,594
Effect of MFRS adoption	10,248	15,301	5,928	31,477
At 1 January 2011 under MFRS	13,842	15,301	5,928	35,071
Recognised in profit or loss	-	-	-	-
At 31 December 2011	13,842	15,301	5,928	35,071

Deferred tax liabilities of the Group and Bank:

	Property and equipment RM'000	Total RM'000
At 1 January 2012 under FRS	(30,966)	(30,966)
Effect of MFRS adoption	-	-
At 1 January 2012 under MFRS	(30,966)	(30,966)
Recognised in profit or loss	(1,483)	(1,483)
At 31 December 2012	(32,449)	(32,449)
At 1 January 2011 under FRS	(29,391)	(29,391)
Effect of MFRS adoption	(1,575)	(1,575)
At 1 January 2011 under MFRS	(30,966)	(30,966)
Recognised in profit or loss	-	-
At 31 December 2011	(30,966)	(30,966)



38. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2012 (cont'd.)

(h) Mudharabah deposit acceptance

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Fixed deposits and negotiable instruments of deposits less than one year	1,189,534	1,233,301

(i) The deposits are sourced from the following types of customers:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Government and statutory bodies	1,148,784	1,233,301
Business enterprises	40,750	-
	1,189,534	1,233,301

(ii) The deposits maturity structure are as follows:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Less than three months	569,782	1,181,201
Three months to six months	105,172	29,500
Six months to one year	514,580	22,600
	1,189,534	1,233,301





38. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2012 (cont'd.)

(i) Deposits from other financial institutions

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Licensed banks	50,000	-

(i) The deposits maturity structure are as follows:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Three months to six months	50,000	-

(j) Long term financing

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Long term financing - Unsecured	1,039,623	699,716

The maturity structure of the term loans are as follows:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Within twelve months	95,543	-
More than twelve months	944,080	699,716
	1,039,623	699,716

The unsecured term loans denominated in RM are sourced from the following:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Loans from:		
- Government of Malaysia	629,371	699,716
- Other financial institutions	410,252	-
	1,039,623	699,716

The interest rates on the loans from Government of Malaysia is 1.50% per annum.



38. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2012 (cont'd.)

(k) Other liabilities

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Other payables	1,582,337	1,209,624
Accrued profit on long term advances financing	35,411	11,368
	<u>1,617,748</u>	<u>1,220,992</u>

(l) Income from Islamic banking business

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Income from advances and financing:		
- Bai Bithaman Ajil	66,253	49,175
- Ijarah	16,466	17,534
- Bai' Istisna	17,491	14,277
- Ijarah Thuma Al-Bai	7,370	7,412
- Murabahah Dayn	7,920	5,118
- Mali	9,736	5,324
- Bai' Dayn	2,948	2,332
- Maluk	134	225
- Bai' Murabahah	1,669	713
- I-cash	1,817	98
- Others	1,540	1,433
	<u>133,344</u>	<u>103,641</u>
Mudharabah deposit acceptance	52,474	13,162
Available-for-sale financial investments	20,078	5,181
Held-to-maturity financial investments	7,809	4,514
Other income (Note 38(m))	31,693	29,441
	<u>245,398</u>	<u>155,939</u>



38. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2012 (cont'd.)

(m) Other income

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Fee income	7,006	7,342
Rental income	7,961	7,540
Government fund released	16,665	14,523
Others	61	36
	<u>31,693</u>	<u>29,441</u>

(n) Profit expense attributable to Islamic banking business

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Mudharabah deposit acceptance	56,149	11,836
Deposits from other financial institutions	78	-
Medium term note	7,040	-
Long term financing	6,690	28,264
Others	94	-
	<u>70,051</u>	<u>40,100</u>

(o) Profit equalisation reserve ("PER")

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
At beginning of the year	-	-
Provided during the year	5,049	-
At end of the year	<u>5,049</u>	-

Profit equalisation reserve at the end of the financial year of which the shareholder's portion is RM1,009,000.

Under the new BNM PER Guideline, the PER of the Bank is to be classified as a separate reserve in equity.



38. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2012 (cont'd.)

(p) Other operating expenses

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Personnel expenses	42,484	50,756
Establishment related expenses	12,842	12,225
Promotion and marketing expenses	2,609	1,744
Administration and general expenses	16,472	12,275
	<u>74,407</u>	<u>77,000</u>

Included in the administration expenses above is depreciation charge for the year for property and equipment of RM6,605,000 (2011: RM6,005,000).

(q) Allowance/ (writeback) for impairment on advances and financing

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Allowance / (writeback) for advances and financing:		
- Individual assessment allowance	(36,704)	(19,996)
- Collective assessment allowance	33,524	41,445
Advances and financing written-off	51,340	5,599
Recoveries from advances and financing written-off	(23,077)	(8,615)
	<u>25,083</u>	<u>18,433</u>

(r) Tax expense/ (credit)

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Income tax:		
Income tax expense for the year	-	2,034
Overprovision in prior years	(2,034)	-
	<u>(2,034)</u>	<u>2,034</u>
Deferred tax:		
Origination of temporary differences (Note g)	10,993	(4,105)
	<u>8,959</u>	<u>(2,071)</u>

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2011: 25%) of the estimated assessable profit for the year.



38. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2012 (cont'd.)

(r) Tax expense/ (credit) (cont'd.)

Tax savings during the current financial year arising from utilisation of the following items:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Utilisation of previously unrecognised tax losses	30,172	49,128
Utilisation of capital allowances	3,169	13,547
	<u>33,341</u>	<u>62,675</u>

The reconciliation between tax expense and accounting profit of the Group and Bank multiplied by the applicable corporate tax rate are as follows:

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Profit before taxation and zakat	<u>70,808</u>	<u>20,406</u>
Income tax at 25% (2011: 25%)	17,702	5,102
Non-deductible expenses	3,980	21,302
Non-taxable income	(5,527)	(12,499)
Tax exempt income	(5,162)	(307)
Overprovision of tax expenses in prior years	(2,034)	-
Utilisation of previously unrecognised tax losses	-	(15,669)
Tax expense/ (credit) for the year	<u>8,959</u>	<u>(2,071)</u>

(s) Zakat

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Zakat for the year	1,110	3,870
(Overprovision)/ underprovision of zakat expense in prior year	<u>(2,270)</u>	<u>1,216</u>
	<u>(1,160)</u>	<u>5,086</u>



38. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2012 (cont'd.)

(t) Commitments

	GROUP AND BANK	
	2012 RM'000	2011 RM'000
Commitment - Financial guarantees	392,203	206,319

Other than the above, the Group and the Bank do not have contingencies under Islamic banking business.





39. MFRS adoption

The Bank complied fully with the requirements of MFRS 139 for the purpose of computing the collective allowance ("CA") from 1 January 2012. The change in accounting policy has been applied retrospectively. Previously, collective allowance was computed in accordance with the transitional provision prescribed by Bank Negara Malaysia.

The effects of the first time adoption of MFRS are as follows:

Statements of financial position

Group and Bank	FRS as at 31 Dec 2011 RM'000	MFRS adoption-CA RM'000	MFRS as at 31 Dec 2011 RM'000
<u>Assets</u>			
Loans, advances and financing			
- Gross loans, advances and financing	3,864,997	2	3,864,999
- Individual assessment allowance	(245,341)	-	(245,341)
- Collective assessment allowance	(98,992)	(4,345)	(103,337)
- Net loans, advances and financing (Note 8)	3,520,664	(4,343)	3,516,321
Deferred tax assets	-	34,613	34,613
<u>Liabilities</u>			
Government funds	339,392	6,126	345,518
Deferred tax liability	24,468	(24,468)	-



39. MFRS adoption (cont'd.)

Statements of comprehensive income

	FRS as at 31 Dec 2011 RM'000	MFRS adoption-CA RM'000	MFRS as at 31 Dec 2011 RM'000
Group			
Other operating income	35,520	245	35,765
Allowance for impairment loss - Loans, advances and financing	41,196	(32,661)	8,535
Bank			
Other operating income	35,506	245	35,751
Allowance for impairment loss - Loans, advances and financing	41,196	(32,661)	8,535
Taxation	28,878	(59,081)	(30,203)

Statements of changes in equity

	FRS as at 31 Dec 2011 RM'000	MFRS adoption-CA RM'000	MFRS as at 31 Dec 2011 RM'000
Group			
Accumulated losses	(453,041)	48,612	(404,429)
Bank			
Accumulated losses	(495,557)	48,612	(446,945)



39. MFRS adoption (cont'd.)

Statements of financial position

Group and Bank	FRS as at 1 Jan 2011 RM'000	MFRS adoption-CA RM'000	MFRS as at 1 Jan 2011 RM'000
<u>Assets</u>			
Loans, advances and financing			
- Gross loans, advances and financing	3,980,253	-	3,980,253
- Individual assessment allowance	(592,948)	-	(592,948)
- Collective assessment allowance	(141,576)	28,316	(113,260)
- Net loans, advances and financing (Note 8)	3,245,729	28,316	3,274,045
<u>Liabilities</u>			
Government funds	347,933	18,240	366,173

Statements of changes in equity

Group	FRS as at 1 Jan 2011 RM'000	MFRS adoption-CA RM'000	MFRS as at 1 Jan 2011 RM'000
Accumulated losses	(566,668)	10,077	(556,591)
Bank			
Accumulated losses	(607,841)	10,077	(597,764)



39. MFRS adoption (cont'd.)

Islamic banking business

Bank	FRS as at 31 Dec 2011 RM'000	MFRS adoption-CA RM'000	MFRS as at 31 Dec 2011 RM'000
<u>Assets</u>			
Advances and financing			
- Gross advances and financing	2,097,264	-	2,097,264
- Individual assessment allowance	(92,010)	-	(92,010)
- Collective assessment allowance	(57,709)	6,411	(51,298)
- Net advances and financing (Note 38 (e))	1,947,545	6,411	1,953,956
Deferred tax assets	-	4,105	4,105
<u>Liabilities</u>			
Government funds	182,575	6,018	188,593
Deferred tax liabilities	25,797	(25,797)	-

Statement of comprehensive income

Bank	FRS as at 31 Dec 2011 RM'000	MFRS adoption-CA RM'000	MFRS as at 31 Dec 2011 RM'000
Income from Islamic banking business	144,069	11,870	155,939
Allowance for impairment loss			
- Advances and financing	8,634	(27,067)	(18,433)
Taxation	27,831	(29,902)	(2,071)



39. MFRS adoption (cont'd.)

Islamic banking business (cont'd.)

Statement of changes in equity

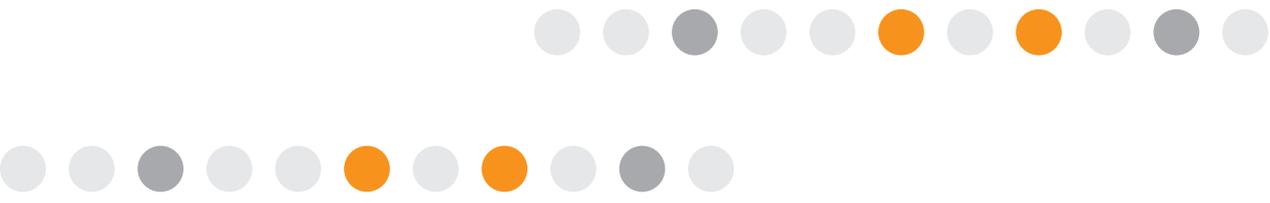
	FRS as at 31 Dec 2011 RM'000	MFRS adoption-CA RM'000	MFRS as at 31 Dec 2011 RM'000
Bank			
Accumulated losses	(115,430)	30,297	(85,133)

Statement of financial position

	FRS as at 31 Dec 2011 RM'000	MFRS adoption-CA RM'000	MFRS as at 31 Dec 2011 RM'000
Bank			
<u>Assets</u>			
Advances and financing			
- Gross advances and financing	1,748,120	-	1,748,120
- Individual assessment allowance	(190,997)	(656)	(191,653)
- Collective assessment allowance	(85,124)	33,380	(51,744)
- Net advances and financing (Note 38 (e))	1,471,999	32,724	1,504,723
<u>Liabilities</u>			
Government funds	185,253	17,887	203,140

Statement of change in equity

	FRS as at 1 Jan 2011 RM'000	MFRS adoption-CA RM'000	MFRS as at 1 Jan 2011 RM'000
Bank			
Accumulated losses	(118,116)	15,592	(102,524)



SMALL MEDIUM ENTERPRISE DEVELOPMENT BANK MALAYSIA BERHAD (49572-H)

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