

A black and white photograph of a cable-stayed bridge, viewed from a low angle looking up at the tower and the cables. The cables create a complex geometric pattern against the sky. In the background, a city skyline is visible under a clear sky.

2013
Annual Report
For business • For growth • For life



SME BANK

VISION

A full-fledged specialised financial institution, an international benchmark for nurturing SME excellence.

MISSION

To develop SMEs to be the nation's engine of growth, in line with the Government's economic agenda.

CONTENTS



Board of Directors	2 - 5
Board of Director's Profile	6 - 15
Senior Management	16 - 20
Shariah Committee Members	21 - 22
Chairman's Statement	23 - 26
Group Managing Director's Operational Review	27 - 29
Statements of Corporate Governance	30 - 46
Special Report - Project Wisdom	48 - 50
Special Report - Network Operations	51
Special Report - Talents Development	52 - 54
Special Report - Specific Intervention Programme	55 - 56
Special Report - EPP	57 - 59
Special Report - CEDAR	60 - 63
Special Report - Corporate Responsibility	64 - 66
Calendar of Events	67 - 70
Financial Statements	71 - 260





BOARD OF DIRECTORS



BOARD OF DIRECTORS



1

Tan Sri Ab Aziz Kasim
CHAIRMAN

2

Datuk Mohd Radzif Mohd Yunus
GROUP MANAGING DIRECTOR

3

Encik Khairuzzaman Muhammad
**INDEPENDENT
NON-EXECUTIVE DIRECTOR**

4

Dato' Adzmy Abdullah
**INDEPENDENT
NON-EXECUTIVE DIRECTOR**



5

6

7

8

9

5

Encik Ishak Ismail
INDEPENDENT
NON-EXECUTIVE DIRECTOR

7

Encik Asri Hamidon
NON-INDEPENDENT
NON-EXECUTIVE DIRECTOR

9

Puan Hasmah Razali
GROUP COMPANY
SECRETARY

6

Datuk Mohd Nasir Ahmad
INDEPENDENT
NON-EXECUTIVE DIRECTOR

8

Dato' Jamelah Jamaluddin
INDEPENDENT
NON-EXECUTIVE DIRECTOR





The Cessna U206G (9M-IFA) aircraft refurbished by Systematic Aviation Sdn Bhd



BOARD OF DIRECTOR'S PROFILE



BOARD OF DIRECTOR'S PROFILE



Tan Sri Ab Aziz Kasim
CHAIRMAN

Tan Sri Ab Aziz Kasim was appointed as the Non-Executive Chairman of Small Medium Enterprise Development Bank Malaysia Berhad (SME Bank) on 1 May 2014.

Prior to joining SME Bank, Tan Sri Aziz was a government official with over 35 years of working experience in various ministries with his last designation being the Chief of Staff to the Honourable Prime Minister of Malaysia (Staff III), equivalent to a Secretary-General of a senior ministry.

Having started his career in the private sector, Tan Sri Aziz was a bank officer with the United Malayan Banking Corporation (now RHB Banking Group) before joining the Administrative and Diplomatic Service (PTD) in 1979 as an Assistant Director attached to the Public Service Department. He had served in numerous capacities in the ministries of environment, education, defence and the Prime Minister's Department.

He was the longest serving officer to the current Prime Minister of Malaysia, YAB Dato' Sri Mohd Najib bin Tun Abdul Razak having joined him in 1997, then as Senior Private Secretary to the Minister of Education.

He is a highly decorated officer having received accolades from the states of Pahang, Sabah, Kedah, Kelantan and Malacca with the highest honour being "Panglima Setia Mahkota (P.S.M)" from the Federal Government which carries the title of Tan Sri.

Tan Sri Aziz obtained a BA (Hons.) in South East Asian Studies from the prestigious University of Malaya having achieved Second Class Upper. He went on to complete his Masters in International Relations and Strategic Studies at University of Denver, Colorado, U.S.A.





Datuk Mohd Radzif Mohd Yunus
GROUP MANAGING DIRECTOR

Datuk Mohd Radzif Mohd Yunus was appointed as Managing Director of Small Medium Enterprise Development Bank Malaysia Berhad (SME Bank) on 1 July 2010 and had recently been appointed as the Group Managing Director of SME Bank on 1 January 2014.

Datuk Mohd Radzif comes from a diverse management background. He started his career in academia as a lecturer before following this up with a stint in an international consultancy firm. From here he joined the senior management of a financial institution and thereafter took up the position of Chief Executive Officer of a local conglomerate involved in diversified businesses. Being driven by his entrepreneurial spirit, Datuk Mohd Radzif ventured into his own business but he was soon back to serving a higher purpose when he was called to take up the position of Chief Executive Officer of two pilgrimage fund companies, as part of the companies' turnaround exercise. This was achieved within 18 months of his appointment date. Subsequently, the Government appointed him as the Chief Executive Officer of Institut Jantung Negara Sdn. Bhd. (National Heart Institute) effective September 2003. In 2006, he assumed duties as the Group Managing Director of IJN Holdings Sdn. Bhd. and in charge of three companies as its Group Managing Director and Chief Executive Officer including Institut Jantung Negara Sdn. Bhd., IJN Capital Sdn. Bhd. and IJN College Sdn. Bhd.

Datuk Mohd Radzif is also the Chairman of Association of Development Finance Institutions of Malaysia (ADFIM) and a Vice Chairman of Association of National Development Finance Institutions in Member Countries of The Islamic Development Bank (ADFIMI). He was also the member of Board of Advisor for Franchise Association, Committee of Advisory for UKM-CESMED and Board Member of Kinrara Berhad, SIME Darby Healthcare and IRM Berhad. Datuk Mohd Radzif was given the Malaysian Business Leadership Award for Healthcare in 2009.

Datuk Mohd Radzif has also given talks in public seminars and courses in his area of expertise and management. He has delivered papers and talks in the areas of Property Investment, Valuation, Financing, Project Financing, Turnaround Management and Healthcare Management both in local and international seminars.

Datuk Mohd Radzif was conferred the "Darjah Kebesaran Panglima Jasa Negara (P.J.N.)" which carries Datukship by the Seri Paduka Baginda Yang di-Pertuan Agong XIII on 7 June 2008.



BOARD OF DIRECTOR'S PROFILE



Encik Khairuzzaman Muhammad
INDEPENDENT
NON-EXECUTIVE DIRECTOR

Encik Khairuzzaman Muhammad was appointed as Independent Non-Executive Director of SME Bank on 2 February 2011. An alumnus of the 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. He has sat in several committees of the Malaysian Bar deliberating on constitutional law issues and law reform.

Encik Khairuzzaman is a Partner specialising in corporate advisory, mergers and acquisitions, land and Economic Corridor 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 has appeared in many landmark cases before the highest

Courts in Malaysia involving commercial, banking, and administrative and constitutional law matters. He has also advised the Government of Malaysia, its various agencies and Government Linked Companies in a multitude of matters.

Encik Khairuzzaman's experience and advice have 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 Johore.

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. He is the Vice-President of the Victoria Institution Old Boys' Association and Deputy Chairman of the Victoria Institution Board of Governors.





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 Development and Cooperative Development (MECD) on November 2007. He has held senior positions in the MECD since he joined the Ministry in 2005. Among other Ministries he has served includes the Prime Minister's Department, Ministry of Agriculture and Ministry of Coordination of Public Enterprise.

Dato' Adzmy was appointed Chairman of Design Development Centre from 2007 - 2008. He had served as a Board Member of Sarawak State Economic Development Cooperation, University Teknikal Mara Sdn Bhd (UniKL), Malaysia Franchise Association, Uda Holdings Berhad, Perbadanan Nasional Berhad and a Member of Business Advisory Council of Perbadanan Usahawan Nasional Berhad.

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



BOARD OF DIRECTOR'S PROFILE



Encik Ishak Ismail
INDEPENDENT
NON-EXECUTIVE DIRECTOR

Encik Ishak Ismail was appointed as an Independent Non-Executive Director of SME Bank on 3 May 2011. He has wide experience in the financial sector management 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 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).





Datuk Mohd Nasir Ahmad
INDEPENDENT
NON-EXECUTIVE DIRECTOR

Datuk Mohd Nasir Ahmad, was appointed as an Independent Non-Executive Director of SME Bank on 20 September 2011. He has 32 years 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), Syarikat 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 was the President of the Malaysian Institute of Accountants (August 2011 – July 2013) and currently a Council Member of the Association of Chartered Certified Accountants (United Kingdom).

Currently, Datuk Mohd Nasir is a Board Member of Bina Darulaman Berhad, MIMOS Berhad, Sumatec Resources Berhad, Credit Guarantee Corporation Malaysia Berhad, UKM Holdings Sdn. Bhd. and Prokhas Sdn. Bhd.



BOARD OF DIRECTOR'S PROFILE



Encik Asri Hamidon
NON-INDEPENDENT
NON-EXECUTIVE DIRECTOR

Encik Asri Hamidon was appointed as 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.

Encik Asri is currently a Deputy Under Secretary, Government Investment Companies Division, Minister of Finance Incorporated (MOF Inc.). He is also a member of various organizations in Malaysia such as Institut Jantung Negara Sdn. Bhd., Sarawak Hidro Sdn. Bhd., Malaysia Convention & Exhibition Bureau (MyCeb), and Bina Darulaman Berhad.





Dato' Jamelah Jamaluddin
INDEPENDENT
NON-EXECUTIVE DIRECTOR

Dato' Jamelah Jamaluddin joined SME Bank as Independent Non-Executive Director on 1 February 2014. She was previously attached to Kuwait Finance House (Malaysia) Berhad (KFHMB) and held the distinction of being the first woman to head KFHMB as Chief Executive Officer, representing a special milestone and significant breakthrough within the Kuwait Finance House Group.

Prior to her position with KFHMB, Dato' Jamelah was the Managing Director at RHB Islamic Bank Berhad. She led the operations of the Bank and the overall strategy for RHB Banking Group, in relation to the Group's Islamic business. She had established the Islamic Investment banking division and set-up twelve RHB Islamic branches throughout Malaysia. Her other key achievements include the establishment of the Az-Zahra unit - the only Islamic retail banking branch dedicated to women, and the introduction of Islamic debit cards and credit cards for RHB Islamic Bank. During her tenure with RHB Group, Dato' Jamelah was also instrumental in the success of the listing and global distribution of Air Asia Berhad.

Dato' Jamelah was also the Principal Officer of Macquarie Malaysia Sdn. Bhd. and Division Director of Macquarie Bank Limited (Labuan

Branch) where she was involved in advisory and fund management. During her stint with Macquarie Malaysia, she was instrumental in setting up the infrastructure fund for the Group in Korea through the acquisition of seven tunnels. She was responsible in advisory works for numerous transactions namely issuance of Islamic Debt Securities for KL Sentral Sdn. Bhd., Road Builder (M) Sdn. Bhd., Syarikat Air Johor Sdn. Bhd., Bina Riang Satellite System Sdn. Bhd., Kemas Highway Sdn. Bhd., and New Pantai Expressway totalling to approximately RM3.8 billion.

Throughout her illustrious professional career, Dato' Jamelah has held various key positions in the financial sector including as COO of RHB Sakura Merchant Bankers Berhad and Perwira Affin Merchant Bankers Berhad.

Dato' Jamelah holds a Masters in Business Administration in Finance from Central Michigan University, and a Bachelor of Business Administration in Finance from Western Michigan University, United States of America.





The 'My Master' passenger ferry in Langkawi Island owned by JMV Ferry Services Sdn Bhd



SENIOR MANAGEMENT



SENIOR MANAGEMENT



1 | Datuk Mohd Radzif Mohd Yunus
GROUP MANAGING DIRECTOR

2 | Dato' Mohd Rizal Mohd Jaafar
**GROUP CHIEF OPERATING OFFICER
- FINANCE & CORPORATE SERVICES**

3 | Datuk Kamaluddin Ismail
**CHIEF OPERATING OFFICER
- BANKING**

4 | Encik Razman Mohd Noor
CHIEF RISK OFFICER





5 | Dr. Sheikh Ghazali Sheikh Abod
CHIEF OPERATING OFFICER
- CEDAR

6 | Encik Asbullah Adnan
DIRECTOR
- DEVELOPMENT BANKING & LIAISON

7 | Encik Mohamad Sabir Mohamad Sabri
DIRECTOR
- GROUP STRATEGY & SERVICES

8 | Encik Ismail Kamaruddin
GROUP CHIEF INTERNAL AUDITOR /
DIRECTOR



SENIOR MANAGEMENT



9 | Encik Iwan Asmady
ADVISOR / DIRECTOR
- GROUP HUMAN CAPITAL
MANAGEMENT

10 | Encik Abd Karim Ahmad
ACTING DIRECTOR
- ENTERPRISE BANKING

11 | Encik Mohammad Hardee Ibrahim
DIRECTOR
- TREASURY, INVESTMENT
AND CORPORATE FINANCE

12 | Puan Rokiah Rajak
DIRECTOR
- OPERATIONS

13 | Puan Hasmah Razali
GROUP COMPANY
SECRETARY





SHARIAH COMMITTEE MEMBERS



SHARIAH COMMITTEE MEMBERS



1



2



3



4



5



6

1

Prof. Dr. Abdul Basir Mohamad
CHAIRMAN

3

Prof. Dr. Norhashimah Mohd Yasin
MEMBER

5

Haji Jalil Haji Said
MEMBER

2

Prof. Madya Dr. Azman Mohd Noor
MEMBER

4

Dr. Asmak Ab Rahman
MEMBER

6

Prof. Madya Dr. Yusof Ramli
MEMBER





CHAIRMAN'S STATEMENT



Tan Sri Ab Aziz Kasim
CHAIRMAN

THE MALAYSIAN ECONOMY 2013

The Malaysian economy remained resilient despite a challenging 2013 underpinned by its strong domestic demand. Malaysia continued to strive through the vulnerable external environment posed by the recovery of the advanced economies, the uncertainties in the China's economic growth and the impact of the US quantitative easing programme.

The Malaysian economy expanded by 4.7% year-on-year (YoY) in 2013 with domestic demand expanding by 7.6% YoY (2012: 10.6% YoY), led by robust growth in private consumption and investment. Trade performance grew by 2.4% (RM17.17 billion) to reach RM719.81 billion in 2013 fueled by improved demands of electrical & electronics (E&E)

products from ASEAN countries, Free Trade Area partners, European Union (EU) countries and higher growth in exports of manufacturing and mining sectors.

Global growth is expected to improve at a slower pace in 2014 at 3.7% reflecting a marginal increase in US growth, continuous economic contraction in EU and moderation in China's economic growth. Despite marginal YoY improvement, growth recovery albeit moderately, continued to boost the economic performance of the ASEAN region, particularly Malaysia which is expected to remain steady in 2014, expanding by 4.5% - 5.5%.

THE POSITION OF SMES

SMEs will continue to be a key driver and engine of growth in the country's economic transformation. This is manifest in the nation's strategic development focus on SMEs, accentuated through various ongoing government policies and programmes covering different time periods: the Third Industrial Master Plan (2006-2015) and 10th Malaysia Plan (2011-2015) which lay down measures and targets for SME direction with development initiatives. In the Economic Transformation Programme (2011-2020), the government has identified 12 National Key Economic Areas (NKEAs) to unleash the growth potential of SMEs in areas where Malaysia has comparative and competitive advantages and expand those areas that have high multiplier effects towards achieving a High Income Nation by 2020. And ultimately, the SME Master plan (2012-2020) has been introduced to significantly boost the contribution of SMEs to the nation's GDP by the year 2020.

“As of 2013, SMEs are on track to contribute positively to the country's GDP, given Malaysia's economic growth”

The focus on SMEs is highlighted in the National Budget 2014 with additional funding of RM2.6 billion allocated to 13 specific programmes for SME development. These include programmes to develop innovation and creativity in order for the SMEs to move up to the higher-end of the value chain. SME Bank's role in nurturing entrepreneurship is also augmented through the announcement of programmes of RM50 million under the Graduate Entrepreneurship Fund and additionally, the Bank is to assist Bumiputera equity ownership via the RM300 million Bumiputera Equity Fund (EquiBumi) as well as to boost the improvement of the standard of living of the Bumiputera community through the RM200 million Malay Reserve Development Financing Programme (MRDF) for the development of Malay Reserve Land in strategic areas such as Kampung Baru, Kampung Datuk Keramat and Kampung Pandan in Kuala Lumpur, in line with the rapid development of the surrounding areas.

With a view towards enhancing SMEs' contribution to the economy, a revised definition of SME will take effect on 1 January 2014, which raises the annual sales turnover to a maximum of RM20 million and RM50 million from RM5 million and RM25 million previously and the number of full-time employees to 75 and 200 from 50 and 150, for the services and manufacturing sectors, respectively. This is expected to increase the percentage of SMEs to total establishments from 97.3% to 98.5%.

As of 2013, SMEs are on track to contribute positively to the country's GDP, given Malaysia's economic growth. The SME GDP growth for 2013 was forecasted to expand by 5.0% - 6.0%. In 2013, SMEs contributed

33.7% to the GDP compared to 32.4% in 2012, an indication that the target of 41% of GDP contribution by 2020 is within the reach. In terms of sectoral lending support, more than half of SME Bank's portfolio comprised SMEs in the services sector followed by the manufacturing and construction sectors.

2014 PROSPECTS

The year 2014 will witness a concerted effort by the Government to balance between monetary and fiscal policies as it strives to reduce public expenditure through subsidy rationalization, and to increase revenue, on the back of containing inflation rate effectively. On the demand side, economic growth in 2014 will be fueled by robust domestic demand mainly from sturdy private consumption, sustained private investment driven by ongoing long-term projects in the manufacturing and services sectors, increasing public investment via capital spending in the oil and gas and utilities sectors and improving external factors. On the supply side, expansion in services (wholesale and retail trade, accommodation and restaurants, telecommunication and business services sectors) and manufacturing (domestic-oriented industries) and continuous growth in construction sectors is expected to drive growth. Moderate growth of external trade in Electronics and Electrical (E&E) and non-E&E sectors is expected, with anticipated increased demand for commodity exports.

Headline inflation is projected to increase to 3% - 4% in 2014 contributed by domestic cost factors with the spillover effects of fiscal consolidation and subsidy rationalization on fuel, sugar and electricity tariff. Further elevation is expected as an initial response to the Goods and Services Tax (GST) implementation in 2015 and continued fiscal policy reforms. While the implementation of minimum wage effective 1 January 2014 is envisaged to address inefficiencies in the labour market and increase productivity per employee, it can also indirectly contribute to higher consumer spending and economic activity.

“The implementation of some large scale Economic Transformation Programme (ETP) projects including the MRT, West Coast Expressway and RAPID will remain supportive of business loan growth in 2014”

Overall loan growth is forecasted to slow to 9.5% - 10.5% YoY in 2014 (2013: 10.6%), largely hinging on moderate growth in household loans, dampened by the combined effects of macro prudential measures implemented by Bank Negara Malaysia (BNM) targeting the mortgage and personal loan segments. Subsidy rationalization will dampen discretionary spending, and the implementation of various measures to curb speculation in the property sector as announced in Budget 2014, as well as the anticipated Overnight Policy Rate (OPR) hike will all have

an effect. Meanwhile, the implementation of some large scale Economic Transformation Programme (ETP) projects including the MRT, West Coast Expressway and RAPID will remain supportive of business loan growth in 2014. In line with the slower overall loan growth target, SME lending is expected to lower to 11% - 11.5% in 2014 (2013: 12.8%).

The domestic economic scenario in 2014 will provide potential challenges for SMEs in managing the cost of doing business. SMEs will experience initial short term setbacks caused by higher cost structure due to the lack of economies of scale that will adversely affect the overall costs and competitiveness of the businesses. In the long run, SMEs will be able to adjust to the minimum wage and the higher variable costs, and focus on opportunities to embark on greater automation and mechanization to be less labour intensive and more cost effective, thereby move up the value chain.

The Trans-Pacific Partnership Agreement (TPPA) would increase competition domestically due to liberalization of trade and challenges in government procurement (GP) related to SMEs and Bumiputera, but at the same time, provide greater opportunity for local SMEs to venture abroad. Nevertheless, ample transition period for trade liberalization on the implementation of TPPA would reduce the risk of increased competition and will provide opportunities for SMEs to develop competitive advantage, and have greater access to markets as well as a global supply chain with uniform rules that assist SMEs to manage overall cost of doing business.

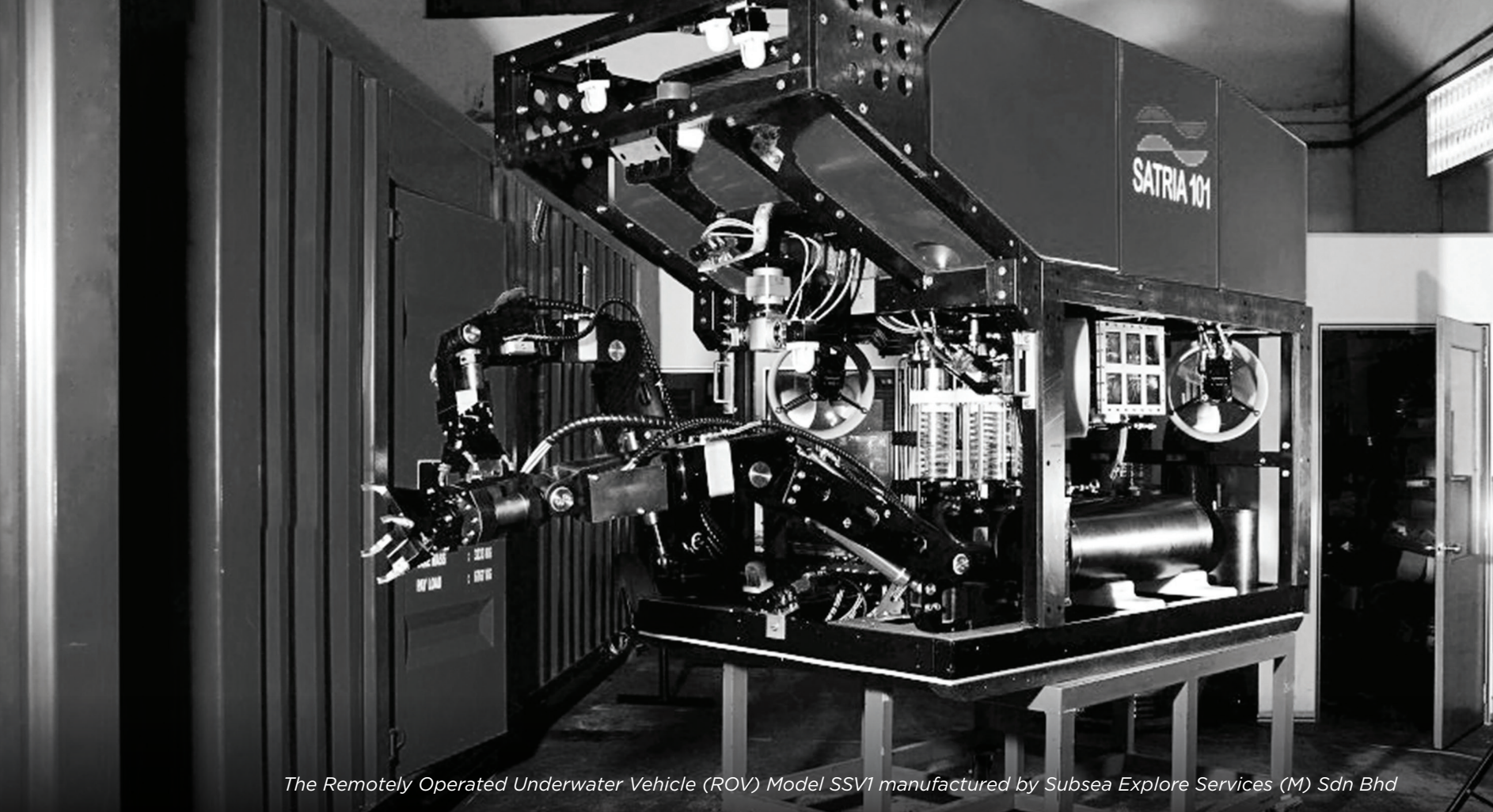
Moving forward, these challenges may serve as opportunities for SMEs to enhance their comparative and competitive edge, to focus on greater value added inputs and to strive for excellence in business performance. Challenges should be internalized with in-depth rationalization and transformation into better ways of doing business. Armed with lessons learnt in 2013 and the prospects of 2014, we hope for a greater performance for all SMEs and SME Bank. The challenge for all involved with SMEs is to work as one to achieve the Nation's aspiration. Change is not a threat, but an opportunity for us to learn, to grow, evolve and become better at all that we strive for.

For business. For growth. For life.



Tan Sri Ab Aziz Kasim
Chairman

“Moving forward, these challenges may serve as opportunities for SMEs to enhance their comparative and competitive edge, to focus on greater value added inputs and to strive for excellence in business performance.”



The Remotely Operated Underwater Vehicle (ROV) Model SSV1 manufactured by Subsea Explore Services (M) Sdn Bhd



GROUP MANAGING DIRECTOR'S OPERATIONAL REVIEW



GROUP MANAGING DIRECTOR'S OPERATIONAL REVIEW



Datuk Mohd Radzif Mohd Yunus
GROUP MANAGING DIRECTOR

FINANCIAL PERFORMANCE 2013

In a year of modest economic outlook for both the nation as well as the world, 2013 would be remembered as one of SME Bank's stronger years. The Bank posted strong figures in areas that matter the most, a testament to the Bank's resilience and the staff's determination to fulfill the Bank's stated goals and deliver on our role. A profit of RM93.97 million before tax was recorded which is nearly 1.5 times more than targeted. The Bank also recorded an operating profit of RM99.47 million which is more than twice of the targeted amount. Gross income from the Bank's Islamic banking business showed a 22% increment from 2012 to RM209.3 million, reflecting the Bank's robust growth in Islamic banking assets. This is in line with the Bank's target to become a full fledged Shariah Based Development Finance Institution by 2015.

OPERATIONAL REVIEW

The Bank's financing approval of RM2.73 billion had benefited 1737 SME customers. Total disbursement of RM2.86 billion, more than double the annual target, had contributed to strong portfolio growth of 18.7%. The financing portfolio of RM4.86 billion was dominated by three largest industry portfolios such as Services - Import, Export, Wholesale, and Retail Trade, Restaurants & Hotels (RM1.44 billion), Manufacturing (RM0.98 billion) and Transportation & Communications (RM0.79 billion). With the continuous measures to strengthen account management, coupled with improving underwriting standards, SME Bank is in the right track to enhance overall portfolio quality. Net impaired financing continued to decline from 14.1% in 2012 to 12.3%.

The RM2.25 billion funding programme as announced by the Honourable Prime Minister during the 2013 National Budget was a testament of the Government's continuous support to the Bank to play a greater mandated role in supporting SMEs. The new funding



programme namely the Bumiputera Financing Fund (RM1.0 billion), SME Development Scheme (RM1.0 billion), Halal Development Fund (RM200 million) and Young Entrepreneur Fund (RM50 million) were successfully launched and has been receiving encouraging response by SME business community.

In 2013, the Entrepreneur Premises Programme saw factory complexes enjoying a 91.8% occupancy rate out of 439 units available and 10 participants graduated from the programme. Under the Specific Intervention initiative, 177 customers had achieved upward migration under various aspects such as improvement in business revenues, market expansion or being listed as TeraS company. TeraS is a program for high performing Bumiputera companies to create 'Global Champions' amongst them.

In 2013, a total of 43 companies registered under the IQ Dagang programme had successfully converted their ideas into bankable businesses. Collaborations and networking sessions with various organizations including Government agencies and Government Linked Companies (GLCs) throughout the year have helped the Bank to strengthen its brand visibility and provided a platform for business opportunity. The Bank, working alongside with these GLCs and NGOs, had conducted various briefings and business clinics to put forth suitable financial and non-financial products / programmes provided by the Bank.

“Total of 43 companies registered under the IQ Dagang programme had successfully converted their ideas into bankable businesses.”

Under the 5-Year Transformation Key Milestones target for 2013 (Inclusiveness & Sustainable Growth), the Bank expanded its market outreach through the official opening of two new Entrepreneur Centres (Batu Pahat & Kajang) and one Business Centre in Rawang and three outlets at Urban Transformation Centres (UTCs) in Kedah, Perak and Pahang.

MOVING FORWARD 2014

SME Bank will be intensifying efforts towards becoming a full-fledged Shariah Based Development Finance Institution by the year 2015. Various measures have been taken thus far, which include deepening of Islamic branding product offerings, streamlining legal documentation and more importantly, streamlining human capital capability and embracing value-based Islamic finance in delivering services to our customers. Going forward, more intensified efforts would be put in place to expedite conversion or migration of inherited conventional assets portfolio into Islamic banking assets.

Under the National Budget 2014, SME Bank has been mandated to carry out three programmes.

Graduate Entrepreneurship Fund 2

- The Government has allocated RM50 million under the Graduate Entrepreneurship Fund 2 for SME Bank to manage. The Fund provides financing up to RM500,000.00 for graduates to start a business and for those who already have an existing business.

Bumiputera Equity Fund (EquiBumi)

- To increase Bumiputera equity ownership, SME Bank has established EquiBumi with an allocation of RM300 million to provide financing to viable Bumiputera companies to take over listed companies or companies with potential to be listed on Bursa Malaysia.

Malay Reserve Lands

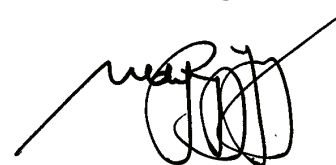
- An allocation of RM200 million financing facility is provided by SME Bank for the development programmes for Malay Reserve Lands in strategic areas such as Kampung Baru, Kampung Pandan and Kampung Datuk Keramat in Kuala Lumpur. This facility will help to improve the standard of living of the Malay community in line with the rapid development in the surrounding areas.

SME Bank will also begin the implementation of a new operating model which focuses on attractive, underserved SMEs in sectors critical for Malaysia's development. This initiative will promote proactive sales and marketing to the targeted market segments and drive productivity and efficiency through differentiated expertise, intelligent processes and technology.

On the internal front, SME Bank will continue its policy of human capital development through training and retraining programmes as well as the implementation of the Talent Development Programme. We will also be enhancing knowledge and competency in Islamic Banking & Finance for front liners in line with the Bank's efforts towards becoming a full-fledged Shariah Based Development Finance Institution.

As the Bank consolidates its footing and grows towards its destiny, we, the staff are not just coming along for the ride. From strategic planning to formulating the plans, from the front-lines to behind the scenes, this is a journey where each and every one of us plays an essential part. And I am indeed honoured and proud to be a part of this history and journey.

For business. For growth. For life.



Datuk Mohd Radzif Mohd Yunus
Group Managing Director





STATEMENT OF CORPORATE GOVERNANCE



STATEMENT OF CORPORATE GOVERNANCE

The Board of Directors of Small Medium Enterprise Development Bank 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.

A. Board of Directors

The Board is governed by eight (8) members Board of Directors i.e. one (1) Non-Executive Chairman, one (1) Non-Independent 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 from the fields of management, banking, finance, accounting, legal, entrepreneur development and their accumulated while serving both in private and government sectors, brings to the Board 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 field 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 the responsibility for 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 system and succession planning are in place.

The Board of Directors meet at least once a month to discuss amongst others 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 2013, twelve meetings were held. The record of attendance by Directors at the Board Meetings for 2013 is as follows:

	Name of Director	Number of Committee Meetings
1.	Dato' Gumuri Hussain (Non-Executive Chairman)*8/13 (Ceased w.e.f. 10 August 2013)	
2.	Encik Asri Hamidon (Non-Independent Non-Executive Director)	8/13 (Appointed w.e.f. 2 May 2013)
3.	Dato' Abdul Ghafar Musa (Non-Independent Non-Executive Director)	*11/13 (Ceased w.e.f. 1 May 2014)
4.	Datuk Mohd Nasir Ahmad (Independent Non-Executive Director)	12/13
5.	Dato' Adzmy Abdullah (Independent Non-Executive Director)	13/13
6.	Encik Ishak Ismail (Independent Non-Executive Director)	13/13
7.	Encik Khairuzzaman Muhammad (Independent Non-Executive Director)	13/13
8.	Datuk Mohd Radzif Mohd Yunus (Group Managing Director/Non-Independent Executive Director)	13/13

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

B. Supply of Information

Directors are provided with notices and Board papers prior to Board Meetings to give Directors time to deliberate on issues raised at meetings.

All Directors have direct access to the services of the Group 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.

C. Training of Directors

It is the Bank's practice that each new Director is given Board Kit and on boarding session to brief on the Bank's history, operations and financial performance to enable them to have 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 organise AMLA and talks of relevance topics and encourages Directors to attend talks, training programmes and seminars to update themselves on new developments in the business environment.

The Directors of the Bank in 2013 have attended the Financial Institutions Directors' Education (FIDE) Program organized by The Iclif Leadership and Governance Centre.

D. Board Committees

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

NOMINATION COMMITTEE

1. 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.

2. Composition

The composition of the NC during the year 2013 is:

	Name of Director	Designation
1.	Dato' Adzmy Abdullah	Chairman
2.	Encik Asri Hamidon	Member (Appointed w.e.f. 8 May 2013)
3.	Dato' Abdul Ghafar Musa	Member (Ceased w.e.f. 1 May 2014)
4.	Datuk Mohd Nasir Ahmad	Member
5.	Encik Ishak Ismail	Member
6.	Datuk Mohd Radzif Mohd Yunus	Member

3. Functions and Responsibilities

The functions and responsibilities of the NC shall be:

- To carry out annual assessment in evaluating effectiveness of each individual directors, 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 recommending 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 programmes; and
- To ensure that new Directors and reappointed Directors who have yet to attend the mandatory training programmes prescribed by the Malaysia Securities Exchange Berhad for listed companies or Suruhanjaya Syarikat Malaysia (CCM) are to attend the said programmes within 6 months of their appointment.

4. Committee Meetings and Attendance

During the financial year ended 31 December 2013, the NC held ten (10) meetings. The record of attendance of the Committee Members at the NC Meetings is as follows:

	Name of Director	No. of Meetings Attended
1.	Dato' Adzmy Abdullah	10/10
2.	Encik Asri Hamidon	4/10 (Appointed w.e.f. 8 May 2013)
3.	Dato' Abdul Ghafar Musa	*9/10 (Ceased w.e.f. 1 May 2014)
4.	Datuk Mohd Nasir Ahmad	10/10
5.	Encik Ishak Ismail	10/10
6.	Datuk Mohd Radzif Mohd Yunus	10/10

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



REMUNERATION COMMITTEE

1. 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.

2. Composition

The composition of the RC for the year 2013 is:

	Name of Director	Designation
1.	Encik Khairuzzaman Muhammad	Chairman
2.	Encik Asri Hamidon	Member (Appointed w.e.f. 8 May 2013)
3.	Datuk Mohd Nasir Ahmad	Member
4.	Encik Ishak Ismail	Member

3. Functions and Responsibilities

The functions 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 individual Director, Managing Director and Senior Management (Management Director and above);
 - 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.

4. Committee Meetings and Attendance

During the financial year ended 31 December 2013, the RC held ten (10) meetings. The record of attendance of the Committee Members at the RC Meetings is as follows:

	Name of Director	No. of Meetings Attended
1.	Encik Khairuzzaman Muhammad	10/10
2.	Encik Asri Hamidon	5/10 (Appointed w.e.f. 8 May 2013)
3.	Datuk Mohd Nasir Ahmad	9/10
4.	Encik Ishak Ismail	10/10

RISK MANAGEMENT COMMITTEE

Objective

The Board of Directors (Board) is ultimately responsible for the management of risks of the Bank. The Board through Risk Management Committee (RMC) maintains overall responsibility for risk oversight within the Bank. RMC further strengthen the Bank's risk management process and enhance the corporate governance. RMC also review the adequacy and effectiveness of risk management, internal control and governance instituted in the Bank.

In line with the 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.

Secretary

The Secretary to the Committee is the Bank's Company Secretary.

	Name of Director	Designation
1.	Encik Ishak Ismail	Chairman
2.	Dato' Adzmy Abdullah	Member
3.	Dato' Abdul Ghafar Musa	Member (Ceased w.e.f 1 May 2014)
4.	Encik Khairuzzaman Muhammad	Member (Appointed w.e.f 8 May 2013)
5.	Encik Asri Hamidon	Member (Appointed w.e.f 8 May 2013)

Terms of Reference

- 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 the 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 requirement as specified in the BNM Guidelines on Best Practices for the Management of Credit Risk for Development Financial Institutions which 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 ensuring the development of policy manual and procedures.
- Monitor, assess and advise on the credit risk portfolio composition of the Bank.
- Evaluate risks under stress scenarios and the capacity of the Bank's capital to sustain such risk.
- Assess the risk-return trade-off.
- Review reports of the credit review process, asset quality and ensure that corrective actions is taken; and
- 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.

Meeting and Attendance

The RMC meets once every quarter at minimum or as and when the need arises. During the financial year ended 31 December 2013, the RMC held five (5) meetings.

The Group Managing Director and Chief Risk Officer are invited to attend the RMC's meetings, where applicable.

After each meeting, the RMC 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 via the RMC Chairman's Report and Minutes of the RMC Meeting.

Three (3) members of the Committee shall constitute a quorum. The record of attendance of the RMC members at the RMC Meetings is as follows:

	Name of Director	No. of Meetings Attended
1.	Encik Ishak Ismail	5/5
2.	Dato' Adzmy Abdullah	4/5
3.	Dato' Abdul Ghafar Musa	*4/5 (Ceased w.e.f 1 May 2014)
4.	Encik Khairuzzaman Muhammad	2/3 (Appointed w.e.f 8 May 2013)
5.	Encik Asri Hamidon	3/3 (Appointed w.e.f 8 May 2013)

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

AUDIT & EXAMINATION COMMITTEE

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 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 2013 are as follows:

	Name of Director	Designation	No. of Meetings Attended
1.	Datuk Mohd Nasir Ahmad	Chairman/Independent Non-Executive Director	9/9
2.	Dato' Adzmy Abdullah	Independent Non-Executive Director	9/9
3.	Encik Khairuzzaman Muhammad	Independent Non-Executive Director	8/9
4.	Encik Asri Hamidon	Non-Independent Non-Executive Director (Appointed w.e.f. 8 May 2013)	4/9
5.	Dato' Abdul Ghafar Musa	*Non-Independent Non-Executive Director (Ceased w.e.f. 1 May 2014)	3/9

*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 Group 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 Group 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 issues 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 audits observations, issues and concerns discussed during its meeting 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 programmes attended by the Committee members in 2013 are listed below:-

1. FIDE Module A and B
2. Governance in Groups
3. Building High Performance Directors 2013
4. Anti-Money Laundering & Anti-Terrorism Financing Act "AMLATFA"



STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

A. Introduction

The Board recognizes that the practice of good governance is an important and continuous process and has established the Risk Management Committee and Audit & Examination Committee to ensure the maintenance of a sound system of internal controls and good risk management practices. The processes for risks and control assessments and improvement are on-going and are regularly reviewed.

For the purposes of this statement, associates are not dealt with as part of the Group, and are therefore not covered by this statement.

B. Responsibilities

The Board acknowledges its overall responsibility for the internal control environment and its effectiveness in safeguarding shareholder's interests and the Group's assets. The internal control measures are designed to manage rather than eliminate the risk of failure in the achievement of goals and objectives of the Group, and therefore only provide reasonable assurance and not absolute assurance, against material misstatement of management and financial information or against financial losses and fraud.

The system of internal control that is instituted throughout the Group is updated from time to time to align with the changes in the business environment as well as process improvement initiatives undertaken. The Board confirms that the Management of the Group responsibly implements the Board policies, procedures and guidelines on risks and controls via identifying and evaluating the risks faced, and the achievement of business objectives and strategies.

C. Key Internal Control Processes

The key internal control processes that are established in reviewing the adequacy and integrity of the system of internal controls are as follows:

a) Risk Management Function

The organizational structure of the Group clearly defines the lines of accountability, authority limits and responsibility aligned to business and operational requirements within the ambit of supporting the maintenance of robust control environment. Risk assessment and evaluation is an integral part of the strategic planning cycle of the Group and in response to business environment and opportunities.

Management committees are appropriately set up to ensure proper utilization and investment of the Group's assets for effective risk return rewards or to limit losses.

The Group's Risk Management Function undertakes the implementation of an enterprise and integrated risk management in the business and support functions to create continuous risk awareness, understanding of procedures and controls and thus, improve the overall control environment.

In line with the Group's aspiration to become a Shariah Based Development Finance Institution, there is an internal guideline established to strengthen the management of potential risk from Shariah Non-compliance arising from business activities and operations. These include clear Shariah Non-compliance reporting mechanism in line with the regulatory requirements.





Anti-fraud measures have been established to provide broad principles and strategy for the Group to adopt in order to promote high standards of integrity. The internal guidelines include robust and comprehensive programs and controls for the Group and determine the roles and responsibilities at every level for preventing and responding to fraud.

Operationally, the Group manages its risk based on the three lines of defense approach: risk taking functions, risk control functions and internal audit. At the first level, the risk taking functions which comprise the operating business and support units are responsible for the day-to-day management of risks inherent in the various business activities. Risk control functions, at the second level, are responsible for setting the risk management policies and guidelines including developing relevant tools and methodologies for the identification, measurement, mitigation, monitoring and control of risks. Thirdly, the Group Audit Function complements the Group Risk Management Functions by reviewing, evaluating significant exposures to risk and contributing towards the improvement of the risk management and control systems. The Group Audit Function also provides from an independent perspective, its assessment on the adequacy and effectiveness of the risk management policies and guidelines.

b) Compliance Function

Compliance Function provides oversight on the level of compliance in various risk taking functions in the Group which include compliance with Shariah requirements. The assessment on the level of compliance is further supported via the establishment of self-assessment program to increase the awareness on the regulatory and Shariah requirements.

c) Internal Audit Function

The Group Audit Division undertakes periodic reviews of the Group's business and operations to provide independent assurance to the Board that the risk management processes, system of internal controls and governance processes put in place by the Management are working effectively. The performance of the reviews is based on the annual Audit Plan approved by the Audit and Examination Committee (AEC), which is derived from the annual risk assessment to identify critical areas to be audited. In formulating the audit plan, close reference is made to the relevant Bank Negara Malaysia (BNM) requirements to ensure regulatory compliance.

Audit observations on significant risks and non-compliances impacting the Group together with the recommended solutions are highlighted, discussed and followed-up with the stakeholders until resolution to ensure that the controls are effectively implemented to mitigate the risks. Audit reports are also discussed with the Management to enhance its oversight function and will be further followed-up to ensure that the audit observations are timely resolved.

The AEC is a sub-committee of the Board and is chaired by an Independent Non-executive Director of the Board. The AEC meets at minimum, every quarter to deliberate on the internal audit reports and make recommendations to further strengthen the risk management systems, system of internal controls and governance processes, where necessary. All AEC's decisions and recommendations are duly cascaded down to the relevant stakeholders for actions and followed through until closure. AEC Chairman's reports and Minutes of the AEC meetings are subsequently tabled to the Board.

Group Audit Division continues to enhance its capabilities to ensure that it is able to provide the necessary assurance to the Board more effectively and efficiently. This is done through continuous improvements to its internal audit processes benchmarked against industry's standards, up-skilling of the internal auditors through various internal and external trainings and engagements with reputable third party service providers when undertaking specific audit assignments.

Apart from discharging its core function of performing audits and reviews, Group Audit Division also undertakes the Group's initiatives towards "Zero" Tolerance Culture, which is the way forward for the Group to sustain effective risk management and compliance culture. This includes embarking on self-checking mechanisms by the risk-owners in compliance with internal control procedures and regulatory requirements.



C. Key Internal Control Processes (Cont'd)

d) Other Major Internal Controls

- Other Board Committees are also established to assist the Board to perform its oversight function namely Nomination Committee and Remuneration Committee. Specific responsibilities have been delegated to these Board Committees formalized via terms of reference.
- The Board receives regular reports from the Management on the key operating statistics, business dynamics, legal matters and regulatory issues. An annual business plan and budget are submitted to the Board for approval. Actual performance is reviewed against the targeted results on periodic basis allowing timely response and corrective actions to be taken to mitigate risk. The Board also approves any changes or amendments to the Bank's policies.
- The Bank manages its human capital through rigorous recruitment process, training programs and performance appraisal system. Adequate policies and guidelines are in place for the recruitment, promotion and termination of staff.





SHARIAH COMMITTEE

1. Objective

The objective of the Shariah Committee would be to advise and supervise the Islamic banking business, review and approve Shariah compliance review and Shariah audit to be conducted and oversees the state of Shariah Governance of the Bank's Islamic banking activities.

2. Composition

No.	Name of Shariah Committee Members	Designation
1.	Prof. Dr. Abdul Basir Mohamad	Chairman
2.	Dr. Asmak Ab Rahman	Member
3.	Prof. Dr. Norhashimah Mohd Yasin	Member
4.	Haji Jalil Haji Said	Member
5.	Prof. Madya Dr. Azman Mohd Noor	Member

3. Functions and Responsibilities

The following are the main functions and responsibilities of the Shariah Committee:

- Provide advice to the Bank's Board of Directors and / or the Management on Shariah matters in order to ensure that at all times, the Islamic banking business of the Bank adhere with Shariah principles.
- Well informed of the latest development of Islamic banking business, regulatory changes affecting the Bank's business, the rulings made by the Shariah Advisory Council (SAC) and the changes in the latest Shariah research, ijti had, fatwas or finding.
- Advices the Bank to refer to the SAC of BNM on any Shariah matter that requires the SAC's endorsement.
- Review and set the policies and procedures for the Bank's Islamic banking business and endorse all the operating manual and policy governing the Islamic banking business of the Bank including recommendation for revision, improvement and updates whenever necessary.
- Set the policies and guidelines to allow the Shariah Unit of the Bank to process and decide on submissions from divisions in the Bank.



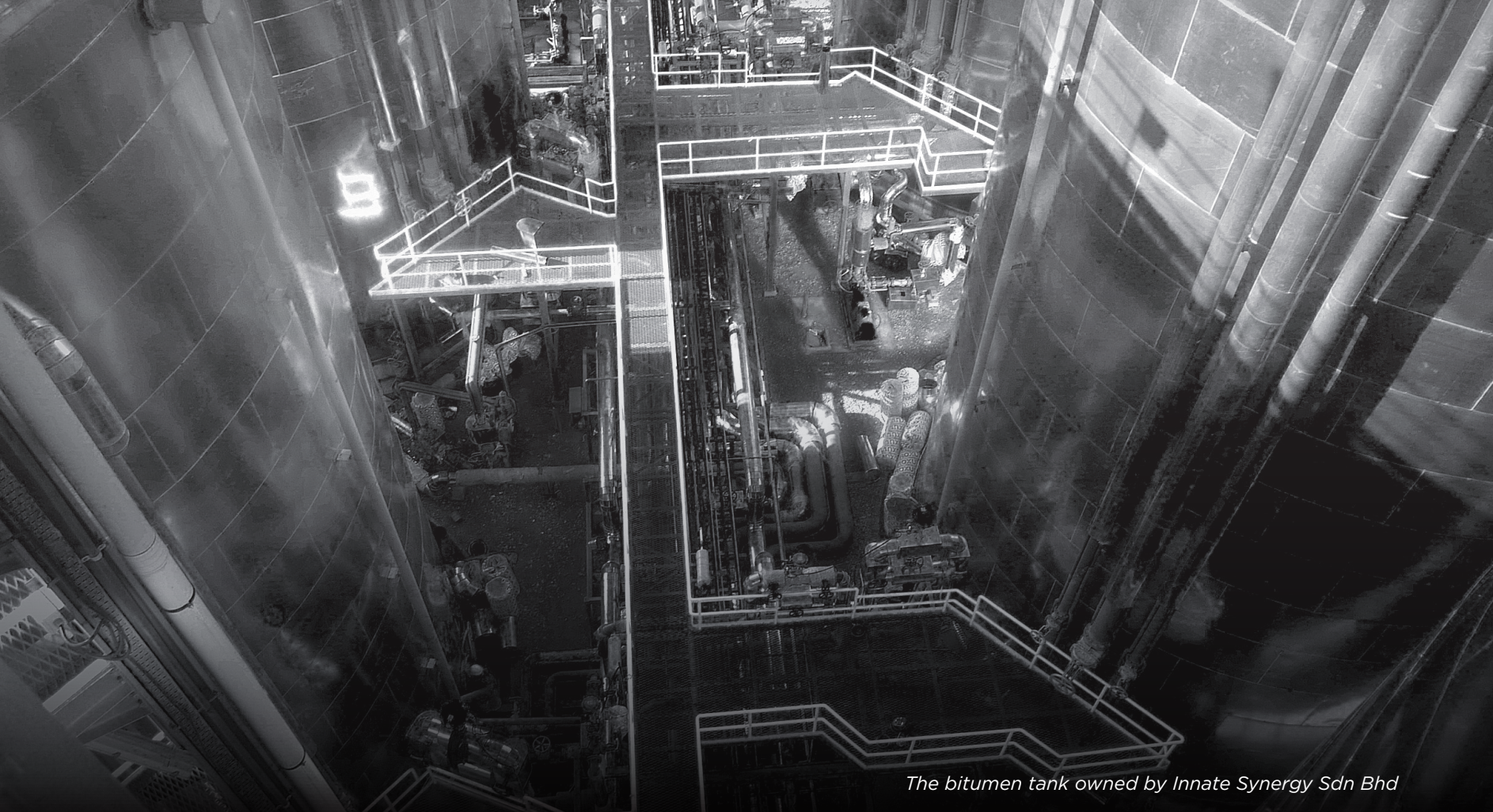
- Review Operating Guide on Shariah Risk Management that being supported by various tools such as Shariah compliance review and Shariah audit functions in the Bank.
- The Committee members are expected to engage actively in deliberating Shariah issues presented. The Committee must have active participation through attending meetings, evaluating reports, reading minutes, and other mandated task.
- Ensure high standard in arriving at Shariah decision through proper and comprehensive Shariah ruling.

4. Committee Meetings and Attendance

During the financial year ended 31 December 2013, the Shariah Committee (SC) held twelve meetings. The record of attendance of the Committee Members at the SC Meetings is as follows:

No.	Shariah Committee Members	Shariah Committee Meeting
1.	Prof. Dr. Abdul Basir Mohamad	12/12
2.	Dr. Asmak Ab Rahman	12/12
3.	Prof. Dr. Norhashimah Mohd Yasin	12/12
4.	Haji Jalil Haji Said	10/12
5.	Prof. Madya Dr. Azman Mohd Noor	12/12





The bitumen tank owned by Innate Synergy Sdn Bhd



SPECIAL REPORT



PROJECT WISDOM INITIATIVES

As change accelerates and the global financial industry continues to evolve in the new millennium, the Malaysian financial system, particularly the domestic banking institutions, faces mounting pressure to become more efficient and competitive, innovative, technology-driven and strategically more focused. In this regard, the financial infrastructure has to be developed accordingly in order to take up the challenges ahead. As a strategy to bring in greater dynamism into the Malaysian financial system, the Financial Sector Masterplan (FSMP) (2011-2020) has outlined a number of recommendations to be implemented over a 10-year period. The FSMP aims to chart the financial system's future direction to ensure its continued effectiveness, competitiveness and resilience. To this end, the Malaysian financial sector landscape is expected to evolve in accordance with the blueprint.

One of the main objectives of the FSMP is to develop a more resilient, competitive and dynamic Islamic financial system with best practices, that can support and contribute positively to the growth of the economy throughout the economic cycle and has a core of strong and forward-looking domestic financial institutions that are more technology-driven and ready to face the challenges of liberalisation and globalisation.

In order to streamline with Bank Negara Malaysia's aspiration, SME Bank has taken a step ahead in announcing the intention to be an Islamic financial provider and be part of the Islamic Financial System under the initiatives known as "Project Wisdom". The Bank has accordingly taken initiatives to promote Islamic products and phase out its Shariah non-compliant products and investments, with an eye on achieving full Shariah compliance in 2017. Project Wisdom is aimed towards moulding and instilling Islamic values into our banking operations in accordance with the objective of Maqasid Al-Shariah.

VISION

Facilitating sustainable economic development and just social progress through a sound, efficient, progressive and resilient Islamic financial services industry.

MISSION

Development of a dynamic, comprehensive and innovative Islamic financial services industry, which closely supports real economic activities and is well integrated within the international financial system.





Objectives

Emphasize on education for justice and maslahah (public interest) and also include the elements of responsibility, accountability and risk-taking attitude (tauhid) as well as values related to corporate culture and governance (akhlaq) in tandem with the Government's aspiration for Malaysia to become an International Islamic Financial Hub.

Deliverables

- Gap analysis on readiness of the Bank to become an Islamic financial provider focusing on people, process, products and system.
- Addressing findings identified during gap analysis and review rectification progress.
- Provide training to all staff on Islamic Banking taking into account general and specific needs.
- Addressing issues that may arise from implementation of pilot conversion branch.
- Ensure Treasury functions and all processes are fully Islamic.

The exercise not only encompasses the financing and treasury aspects but also operations which include the Bank's processes, product/services and manpower, in line with the Government's aspiration for Malaysia to become the centre of Islamic Finance.

Project Wisdom can be summarized into 4 critical success factors being the key enabler as follows:

BUSINESS

- Financing - conversion of conventional loan into Islamic financing
- Treasury - ensure flow of funds in money market towards fully Islamic portfolio

PROCESS/LEGAL DOCS

- Meets Shariah requirement of security documentations for Islamic financing contracts

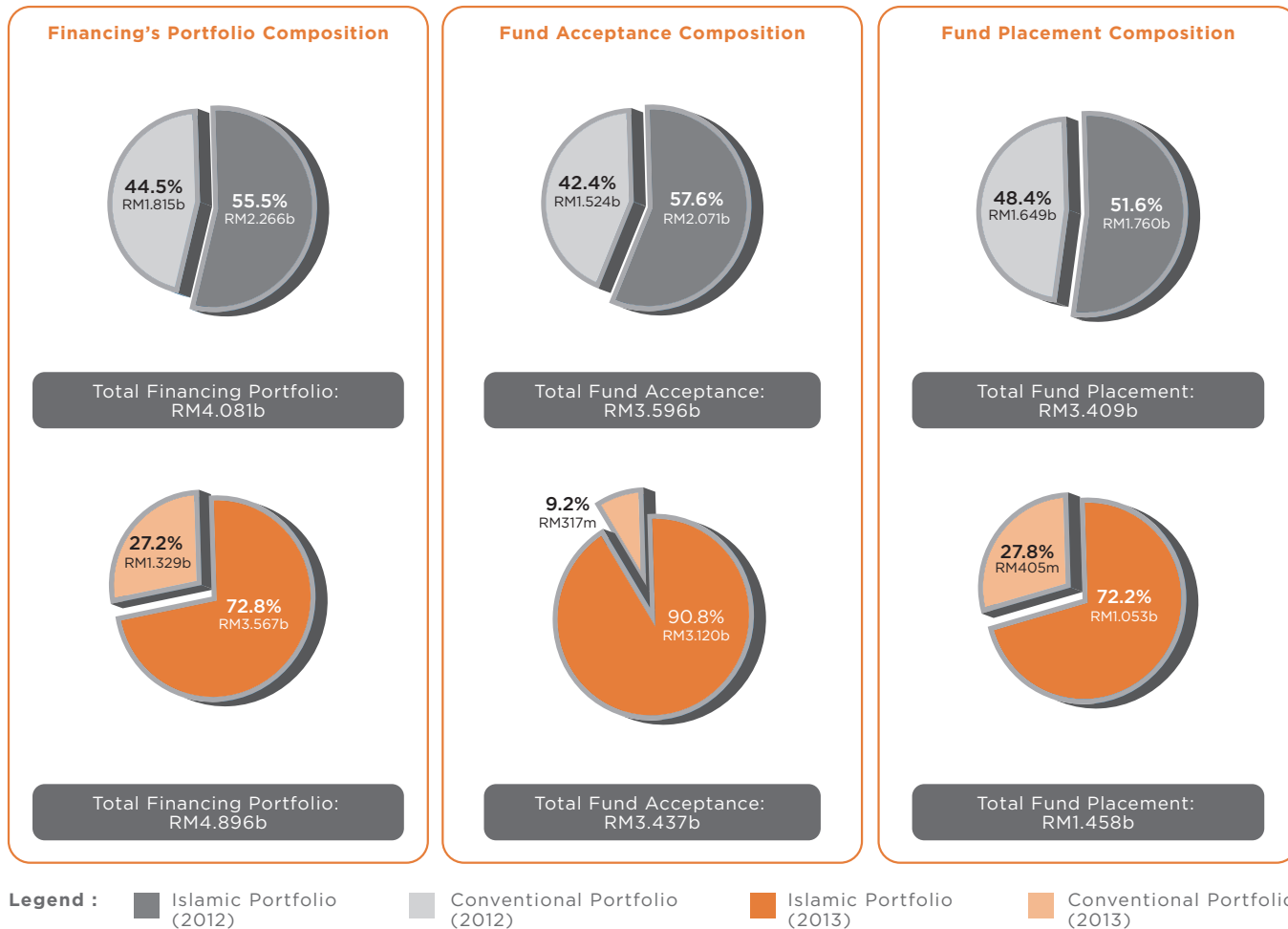
PRODUCT/SERVICES

- Availability of wider range of new products / programmes & services
- Establish branding of SME Bank image as Islamic Financial provider

PEOPLE

- Enrich and enhance staff understanding, competency and knowledge on Islamic Banking
- Focus on outcome and translate into application and execution

Since the inception of Project Wisdom in 2012, the Bank has put an end to conventional loans. Notwithstanding this, the Bank has managed to increase not only its Islamic financing portfolio but also its treasury portfolio, comprising fund placement and fund acceptance. As appended below, the diagram shows the increase in the Islamic financing and treasury portfolio as at 31 December 2013 as compared to 31 May 2012 as follows:



Moving forward, the Bank hopes to increase and grow its Islamic finance portfolio in tandem with the expectations of the market, where there is a strong demand for Islamic products since 90% of the entrepreneurs are Muslims.

It is also the way forward to ensure the Bank's sustainable success and relevance in the challenging environments of the future.

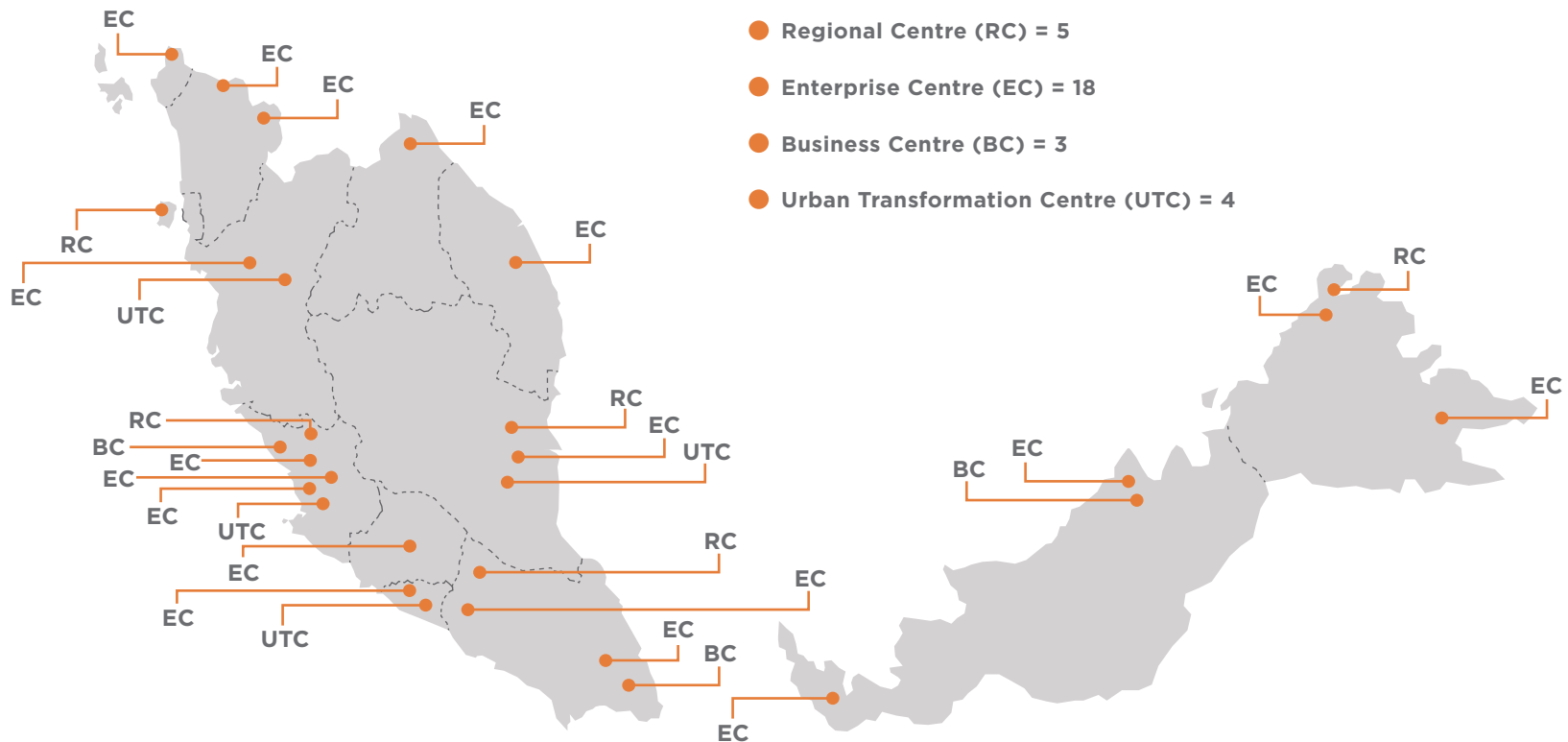


NETWORK OPERATIONS

New Enterprise Centre, Business Centre & Urban Transformational Centres

In our effort to increase outreach to SMEs, in 2013 SME Bank set up an Enterprise Centre (EC) in Batu Pahat, a Business Centre (BC) in Pasir Gudang and three Urban Transformational Centres (UTC) in Kedah, Perak and Pahang. These new branches and our 20 existing networks would enable the Bank to have greater coverage and market presence throughout Malaysia.

In order to provide greater comfort for our staff and customers, the Bank implemented major refurbishments on all our networks in 2013.





TALENTS DEVELOPMENT

The Bank is committed to strengthening its human capital capabilities to commensurate with its vision to be a full-fledged specialized financial institution and an international benchmark for nurturing SME excellence. Various training programmes have been undertaken to provide the skills, knowledge to the staff and improve their capability in order to fulfil their roles.

For its credit officers, the Bank introduced one of its key programmes, the Credit Development Boot Camp which is currently being implemented in phases nationwide. Apart from this, various functional & technical training are continuously provided to equip them with related skills and knowledge. These programmes are either conducted internally by the Bank's own trainers or externally by other trainers. With the continuous training programmes related to credit development, the skill set of credit officers are expected to improve further and enable them to be more effective and efficient in managing customers.

The Bank has also embarked on its journey towards becoming a full-fledged Shariah Based Development Financial Institution (DFI). One of the training programmes towards achieving this aspiration is the Certified Islamic Development Banking & Finance (CIDBF) Programme. This programme aims to offer a practical working knowledge of Islamic Finance and Banking with emphasis on the developmental roles and is specifically meant for the middle and upper-level executives within the DFIs. Islamic Finance as a discipline has broadened by leaps and bounds; its financing products and mode of transactions have grown rapidly and transacted globally. The programme is designed to help DFI executives understand and appreciate the concept and application of Islamic Finance and their relevance in day-to-day banking operations. The programme is implemented in phases where the fundamental stage for 300 staff was completed in May and the advanced stage for the same staff is expected to be completed by September 2014.

Further to the above, the Bank also sent its staff for professional certification programmes such as Pasaran Kewangan Malaysia Certificate (PKMC), Certified Internal Auditor (CIA), Certified Credit Professional - ISLAMIC (CCP-I), Certified Credit Professional (CCP) and Certificate In Islamic Enterprise Risk Practitioner (CIERP). Latest, in its drive to enhance sales, the Bank has engaged a training provider for Master Sales Certification training course for its Relationship Managers. Various soft skill training programmes such as High Impact Presentation Skills, Problem Solving, etc have been provided to all related staff.

The Bank also provided international exposure and experience to its staff by sending them for overseas training. A number of staff members have attended training programmes in Singapore, Australia, Turkey, Japan, Canada, Philippines, Indonesia and Thailand.





To align the staff to its new transformational roles, the Bank also introduced and implemented mind set change training programmes. There were three different training programmes under Mind Set Change initiatives:

- a) Culture Transformation - In-MINDs training programme. Results from the post-program survey shows that the awareness of the importance of culture transformation has increased to 86%.
- b) Leadership - GRID training programme - Assessment of this programme shows significant changes in leadership styles.
- c) Service Transformation for Excellent Performance - STEP training programme. Yearly report shows that the customer satisfaction index has increased significantly from 85% in 2012 to 88% in 2013.

No	Training Programme	Impact
1.	Credit Development Boot Camp (Boot Camp)	Increase in total number of loan approvals from 1,431 in 2012 to 1,807 as of December 2013
2.	Certified Islamic Development Banking & Finance (CIDBF)	The total Islamic financing has increased to 72.8% from 55.5% with a total increase of 17.3%.
3.	Culture Transformation (In-MINDs)	Awareness of the importance of culture transformation has increased to 86%.
4.	Leadership training programme (GRID)	Significant changes in leadership styles
5.	Service Transformation for Excellent Performance (STEP)	Customer satisfaction index has increased significantly from 85% in 2012 to 88%



Credit Development Boot Camp (Boot Camp)



Certified Islamic Development Banking & Finance (CIDBF)



Culture Transformation (In-MINDs)



Leadership Training Programme (GRID)



Service Transformation for Excellent Performance (STEP)





SPECIFIC INTERVENTION PROGRAMME

As the Development Financial Institution that is mandated to support the SMEs in Malaysia, SME Bank has designed a 'Specific Intervention' initiative that is being undertaken by senior staff in the Bank known as 'Business Counsellors'. To ensure effectiveness and success of the initiative, the Bank has established a special committee namely the Intervention & Nurturing Committee (INC) chaired by the Managing Director to strategize, lead, facilitate and guide the implementation.

The initiative puts focus on selected customers of the Bank where direct intervention is identified at the onset through structured gaps analysis by applying various tools that include the SME Competitiveness Rating for Enhancement (SCORE) that has been established in the country. The ultimate aim of the initiative is to ensure those selected customers can be migrated upward and subsequently produce SMEs that can sustain their businesses, thus ensuring a quality portfolio to the Bank.



The Bank devises Specific Intervention via capacity and capability building to achieve very specific targets within six key measurements or indicators as follows:-

- Turnaround from 'Delinquent Account' to 'Performing Account' which requires concerted effort in diagnosing problems and providing solutions;
- Achievement of minimum 5% improvement in annual sales and profit;
- Upgrading from the Bank's internal classification from 'Need-Based' customers to 'Merit-Based' customers that indicates a company that is at a higher level of success with sound financial standing;
- Improvement in the Internal Risk Rating or 'SCORE' rating;
- Migration to 'TeraS' status - 'TeraS' is a measurement for high performance Bumiputera SMEs in Malaysia; and
- Achievement of market expansion from domestic to export.



To achieve the objectives of Specific Intervention, Business Counsellors need to collaborate with various government agencies, professional bodies, industry experts and a few other entities to optimize resources especially in organizing entrepreneur enhancement programmes such as business matching, industry networking and brand enhancement.



At the initiation stage of Specific Intervention in 2013, the Bank identified 230 customers that have potential to grow and accelerate via a proper and structured intervention programme. Over the year, 177 customers migrated upward within the six indicators as mentioned above. With the the initiative being in the early stages of its implementation, the achievement is considered significant, and has paved the way towards creating more resilient SMEs in the country.

Close monitoring is now being undertaken over those 177 customers to ensure that their growth is being tracked and monitored while the Bank is developing new group of customers for the year 2014.



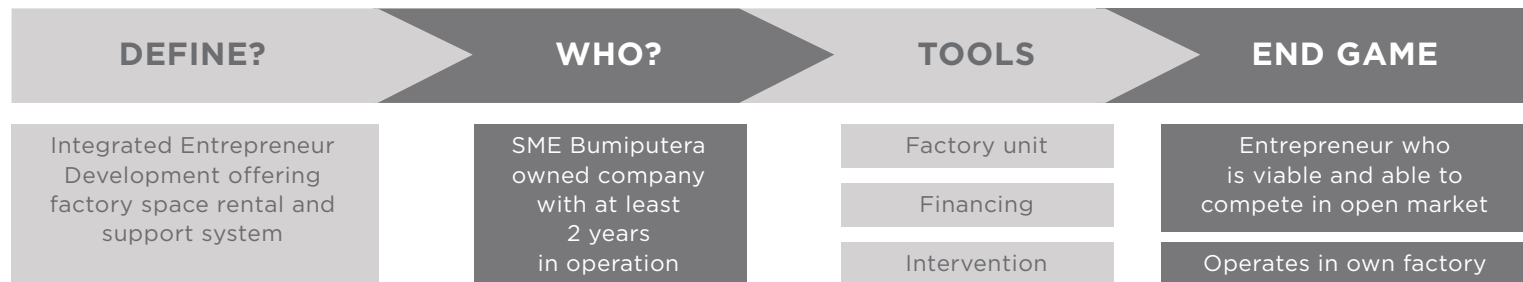


ENTREPRENEUR PREMISES PROGRAMME

The Entrepreneur Premises Programme (EPP) is an integrated approach to entrepreneurial development that provides factory space rental, financing, entrepreneurship training, advisory and technical assistance as well as operational improvements.

The initial objective of this programme is to accelerate Bumiputera entrepreneurs' involvement in the manufacturing industry. This programme was created for Bumiputera SMEs that are interested in expanding their businesses. Its intent is to assist new entrepreneurs to establish their business presence in the market and eventually compete with industries' bigger players.

The scheme was first implemented in 1985 and has the full backing of the government and has contributed funds for the establishment and growth of SMEs in various locations nationwide.



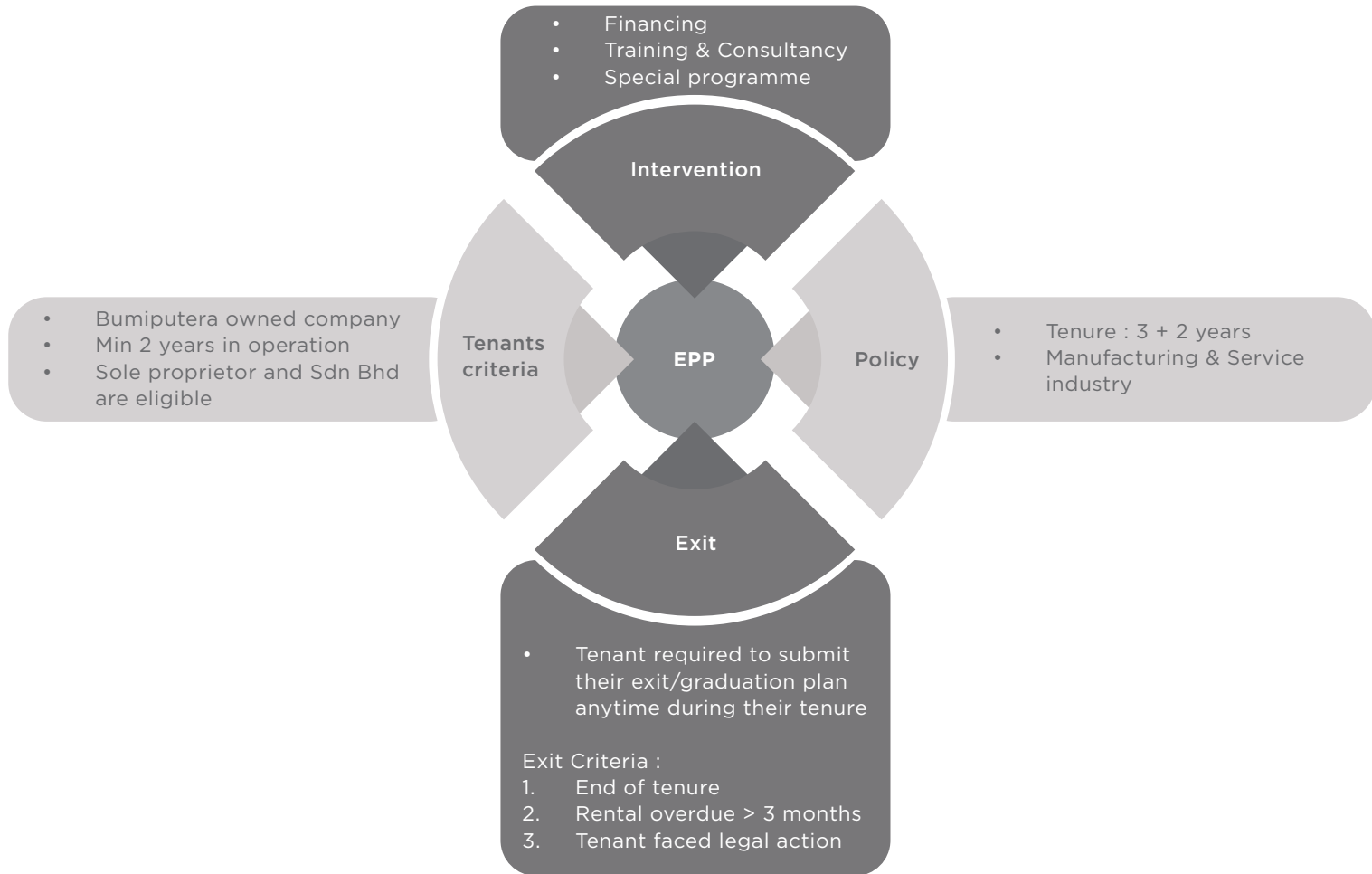
The Bank has a mandate to assist the Government to create Bumiputera entrepreneurs who are able to compete fairly in the open market. Through this programme, the entrepreneurs can rent a factory unit and run their operations there for a specific period of time. The advantages of renting our factory units are:

- Rental rates are affordable and competitive
- We provide an integrated programme to assist entrepreneurs (premises, funding and support services)
- The burden of initial investment and pre-operating expenses are reduced

As a tenant, our entrepreneurs can enjoy the following benefits:

- Special programme offered by our Entrepreneur Enhancement Programme
- Entrepreneurship training and consulting services offered by the Centre of Development and Research Sdn Bhd (CEDAR) which is a subsidiary of SME Bank

EPP Business Model



Success Story

EPP is an ongoing programme to develop entrepreneurs that has been in operation for more than 30 years. This programme had assisted many Bumiputera entrepreneurs in expanding their businesses. Over the years, EPP had successfully produced a total of 106 graduates.

EPP's effectiveness in developing SMEs was recognized by the Association of Development Finance in Asia Pacific (ADFIAP) in 2004 in Kazakhstan (SME category).



Moving Forward

In the near future, the Bank will develop and introduce a new business plan to transform this programme to be commercially-driven but at the same time still adhere to the principles of entrepreneur development.

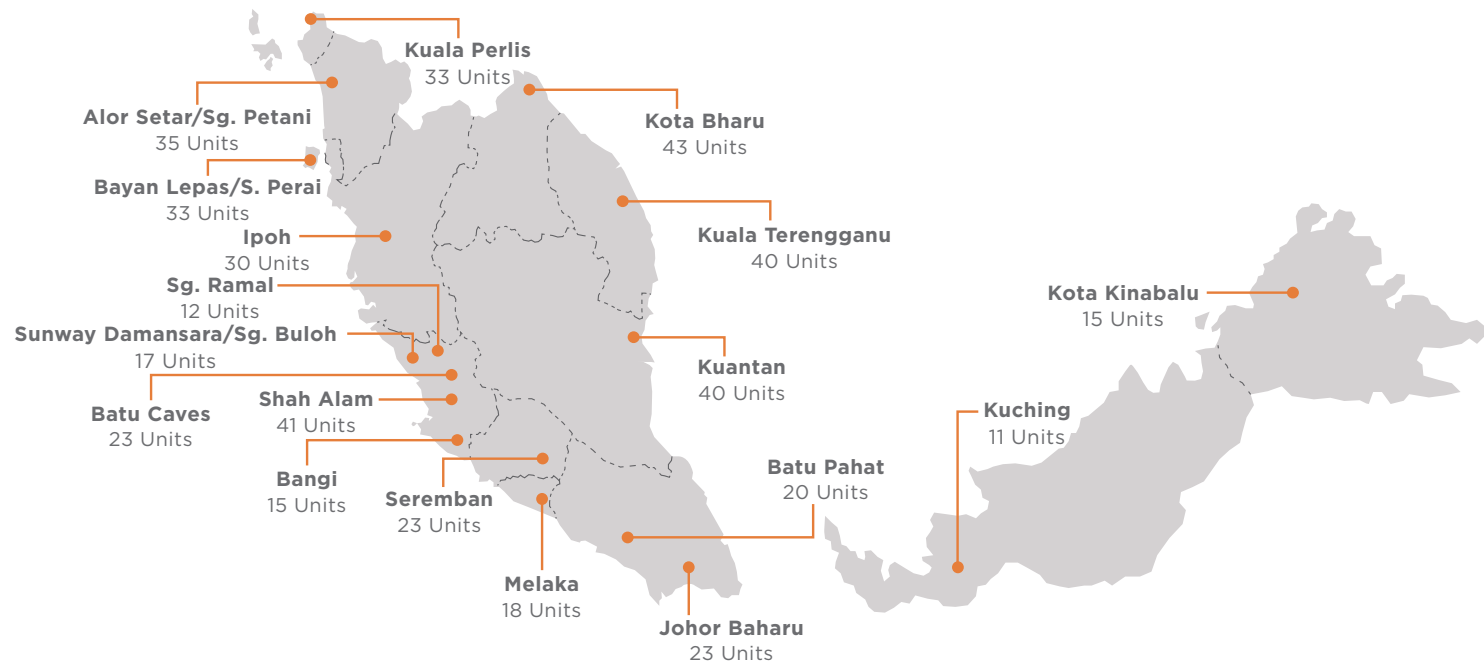
Therefore, the Bank has proposed a new concept of entrepreneurs and a new concept of Entrepreneur Premises Complex (EPC), namely:

- a) High-Performance Entrepreneur (HPE)
The Bank is in the midst of developing a plan to transform the existing tenants and potential tenants into HPE. HPE is a group of resilient entrepreneurs with high sustainability and have the ability to compete in the same level with the bigger player in the industry.
- b) High-Performance Complex (HPC)
The Bank has gazette two HPCs that gathers HPE from the same eco-system to operate in the same place namely EPC Sungai Ramal, Kajang and EPC Bandar Baru Bangi, Selangor.

Apart from this, SME Bank has also identified the following EPC to be transformed as the HPC:

- EPC Telok Mas, Malacca
- EPC Sunway Damansara
- EPC Gebeng, Pahang

Distribution Network of EPC



CEDAR AS A UNIQUE PLATFORM FOR ENTREPRENEUR DEVELOPMENT BEYOND FINANCING



The Centre for Entrepreneur Development and Research (CEDAR) is a wholly owned subsidiary of the SME Development Bank Malaysia.

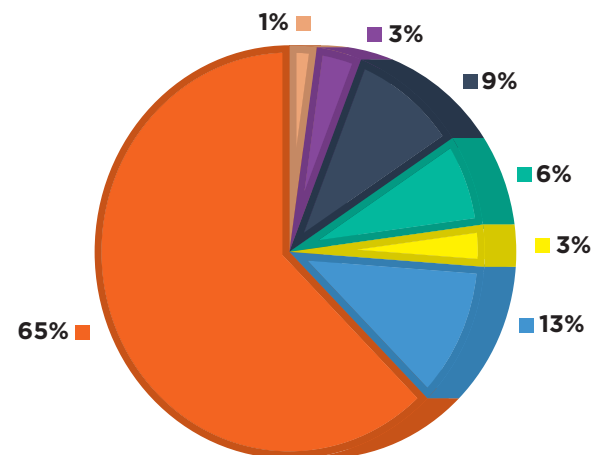
Established in early 2013, it bears a mission in capacity building and capability development of Malaysian entrepreneurs towards sustaining their business growth in support of the national economic agenda.

Today, the SME Bank stands out as the only Malaysian bank with an outfit like CEDAR, that focuses on continuous development of entrepreneurs in ensuring growth and sustainability through its various forms of business intervention services, which include research-based training, business coaching, function-based facilitation and entrepreneur-mentoring. With CEDAR, the Bank has further strengthened its public image and mandated role in offering “beyond-financing” services.

What impact has CEDAR offered?

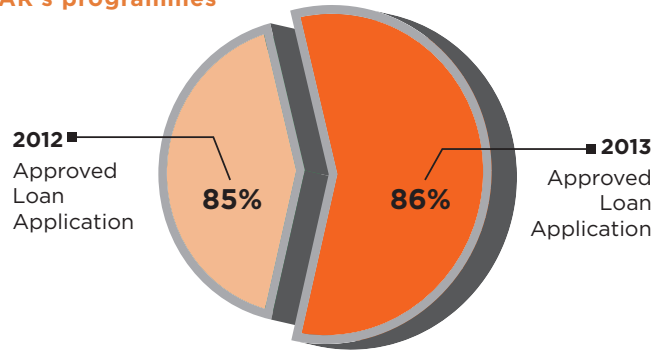
Within the first eight month of its inception, CEDAR had successfully trained more than 5,000 entrepreneurs at different stages of growth, education-levels, business sizes, urban-rural communities, ethnicity and industries. Due to overwhelming response, the plans are to introduce more innovative programmes that fulfil the increasing and differentiated demands of participants, which are expected to increase exponentially this year.

Total Trained Participants for 2013 5,443 participants



As a cursory testimony, the success-rate of participants securing bank loans after attending CEDAR's programmes have surged to approximately 85%; with a corresponding marked increase in non-impaired financing of more than 97% over the past 24 months.

Number of approved loans after attending CEDAR's programmes



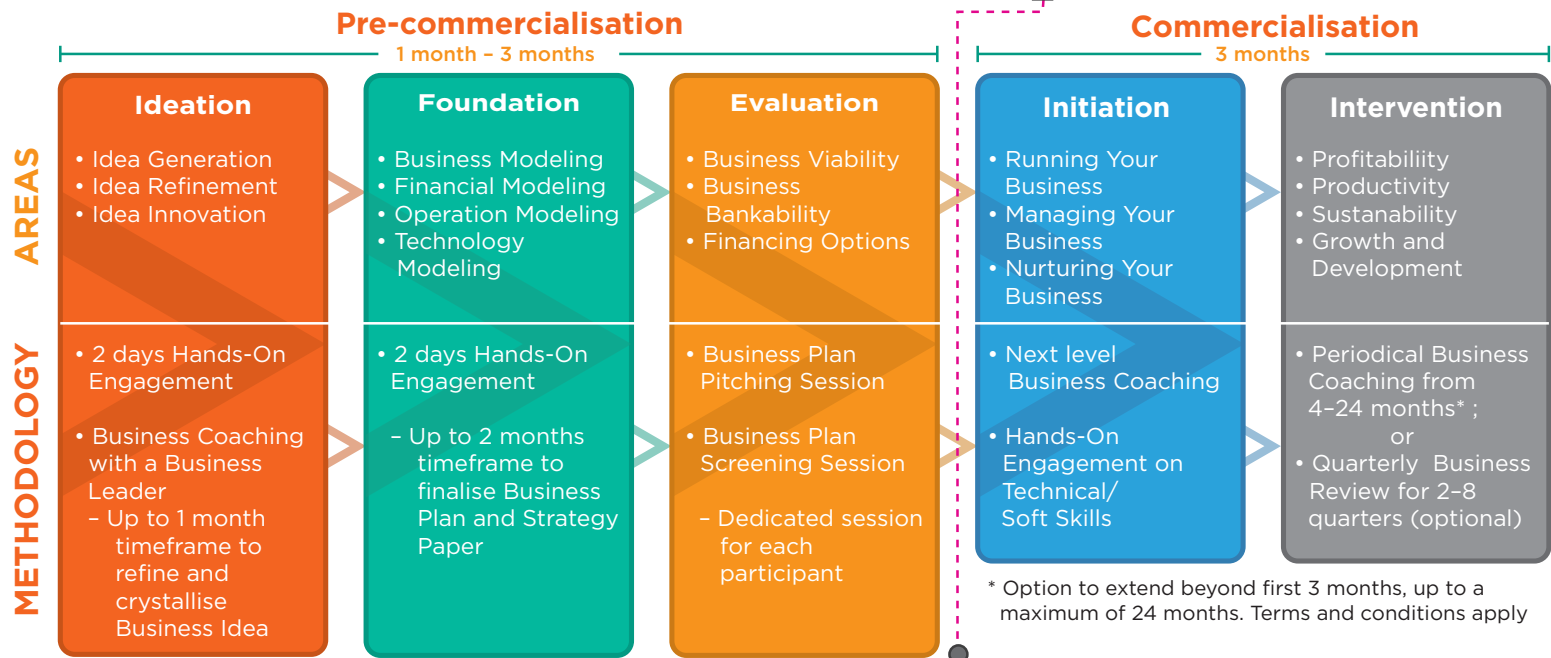
Source : SME Bank

As a consequence, there is an increasing trend in the number of government agencies and business-NGOs collaborating with CEDAR in offering its flagship programme called LEAP. The Leaders Entrepreneurship Acceleration Programme (LEAP) is a holistic entrepreneurship development programme that manages the whole entrepreneur development system from the point of ideation and extend beyond the point of commercialisation over a period of up to 24 months, focussing on each entrepreneur's initiatives, with the objective of realising their business success and sustaining their growth.

HRDF Claimable Leaders Entrepreneurship Acceleration Programme (LEAP)

■ Turning Ideas Into Bankable and Sustainable Business

IQ Dagang Innovation and Biz Idea Challenge



CEDAR's Milestones

Our Signature Programmes

Certificate in Islamic Banking and Finance (CIBF)

In support of SME Bank's Project Wisdom, CEDAR launched the Certificate in Islamic Banking and Finance (CIBF) in collaboration with the Institute of Islamic Banking and Finance (IIBF), an outfit of the International Islamic University of Malaysia (IIUM).

The Certificate is recognised by the IIUM and is targeted to all middle and upper level executives of DFIs. The programme is essential in providing executives with detailed understanding of the concepts and application of Islamic Banking and Islamic Financing especially in effectively executing their responsibility as development bankers. It is also meant to ensure that the rightful Islamic finance mechanics and products are offered to the entrepreneurs at large.

Young Entrepreneur Programme (YEP)

On 21 February 2013, Intel collaborated with CEDAR to run the Intel® Entrepreneurship Basics Course, delivered as part of the Young Entrepreneur Programme. CEDAR is the 2nd centre in the world to offer such programme with Intel® after Pakistan.

The essential basic entrepreneurship programme is aimed at providing would-be young entrepreneurs a few key skill-sets in starting, developing and growing a new business that would not only be commercially viable but more importantly be sustainable. Intel came about to complement the needs and initiative of increasing the IT literacy as part of its CSR programme. Intel has even offered CEDAR 25 laptops worth more than RM 50,000 in early July 2013 for our training purposes.

In order to ensure that young entrepreneurs are equipped with the right skill sets and competencies to succeed in their choice of business, this programme has been made compulsory especially for those applicants of Young Entrepreneur Fund (YEF) who do not possess entrepreneur/vocational certificate.



MOU Signing Ceremony between CEDAR and Intel®



Laptop handover ceremony

3-Steps to Profit Coaching Programme

This is a 2-day mind provoking coaching programme that uses three simple steps to increase sales and profit of entrepreneurs who have been in business for more than two years. Entrepreneurs are empowered by coaches with simple strategies to achieve their desired results with usage of simple tools to track their business performance... a highly successful and proven programme.

Our Partners and Engagement Sessions

In less than a year since its establishment in April 2013, CEDAR has successfully reached out to a wide range of audience including those entrepreneurs and aspiring entrepreneurs through its various projects and engagement sessions throughout Malaysia, institutions of higher learning, youth groups, government agencies and business-NGOs.

The inaugural CSR project of CEDAR and SME Bank, named the SME Biz Talk, was successfully launched in Kuala Lumpur and later held at eight major cities throughout Malaysia in October 2013. The aim was to share valuable knowledge with the entrepreneurs on the business outlook and topics of current interest with them.

CEDAR has inked Memorandum of Understanding with reputable parties that include Intel, Yayasan Pembangunan Usahawan Terengganu, Entrepreneur Development Institute of Gujarat, India; Association of Development Financing Institutions in Asia and The Pacific (ADFIAP), research partners - Universiti Kebangsaan Malaysia, Universiti Putra Malaysia, International Islamic University Malaysia, Universiti Tun Abdul Razak, Universiti Teknologi Malaysia and Universiti Malaysia Perlis and a few other parties who share the same vision of developing and nurturing entrepreneurs for growth and sustainability.



SME-University Internship 2013

The 5th Annual Young Corporate Malaysians Summit

Business Plan Challenge Finals, jointly organised by Taylor's Business School and CEDAR

CORPORATE RESPONSIBILITY

For Life

As a Development Financial Institution, SME Bank always holds onto its mandated role which are to provide funding and advisory services to SMEs in Malaysia.

For business. For growth. For life.

As our tagline states, besides focusing in doing business, we also strive to align with the second and third phrases via the SME Bank Corporate Responsibility Programme.

In business, we are there to assist entrepreneurs in making their dreams come true, while for our stakeholders and communities, we are there to help shape a better, more sustainable society.

Always There

We do not need a reason to lend a helping hand. When we are able to put a smile on the faces of the people, it means we have achieved our goal to make their lives better. SME Bank continues its tradition to distribute food hampers and pocket money during festive seasons to old folks and poor families regardless of their race and religion.



YB Dato' Noriah Kasnon, Deputy Minister of Plantation Industries and Commodities cum Parliament Member of Sungai Besar with YBhg Dato' Mohd Rizal, Group Chief Operating Officer, SME Bank, distributing Chinese New Year 'Ang Pau' to the old folks at Pusat Aktiviti Warga Emas Sabak Bernam

YB En. P. Kamalanathan, Deputy Minister of Education II cum Parliament Member of Hulu Selangor with En. Asbullah Adnan, Director Development Banking & Liaison, SME Bank, distributing pocket money to poor families in conjunction with Deepavali celebrations



The Spirit of Volunteerism

For the first time, the Corporate Responsibility Section has opened its programme to staff members of the Bank to participate as volunteers. It is an ongoing effort to inculcate the spirit of volunteerism among the staff. This voluntary programme has received positive feedbacks and staff are looking forward to be involved in more community outreach and charity programmes.



Some of the volunteers participating in the Pre-Ramadhan programme with KTM Berhad.

SME Bank volunteers playing with the children from Yayasan Chow Kit

SME Bank volunteers painting the stairs and cleaning up the shelter home at Yayasan Chow Kit

Sustaining Young Talents :

Program Inovasi Usahawan Muda SME Bank Y-Biz Challenge

Moving into our second year of organising the SME Bank Y-Biz Challenge, we have taken one step forward towards bigger success. We have improvised some of the format to meet requirements from the Ministry of Education as well as SME Bank itself.

For the year 2013, there were no road shows for SME Bank Y-Biz Challenge. However, most of the promotional activities were done through the mass media and social media which include internet, Facebook, web portal, print and electronic media.

A total of 293 students and 81 teachers from 81 schools had participated in SME Bank Y-Biz Challenge 2013. Semi-finalists were given the opportunity to attend the 4 days 3 nights boot camp session. Students were exposed to extensive lessons on product design and ergonomics, intellectual property and also visited the SME Bank Entrepreneur Premises Complex in Shah Alam. Semi final presentations in front of a panel of judges were also organised during the boot camp. In the end, only ten schools were selected to compete in the finals. As an incentive to the champion of SME Bank Y-Biz Challenge 2013, the Bank had announced a special prize comprising flight tickets for the team to participate in any international competition.



International Recognition

One of the main objectives of SME Bank Y-Biz Challenge 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 impressive young minds from SMK Sains Hulu Selangor showcased their creativity and talent by coming up with an upgrade to the Smart Rollator (which won first place in SME Bank Y-Biz Challenge 2012). The new and improved Smart Rollator V2 won the Gold Medal for the Young Inventor Category in the European Exhibition of Creativity and Innovation (EUROINVENT) held in Romania in May 2013.

This is a success story for SME Bank Y-Biz Challenge programme and shows that the programme has given the opportunity for our young talents to share their creativity and innovation on an international level. With this success, it will become a benchmark for SME Bank to organise better and more effective SME Bank Y-Biz Challenge programme in the future for the benefit of our young talents.



Visit to SME Bank Entrepreneur Premises Complex during the Boot Camp Session



Students presenting a prototype in front of the panel of judges during Final Presentation



Smart Rollator V2 that won the Gold Medal at European Exhibition of Creativity and Innovation (EUROINVENT)

SME Bank nurtures students

ENTREPRENEURSHIP PROGRAMME: Y-Biz challenge receives good response from schools nationwide

RODANA RAMSAY
KUALA LUMPUR
rodana.ramsay@smebank.com.my

SME Bank has launched a corporate responsibility programme last year to promote entrepreneurship among secondary school students.

"Through several challenges the SME Bank Y-Biz Challenge 2013 has received good response from schools nationwide. SME Bank managing director Danik Mohd Radiff Yunos said of the 10 schools invited, 82 participants with the winners using their winning money to enter a competition in Romania and winning the Gold Medal in the Young Inventor category.

"This year, we have plans to provide some form of support to the winner keen on competing in the international arena."

The first prize winner of this year's SME Bank Y-Biz challenge will receive RM20,000 in cash, first runner-up RM10,000 and RM30,000 for the third spot.

Mohd Radiff said this is SME Bank's signature corporate responsibility event that it is partnering with the Malaysian Design Council and supported by the Education Ministry.

"This is part of our initiative to nurture the youth to be future entrepreneurs and bring our success story to them. We discovered there was a lot of them out there with creative ideas."

He added that last year, the competition was open to only invited schools but this year it is open to all secondary school students and encourages them to explore and expand their creativity by brainstorming and proposing great ideas.

Mohd Radiff said for this programme, it is SME Bank's objective to develop and nurture entrepreneurship skills.

It also serves the Education Ministry's aspiration to encourage students to be active in extra-curricular activities in school and at the national level, producing highly motivated students with interest in science, technology and entrepreneurship.

Mohd Radiff said as for the SME Bank, apart from instilling entrepreneurship among students, teachers will also be exposed to new teaching techniques which can produce creative and innovative students.

The criteria for projects to be submitted, said Mohd Radiff, must be with original ideas, value added, innovative, environmental-friendly and with commercial value.

Preliminary screening will be done in all states to select 20 schools and to move on to the semi-final round.

"In the semi-final round, they will present proposals and then visit our factory complex where they will experience firsthand the mechanics of production and the effect of engineering."

All schools will then be selected into the final round and each finalist will be provided with a seed capital of RM2,000 each to produce projects.

The final presentation to the jury will take place at the national level and representatives from the SME Bank, Education Ministry and Malaysia's Design Council.

The competition started on May 2 and will close on July 31. Entry forms and proposal guidelines can be downloaded from www.smebank.com.my



YB Datuk Mary Yap Kain Ching, Deputy Minister of Education I with the winners of SME Bank Y-Biz Challenge 2013

News article on SME Bank Y-Biz Challenge 2013





CALENDAR OF EVENTS

2013 CALENDAR OF EVENTS

01
JAN



11 January

Official Opening of Kajang Enterprise Centre by YBhg Dato' Gumuri Hussain, Chairman of SME Bank



10 January

Official Opening of Rawang Business Centre by YBhg Dato' Gumuri Hussain, Chairman of SME Bank



3 January

My Beautiful Malaysia Program, with YB Dato' Sri Mustapa Mohamed, the Minister of International Trade & Industry (MITI)



31 January

Visit by YB Dato' Seri Ahmad Husni Hanadzlah, Finance Minister II at the UTC Perak

02
FEB



15 February

Official Opening of the UTC Perak by YAB Dato' Sri Najib Tun Razak, Prime Minister of Malaysia



27 March

YB Dato' Sri Mustapa Mohamed, Minister of International Trade and Industri (MITI) visiting SME Bank's pavilion during LIMA 2013

04
APR



15 & 18 April

Study visit by the delegation from SME Bank Russia at Menara SME Bank, Kuala Lumpur



11 April

Official Opening of the UTC Pahang by YAB Dato' Sri Najib Tun Razak, Prime Minister of Malaysia

05
MAY



2 May

Distribution of Zakat to Asnaf by YB Dato' Sri Paduka Mukhriz Mahathir, Deputy Minister of International Trade & Industry (MITI) in Jerlun, Kedah

10 May



Visit by delegation from the National Defense College of Nigeria at Menara SME Bank

23 May



MOU with Fund DAMU, in Republic of Kazakhstan

06
JUN



27 June

Visit by the Honourable High Commissioner of Pakistan at Menara SME

26 June



SME Bank 2012 Financial Results Announcement at Menara SME

07
JUL



4 July

SME Bank New Logo Launching by YB Dato' Seri Ahmad Husni Hanadzlah, Finance Minister II

08
AUG



16 August

Official Opening of UTC Kedah by YAB Dato' Sri Najib Tun Razak, Prime Minister of Malaysia

23 July



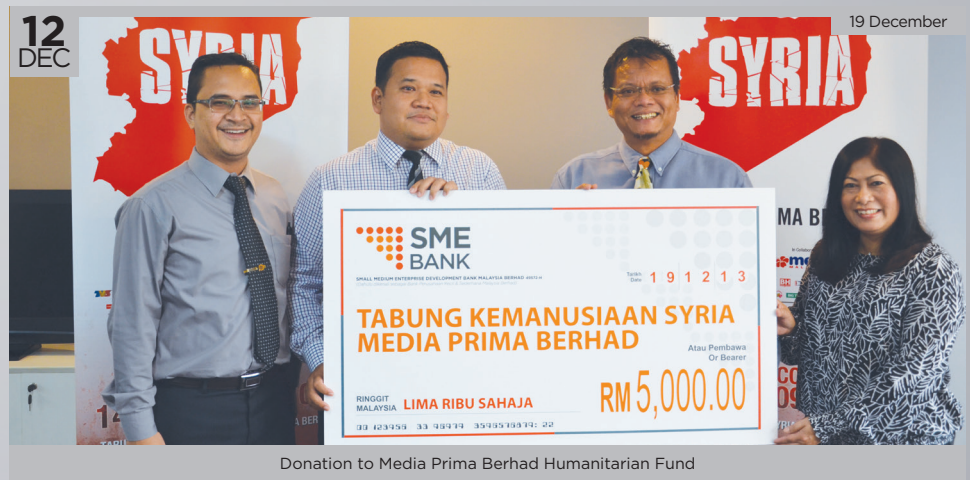
Distribution of Zakat in Ledang, Johor by YB Datuk Ir. Haji Hamim Samuri, Deputy Minister of International Trade & Industry (MITI)

16 July



Iftar Ramadhan with YB Datuk Ir. Haji Hamim Samuri, Deputy Minister of International Trade & Industry (MITI)

2013 CALENDAR OF EVENTS





FINANCIAL STATEMENTS

CONTENTS



Directors' Report	73 - 76
Statement by Directors	77
Statutory Declaration	78
Shariah Committee's Report	79 - 80
Independent Auditors' Report	81 - 82
Financial Statements	
Statements of Financial Position	83 - 85
Statements of Comprehensive Income	86 - 87
Statements of Changes in Equity	88 - 90
Statements of Cash Flows	91 - 94
Notes to the Financial Statements	95 - 260



DIRECTORS' REPORT

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 2013.

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 respectively described in Note 10 and Note 11 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:	91,233	93,971
Taxation	(12,209)	(12,919)
Zakat	(2,846)	(2,846)
Net profit for the year	<u>76,178</u>	<u>78,206</u>
Profit attributable to:		
Owner of the Bank	76,178	78,206
Non-controlling interest	-	-
	<u>76,178</u>	<u>78,206</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

The amount of dividend paid by the Bank since 31 December 2012 was as follows:

In respect of the financial year ended 31 December 2012, a final tax exempt (single tier) dividend of 0.50 sen per share on 1,350,000,000 ordinary shares, amounting to a dividend payable of RM6,750,000 was approved and declared at Annual General Meeting held on 19 June 2013, paid on 19 June 2013.

At the forthcoming Annual General Meeting, a final tax exempt (single tier) dividend in respect of the financial year ended 31 December 2013, of 0.50 sen per share on 1,350,000,000 ordinary shares, amounting to a dividend payable of RM6,750,000 will be proposed for the shareholder's approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholder, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2014.

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. Tan Sri Ab. Aziz bin Kasim (Chairman) (appointed on 1 May 2014)

Y.Bhg. Datuk Mohd Radzif bin Mohd Yunus

Y.Bhg. Datuk Mohd Nasir bin Ahmad

Y.Bhg. Dato' Abdul Ghafar bin Musa

Y.Bhg. Dato' Adzmy bin Abdullah

En. Ishak bin Ismail

En. Khairuzzaman Muhammad

En. Asri bin Hamidon (appointed on 2 May 2013)

Y.Bhg. Dato' Jamelah binti Jamaluddin (appointed on 1 February 2014)

Y.Bhg. Dato' Gumuri bin Hussain (Chairman) (retired on 10 August 2013)

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, where by 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, the interest of the Directors in office at the end of the financial year in the ordinary shares of its related corporations during the financial year were as follows:

	Number of ordinary shares of RM1 each			
	At 1.1.2013	Acquired	Sold	At 31.12.2013
Ordinary shares of the subsidiary company				
Datuk Mohd Radzif bin Mohd Yunus	-	1	-	1
Dato' Adzmy bin Abdullah	-	1	-	1

None of the other Directors in office at the end of the financial year had any interest in ordinary shares in the Bank or 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.

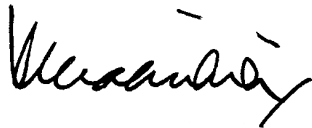
Other statutory information (cont'd.)

- (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 29 May 2014.



Datuk Mohd Nasir bin Ahmad

Kuala Lumpur, Malaysia



Datuk Mohd Radzif bin Mohd Yunus



STATEMENT BY DIRECTORS

Pursuant to Section 169(15) of the Companies Act, 1965

We, Datuk Mohd Nasir bin Ahmad and Datuk Mohd Radzif bin Mohd Yunus, being two of the Directors of Small Medium Enterprise Development Bank Malaysia Berhad (formerly known as Bank Perusahaan Kecil & Sederhana Malaysia Berhad), do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 83 to 260 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 2013 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 29 May 2014.

Datuk Mohd Nasir bin Ahmad

Kuala Lumpur, Malaysia

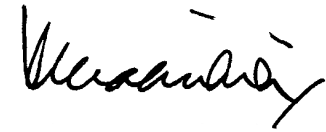
Datuk Mohd Radzif bin Mohd Yunus

STATUTORY DECLARATION

Pursuant to Section 169(16) of the Companies Act, 1965

We, Datuk Mohd Nasir bin Ahmad and Datuk Mohd Radzif bin Mohd Yunus, being the Director and Managing Director respectively, primarily responsible for the financial management of Small Medium Enterprise Development Bank Malaysia Berhad (formerly known as Bank Perusahaan Kecil & Sederhana Malaysia Berhad), do solemnly and sincerely declare that the accompanying financial statements set out on pages 83 to 260 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 29 May 2014.



Datuk Mohd Nasir bin Ahmad



Datuk Mohd Radzif bin Mohd Yunus

Before me,



Level 16, Menara Tokio Marine Life,
189, Jalan Tun Razak, 50400 Kuala Lumpur.



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 Small Medium Enterprise Development Bank Malaysia Berhad (formerly known as Bank Perusahaan Kecil & Sederhana Malaysia Berhad) (“the Bank”) during the financial year ended 31 December 2013. We have also conducted our review to form an opinion as to whether the Bank has complied with the Shariah principles and with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia (“BNM”), as well as Shariah decisions made by us.

The management of the 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 Bank, and to report to you.

We have assessed the work carried out by Shariah review and Syariah audit which included examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by the Bank followed by the submission of monthly Shariah Non-compliance Reports for 2013 to BNM.

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

In our opinion:

- i) The contracts, transactions and dealings of Islamic banking products entered into by the Bank during the financial year ended 31 December 2013 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;
- iii) The calculation and distribution of zakat is in compliance with Shariah principles; and
- iv) Any Shariah non-compliance event were rectified accordingly and the Bank has taken preventive measures to avoid the recurrence of such events.

Shariah Committee's Report (cont'd.)

We, Prof Dr. Abdul Basir bin Mohamad and Dr. Asmak bt Ab Rahman, being two of the members of the Shariah Committee of the Bank, do hereby confirm on behalf of the members of the Shariah Committee that, in our level best, the Islamic Banking operations of the Bank for the financial year ended 31 December 2013 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.

On behalf of the Committee:



Prof Dr. Abdul Basir bin Mohamad
Chairman of the Committee



Dr. Asmak bt Ab Rahman
Member of the Committee

Kuala Lumpur, Malaysia

29 MAY 2014



INDEPENDENT AUDITORS' REPORT

Report on the financial statements

We have audited the financial statements of Small Medium Enterprise Development Bank Malaysia Berhad (formerly known as Bank Perusahaan Kecil & Sederhana Malaysia Berhad), which comprise the statements of financial position as at 31 December 2013 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 83 to 260.

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.

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 2013 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.

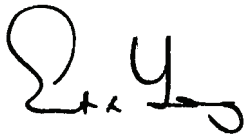
Report on other legal and regulatory requirements

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

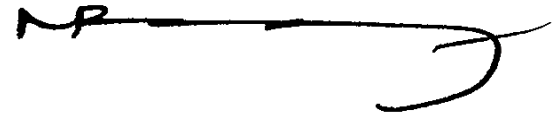
This report is made solely to the member of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia

29 MAY 2014



Nik Rahmat Kamarulzaman bin Nik Ab. Rahman
No. 1759/02/16(J)
Chartered Accountant



STATEMENT OF FINANCIAL POSITION

Statement of financial position As at 31 December 2013

	Note	As at 31 December 2013 RM'000	Group As at 31 December 2012 RM'000 Restated	As at 1 January 2012 RM'000 Restated
ASSETS				
Cash and short term funds	4	1,395,419	1,889,654	3,357,147
Deposits and placements with banks and other financial institutions	5	198,589	452,954	65,153
Available-for-sale financial investments	6	1,782,845	937,073	410,734
Held-to-maturity financial investments	7	437,008	263,967	197,565
Loans, advances and financing	8	4,707,916	3,819,974	3,516,321
Tax recoverable		6,573	15,769	8,891
Other assets	9	74,849	74,045	120,669
Investments in associates	11	6,912	7,321	57,537
Property, plant and equipment	12	157,882	138,617	129,635
Investment properties	13	150,825	143,276	159,988
Intangible assets	14	5,937	9,161	-
Deferred tax	15	50,519	43,149	58,046
TOTAL ASSETS		8,975,274	7,794,960	8,081,686
LIABILITIES				
Deposits from customers	16	3,460,788	2,315,936	3,166,095
Deposits from other financial institutions	17	386,614	325,524	-
Medium term note	18	507,040	507,040	-
Term loans	19	2,905,841	3,111,636	3,458,474
Other liabilities	20	342,573	165,295	130,004
Government funds	21	306,987	312,574	345,518
TOTAL LIABILITIES		7,909,843	6,738,005	7,100,091
EQUITY				
Share capital	22	1,350,000	1,350,000	1,350,000
Accumulated losses		(234,805)	(304,839)	(380,377)
Other reserves	23	(49,764)	11,794	11,972
TOTAL EQUITY		1,065,431	1,056,955	981,595
TOTAL LIABILITIES AND EQUITY		8,975,274	7,794,960	8,081,686
COMMITMENTS AND CONTINGENCIES	33	1,491,436	1,352,015	939,900

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

Statement of financial position
As at 31 December 2013 (cont'd.)

	Note	As at 31 December 2013 RM'000	Bank As at 31 December 2012 RM'000 Restated	As at 1 January 2012 RM'000 Restated
ASSETS				
Cash and short term funds	4	1,394,038	1,889,259	3,356,639
Deposits and placements with banks and other financial institutions	5	198,589	452,954	65,153
Available-for-sale financial investments	6	1,782,845	937,073	410,734
Held-to-maturity financial investments	7	437,008	263,967	197,565
Loans, advances and financing	8	4,707,916	3,819,974	3,516,321
Tax recoverable		6,511	15,769	8,890
Other assets	9	75,944	73,356	120,073
Investments in subsidiaries	10	500	-*	-*
Investments in associates	11	750	750	8,305
Property, plant and equipment	12	157,857	138,617	129,635
Investment properties	13	150,825	143,276	159,988
Intangible assets	14	5,437	9,161	-
Deferred tax	15	50,519	43,149	58,046
TOTAL ASSETS		8,968,739	7,787,305	8,031,349
LIABILITIES				
Deposits from customers	16	3,460,788	2,315,936	3,166,095
Deposits from other financial institutions	17	386,614	325,524	-
Medium term note	18	507,040	507,040	-
Term loans	19	2,905,841	3,111,636	3,458,474
Other liabilities	20	340,890	164,520	122,183
Government funds	21	306,987	312,574	345,518
TOTAL LIABILITIES		7,908,160	6,737,230	7,092,270

* Denotes RM2





Statement of financial position
As at 31 December 2013 (cont'd.)

	Note	As at 31 December 2013 RM'000	Bank As at 31 December 2012 RM'000 Restated	As at 1 January 2012 RM'000 Restated
EQUITY				
Share capital	22	1,350,000	1,350,000	1,350,000
Accumulated losses		(239,657)	(311,719)	(422,893)
Other reserves	23	(49,764)	11,794	11,972
TOTAL EQUITY		<u>1,060,579</u>	<u>1,050,075</u>	<u>939,079</u>
TOTAL LIABILITIES AND EQUITY		<u>8,968,739</u>	<u>7,787,305</u>	<u>8,031,349</u>
COMMITMENTS AND CONTINGENCIES	33	<u>1,491,436</u>	<u>1,352,015</u>	<u>939,900</u>

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

Statement of comprehensive income
For the financial year ended 31 December 2013

	Note	Group		Bank	
		2013 RM'000	2012 RM'000 Restated	2013 RM'000	2012 RM'000 Restated
Interest income	24	133,292	142,914	133,292	142,914
Interest expense	25	(102,620)	(112,235)	(102,620)	(112,235)
Net interest income		30,672	30,679	30,672	30,679
Gross income from Islamic banking business	39	209,316	171,496	209,316	171,496
Other operating income	26	23,209	37,362	23,745	69,010
Net income		263,197	239,537	263,733	271,185
Other operating expenses	27	(166,057)	(141,234)	(164,264)	(122,634)
Operating profit		97,140	98,303	99,469	148,551
Allowance for impairment loss:					
- loans, advances and financing	29	(5,498)	(14,229)	(5,498)	(14,229)
- financial investments	30	-	(11,375)	-	(11,375)
		91,642	72,699	93,971	122,947
Share of (loss)/profit after tax of associates		(409)	15,364	-	-
Profit before tax expense and zakat		91,233	88,063	93,971	122,947
Tax expense	31	(12,209)	(12,676)	(12,919)	(11,924)
Zakat	31	(2,846)	1,160	(2,846)	1,160
Profit for the year		76,178	76,547	78,206	112,183
Other comprehensive loss to be reclassified to profit or loss in subsequent periods					
Unrealised loss on revaluation of available-for-sale financial investments		(81,269)	(1,582)	(81,269)	(1,582)
Income tax relating to components of other comprehensive income		20,317	395	20,317	395
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		(60,952)	(1,187)	(60,952)	(1,187)



Statements of comprehensive income
For the financial year ended 31 December 2013 (cont'd.)

	Note	Group		Bank	
		2013 RM'000	2012 RM'000 Restated	2013 RM'000	2012 RM'000 Restated
Total comprehensive income for the year, net of tax		15,226	75,360	17,254	110,996
Profit for the year attributable to the owner of the Bank		76,178	76,547	78,206	112,183
Total comprehensive income attributable to the owner of the Bank		15,226	75,360	17,254	110,996
Profit per share attributable to the owner of the Bank (sen) - Basic	32	5.64	5.67	5.79	8.31

Statement of changes in equity
For the financial year ended 31 December 2013

<=====Attributable to the 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 equity RM'000
At 1 January 2013, as previously stated	1,350,000	895	1,009	10,114	(331,616)	1,030,402
Prior year adjustment (Note 40)	-	(224)	-	-	26,777	26,553
At 1 January 2013, as restated	1,350,000	671	1,009	10,114	(304,839)	1,056,955
Unrealised loss on revaluation of available- for-sale financial investments	-	(60,952)	-	-	-	(60,952)
Net provision of profit equalisation reserve for the year	-	-	(606)	-	606	-
Net profit for the year	-	-	-	-	76,178	76,178
Total comprehensive income for the year	-	(60,952)	(606)	-	76,784	15,226
Dividends (Note 38)	-	-	-	-	(6,750)	(6,750)
At 31 December 2013	1,350,000	(60,281)	403	10,114	(234,805)	1,065,431


Statement of changes in equity
For the financial year ended 31 December 2013 (cont'd.)

Group	<=====Attributable to the Owner of the Bank=====>					
	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 equity RM'000
At 1 January 2012, as previously stated	1,350,000	2,477	-	10,114	(404,429)	958,162
Prior year adjustment (Note 40)	-	(619)	-	-	24,052	23,433
At 1 January 2012, as restated	1,350,000	1,858	-	10,114	(380,377)	981,595
Unrealised loss on revaluation of available- for-sale financial investments	-	(1,187)	-	-	-	(1,187)
Net provision of profit equalisation reserve for the year	-	-	1,009	-	(1,009)	-
Net profit for the year	-	-	-	-	76,547	76,547
Total comprehensive income for the year	-	(1,187)	1,009	-	75,538	75,360
At 31 December 2012	1,350,000	671	1,009	10,114	(304,839)	1,056,955

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

Statement of changes in equity
For the financial year ended 31 December 2013 (cont'd.)

	<=====Attributable to the Owner of the Bank=====>					
	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 equity RM'000
Bank						
At 1 January 2013, as previously stated	1,350,000	895	1,009	10,114	(338,496)	1,023,522
Prior year adjustment (Note 40)	-	(224)	-	-	26,777	26,553
At 1 January 2013, as restated	1,350,000	671	1,009	10,114	(311,719)	1,050,075
Unrealised loss on revaluation of available-for-sale financial investments	-	(60,952)	-	-	-	(60,952)
Net provision of profit equalisation reserve for the year	-	-	(606)	-	606	-
Net profit for the year	-	-	-	-	78,206	78,206
Total comprehensive income for the year	-	(60,952)	(606)	-	78,812	17,254
Dividends (Note 38)	-	-	-	-	(6,750)	(6,750)
At 31 December 2013	1,350,000	(60,281)	403	10,114	(239,657)	1,060,579
At 1 January 2012, as previously stated	1,350,000	2,477	-	10,114	(446,945)	915,646
Prior year adjustment (Note 40)	-	(619)	-	-	24,052	23,433
At 1 January 2012, as restated	1,350,000	1,858	-	10,114	(422,893)	939,079
Unrealised loss on revaluation of available-for-sale financial investments	-	(1,187)	-	-	-	(1,187)
Net provision of profit equalisation reserve for the year	-	-	1,009	-	(1,009)	-
Net profit for the year	-	-	-	-	112,183	112,183
Total comprehensive income for the year	-	(1,187)	1,009	-	111,174	110,996
At 31 December 2012	1,350,000	671	1,009	10,114	(311,719)	1,050,075

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



Statements of cash flows
For the financial year ended 31 December 2013

	Group		Bank	
	2013 RM'000	2012 RM'000 Restated	2013 RM'000	2012 RM'000 Restated
Cash flows from operating activities				
Profit before tax expense and zakat	91,233	88,063	93,971	122,947
Adjustments for:				
Loss/(gain) on disposal of investment in associates	-	17,794	-	(40,231)
Gain on disposal of quoted investments	(1,217)	(303)	(1,217)	(303)
Gain on disposal of unquoted investments	-	(91)	-	(91)
Allowance for diminution in value of available-for-sale financial investments	-	5,723	-	5,723
Allowance for diminution in value of investment in associates	-	5,652	-	5,652
Allowance for impairment loss on loans, advances and financing	(30,370)	33,231	(30,370)	33,231
Loans, advances and financing waived	1,385	-	1,385	-
Loans, advances and financing written-off	82,673	32,225	82,673	32,225
Recoveries from bad loans, advances and financing written-off	(48,190)	(51,227)	(48,190)	(51,227)
Share of loss/(profit) of associates	409	(15,364)	-	-
Depreciation of property, plant and equipment	5,360	7,213	5,359	7,213
Depreciation of investment properties	3,737	3,661	3,737	3,661
Amortisation of intangible assets	4,990	4,012	4,990	4,012
Property, plant and equipment written-off	-	122	-	122
Government funds released	(3,090)	(22,022)	(3,090)	(22,022)
Dividend income	(18)	(1,246)	(18)	(1,246)
Interest expense	200,184	187,335	200,184	187,335
Interest income	(422,513)	(357,845)	(422,513)	(357,845)
Operating loss before working capital changes	(115,427)	(63,067)	(113,099)	(70,844)

Statements of cash flows
For the financial year ended 31 December 2013 (cont'd.)

	Group		Bank	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
		Restated		Restated
Cash flows from operating activities (cont'd)				
Changes in working capital:				
Other assets	35,938	7,998	35,368	8,842
Loans, advances and financing	(915,723)	(330,548)	(915,723)	(330,548)
Deposits and placements with financial institutions	254,365	(224,873)	254,365	(224,873)
Deposits from customers	1,144,852	(859,952)	1,144,852	(859,952)
Deposits from other financial institutions	61,090	325,000	61,090	325,000
Other liabilities	173,911	36,572	170,641	43,618
Cash generated from/(used in) operating activities	639,006	(1,108,870)	637,494	(1,108,757)
Interest paid	(191,179)	(176,338)	(191,179)	(176,338)
Interest received	414,629	350,461	414,629	350,461
Tax paid	-	(3,484)	-	(3,484)
Zakat paid	(963)	(187)	(963)	(187)
Net cash generated from/(used in) operating activities	861,493	(938,418)	859,981	(938,305)



Statements of cash flows

For the financial year ended 31 December 2013 (cont'd.)

	Group		Bank	
	2013 RM'000	2012 RM'000 Restated	2013 RM'000	2012 RM'000 Restated
Cash flows from investing activities				
Dividend received from investment	18	1,219	18	1,219
Purchase of bonds	(1,653,498)	(2,155,000)	(1,653,498)	(2,155,000)
Purchase of negotiable instruments	-	(150,000)	-	(150,000)
Purchase of property, plant and equipment	(36,767)	(13,936)	(36,741)	(13,936)
Purchase of intangible assets	(910)	(2,503)	(410)	(2,503)
Net cash outflow on incorporation of a subsidiary	(500)	-	(500)	-
Proceeds from redemption of bond	552,474	1,552,453	552,474	1,552,453
Proceeds from redemption of unquoted investments	-	1,260	-	1,260
Proceeds from disposal of associate investments	-	42,135	-	42,135
Proceeds from disposal of quoted investments	2,160	1,145	2,160	1,145
Proceeds from disposal of unquoted investments	-	539	-	539
Net cash used in investing activities	<u>(1,137,023)</u>	<u>(722,688)</u>	<u>(1,136,497)</u>	<u>(722,688)</u>
Cash flows from financing activities				
Dividends paid on ordinary shares	(6,750)	-	(6,750)	-
Drawdown of term loans	1,647,060	556,549	1,647,060	556,549
Repayment of term loans	(1,859,015)	(853,490)	(1,859,015)	(853,490)
Proceeds from sukuk issuance	-	500,000	-	500,000
Net cash used in financing activities	<u>(218,705)</u>	<u>203,059</u>	<u>(218,705)</u>	<u>203,059</u>

Statements of cash flows
For the financial year ended 31 December 2013 (cont'd.)

	2013 RM'000	Group 2012 RM'000 Restated	2013 RM'000	Bank 2012 RM'000 Restated
Cash flows from financing activities (cont'd)				
Net decrease in cash and cash equivalents	(494,235)	(1,458,047)	(495,221)	(1,457,934)
Cash and cash equivalents at beginning of year	1,889,654	3,347,701	1,889,259	3,347,193
Cash and cash equivalents at end of year	1,395,419	1,889,654	1,394,038	1,889,259
Cash and cash equivalents comprise:				
Cash and short term deposits of:				
- Cash and bank balances (Note 4)	1,395,419	1,889,654	1,394,038	1,889,259

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



Notes to the financial statements - 31 December 2013

1. Corporate information

Small Medium Enterprise Development Bank Malaysia Berhad (“the Bank”) is a public limited liability company, incorporated and domiciled in Malaysia. The Bank has changed its name from Bank Perusahaan Kecil & Sederhana Malaysia Berhad with effect from 11 June 2013.

The registered office of the Bank is at Level 22, 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 29 May 2014.

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.

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.)

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following MFRSs, Amendments to MFRSs, IC Interpretation and Technical Release:

Description	Effective for annual periods beginning on or after
Amendments to MFRS 101: Presentation of Items of Other Comprehensive Income	1 July 2012
MFRS 3 Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)	1 January 2013
MFRS 127 Consolidated and Separate Financial Statements (IAS 27 revised by IASB in December 2003)	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 (IAS 19 as amended by IASB in June 2011)	1 January 2013
MFRS 127 Separate Financial Statements (IAS 27 as amended by IASB in May 2011)	1 January 2013
MFRS 128 Investment in Associate and Joint Ventures (IAS 28 as amended by IASB in May 2011)	1 January 2013
IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Amendments to MFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Annual Improvements 2009-2011 Cycle	1 January 2013
Amendments to MFRS 1: Government Loans	1 January 2013
Amendments to MFRS 10, MFRS 11 and MFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	1 January 2013

Adoption of the above standards and interpretations did not have any material effect on the financial performance or position of the Group and the Company except for those discussed below:



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

2.2 Changes in accounting policies (cont'd.)

MFRS 12 Disclosures of Interests in Other Entities

MFRS 12 includes all disclosure requirements for interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are required. This standard affects disclosures only and has no impact on the Group's financial position or performance.

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. MFRS 13 defines fair value as an exit price. As a result of the guidance in MFRS 13, the Group re-assessed its policies for measuring fair values. MFRS 13 also requires additional disclosures.

Application of MFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 36.

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

The amendments to MFRS 101 introduce a grouping of items presented in other comprehensive income. Items that will be reclassified ("recycled") to profit or loss at a future point in time (eg. net loss or gain on available-for-sale financial assets) have to be presented separately from items that will not be reclassified (eg. revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's financial position or performance.

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 Group's and the Bank's financial statements are disclosed below. The Group and the Bank intend to adopt these standards, if applicable, when they become effective.

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

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

	Effective for annual periods beginning on or after
MFRSs, Amendments to MFRSs and Interpretations	
Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities	1 January 2014
Amendments to MFRS 136: Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IC interpretation 21: Levies	1 January 2014
Amendments to MFRS 119:	
Defined Benefit Plans: Employee Contributions	1 July 2014
Annual Improvements to MFRSs 2010-2012 Cycle	1 July 2014
Annual Improvements to MFRSs 2011-2013 Cycle	1 July 2014
MFRS 9 Financial Instruments	
(IFRS 9 issued by IASB in November 2009)	To be announced
MFRS 9 Financial Instruments	
(IFRS 9 issued by IASB in October 2010)	To be announced
MFRS 9 Financial Instruments: Hedge Accounting and amendments to MFRS 9, MFRS 7 and MFRS 139	To be announced

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 except as discussed below:

Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novation.



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

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

MFRS 9 Financial Instruments: Classification and Measurement

MFRS 9 reflects the first phase of work on the replacement of MFRS 139 and applies to classification and measurement of financial assets and financial liabilities as defined in MFRS 139. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to MFRS 9: Mandatory Effective Date of MFRS 9 and Transition Disclosures, issued in March 2012, moved the mandatory effective date to 1 January 2015. Subsequently, on 14 February 2014, it was announced that the new effective date will be decided when the project is closer to completion. The adoption of the first phase of MFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

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.

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

2.4 Basis of consolidation (cont'd.)

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.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including good will) and liabilities of the subsidiary at their carrying amounts;
- Derecognises the carrying amount of any non-controlling interest in the former subsidiary;
- Derecognises the cumulative foreign exchange translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained in the former subsidiary;
- Recognises any surplus or deficit in the profit or loss; and
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, if required in accordance with other MFRSs.

All of the above will be accounted for from the date when control is lost.

2.5 Subsidiaries

Subsidiaries are entities over which the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns



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

2.5 Subsidiaries (cont'd.)

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

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

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.

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

2.6 Associates (cont'd.)

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.

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

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

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

2.9 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gain or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Computer software were acquired separately and amortised on a straight line basis over the useful lives of 3 to 5 years.

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;



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

2.9 Intangible assets (cont'd.)

- How the asset will generate future economic benefits;
- The availability of resources to complete the asset;
- The ability to measure reliably the expenditure during development; and
- The ability to use the intangible asset generated.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

2.10 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.)

2.10 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.

2.11 Financial assets

Financial assets 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.

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.



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

2.11 Financial assets (cont'd.)

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

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.)

2.11 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.

2.12 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.

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.



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

2.12 Impairment of financial assets (cont'd.)

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

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.

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

2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short term, highly liquid investments 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.

2.14 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.

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

2.16 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 statements 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.

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

2.17 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.

2.18 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

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

2.19 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liability
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

2.19 Fair value measurement (cont'd.)

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.20 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.)

2.21 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.

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

2.21 Income taxes (cont'd.)

(b) Deferred tax (cont'd.)

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 assets 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.

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.

2.22 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.

2.23 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.



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

2.23 Foreign currency (cont'd.)

(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 date 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.

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.

2.24 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.

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

2.26 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 2.10.

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.

2.27 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.



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

2.27 Profit equalisation reserves (“PER”) (cont'd.)

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

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.

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

The Bank assesses whether there is any indication that an investment in subsidiaries and associates may be impaired at each reporting date.

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	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Cash at banks and on hand	41,762	39,464	40,381	39,069
Short term deposits and maturing within three months:				
- Licensed banks	1,353,657	1,782,076	1,353,657	1,782,076
- Other financial institutions	-	68,114	-	68,114
Cash and bank balances	1,395,419	1,889,654	1,394,038	1,889,259

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 as at 31 December 2013 for the Group and the Bank was 3.33% (2012: 3.26%) per annum.

5. Deposits and placements with banks and other financial institutions

	Group and Bank	
	2013 RM'000	2012 RM'000
Licensed banks	198,589	421,368
Other financial institutions	-	31,586
	198,589	452,954

Included in deposit and placements with licensed banks 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 2013, the fair value of the return on the variable profit rate is RMnil (2012: RMnil).



5. Deposits and placements with banks and other financial institutions (cont'd.)

The maturity structure of deposits and placements are as follows:

	Group and Bank	
	2013	2012
	RM'000	RM'000
Three months to six months	17,866	82,296
Six months to one year	29,824	219,577
One to five years	150,899	151,081
	198,589	452,954

The weighted average effective interest rate for deposits and placements with banks and other financial institutions is 4.25% (2012: 3.83%) per annum.

6. Available-for-sale financial investments

	Group and Bank	
	2013	2012
	RM'000	RM'000
At fair value		
<u>Money market instruments:</u>		
Private debt securities	652,034	472,969
Malaysian Government Investment Issues	746,867	453,976
Malaysian Government Securities	251,355	-
Commercial papers	123,466	-
	1,773,722	926,945
 <u>Quoted securities:</u>		
Shares	-	1,005
Total at fair value	1,773,722	927,950
 At cost		
<u>Unquoted securities</u>		
Shares	9,123	9,123
Total at cost	9,123	9,123
 Total available-for-sale financial investments	1,782,845	937,073

6. Available-for-sale financial investments (cont'd.)

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

	Group and Bank	
	2013	2012
	RM'000	RM'000
Within one year	143,437	30,116
More than one year to three years	60,109	85,921
More than three years to five years	104,522	5,145
More than five years	1,465,654	805,763
	1,773,722	926,945

7. Held-to-maturity financial investments

	Group and Bank	
	2013	2012
	RM'000	RM'000
<u>Money market instruments</u>		
Malaysian Government Investment Issues	90,283	90,334
Malaysian Government Securities	50,483	50,614
Cagamas bonds	10,038	10,083
	150,804	151,031
<u>Unquoted securities</u>		
Private debt securities	286,204	112,936
Total held-to-maturity financial investments	437,008	263,967

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

	Group and Bank	
	2013	2012
	RM'000	RM'000
Within one year	40,052	-
More than one year to three years	30,334	50,141
More than three year to five years	55,511	55,614
More than five years	311,111	158,212
	437,008	263,967



7. Held-to-maturity financial investments (cont'd.)

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

	Group and Bank	
	2013 RM'000	2012 RM'000
Malaysian Government Investment Issues	90,627	93,179
Malaysian Government Securities	50,710	51,737
Cagamas bonds	10,083	10,185
Private debt securities	278,960	114,694

8. Loans, advances and financing

	Group and Bank	
	2013 RM'000	2012 RM'000
Term loans		
- Hire purchase	260,772	229,295
- Leasing	258,059	248,844
- Other term loans	3,953,874	3,233,161
Revolving credits	353,488	353,964
Staff loans	34,633	37,340
Gross loans, advances and financing	4,860,826	4,102,604
Less: Allowance for impairment on loans, advances and financing		
- Individual assessment allowance (Note 8(ix))	(63,023)	(163,748)
- Collective assessment allowance (Note 8(ix))	(89,887)	(118,882)
Net loans, advances and financing	4,707,916	3,819,974
Gross impaired loans, advances and financing (Note 8(vi))	654,772	720,618
Net impaired loans, advances and financing	591,749	556,870

Included in loans, advances and financing are gross loans, advances and financing of RM219,077,000 (2012: RM104,516,000) 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 2.15.

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

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

	Group and Bank	
	2013	2012
	RM'000	RM'000
Within one year	1,125,693	911,376
More than one year to three years	481,155	561,009
More than three years to five years	867,668	821,071
More than five years	<u>2,386,310</u>	<u>1,809,148</u>
	4,860,826	4,102,604

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

	Group and Bank	
	2013	2012
	RM'000	RM'000
Domestic business enterprise	4,798,088	4,037,026
Individual	<u>62,738</u>	<u>65,578</u>
	4,860,826	4,102,604

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

	Group and Bank	
	2013	2012
	RM'000	RM'000
Import, export, wholesale, retail trade, restaurants and hotels	1,443,278	1,345,091
Manufacturing	985,408	922,484
Community, social and personal services	699,005	474,851
Transportation and communication	797,870	638,970
Financial, insurance, real estate and business services	306,545	252,045
Constructions	514,042	351,909
Mining and quarrying	38,370	33,132
Agriculture, forestry and fishing	13,051	18,655
Electricity, gas and water supply	28,624	28,127
Others	<u>34,633</u>	<u>37,340</u>
	4,860,826	4,102,604



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

(iv) Gross loans, advances and financing analysed by location and sector are as follows:

Group and Bank	Perlis	Kedah	Penang	Perak	Selangor	Kuala Lumpur	Melaka	Balance
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	c/f RM'000
Import, export, wholesale, retail trade, restaurants and hotels	6,969	106,560	118,921	86,786	302,595	239,852	46,472	908,155
Manufacturing	11,030	58,589	66,455	43,206	278,703	149,959	53,447	661,389
Community, social and personal services	1,150	28,748	42,273	24,770	51,280	176,853	142,569	467,643
Transportation and communication	9,395	98,834	37,843	27,203	170,807	95,699	13,798	453,579
Financial, insurance, real estate and business services	61,901	5,129	9,869	1,887	73,774	90,254	6,385	249,199
Constructions	26,293	37,652	7,846	2,818	151,545	66,304	26,947	319,405
Mining and quarrying	-	-	-	-	9,635	12,218	-	21,853
Agriculture, forestry and fishing	-	-	-	-	-	2,082	-	2,082
Electricity, gas and water supply	-	-	-	-	10,297	4,314	1,969	16,580
Others -	-	-	-	-	34,633	-	34,633	
At 31 December 2013	116,738	335,512	283,207	186,670	1,048,636	872,168	291,587	3,134,518

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

(iv) Gross loans, advances and financing analysed by location and sector are as follows: (cont'd.)

Group and Bank	Balance	Negeri					Sabah &	Total
	b/f	Sembilan	Johore	Pahang	Kelantan	Terengganu	Sarawak	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Import, export, wholesale, retail trade, restaurants and hotels	908,155	78,172	38,189	49,054	34,202	155,797	179,709	1,443,278
Manufacturing	661,389	61,208	96,510	10,142	16,977	65,358	73,824	985,408
Community, social and personal services	467,643	29,667	4,611	79,260	45,099	26,513	46,212	699,005
Transportation and communication	453,579	11,650	58,057	19,080	11,323	95,450	148,731	797,870
Financial, insurance, real estate and business services	249,199	5,055	8,120	6,146	1,427	8,055	28,543	306,545
Constructions	319,405	11,957	61,452	30,261	221	20,000	70,746	514,042
Mining and quarrying	21,853	57	53	9,263	1,085	3,103	2,956	38,370
Agriculture, forestry and fishing	2,082	-	-	327	41	7,929	2,672	13,051
Electricity, gas and water supply	16,580	-	11,839	-	-	21	184	28,624
Others	34,633	-	-	-	-	-	-	34,633
At 31 December 2013	3,134,518	197,766	278,831	203,533	110,375	382,226	553,577	4,860,826



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

(iv) Gross loans, advances and financing analysed by location and sector are as follows: (cont'd.)

Group and Bank	Perlis	Kedah	Penang	Perak	Selangor	Kuala Lumpur	Melaka	Balance
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	c/f RM'000
Import, export, wholesale, retail trade, restaurants and hotels	5,021	86,632	138,532	55,655	345,510	180,904	31,403	843,657
Manufacturing	11,155	60,596	63,254	39,008	312,301	70,118	39,662	596,094
Community, social and personal services	158	19,628	38,205	21,430	63,687	56,557	53,133	252,798
Transportation and communication	6,633	68,317	29,815	27,663	143,274	71,453	14,458	361,613
Financial, insurance, real estate and business services	62,968	6,241	11,840	2,044	54,279	55,012	2,005	194,389
Constructions	73	32,533	15,925	1,356	125,675	47,846	15,784	239,192
Mining and quarrying	-	-	-	-	1,219	13,293	-	14,512
Agriculture, forestry and fishing	-	-	890	-	-	2,657	-	3,547
Electricity, gas and water supply	-	-	-	-	5,017	11,475	-	16,492
Others	-	-	-	-	-	37,340	-	37,340
At 31 December 2012	86,008	273,947	298,461	147,156	1,050,962	546,655	156,445	2,559,634

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

(iv) Gross loans, advances and financing analysed by location and sector are as follows: (cont'd.)

Group and Bank	Balance	Negeri					Sabah &	Total
	b/f	Sembilan	Johore	Pahang	Kelantan	Terengganu	Sarawak	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Import, export, wholesale, retail trade, restaurants and hotels	843,657	75,588	34,081	38,840	31,691	141,377	179,857	1,345,091
Manufacturing	596,094	36,106	76,829	22,380	13,162	105,868	72,045	922,484
Community, social and personal services	252,798	35,380	5,727	83,327	43,047	5,604	48,968	474,851
Transportation and communication	361,613	10,448	50,091	13,296	8,723	74,803	119,996	638,970
Financial, insurance, real estate and business services	194,389	6,448	4,886	5,975	1,455	10,575	28,317	252,045
Constructions	239,192	1,039	28,755	8,563	766	23,815	49,779	351,909
Mining and quarrying	14,512	75	78	7,091	1,750	4,013	5,613	33,132
Agriculture, forestry and fishing	3,547	-	-	335	44	12,593	2,136	18,655
Electricity, gas and water supply	16,492	-	11,342	-	-	-	293	28,127
Others	37,340	-	-	-	-	-	-	37,340
At 31 December 2012	2,559,634	165,084	211,789	179,807	100,638	378,648	507,004	4,102,604



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

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

	Group and Bank	
	2013	2012
	RM'000	RM'000
Fixed rate		
- Staff loan/financing	34,633	37,340
- Personal financing	28,105	28,238
- Hire purchase receivables	154,182	129,564
- Leasing	190,986	173,051
- Revolving credits	118,629	138,948
- Other term loans/financing	1,745,221	1,734,460
Variable rate		
- Hire purchase receivables	106,590	99,729
- Leasing	67,072	75,793
- Revolving credits	234,859	215,017
- Other term loans/financing	2,180,549	1,470,464
	4,860,826	4,102,604

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

	Group and Bank	
	2013	2012
	RM'000	RM'000
At 1 January	720,618	804,835
Impaired during the year	297,093	214,488
Reclassified as non-impaired	(121,613)	(81,791)
Amount recovered	(59,303)	(70,171)
Amount written-off	(182,023)	(146,743)
At 31 December	654,772	720,618

Net impaired loans as % of net loans, advances and financing are as follows:

- 31 December 2013	12.33%
- 31 December 2012	14.14%

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

(vii) Impaired loans, advances and financing analysed by location and sector are as follows:

Group and Bank	Perlis	Kedah	Penang	Perak	Selangor	Kuala Lumpur	Melaka	Balance
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	c/f RM'000
Import, export, wholesale, retail trade, restaurants and hotels	35	9,764	75,795	17,321	74,513	37,021	1,370	215,819
Manufacturing	49	10,387	11,739	12,247	30,531	9,955	765	75,673
Community, social and personal services	54	267	519	10,266	6,449	13,556	506	31,617
Transportation and communication	-	602	11,510	17,098	3,497	765	430	33,902
Financial, insurance, real estate and business services	292	14	43	690	8,413	333	56	9,841
Constructions	-	148	465	-	496	49	-	1,158
Agriculture, forestry and fishing	-	-	-	-	-	-	-	-
Electricity, gas and water supply	-	-	-	-	1,380	-	-	1,380
At 31 December 2013	430	21,182	100,071	57,622	125,279	61,679	3,127	369,390



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

(vii) Impaired loans, advances and financing analysed by location and sector are as follows: (cont'd.)

Group and Bank	Balance	Negeri					Sabah &	Total
	b/f	Sembilan	Johore	Pahang	Kelantan	Terengganu	Sarawak	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Import, export, wholesale, retail trade, restaurants and hotels	215,819	58,069	16,962	2,091	2,331	8,438	15,437	319,147
Manufacturing	75,673	12,688	14,877	3,978	1,336	19,820	41,429	169,801
Community, social and personal services	31,617	94	1,544	14	197	1,253	11,593	46,312
Transportation and communication	33,902	3,227	2,514	676	716	2,763	30,011	73,809
Financial, insurance, real estate and business services	9,841	-	338	641	47	99	19,193	30,159
Constructions	1,158	-	333	-	-	106	926	2,523
Agriculture, forestry and fishing	-	-	-	327	-	-	-	327
Electricity, gas and water supply	1,380	-	11,314	-	-	-	-	12,694
At 31 December 2013	369,390	74,078	47,882	7,727	4,627	32,479	118,589	654,772

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

(vii) Impaired loans, advances and financing analysed by location and sector are as follows: (cont'd.)

Group and Bank	Perlis	Kedah	Penang	Perak	Selangor	Kuala Lumpur	Melaka	Balance
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	c/f RM'000
Import, export, wholesale, retail trade, restaurants and hotels	435	8,947	80,196	1,038	91,101	17,387	1,693	200,797
Manufacturing	24	11,463	15,024	9,979	37,912	7,001	8,095	89,498
Community, social and personal services	52	354	386	9,911	15,457	14,864	469	41,493
Transportation and communication	-	6,805	936	603	563	2,449	-	11,356
Financial, insurance, real estate and business services	50	-	-	500	6,824	889	-	8,263
Constructions	-	-	92	-	2,653	56	-	2,801
Mining and quarrying	-	-	-	-	-	-	-	-
Agriculture, forestry and fishing	-	-	-	-	-	-	-	-
Electricity, gas and water supply	-	-	-	-	1,282	-	-	1,282
Others	-	-	-	-	-	-	-	-
At 31 December 2012	561	27,569	96,634	22,031	155,792	42,646	10,257	355,490



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

(vii) Impaired loans, advances and financing analysed by location and sector are as follows: (cont'd.)

Group and Bank	Balance	Negeri					Sabah &	Total
	b/f RM'000	Sembilan RM'000	Johore RM'000	Pahang RM'000	Kelantan RM'000	Terengganu RM'000	Sarawak RM'000	
Import, export, wholesale, retail trade, restaurants and hotels	200,797	55,146	847	2,823	2,398	46,604	39,099	347,714
Manufacturing	89,498	5,645	30,278	14,015	525	54,198	31,709	225,868
Community, social and personal services	41,493	630	2,916	33	81	1,392	12,929	59,474
Transportation and communication	11,356	4,926	2,301	449	553	2,650	27,186	49,421
Financial, insurance, real estate and business services	8,263	207	583	397	-	4,643	18,297	32,390
Constructions	2,801	-	342	-	-	107	884	4,134
Mining and quarrying	-	-	-	-	-	-	-	-
Agriculture, forestry and fishing	-	-	-	335	-	-	-	335
Electricity, gas and water supply	1,282	-	-	-	-	-	-	1,282
Others	-	-	-	-	-	-	-	-
At 31 December 2012	355,490	66,554	37,267	18,052	3,557	109,594	130,104	720,618

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

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

	Group and Bank	
	2013 RM'000	2012 RM'000
Import, export, wholesale, retail trade, restaurants and hotels	319,147	347,714
Manufacturing	169,801	225,868
Community, social and personal services	46,312	59,474
Transportation and communication	73,809	49,421
Financial, insurance, real estate and business services	30,159	32,390
Electricity, gas and water supply	12,694	1,282
Constructions	2,523	4,134
Agriculture, forestry and fishing	327	335
	654,772	720,618

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

	Group and Bank	
	2013 RM'000	2012 RM'000
Individual assessment allowance		
At 1 January	163,748	260,580
Amount written-off	(90,943)	(114,518)
Allowance made during the year	105,162	181,408
Writeback made during the year	(114,944)	(163,722)
At 31 December	63,023	163,748
Collective assessment allowance		
At 1 January	118,882	103,337
Amount written-off	(8,407)	-
Allowance made during the year	166,363	67,126
Writeback made during the year	(186,951)	(51,581)
At 31 December	89,887	118,882



9. Other assets

	Note	Group	
		2013 RM'000	2012 RM'000
Fair value of financial guarantee from the Government of Malaysia	(i)	12,939	38,716
Other receivables and prepayments		41,863	23,165
Interest receivables		20,047	12,164
		<u>74,849</u>	<u>74,045</u>
	Note	Bank	
		2013 RM'000	2012 RM'000
Amount due from subsidiaries	(ii)	5,035	3,248
Less: Allowance for impairment		(3,248)	(3,248)
		<u>1,787</u>	<u>-</u>
Fair value of financial guarantee from the Government of Malaysia	(i)	12,939	38,716
Other receivables and prepayments		41,171	22,476
Interest receivables		20,047	12,164
		<u>75,944</u>	<u>73,356</u>

(i) The amount relates to fair value of financial guarantee from the 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").

(ii) The amount due from subsidiaries are unsecured, interest free and repayable on demand.

10. Investments in subsidiaries

	2013 RM'000	Bank 2012 RM'000
Unquoted shares		
At cost		
At 1 January	2	2
Addition during the year	500,000	-
At 31 December	<u>500,002</u>	<u>2</u>
Accumulated impairment losses		
At 1 January	-	-
Charge for the year	-	-
At 31 December	<u>-</u>	<u>-</u>
Carrying amount		
At 1 January	2	2
At 31 December	<u>500,002</u>	<u>2</u>

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

Name of companies	Principal activities	Effective ownership interest (%)	
		2013	2012
Held by the Bank:			
BI Nominees (Tempatan) Sdn. Bhd.	Nominee services	100	100
BI Nelayan Malaysia Berhad	Dormant	100	100
BI Walden Ventures ke Lima Sdn. Bhd.	Dormant	100	100
SMEB Asset Management Sdn. Bhd. (Formerly known as Golden Prominent Sdn. Bhd.)	Asset management	100	100
Guardmont Industries Sdn. Bhd.	Dormant	100	100
Malaysian Technology Investments (L) Bhd.*	Dormant	100	100
Metro Maple Sdn. Bhd.	Dormant	100	100



10. Investments in subsidiaries (cont'd.)

Name of companies	Principal activities	Effective ownership interest (%)	
		2013	2012
Metro Prominent Sdn. Bhd.	Dormant	100	100
Centre For Entrepreneur Development And Research Sdn. Bhd.	Training services	100	-

* Not audited by Ernst & Young, Malaysia

11. Investments in associates

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
At cost:				
Unquoted shares in Malaysia	<u>7,576</u>	<u>7,576</u>	<u>7,576</u>	<u>7,576</u>
Share of post-acquisition reserves	<u>6,162</u>	<u>6,571</u>	<u>-</u>	<u>-</u>
	13,738	14,147	7,576	7,576
Less: Accumulated impairment losses of unquoted shares	<u>(6,826)</u>	<u>(6,826)</u>	<u>(6,826)</u>	<u>(6,826)</u>
	6,912	7,321	750	750

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

Name of companies	Principal activities	Effective ownership interest (%)		Accounting model applied
		2013	2012	
Held by the Bank:				
Celcure Chemical Sdn. Bhd.	Manufacturing of wood preservative	28	36	Equity method
Capatronics (M) Sdn. Bhd.	Manufacturing of ceramic capacitor	30	30	Equity method

11. Investments in associates (cont'd.)

(i) Summarised statements of financial position

	Celcure Chemical Sdn. Bhd.		Capatronics (M) Sdn. Bhd.		Total	
	2013	2012	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Non-current assets	2,299	3,623	23,118	24,244	25,417	27,867
Current assets	5,618	5,417	4,379	1,873	9,997	7,290
Total assets	7,917	9,040	27,497	26,117	35,414	35,157
Current liabilities	2,292	3,388	8,007	6,803	10,299	10,191
Non-current liabilities	-	183	-	-	-	183
Total liabilities	2,292	3,571	8,007	6,803	10,299	10,374
Net assets	5,625	5,469	19,490	19,314	25,115	24,783



11. Investments in associates (cont'd.)

(ii) Summarised statements of comprehensive income

	Celcure Chemical Sdn. Bhd.		Capatronics (M) Sdn. Bhd.		Total	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Revenue	6,968	8,184	2,356	2,129	9,324	10,313
Loss before tax	(514)	(369)	(1,206)	(1,031)	(1,720)	(1,400)
Loss for the year	(531)	(369)	(1,206)	(1,031)	(1,737)	(1,400)
Total comprehensive loss for the year	(531)	(369)	(1,206)	(1,031)	(1,737)	(1,400)
Dividend received from the associates during the year	-	-	-	-	-	-

11. Investments in associates (cont'd.)

(iii) Reconciliation of the summarised financial information presented above to the carrying amount of the Group's interest in associates

	Celcure Chemical Sdn. Bhd.		Capatronics (M) Sdn. Bhd.		Total	
	2013	2012	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Net asset at 1 January	5,625	5,469	19,490	19,314	25,115	24,783
Loss for the year	(531)	(369)	(1,206)	(1,031)	(1,737)	(1,400)
Net assets as at 31 December	5,094	5,100	18,284	18,283	23,378	23,383
Interest in associates	28%	36%	30%	30%	6,912	7,321
Carrying value of Group's interest in associates	1,426	1,836	5,485	5,485	6,912	7,321



12. Property, plant and equipment

Group	Freehold land	Long term leasehold land	Building	Furniture and equipment	Office partition	Motor vehicles	Electrical and machinery	Work-in progress	Total
2013	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost									
At 1 January	4,017	34,752	81,644	24,913	25,740	3,681	7,663	20,820	203,230
Transfer to investment property (Note 13) and intangible asset (Note 14)	-	-	-	-	-	-	-	(12,142)	(12,142)
Additions	-	-	3,332	3,782	5,460	-	177	24,016	36,767
Written off	-	-	-	(24)	(2)	-	-	-	(26)
At 31 December	4,017	34,752	84,976	28,671	31,198	3,681	7,840	32,694	227,829
Accumulated depreciation									
At 1 January	-	3,191	7,881	22,109	21,830	3,618	5,984	-	64,613
Charge for the year (Note 27)	-	640	1,974	893	1,088	(253)	1,018	-	5,360
Written off	-	-	-	(24)	(2)	-	-	-	(26)
At 31 December	-	3,831	9,855	22,978	22,916	3,365	7,002	-	69,947
Net carrying amount	4,017	30,921	75,121	5,693	8,282	316	838	32,694	157,882

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
2012	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost									
At 1 January	4,017	34,752	81,608	38,338	23,566	4,096	7,639	10,830	204,846
Reclassifications	-	-	36	(105)	-	-	-	69	-
Transfer to intangible assets (Note 14)	-	-	-	(13,544)	-	-	-	-	(13,544)
Additions	-	-	-	1,806	2,180	-	29	9,921	13,936
Written off	-	-	-	(1,582)	(6)	(415)	(5)	-	(2,008)
At 31 December	4,017	34,752	81,644	24,913	25,740	3,681	7,663	20,820	203,230
Accumulated depreciation									
At 1 January	-	9,065	12,645	24,686	20,314	3,668	4,833	-	75,211
Transfer to investment properties (Note 13)	-	(6,514)	(6,537)	-	-	-	-	-	(13,051)
Transfer to intangible assets (Note 14)	-	-	-	(2,874)	-	-	-	-	(2,874)
Charge for the year (Note 27)	-	640	1,773	1,759	1,520	365	1,156	-	7,213
Written off	-	-	-	(1,462)	(4)	(415)	(5)	-	(1,886)
At 31 December	-	3,191	7,881	22,109	21,830	3,618	5,984	-	64,613
Net carrying amount	4,017	31,561	73,763	2,804	3,910	63	1,679	20,820	138,617



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
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2013									
Cost									
At 1 January	4,017	34,752	81,644	24,913	25,740	3,681	7,663	20,820	203,230
Transfer to investment property (Note 13) and intangible asset (Note 14)	-	-	-	-	-	-	-	(12,142)	(12,142)
Additions	-	-	3,332	3,756	5,460	-	177	24,016	36,741
Written off	-	-	-	(24)	(2)	-	-	-	(26)
At 31 December	4,017	34,752	84,976	28,645	31,198	3,681	7,840	32,694	227,803
Accumulated depreciation									
At 1 January	-	3,191	7,881	22,109	21,830	3,618	5,984	-	64,613
Charge for the year (Note 27)	-	640	1,974	892	1,088	(253)	1,018	-	5,359
Written off	-	-	-	(24)	(2)	-	-	-	(26)
At 31 December	-	3,831	9,855	22,977	22,916	3,365	7,002	-	69,946
Net carrying amount	4,017	30,921	75,121	5,668	8,282	316	838	32,694	157,857

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
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2012									
Cost									
At 1 January	4,017	34,752	81,608	38,338	23,566	4,096	7,639	10,830	204,846
Reclassifications	-	-	36	(105)	-	-	-	69	-
Transfer to intangible assets (Note 14)	-	-	-	13,544	-	-	-	-	(13,544)
Additions	-	-	-	1,806	2,180	-	29	9,921	13,936
Written off	-	-	-	(1,582)	(6)	(415)	(5)	-	(2,008)
At 31 December	4,017	34,752	81,644	24,913	25,740	3,681	7,663	20,820	203,230
Accumulated depreciation									
At 1 January	-	9,065	12,645	24,686	20,314	3,668	4,833	-	75,211
Transfer to investment properties (Note 13)	-	(6,514)	(6,537)	-	-	-	-	-	(13,051)
Transfer to intangible assets (Note 14)	-	-	-	(2,874)	-	-	-	-	(2,874)
Charge for the year (Note 27)	-	640	1,773	1,759	1,520	365	1,156	-	7,213
Written off	-	-	-	(1,462)	(4)	(415)	(5)	-	(1,886)
At 31 December	-	3,191	7,881	22,109	21,830	3,618	5,984	-	64,613
Net carrying amount	4,017	31,561	73,763	2,804	3,910	63	1,679	20,820	138,617



13. Investment properties

	Group and Bank	
	2013	2012
	RM'000	RM'000
At cost		
At 1 January	188,066	188,066
Transfer from property, plant and equipment	11,286	-
At 31 December	199,352	188,066
Accumulated depreciation		
At 1 January	44,790	28,078
Transfer from property, plant and equipment (Note 12)	-	13,051
Charge for the year (Note 27)	3,737	3,661
At 31 December	48,527	44,790
Carrying amount		
At 31 December	150,825	143,276
Estimated fair value		
At 31 December	248,221	219,848

The carrying amount of the investment properties is represented by:

	Group and Bank	
	2013	2012
	RM'000	RM'000
Building	133,490	125,608
Land	17,335	17,668
	150,825	143,276

The investment properties comprise of land and building. The valuation of the properties were conducted in 2013 by Messrs IM Global Property Consultants Sdn. Bhd., a registered and licensed property consultant. Fair value amount is determined using the comparison method.

Based on this method, sales and listings of comparable properties recorded in the areas are compiled. From the compiled data, adjustments are made between the subject property and those similar properties. The adjustments are made in relation to location, size, shape of the lot, physical features, legal and legislative constraints, building design and condition, time element, planning provision, improvements and renovation works made if any, surrounding developments, facilities and amenities available and other factors that may affect the value of the subject property.

The investment properties are at its highest and current best use.

13. Investment properties (cont'd.)

As at 31 December 2013, the Group and the Bank held the following investment properties:

	Group and Bank			
	At cost RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
31 December 2013				
Building	177,791	-	230,330	-
Land	21,561	-	17,891	-
	199,352	-	248,221	-
	At cost RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
31 December 2012				
Building	166,505	-	210,209	-
Land	21,561	-	9,639	-
	188,066	-	219,848	-

14. Intangible assets

	Group	
	Software RM'000	Total RM'000
At cost		
At 1 January 2012	-	-
Additions	2,503	2,503
Transfer from property, plant and equipment (Note 12)	13,544	13,544
At 31 December 2012	16,047	16,047
Additions	910	910
Transfer from property, plant and equipment (Note 12)	856	856
At 31 December 2013	17,813	17,813
Accumulated amortisation		
At 1 January 2012	-	-
Charge for the year (Note 27)	4,012	4,012
Transfer from property, plant and equipment (Note 12)	2,874	2,874
At 31 December 2012	6,886	6,886
Charge for the year (Note 27)	4,990	4,990
At 31 December 2013	11,876	11,876
Carrying amount		
At 31 December 2013		5,937
At 31 December 2012		9,161

14. Intangible assets (cont'd.)

	Software RM'000	Bank Total RM'000
At cost		
At 1 January 2012	-	-
Additions	2,503	2,503
Transfer from property, plant and equipment (Note 12)	13,544	13,544
At 31 December 2012	16,047	16,047
Additions	410	410
Transfer from property, plant and equipment (Note 12)	856	856
At 31 December 2013	17,313	17,313
Accumulated depreciation		
At 1 January 2012	-	-
Charge for the year (Note 27)	4,012	4,012
Transfer from property, plant and equipment (Note 12)	2,874	2,874
At 31 December 2012	6,886	6,886
Charge for the year (Note 27)	4,990	4,990
At 31 December 2013	11,876	11,876
Carrying amount		
At 31 December 2013		5,437
At 31 December 2012		9,161

15. Deferred tax

	2013 RM'000	Group and Bank 2012 RM'000	2011 RM'000
At 1 January, as previously stated		Restated	Restated
Prior year adjustment (Note 40)	16,596	34,613	34,613
	26,553	23,433	-
At 1 January, as restated	43,149	58,046	34,613
Recognised in profit or loss	(12,947)	(15,292)	24,052
Recognised in equity	20,317	395	(619)
At 31 December	50,519	43,149	58,046
		Group and Bank 2012 RM'000	2011 RM'000
Presented after appropriate offsetting as follows:		Restated	Restated
Deferred tax assets	60,376	52,194	67,780
Deferred tax liabilities	(9,857)	(9,045)	(9,734)
	50,519	43,149	58,046

15. 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:

Group and Bank	Collective impairment allowance RM'000	Unabsorbed business losses and capital allowance RM'000	Provision RM'000	MTM revaluation on bonds RM'000	Total RM'000
At 1 January 2013	29,721	17,824	4,649	-	52,194
Recognised in profit or loss	(7,249)	(5,578)	692	-	(12,135)
Recognised in equity	-	-	-	20,317	20,317
At 31 December 2013	22,472	12,246	5,341	20,317	60,376
At 1 January 2012	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

15. Deferred tax (cont'd.)

Deferred tax liabilities of the Group and Bank:

	MTM revaluation on bonds RM'000	Property plant and equipment RM'000	Total RM'000
At 1 January 2013, as previously stated	-	(35,598)	(35,598)
Prior year adjustment (Note 40)	(224)	26,777	26,553
At 1 January 2013, as restated	(224)	(8,821)	(9,045)
Recognised in profit or loss	-	(812)	(812)
At 31 December 2013	(224)	(9,633)	(9,857)
At 1 January 2012, as previously stated	-	(33,167)	(33,167)
Prior year adjustment (Note 40)	(619)	24,052	23,433
At 1 January 2012, as restated	(619)	(9,115)	(9,734)
Recognised in profit or loss	-	294	294
Recognised in equity	395	-	395
At 31 December 2012	(224)	(8,821)	(9,045)

16. Deposits from customers

	Group and Bank	
	2013 RM'000	2012 RM'000
Term deposit:		
- Deposits acceptance	363,843	2,315,936
- Commodity murabahah	3,096,945	-
	3,460,788	2,315,936

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

	Group and Bank	
	2013 RM'000	2012 RM'000
Government and statutory bodies	3,460,583	2,168,056
Business enterprise	205	45,478
Others	-	102,402
	3,460,788	2,315,936

16. Deposits from customers (cont'd.)

(ii) The deposits maturity structure are as follows:

	Group and Bank	
	2013	2012
	RM'000	RM'000
Less than three months	2,172,887	1,766,701
Three months to six months	1,094,624	344,271
Six months to one year	193,277	204,964
	<u>3,460,788</u>	<u>2,315,936</u>

17. Deposits from other financial institutions

	Group and Bank	
	2013	2012
	RM'000	RM'000
Licensed banks	<u>386,614</u>	<u>325,524</u>

(i) The deposit maturity structure is as follows:

	Group and Bank	
	2013	2012
	RM'000	RM'000
Less than three months	336,366	325,524
Three months to six months	50,248	-
	<u>386,614</u>	<u>325,524</u>

18. Medium term note

	Group and Bank	
	2013	2012
	RM'000	RM'000
Medium term note ("the Note")	<u>507,040</u>	<u>507,040</u>

The Note was issued on 13 August 2012 and is 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 carries coupon rates of 3.60% per annum (RM250 million) and 3.69% per annum (RM250 million) respectively.

18. Medium term note (cont'd.)

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

	Group and Bank	
	2013	2012
	RM'000	RM'000
More than 5 years	<u>507,040</u>	<u>507,040</u>

19. Term loans

		Group and Bank	
		2013	2012
		RM'000	RM'000
Term loans - Unsecured	(a)	2,850,533	2,999,933
Term loans - Secured	(b)	55,308	111,703
		<u>2,905,841</u>	<u>3,111,636</u>

The maturity structure of the term loans is as follows:

	Group and Bank	
	2013	2012
	RM'000	RM'000
Within twelve months	459,333	230,786
More than twelve months	<u>2,446,508</u>	<u>2,880,850</u>
	<u>2,905,841</u>	<u>3,111,636</u>

During the current financial year, the Bank has obtained new term loan from the Government of Malaysia namely Tabung Pembangunan Pengangkutan Awam 3 ("TPPA 3") amounting to RM50 million to finance public transportation facilities.

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	2013 RM'000	2012 RM'000
Loans from:			
- Government of Malaysia	(i)	1,638,890	1,600,401
- Other institutions	(ii)	1,211,643	1,399,532
		<u>2,850,533</u>	<u>2,999,933</u>

(i) Loans from Government of Malaysia

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

	Group and Bank	
	2013 RM'000	2012 RM'000
Maturity structure:		
Due within one year	229,486	255,070
Due after one year	1,409,404	1,345,331
	<u>1,638,890</u>	<u>1,600,401</u>

The interest rates on the loans from the Government of Malaysia range from 0% to 4% (2012: 0% to 4%) per annum during the year.

(ii) Loans from other institutions

	Bank	
	2013 RM'000	2012 RM'000
Bank Negara Malaysia	405,159	589,509
Employee Provident Fund	806,484	810,023
	<u>1,211,643</u>	<u>1,399,532</u>

19. Term loans (cont'd.)

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

(ii) **Loans from other institutions (cont'd.)**

The loans from other institutions are repayable as follows:

	Group and Bank	
	2013	2012
	RM'000	RM'000
Maturity structure:		
Due within one year	174,539	230,785
Due after one year	1,037,104	1,168,747
	1,211,643	1,399,532

The interest rates on the loans from other institutions range from 1.50% to 6% (2012: 0.50% to 5.23%) per annum.

(b) **Term loans - Secured**

The secured term loans represent the remaining loan 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 matured 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 JICA range from 3.0% to 3.5% (2012: 3.0% to 3.5%) per annum.



20. Other liabilities

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Other payables and accruals	128,514	75,716	126,831	74,941
Islamic margin account (Note a)	180,934	54,151	180,934	54,151
Other provisions	25,402	23,574	25,402	23,574
Rental and security deposits	3,971	3,846	3,971	3,846
Profit equalisation reserve				
- depositors	1,813	5,049	1,813	5,049
Provision for zakat	1,939	2,959	1,939	2,959
	<u>342,573</u>	<u>165,295</u>	<u>340,890</u>	<u>164,520</u>

Note a

Islamic margin account refers to the cash collateral pledged by the customers of the Bank. The amount will be repaid to the customers at the end of the loan tenure or will be offset with any overdue amount. The Bank will pay profit rate at overnight profit rate minus 0.25% to the customers.

21. Government funds

	Note	Group and Bank	
		2013 RM'000	2012 RM'000
To finance:			
Investment properties	(a)	136,689	140,239
Loans, advances and financing	(b)	170,298	172,335
		<u>306,987</u>	<u>312,574</u>

21. Government funds (cont'd.)

(a) To finance the purchase of investment properties:

Bank	Nursery Factory Scheme RM'000	Nursery Factory Scheme (RMK8) RM'000	Nursery Factory Scheme (RMK9) RM'000	Total RM'000
2013				
At 1 January	100,740	3,156	36,343	140,239
Utilised to offset depreciation charge for the year	(236)	(2,916)	(230)	(3,382)
Utilised to offset expenses	-	(12)	(156)	(168)
At 31 December	100,504	228	35,957	136,689
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



21. Government funds (cont'd.)

(b) To finance loans, advances and financing:

Group and Bank	Soft Loan Scheme RM'000	Tabung Usahawan Pahang RM'000	Tabung Inkubator Pertanian Kelantan RM'000	Tabung Usahawan Siswazah (TUS) RM'000	Dana Usahawan Negeri Terengganu RM'000	SPEDI RM'000	Balance c/f RM'000
At 1 January 2013	36,637	288	2,669	23,916	9,440	1,000	73,950
Payment	-	-	-	-	-	(1,000)	(1,000)
Write-off	-	-	-	(1,083)	(28)	-	(1,111)
Loan written-off recoverable	-	-	-	570	198	-	768
Muqasah	-	-	-	-	(1,825)	-	(1,825)
At 31 December 2013	36,637	288	2,669	23,403	7,785	-	70,782

	Balance b/f RM'000	Program dan Skim Usahawan Batik RM'000	Basis capital Scheme (SMA) RM'000	Skim Pembangunan Ekonomi Desa-Islamic RM'000	Skim Perusahaan Kapital Tradisional - Grant RM'000	Program dan Skim Usahawan Kraf RM'000	Total RM'000
At 1 January 2013	73,950	4,064	29,936	56,719	3,000	4,666	172,335
Received	-	-	-	899	-	-	899
Payment	(1,000)	-	-	-	-	-	(1,000)
Write-off	(1,111)	(3)	(50)	(1,762)	-	(6)	(2,932)
Loan written-off recoverable	768	38	1,713	955	-	51	3,525
Expenses	-	-	-	(134)	-	-	(134)
Muqasah	(1,825)	-	-	(570)	-	-	(2,395)
At 31 December 2013	70,782	4,099	31,599	56,107	3,000	4,711	170,298

21. Government funds (cont'd.)

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

Group and Bank	Soft Loan Scheme RM'000	Tabung Usahawan Pahang RM'000	Tabung Inkubator Pertanian Kelantan RM'000	Tabung Usahawan Siswazah (TUS) RM'000	Dana Usahawan Negeri Terengganu RM'000	SPEDI RM'000	Balance c/f RM'000
At 1 January 2012	36,637	288	2,669	27,052	11,724	1,000	79,370
Write-off	-	-	-	(3,136)	(2,065)	-	(5,201)
Hibah/Muqasah	-	-	-	-	(219)	-	(219)
At 31 December 2012	36,637	288	2,669	23,916	9,440	1,000	73,950

	Balance b/f RM'000	Program dan Skim Usahawan Batik RM'000	Basis capital Scheme (SMA) RM'000	Skim Pembangunan Ekonomi Desa-Islamic RM'000	Skim Perusahaan Kapal Tradisional - Grant RM'000	Program dan Skim Usahawan Kraf RM'000	Total RM'000
At 1 January 2012	79,370	4,394	33,798	74,785	3,000	4,695	200,042
Payment	-	-	-	(10,000)	-	-	(10,000)
Write-off	(5,201)	(330)	(3,862)	(7,150)	-	(29)	(16,572)
Expenses	-	-	-	(212)	-	-	(212)
Hibah/Muqasah	(219)	-	-	(704)	-	-	(923)
At 31 December 2012	73,950	4,064	29,936	56,719	3,000	4,666	172,335



21. Government funds (cont'd.)

Summary of the government funds are as follows:

	Types of funds	Purpose of funds	Source	Grant Received RM'000
(a)	Soft Loan Scheme	To provide soft loans to Bumiputera entrepreneurs.	Ministry of International Trade and Industry	57,000
(b)	Tabung Usahawan Pahang	To provide loans for furniture industry in Termerloh, Pahang.	Pahang State Government	1,000
(c)	Tabung Inkubator Pertanian Kelantan	To support the livestock industry in Jeli, Kelantan	Ministry of International Trade and Industry	2,992
(d)	Tabung Usahawan Siswazah (TUS)	To encourage graduates into entrepreneurship	Ministry of International Trade and Industry	39,400
(e)	Dana Usahawan Negeri Terengganu	To promote Bumiputera entrepreneurs in Terengganu	Ministry of International Trade and Industry	30,000
(f)	Program dan Skim Usahawan Batik	To promote Bumiputera entrepreneurs in the batik industry	Ministry of International Trade and Industry	5,000
(g)	Basic Capital Scheme (SMA)	To promote Bumiputera entrepreneurs with basic capital	Ministry of International Trade and Industry	75,835
(h)	Skim Pembangunan Ekonomi Desa (SPED)	To promote Bumiputera entrepreneurs in the rural area	Ministry of Rural & Regional Development	128,226

21. Government funds (cont'd.)

Summary of the government funds are as follows: (cont'd.)

	Types of funds	Purpose of funds	Source	Grant Received RM'000
(i)	Skim Perusahaan Kapal Tradisional	To promote ships making in Terengganu	Ministry of International Trade and Industry	3,000
(j)	Program dan Skim Usahawan Kraf	To promote Bumiputera entrepreneurs in the craft industry	Ministry of International Trade and Industry	5,000
(k)	Kompleks Kilang Bimbingan	To provide premises for Bumiputera entrepreneurs.	Ministry of International Trade and Industry	220,775

* All the government grants above are non-repayable and the risk are borne by the Government.

22. Share capital

Group and Bank	Number of ordinary shares of RM1 each		Amount	
	2013 Unit '000	2012 Unit '000	2013 RM'000	2012 RM'000
Authorised: At 31 December	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>
Issued and fully paid: At 31 December	<u>1,350,000</u>	<u>1,350,000</u>	<u>1,350,000</u>	<u>1,350,000</u>



23. Other reserves

Group and Bank	Non-distributable available-for-sale reserve RM'000	Non-Distributable profit equalisation reserve RM'000	Distributable general reserve RM'000	Total RM'000
At 1 January 2013, as previously stated	895	1,009	10,114	12,018
Prior year adjustment (Note 40)	(224)	-	-	(224)
At 1 January 2013, as restated	671	1,009	10,114	11,794
Movement in revaluation reserve of available-for-sale financial investments	(60,952)	-	-	(60,952)
Movement in profit equalisation reserves	-	(606)	-	(606)
At 31 December 2013	(60,281)	403	10,114	(49,764)
At 1 January 2012, as previously stated	2,477	-	10,114	12,591
Prior year adjustment (Note 40)	(619)	-	-	(619)
At 1 January 2012, as restated	1,858	-	10,114	11,972
Movement in revaluation reserve of available-for-sale financial investments	(1,187)	-	-	(1,187)
Movement in profit equalisation reserves	-	1,009	-	1,009
At 31 December 2012	671	1,009	10,114	11,794

23. Other reserves (cont'd.)

(a) Distributable general reserve

Distributable general reserve arises from the merger between Bank Pembangunan (M) Bhd. and Bank Industri (M) Bhd. in 2005.

(b) Non-distributable available-for-sale reserve

Non-distributable available-for-sale reserve represents the difference between fair value of available-for-sale securities and their costs determined as at the reporting date.

(c) Non-distributable profit equalisation reserve

Non-distributable profit equalisation reserve represents Bank's portion of profit equalisation reserve. Subsequent apportionments from and distributions to retained earnings will be treated as transfers between reserves.

24. Interest income

	Group and Bank	
	2013	2012
	RM'000	RM'000
Interest income from loans, advances and financing	93,660	84,800
Deposits and placements with banks and other financial institutions	30,757	51,308
Available-for-sale financial investments	6,829	4,743
Held-to-maturity financial investments	2,046	2,063
	<u>133,292</u>	<u>142,914</u>

Included in interest income from loans, advances and financing is interest on impaired loans amounting to RM15,494,233 (2012: RMnil).



25. Interest expense

	Group and Bank	
	2013	2012
	RM'000	RM'000
Deposits from customers	33,702	47,780
Deposits from other financial institutions	7,579	565
Term loans	61,339	63,890
	102,620	112,235

26. Other operating income

	Group	
	2013	2012
	RM'000	RM'000
Fee income	846	1,245
Training and consultancy fee	175	-
Income from available-for-sale financial investments:		
- gain on disposal of quoted investments	1,217	303
- gain on disposal of unquoted investments	-	91
- gross dividend income from quoted investments	18	127
	1,235	521
Investment in associates:		
- gain on disposal	-	778
- gross dividend income	-	1,119
	-	1,897
Other income:		
Government funds released	3,533	5,357
Government compensation	16,419	16,349
Others	1,001	11,993
	20,953	33,699
Total other operating income	23,209	37,362

26. Other operating income (cont'd.)

	Bank	
	2013 RM'000	2012 RM'000
Fee income	834	1,233
Income from available-for-sale financial investments:		
- gain on disposal of quoted investments	1,217	303
- gain on disposal of unquoted investments	-	91
- gross dividend income from quoted investments	18	127
	1,235	521
Investment in associates:		
- gain on disposal	-	40,231
- gross dividend income	-	1,119
	-	41,350
Other income:		
Government funds released	3,533	5,357
Government compensation	16,419	16,349
Others	1,724	4,200
	21,676	25,906
Total other operating income	23,745	69,010

27. Other operating expenses

	Group	
Note	2013 RM'000	2012 RM'000
Personnel expenses	(i) 102,013	60,567
Establishment related expenses	(ii) 31,089	27,788
Promotion and marketing expenses	(iii) 4,796	4,475
Administration and general expenses	(iv) 28,159	48,404
	166,057	141,234



27. Other operating expenses (cont'd.)

	Group	
	2013 RM'000	2012 RM'000
(i) Personnel expenses		
Salaries, allowances and bonuses	82,075	44,131
Social security cost	569	508
Contribution to Employee Provident Fund	10,133	7,738
Other staff related expenses	9,236	8,190
	102,013	60,567
(ii) Establishment related expenses		
Depreciation of property, plant and equipment (Note 12)	5,360	7,213
Depreciation of investment properties (Note 13)	3,737	3,661
Amortisation of intangible assets (Note 14)	4,990	4,012
Rental of premises	2,845	2,254
Repairs and maintenance of property, plant and equipment	14,157	10,648
	31,089	27,788
(iii) Promotion and marketing expenses		
Advertisement and publicity	4,796	4,475
	4,796	4,475
(iv) Administration and general expenses		
Loss on disposal of an associate	-	18,572
Property, plant and equipment written off	-	122
Administrative expenses	10,073	9,535
Auditors' remuneration		
- Statutory audit	327	292
- Regulatory related services	11	11
- Other assurance services	204	124
General expenses	17,544	19,748
	28,159	48,404

27. Other operating expenses (cont'd.)

		Bank	
	Note	2013 RM'000	2012 RM'000
Personnel expenses	(i)	100,564	60,567
Establishment related expenses	(ii)	31,074	27,788
Promotion and marketing expenses	(iii)	4,677	4,475
Administration and general expenses	(iv)	27,949	29,804
		164,264	122,634
(i) Personnel expenses			
Salaries, allowances and bonuses		80,614	44,131
Social security cost		561	508
Contribution to Employee Provident Fund		9,973	7,738
Other staff related expenses		9,416	8,190
		100,564	60,567
(ii) Establishment related expense			
Depreciation of property, plant and equipment (Note 12)		5,359	7,213
Depreciation of investment properties (Note 13)		3,737	3,661
Amortisation of intangible assets (Note 14)		4,990	4,012
Rental of premises		2,845	2,254
Repairs and maintenance of property, plant and equipment		14,143	10,648
		31,074	27,788
(iii) Promotion and marketing expenses			
Advertisement and publicity		4,677	4,475
(iv) Administration and general expenses			
Property, plant and equipment written-off		-	122
Administrative expenses		9,892	9,535
Auditors' remuneration			
- Statutory audit		303	273
- Regulatory related services		11	11
- Other assurance services		204	124
General expenses		17,539	19,739
		27,949	29,804

28. Directors' remuneration

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

	Group and Bank	
	2013	2012
	RM'000	RM'000
Directors of the Bank		
Executive director/managing director:		
Salaries, other emoluments and defined contribution plan	<u>1,215</u>	<u>999</u>
Total	<u>1,215</u>	<u>999</u>
Non-executive directors:		
Fees	<u>651</u>	<u>450</u>
Total directors' remuneration of the Bank	<u>1,866</u>	<u>1,449</u>

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

	Group and Bank	
	2013	2012
	RM'000	RM'000
Number of executive director:		
RM1,000,000 to RM1,500,000	<u>1</u>	<u>-</u>
RM800,001 to RM1,000,000	<u>-</u>	<u>1</u>
Number of non-executive directors:		
RM100,001 to RM120,000	<u>7*</u>	<u>4</u>
RM1 to RM50,000	<u>-</u>	<u>3**</u>
	<u>7</u>	<u>7</u>

* Includes one former non-executive director of the Bank who retired on 10 August 2013.

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

29. Allowance for impairment loss on loans, advances and financing

Group and Bank	Group and Bank	
	2013	2012
	RM'000	RM'000
Allowance for impaired loans, advances and financing made during the year		
- Individual assessment allowance	105,162	181,408
- Collective assessment allowance	166,363	67,126
	<u>271,525</u>	<u>248,534</u>
Write back/recoveries of allowance for impaired loans, advances and financing made during the year		
- Individual assessment allowance	(114,944)	(163,722)
- Collective assessment allowance	(186,951)	(51,581)
	<u>(301,895)</u>	<u>(215,303)</u>
Loans, advances and financing written-off	82,673	32,225
Loans, advances and financing waived	1,385	-
Recoveries from bad loans, advances and financing written-off	(48,190)	(51,227)
Total allowance for impairment in loans, advances and financing	<u>5,498</u>	<u>14,229</u>

30. Allowance for impairment loss on financial investments

	Group and Bank	
	2013	2012
	RM'000	RM'000
Allowance for diminution in value:		
- investment in associates	-	5,652
- quoted investments	-	5,723
	<u>-</u>	<u>11,375</u>



31. Tax expense and zakat

	Group		Bank	
	2013 RM'000	2012 RM'000 Restated	2013 RM'000	2012 RM'000 Restated
Income tax:				
Tax expense for the year	3	780	-	28
Over provision in prior year	(741)	(3,396)	(28)	(3,396)
	(738)	(2,616)	(28)	(3,368)
Deferred income tax:				
Origination or reversal of temporary differences	26,892	15,292	26,892	15,292
Under recognition of deferred tax assets in prior year	(13,945)	-	(13,945)	-
	12,947	15,292	12,947	15,292
Total tax expense for the year	12,209	12,676	12,919	11,924
Zakat:				
Zakat for the year	1,600	1,110	1,600	1,110
Under/(over) provision of zakat in prior year	1,246	(2,270)	1,246	(2,270)
Total zakat for the year	2,846	(1,160)	2,846	(1,160)

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2012: 25%) of the estimated assessable profit for the year.

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

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

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Profit before tax and zakat	91,233	88,063	93,971	122,947
Income tax at 25% (2012: 25%)	22,783	22,016	23,493	30,737
Non-deductible expenses	3,708	3,798	3,708	3,798
Non-taxable income	(309)	(9,059)	(309)	(9,059)
Tax exempt income	-	(104)	-	(10,156)
Effects of share of associates' post-tax loss/(profit) included in Group's profit before taxation	102	(3,841)	-	-
Deferred tax assets not recognised due to business loss	611	3,262	-	-
Under recognition of deferred tax asset in prior year	(13,945)	-	(13,945)	-
Over provision of tax expenses in prior year	(741)	(3,396)	(28)	(3,396)
Total tax expense for the year	12,209	12,676	12,919	11,924

Tax savings during the financial year arising from:

	Group and Bank	
	2013 RM'000	2012 RM'000
Utilisation of capital allowances	2,202	5,195
Utilisation of tax losses brought forward from previous year	18,759	49,454
	20,961	54,649



32. Profit per share

Basic profit per share amount is calculated by dividing profit for the year net of tax, attributable to owner of the Bank 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 year ended 31 December:

	Bank		Group	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Profit for the year attributable to owner of the Bank	<u>76,178</u>	<u>76,547</u>	<u>78,206</u>	<u>112,183</u>
			Group and Bank	
			2013 RM'000	2012 RM'000
Number of ordinary shares for basic profit per share computation			<u>1,350,000</u>	<u>1,350,000</u>
Profit per share attributable to owner of the Bank (sen)				
- Basic	<u>5.64</u>	<u>5.67</u>	<u>5.79</u>	<u>8.31</u>

33. Commitment and contingencies

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

	Group and Bank	
	2013	2012
	RM'000	RM'000
Direct credit substitutes	206,252	228,258
Transaction-related-contingent items	257,013	208,454
Irrevocable commitments to extend credit:		
- maturity exceeding one year	108,611	111,903
- maturity not exceeding one year	875,082	764,367
	1,446,958	1,312,982

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

	Group and Bank	
	2013	2012
	RM'000	RM'000
Approved and contracted for:		
Property, plant and equipment	39,425	36,662
IT system	5,053	2,371
	44,478	39,033
Total commitments and contingencies	1,491,436	1,352,015

34. 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.



34. Capital adequacy (cont'd.)

Capital management (cont'd.)

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 of 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:

	2013 RM'000	Bank 2012 RM'000 Restated	2011 RM'000 Restated
<u>Tier I Capital</u>			
Paid-up share capital	1,350,000	1,350,000	1,350,000
Accumulated losses	(239,657)	(311,719)	(422,893)
Other reserves	10,114	10,114	10,114
Less: Deferred tax assets	(60,376)	(52,194)	(67,780)
Total Tier I capital	<u>1,060,081</u>	<u>996,201</u>	<u>869,441</u>
<u>Tier II Capital</u>			
Collective allowance for loans, advances and financing*	48,565	86,389	53,945
Government funds	306,987	312,574	345,518
Total Tier II capital	<u>355,552</u>	<u>398,963</u>	<u>399,463</u>
Total capital	1,415,633	1,395,164	1,268,904
Less: Investment in subsidiaries	(500)	-	-
Total capital base	<u>1,415,133</u>	<u>1,395,164</u>	<u>1,268,904</u>

* The eligible amounts for Tier II Capital is only limited to the excess of total collective allowances over the identifiable incurred losses in the collective allowance pool.

34. Capital adequacy (cont'd.)

Capital management (cont'd.)

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

	2013 RM'000	Bank 2012 RM'000 Restated	2011 RM'000 Restated
10%	1,000	1,000	1,000
20%	326,648	472,770	688,823
50%	43,289	45,303	36,812
100%	5,705,987	4,590,070	4,141,763
	6,076,924	5,109,143	4,868,398
Before deducting proposed dividends:			
Core capital ratio	17.44%	19.50%	17.86%
Risk-weighted capital ratio	23.29%	27.31%	26.06%
After deducting proposed dividends:			
Core capital ratio	17.33%	19.37%	17.86%
Risk-weighted capital ratio	23.18%	27.18%	26.06%

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. Internal capital limit and regulatory capital requirement shall be closely monitored, regularly reviewed and reported to management and the Board of Directors.

35. 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 Group and Bank.



35. Related party transactions (cont'd.)

(b) Compensation of key management personnel

The compensation of key management personnel other than the directors of the Group and Bank as disclosed in Note 28 is as follows:

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Salaries and other emoluments	9,037	8,546	9,037	8,546
Defined contribution plan	1,348	1,256	1,348	1,256
	10,385	9,802	10,385	9,802

(c) Amount owing to related parties

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Long term loans from Ministry of Finance	1,408,633	1,367,017	1,408,633	1,367,017
Interest payable to Ministry of Finance	31,402	30,040	31,402	30,040
Deposit acceptance from government agencies	3,437,186	658,000	3,437,186	658,000
Interest payable to government agencies	23,399	5,567	23,399	5,567
Forex exchange payable by government agencies	55,308	111,703	55,308	111,703
	4,955,928	2,172,327	4,955,928	2,172,327

36. Fair value of financial instruments

Financial instruments comprise financial assets and financial liabilities. The fair value of a financial instrument is price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The information presented herein represents best estimates of fair values of financial instruments at the reporting date.

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

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 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:

	Group		Bank	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
31 December 2013				
Financial assets:				
Financial investments:				
Available-for-sale				
- Unquoted shares, at cost*	9,123	9,123	9,123	9,123
Held-to-maturity, at cost	437,008	430,380	437,008	430,380
Loans, advances and financing	4,707,916	4,134,620	4,707,916	4,134,620
Investment properties	150,825	248,221	150,825	248,221
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Financial liabilities:				
Term loans	2,905,841	2,244,846	2,905,841	2,244,846
	<u> </u>	<u> </u>	<u> </u>	<u> </u>



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
31 December 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
Investment properties	143,276	219,848	143,276	219,848
	<u>3,111,636</u>	<u>2,319,122</u>	<u>3,111,636</u>	<u>2,319,122</u>
Financial liabilities:				
Term loans	<u>3,111,636</u>	<u>2,319,122</u>	<u>3,111,636</u>	<u>2,319,122</u>

* 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.



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

(e) Determination of fair value and fair value hierarchy (cont'd.)

Financial investment - Available-for-sale

(ii) Quoted shares

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

The following table provides the fair value measurement hierarchy of the Group's and Bank's assets and liabilities.

	Group and Bank			Total RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	
31 December 2013				
<u>Assets measured at fair value:</u>				
Financial assets:				
Financial investments:				
Available-for-sale				
- Private debt securities	-	652,034	-	652,034
- Malaysian Government Investment Issues	-	746,867	-	746,867
- Malaysian Government Securities	-	251,355	-	251,355
- Commercial papers	-	123,466	-	123,466
<u>Assets and liabilities for which fair values are disclosed</u>				
Financial assets:				
Loans, advances and financing	-	4,134,620	-	4,134,620
Investment properties	-	248,221	-	248,221
Financial liabilities:				
Term loans	-	2,244,846	-	2,244,846

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

The following table provides the fair value measurement hierarchy of the Group's and Bank's assets and liabilities (cont'd.)

	Group and Bank			Total RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	
31 December 2012				
<u>Assets measured at fair value:</u>				
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
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Assets and liabilities for which fair values are disclosed</u>				
Financial assets:				
Loans, advances and financing	-	2,469,031	-	2,469,031
Investment properties	-	219,848	-	219,848
				-
Financial liabilities:				
Term loans	-	2,319,122	-	2,319,122
	<hr/>	<hr/>	<hr/>	<hr/>

There were no transfers between Level 1 and Level 2 during the current and previous financial year.



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 and Balance Sheet Management and Fund Administration

Treasury and Balance Sheet Management and Fund Administration are 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.

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

(d) Internal Audit (cont'd.)

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.

(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 monthly 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/financing 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.



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

(e) Risk measurement and reporting systems (cont'd.)

(a) Credit risk (cont'd.)

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.

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	
	2013 RM'000	2012 RM'000
On balance sheet:		
Cash and short term funds	1,395,419	1,889,654
Deposits and placements with banks and other financial institutions	198,589	452,954
Available-for-sale financial investments	1,782,845	937,073
Held-to-maturity financial investments	437,008	263,967
Loans, advances and financing	4,707,916	3,819,974
Others	20,047	12,164
	8,541,824	7,375,786
Other assets not subject to credit risk	433,453	419,174
	8,975,277	7,794,960
Off balance sheet:		
Commitments (Note 33)	1,491,436	1,352,015
	10,466,713	9,146,975

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

(e) Risk measurement and reporting systems (cont'd.)

(a) Credit risk (cont'd.)

(i) Credit exposure (cont'd.)

	Bank	
	2013 RM'000	2012 RM'000
On balance sheet:		
Cash and short term funds	1,394,038	1,889,259
Deposits and placements with banks and other financial institutions	198,589	452,954
Available-for-sale financial investments	1,782,845	937,073
Held-to-maturity financial investments	437,008	263,967
Loans, advances and financing	4,707,916	3,819,974
Others	20,047	12,164
	<u>8,540,443</u>	<u>7,375,391</u>
Other assets not subject to credit risk	428,322	411,914
	<u>8,968,765</u>	<u>7,787,305</u>
Off balance sheet:		
Commitments (Note 33)	1,491,436	1,352,015
	<u>10,460,201</u>	<u>9,139,320</u>

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

	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Total RM'000
31 December 2013			
Risk rating category			
Highest safety *	727,516	48,268	775,784
Moderate safety**	2,938,252	190,387	3,128,639
High risk***	156,441	74,243	230,684
Non-rated	71,752	2,683	74,435
	<u>3,893,961</u>	<u>315,581</u>	<u>4,209,542</u>



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

(e) Risk measurement and reporting systems (cont'd.)

(a) Credit risk (cont'd.)

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

31 December 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

* 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.

Non-rated risk relates to I-Cash-payment and I-Splash which are managed through salary deduction by Angkasa and secured by contract from government respectively.

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

(a) Credit risk (cont'd.)

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

Group 31 December 2013	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 RM'000	Commitments RM'000
Government	-	998,222	140,766	-	-	1,138,988	-
Agriculture, forestry and fishing	-	-	-	13,051	-	13,051	-
Constructions	-	-	-	514,042	-	514,042	-
Community, social and personal services	-	-	-	699,005	-	699,005	-
Electricity, gas and water supply	-	-	-	28,624	-	28,624	-
Financial, insurance, real estate and business services	1,594,008	784,623	296,242	306,545	20,047	3,001,465	-
Import, export, wholesale and retail trade and restaurant and hotels	-	-	-	1,443,278	-	1,443,278	-
Manufacturing	-	-	-	985,408	-	985,408	-
Mining and quarrying	-	-	-	38,370	-	38,370	-
Transportation and communication	-	-	-	797,870	-	797,870	-
Others	-	-	-	34,633	-	34,633	1,491,436
Gross total	1,594,008	1,782,845	437,008	4,860,826	20,047	8,694,734	1,491,436
Less: Allowances for impairment	-	-	-	(152,910)	-	(152,910)	-
	1,594,008	1,782,845	437,008	4,707,916	20,047	8,541,824	1,491,436
Other assets not subject to credit risk	-	-	-	-	433,453	433,453	-
	1,594,008	1,782,845	437,008	4,707,916	453,500	8,975,277	1,491,436



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

(a) Credit risk (cont'd.)

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

Group 31 December 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 RM'000	Commit- ments 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	2,342,608	483,097	123,019	250,700	12,164	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	2,342,608	937,073	263,967	4,084,793	12,164	7,640,605	1,352,015
Less: Allowances for impairment	-	-	-	(264,819)	-	(264,819)	-
	2,342,608	937,073	263,967	3,819,974	12,164	7,375,786	1,352,015
Other assets not subject to credit risk	-	-	-	-	419,174	419,174	-
	2,342,608	937,073	263,967	3,819,974	431,338	7,794,960	1,352,015

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

(a) Credit risk (cont'd.)

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

Bank 31 December 2013	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 RM'000	Commitments RM'000
Government	-	998,222	140,766	-	-	1,138,988	-
Agriculture, forestry and fishing	-	-	-	13,051	-	13,051	-
Constructions	-	-	-	514,042	-	514,042	-
Community, social and personal services	-	-	-	699,005	-	699,005	-
Electricity, gas and water supply	-	-	-	28,624	-	28,624	-
Financial, insurance, real estate and business services	1,592,627	784,623	296,242	306,545	20,047	3,000,084	-
Import, export, wholesale and retail trade and restaurant and hotels	-	-	-	1,443,278	-	1,443,278	-
Manufacturing	-	-	-	985,408	-	985,408	-
Mining and quarrying	-	-	-	38,370	-	38,370	-
Transportation and communication	-	-	-	797,870	-	797,870	-
Others	-	-	-	34,633	-	34,633	1,491,436
Gross total	1,592,627	1,782,845	437,008	4,860,826	20,047	8,693,353	1,491,436
Less: Allowances for impairment	-	-	-	(152,910)	-	(152,910)	-
	1,592,627	1,782,845	437,008	4,707,916	20,047	8,540,443	1,491,436
Other assets not subject to credit risk	-	-	-	-	428,322	428,322	-
	1,592,627	1,782,845	437,008	4,707,916	448,369	8,968,765	1,491,436



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

(a) Credit risk (cont'd.)

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

Bank 31 December 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 RM'000	Commit- ments 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	2,342,213	483,097	123,019	250,700	12,164	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	2,342,213	937,073	263,967	4,084,793	12,164	7,640,210	1,352,015
Less: Allowances for impairment	-	-	-	(264,819)	-	(264,819)	-
	2,342,213	937,073	263,967	3,819,974	12,164	7,375,391	1,352,015
Other assets not subject to credit risk	-	-	-	-	411,914	411,914	-
	2,342,213	937,073	263,967	3,819,974	424,078	7,787,305	1,352,015

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

(a) Credit risk (cont'd.)

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

Group and Bank	Past due but not impaired				Past due and impaired	Total
	Up to 1 month	1 months	>2 - 3 months	>3 - 6 months		
31 December 2013	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Term loans						
- Hire purchase	169,701	39,576	7,481	2,577	41,437	260,772
- Leasing	186,186	24,541	4,125	2,724	40,483	258,059
- Other term loans	2,536,158	619,878	135,810	100,590	561,438	3,953,874
Revolving credits	296,196	21,613	13,744	10,521	11,414	353,488
Staff loan	-	-	-	34,633	-	34,633
	3,188,241	705,608	161,160	151,045	654,772	4,860,826
31 December 2012	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Term loans						
- Hire purchase	119,283	61,553	4,502	4,222	39,735	229,295
- Leasing	147,030	45,521	20,384	9,042	26,867	248,844
- Other term loans	1,929,469	469,299	133,482	81,403	619,508	3,233,161
Revolving credits	254,096	45,778	16,482	3,100	34,508	353,964
Staff loan	-	-	-	37,340	-	37,340
	2,449,878	622,151	174,850	135,107	720,618	4,102,604



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 machineries, inventories, trade receivables, and guarantees.

Management monitors the market value of collateral and ascertains 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 Bank will 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:

	Gross loans	Estimated fair value of collateral (%)
31 December 2013		
Group and Bank		
Import, export, wholesale, retail trade, restaurants and hotels	1,443,278	82.3
Manufacturing	985,408	60.1
Community, social and personal services	699,005	68.8
Transportation and communication	797,870	76.0
Financial, insurance, real estate and business services	306,545	63.2
Constructions	514,042	49.6
Mining and quarrying	38,370	50.3
Agriculture, forestry and fishing	13,051	73.9
Electricity, gas and water supply	28,624	55.7
Others	34,633	0.0
	4,860,826	

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.)

31 December 2012	Gross loans RM'000	Estimated fair value of collateral (%)
Group and Bank		
Import, export, wholesale, retail trade, restaurants and hotels	1,345,091	74.4
Manufacturing	922,484	55.4
Community, social and personal services	474,851	72.3
Transportation and communication	638,970	64.0
Financial, insurance, real estate and business services	252,045	58.3
Constructions	351,909	41.7
Mining and quarrying	33,132	49.3
Agriculture, forestry and fishing	18,655	77.1
Electricity, gas and water supply	28,127	39.0
Others	37,340	0.0
	<u>4,102,604</u>	

(vii) Restructured loans / financing

Restructured loans/ financing 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 of restructured loans/ financing held by the Group and the Bank at the reporting date stood at RM570 million (2012: RM504 million).



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 2013 (RM'000)	Nominal value 2012 (RM'000)
Corporate bonds	RAM	AAA	105,000	35,000
Corporate bonds	MARC	AAA	90,000	35,000
Corporate bonds	RAM	AA1	145,000	135,000
Corporate bonds	MARC	AA+	-	65,000
Corporate bonds	MARC	AA-	50,000	-
Malaysian Government Bonds	N/A	Exempted	1,340,000	690,000
Government Guarantee Bonds	N/A	Exempted	425,000	225,000
Total			2,155,000	1,185,000

Deposits and placements with banks and other financial institutions:

Rating for counterparty	Total principal outstanding 2013 RM'000	Total principal outstanding 2012 RM'000
AAA	37,964	95,651
AA	828,588	1,222,033
A	271,791	650,053
Non-rated	320,000	244,871
Total	1,458,343	2,212,608

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

(a) Credit risk (cont'd.)

(ix) Impairment assessment

For accounting purposes, the Group and the 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/profit 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 request for a rescheduling or restructuring of loan/ financing 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.

	Bank	
	2013	2012
	RM'000	RM'000
Financial guarantees, Corporate Guarantee Schemes, Letters of Credit and others	206,252	228,258
Performance guarantees	257,013	208,454
Undisbursed commitments	983,693	876,270
	1,446,958	1,312,982

(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.

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

(b) Market risk (cont'd.)

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

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:

Functional currency of the Bank	Financial liabilities held in non-functional currencies	
	2013 RM'000	2012 RM'000
Term loans - Japanese Yen ("JPY")	<u>55,308</u>	<u>111,703</u>

(ii) Interest/profit rate risk

Interest/profit rate risk is the impact to earnings and economic value of Bank due to fluctuations in interest rates. Interest/profit 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/ profit 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/ profit rates structure of the statement of financial position arising from interest/ profit rates and yield curves changes. The sensitivity to interest/ profit 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 manage their interest/ profit 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/ profit rate.

	Group and Bank	
	2013 RM'000	2012 RM'000
Impact on loans		
+ 50 basis points	3,050	2,946
- 50 basis points	<u>(3,050)</u>	<u>(2,946)</u>
Impact on bonds		
+ 50 basis points	10,775	5,925
- 50 basis points	<u>(10,775)</u>	<u>(5,925)</u>



37. Financial risk management objectives and policies

(b) Market risk (cont'd.)

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

Group	----- 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				
31 December 2013									
Assets									
Cash and short term funds	542,662	852,757	-	-	-	-	1,395,419	3.33	
Deposits and placements with bank and other financial institutions	-	-	47,690	150,899	-	-	198,589	4.25	
Available-for-sale financial investments	-	-	143,437	164,631	1,465,654	9,123	1,782,845	3.83	
Held-to-maturity financial investments	-	-	-	125,897	311,111	-	437,008	4.25	
Loans, advances and financing	3,188,241	866,768	116,412	-	-	536,495	4,707,916	5.30	
Tax recoverable	-	-	-	-	-	6,573	6,573		
Other assets	-	-	-	-	-	74,849	74,849		
Investments in associates	-	-	-	-	-	6,912	6,912		
Property, plant and equipment	-	-	-	-	-	157,882	157,882		
Investment properties	-	-	-	-	-	150,825	150,825		
Intangible assets	-	-	-	-	-	5,937	5,937		
Deferred tax	-	-	-	-	-	50,519	50,519		
	3,730,903	1,719,525	307,539	441,427	1,776,765	999,115	8,975,274		

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

(b) Market risk (cont'd.)

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

Group	----- Non-trading book ----->						Non-interest sensitive	Total	Effective interest rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years				
31 December 2013 (cont'd.)	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%	
Liabilities and shareholder's equity									
Deposits from customers	1,425,855	747,032	1,287,901	-	-	-	3,460,788	3.36	
Deposits from other financial institutions	336,366	50,248	-	-	-	-	386,614	3.17	
Medium term notes	-	-	-	-	507,040	-	507,040	3.64	
Term loans	9,479	280,179	169,675	2,446,508	-	-	2,905,841	2.63	
Other liabilities	-	-	-	-	-	342,573	342,573		
Government funds	-	-	-	-	-	306,987	306,987		
Total liabilities	1,771,700	1,077,459	1,457,576	2,446,508	507,040	649,560	7,909,843		
Share capital	-	-	-	-	-	1,350,000	1,350,000		
Accumulated losses	-	-	-	-	-	(234,805)	(234,805)		
Other reserves	-	-	-	-	-	(49,764)	(49,764)		
Total equity	-	-	-	-	-	1,065,431	1,065,431		
Total liabilities and shareholder's equity	1,771,700	1,077,459	1,457,576	2,446,508	507,040	1,714,991	8,975,274		
On-balance sheet interest sensitivity gap	1,959,203	642,066	(1,150,037)	(2,005,081)	1,269,725	(715,876)			
Off-balance sheet interest sensitivity gap	-	-	-	-	-	1,491,436			
Total interest sensitivity gap	1,959,203	642,066	(1,150,037)	(2,005,081)	1,269,725				



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

(b) Market risk (cont'd.)

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

Group 31 December 2012	<----- 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	39,464	1,850,190	-	-	-	-	-	1,889,654	3.26
Deposits and placements with bank and other financial institutions	-	-	301,873	151,081	-	-	-	452,954	3.83
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	2,449,878	797,001	97,767	-	-	475,328	-	3,819,974	5.29
Tax recoverable	-	-	-	-	-	-	15,769	15,769	
Other assets	-	-	-	-	-	-	74,045	74,045	
Investments in associates	-	-	-	-	-	-	7,321	7,321	
Property, plant and equipment	-	-	-	-	-	-	138,617	138,617	
Investment properties	-	-	-	-	-	-	143,276	143,276	
Intangible assets	-	-	-	-	-	-	9,161	9,161	
Deferred tax	-	-	-	-	-	-	43,149	43,149	
	2,489,342	2,647,191	429,756	347,902	963,975	916,794	7,794,960		

* Denotes RM2.

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

(b) Market risk (cont'd.)

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

Group	----- Non-trading book ----->						Non-interest sensitive	Total	Effective interest rate %
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	RM'000			
31 December 2012 (cont'd.)	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Liabilities and shareholder's equity									
Deposits from customers	-	1,766,701	549,235	-	-	-	-	2,315,936	3.36
Deposits from other financial institutions	-	325,524	-	-	-	-	-	325,524	3.18
Medium term notes	-	-	-	-	507,040	-	-	507,040	3.64
Term loans	-	-	230,786	2,880,850	-	-	-	3,111,636	2.58
Other liabilities	-	-	-	-	-	-	165,295	165,295	
Government funds	-	-	-	-	-	-	312,574	312,574	
Total liabilities	-	2,092,225	780,021	2,880,850	507,040	477,869	6,738,005		
Share capital	-	-	-	-	-	1,350,000	1,350,000		
Accumulated losses	-	-	-	-	-	(304,839)	(304,839)		
Other reserves	-	-	-	-	-	11,794	11,794		
Total equity	-	-	-	-	-	1,056,955	1,056,955		
Total liabilities and shareholder's equity	-	2,092,225	780,021	2,880,850	507,040	1,534,824	7,794,960		
On-balance sheet interest sensitivity gap	2,489,342	2,092,225	780,021	2,880,850	507,040	1,534,824			
Off-balance sheet interest sensitivity gap	-	-	-	-	-	1,352,015			
Total interest sensitivity gap	2,489,342	2,092,225	780,021	2,880,850	507,040				



37. Financial risk management objectives and policies

(b) Market risk (cont'd.)

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

Bank	<----- Non-trading book ----->						Non-interest sensitive	Total	Effective interest rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	RM'000			
31 December 2013	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Assets									
Cash and short term funds	541,281	852,757	-	-	-	-	-	1,394,038	3.33
Deposits and placements with bank and other financial institutions	-	-	47,690	150,899	-	-	-	198,589	4.25
Available-for-sale financial investments	-	-	143,437	164,631	1,465,654	9,123	1,782,845	3.83	
Held-to-maturity financial investments	-	-	40,052	85,845	311,111	-	437,008	4.25	
Loans, advances and financing	3,188,241	866,768	116,412	-	-	536,495	4,707,916	5.30	
Tax recoverable	-	-	-	-	-	6,511	6,511		
Other assets	-	-	-	-	-	75,944	75,944		
Investments in subsidiaries	-	-	-	-	-	500	500		
Investments in associates	-	-	-	-	-	750	750		
Property, plant and equipment	-	-	-	-	-	157,857	157,857		
Investment properties	-	-	-	-	-	150,825	150,825		
Intangible assets	-	-	-	-	-	5,437	5,437		
Deferred tax	-	-	-	-	-	50,519	50,519		
	3,729,522	1,719,525	347,591	401,375	1,776,765	993,961	8,968,739		

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

(b) Market risk (cont'd.)

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

Bank	----- Non-trading book ----->						Non-interest sensitive	Total	Effective interest rate %
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	RM'000			
31 December 2013 (cont'd.)	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Liabilities and shareholder's equity									
Deposits from customers	1,425,855	747,032	1,287,901	-	-	-	-	3,460,788	3.36
Deposits from other financial institutions	336,366	50,248	-	-	-	-	-	386,614	3.17
Medium term notes	-	-	-	-	507,040	-	-	507,040	3.64
Term loans	9,479	280,179	169,675	2,446,508	-	-	-	2,905,841	2.63
Other liabilities	-	-	-	-	-	-	340,890	340,890	
Government funds	-	-	-	-	-	-	306,987	306,987	
Total liabilities	1,771,700	1,077,459	1,457,576	2,446,508	507,040	647,877	7,908,160		
Share capital	-	-	-	-	-	1,350,000	1,350,000		
Accumulated losses	-	-	-	-	-	(239,657)	(239,657)		
Other reserves	-	-	-	-	-	(49,764)	(49,764)		
Total equity	-	-	-	-	-	1,060,579	1,060,579		
Total liabilities and shareholder's equity	1,771,700	1,077,459	1,457,576	2,446,508	507,040	1,708,456	8,968,739		
On-balance sheet interest sensitivity gap	1,957,822	642,066	(1,109,985)	(2,045,133)	1,269,725	(714,495)			
Off-balance sheet interest sensitivity gap	-	-	-	-	-	1,491,436			
Total interest sensitivity gap	1,957,822	642,066	(1,109,985)	(2,045,133)	1,269,725				



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

(b) Market risk (cont'd.)

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

Bank 31 December 2012	<----- 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	1,587,468	301,791	-	-	-	-	-	1,889,259	3.26
Deposits and placements with bank and other financial institutions	-	-	301,873	151,081	-	-	-	452,954	3.83
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	2,449,878	797,001	97,767	-	-	475,328	-	3,819,974	5.29
Tax recoverable	-	-	-	-	-	15,769	-	15,769	
Other assets	-	-	-	-	-	73,356	-	73,356	
Investments in subsidiaries	-	-	-	-	-	-	-*	-*	
Investments in associates	-	-	-	-	-	750	-	750	
Property, plant and equipment	-	-	-	-	-	138,617	-	138,617	
Investment properties	-	-	-	-	-	143,276	-	143,276	
Intangible assets	-	-	-	-	-	9,161	-	9,161	
Deferred tax	-	-	-	-	-	43,149	-	43,149	
	4,037,346	1,098,792	429,756	347,902	963,975	909,534	-	7,787,305	

* Denotes RM2.

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

(b) Market risk (cont'd.)

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

Bank 31 December 2012 (cont'd.)	<----- 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				
Liabilities and shareholder's equity									
Deposits from customers	-	1,766,701	549,235	-	-	-	-	2,315,936	3.36
Deposits from other financial institutions	-	325,524	-	-	-	-	-	325,524	3.18
Medium term notes	-	-	-	-	507,040	-	-	507,040	3.64
Term loans	-	-	230,786	2,880,850	-	-	-	3,111,636	2.58
Other liabilities	-	-	-	-	-	164,520	-	164,520	
Government funds	-	-	-	-	-	312,574	-	312,574	
Total liabilities	-	2,092,225	780,021	2,880,850	507,040	477,094	-	6,737,230	
Share capital	-	-	-	-	-	1,350,000	-	1,350,000	
Accumulated losses	-	-	-	-	-	(311,719)	-	(311,719)	
Other reserves	-	-	-	-	-	11,794	-	11,794	
Total equity	-	-	-	-	-	1,050,075	-	1,050,075	
Total liabilities and shareholder's equity	-	2,092,225	780,021	2,880,850	507,040	1,527,169	-	7,787,305	
On-balance sheet interest sensitivity gap	4,037,346	(993,433)	(350,265)	(2,532,948)	456,935	(617,635)	-		
Off-balance sheet interest sensitivity gap	-	-	-	-	-	1,352,015	-		
Total interest sensitivity gap	4,037,346	(993,433)	(350,265)	(2,532,948)	456,935		-		



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	Non-trading book						Non-specific maturity	Total
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years			
31 December 2013	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Assets								
Cash and short term funds	542,662	852,757	-	-	4,257	-	1,399,676	
Deposits and placements with banks and other financial institutions	-	-	47,690	150,899	379	-	198,968	
Available-for-sale financial investments	-	-	143,437	164,631	2,072,540	9,123	2,389,731	
Held-to-maturity financial investments	-	-	-	125,897	433,577	-	559,474	
Loans, advances and financing	3,188,241	866,768	116,412	-	1,079,125	536,495	5,787,041	
Tax recoverable	-	-	-	-	-	6,573	6,573	
Other assets	-	-	-	-	-	74,849	74,849	
	3,730,903	1,719,525	307,539	441,427	3,589,878	627,040	10,416,312	

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

(c) Liquidity risk (cont'd.)

Group	----- Non-trading book ----->						Total
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non- specific maturity	
31 December 2013 (cont'd.)	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Liabilities							
Deposits from customers	1,425,855	747,032	1,287,901	-	22,836	-	3,483,624
Deposits from other financial institutions	336,366	50,248	-	-	523	-	387,137
Medium term notes	-	-	-	-	507,040	-	507,040
Term loans	9,479	280,179	169,675	2,446,508	-	-	2,905,841
Other liabilities	-	-	-	-	-	342,573	342,573
Government funds	-	-	-	-	-	306,987	306,987
Total undiscounted financial liabilities	1,771,700	1,077,459	1,457,576	2,446,508	530,399	649,560	7,933,202
Net maturity mismatches	1,959,203	642,066	(1,150,037)	(2,005,081)	3,059,479	(22,520)	2,483,110



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

(c) Liquidity risk (cont'd.)

Group	----- 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	
31 December 2012							
Assets							
Cash and short term funds	39,464	1,850,190	-	-	3,995	-	1,893,649
Deposits and placements with banks and other financial institutions	-	-	301,873	151,081	5,839	-	458,793
Available-for-sale financial investments	-	-	30,116	91,066	1,078,141	10,128	1,209,451
Held-to-maturity financial investments	-	-	-	105,755	229,367	-	335,122
Loans, advances and financing	2,449,878	797,001	97,767	-	1,079,125	475,328	4,899,099
Tax recoverable	-	-	-	-	-	15,769	15,769
Other assets	-	-	-	-	-	74,045	74,045
	<u>2,489,342</u>	<u>2,647,191</u>	<u>429,756</u>	<u>347,902</u>	<u>2,396,467</u>	<u>575,270</u>	<u>8,885,928</u>

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

(c) Liquidity risk (cont'd.)

Group	<----- Non-trading book ----->						Total
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non- specific maturity	
31 December 2012 (cont'd.)	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Liabilities							
Deposits from customers	-	1,766,701	549,235	-	14,166	-	2,330,102
Deposits from other financial institutions	-	325,524	-	-	1,235	-	326,759
Medium term notes	-	-	-	-	507,040	-	507,040
Term loans	-	-	230,786	2,880,850	-	-	3,111,636
Other liabilities	-	-	-	-	-	165,295	165,295
Total undiscounted financial liabilities	-	2,092,225	780,021	2,880,850	522,441	165,295	6,440,832
Net maturity mismatches	2,489,342	554,966	(350,265)	(2,532,948)	1,874,026	409,975	2,445,096



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	<----- 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	
31 December 2013							
Assets							
Cash and short term funds	541,281	852,757	-	-	4,257	-	1,398,295
Deposits and placements with banks and other financial institutions	-	-	47,690	150,899	379	-	198,968
Available-for-sale financial investments	-	-	143,437	164,631	2,072,540	9,123	2,389,731
Held-to-maturity financial investments	-	-	40,052	85,845	433,577	-	559,474
Loans, advances and financing 4,707,916	-	3,188,241	866,768	116,412	-	-	536,495
Tax recoverable	-	-	-	-	-	6,511	6,511
Other assets	-	-	-	-	-	75,944	75,944
	3,729,522	1,719,525	347,591	401,375	2,510,753	628,073	9,336,839

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

(c) Liquidity risk (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	
Bank							
31 December 2013 (cont'd.)							
Liabilities							
Deposits from customers	1,425,855	747,032	1,287,901	-	22,836	-	3,483,624
Deposits from other financial institutions	336,366	50,248	-	-	523	-	387,137
Medium term notes	-	-	-	-	507,040	-	507,040
Term loans	9,479	280,179	169,675	2,446,508	-	-	2,905,841
Other liabilities	-	-	-	-	-	340,890	340,890
Total undiscounted financial liabilities	1,771,700	1,077,459	1,457,576	2,446,508	530,399	340,890	7,624,532
Net maturity mismatches	1,957,822	642,066	(1,109,985)	(2,045,133)	1,980,354	287,183	1,712,307



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	----- 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	
31 December 2012							
Assets							
Cash and short term funds	1,587,468	301,791	-	-	3,995	-	1,893,254
Deposits and placements with banks and other financial institutions	-	-	301,873	151,081	5,839	-	458,793
Available-for-sale financial investments	-	-	30,116	91,066	1,078,141	10,128	1,209,451
Held-to-maturity financial investments	-	-	-	105,755	229,367	-	335,122
Loans, advances and financing	2,449,878	797,001	97,767	-	1,079,125	475,328	4,899,099
Tax recoverable	-	-	-	-	-	15,769	15,769
Other assets	-	-	-	-	-	73,356	73,356
	4,037,346	1,098,792	429,756	347,902	2,396,467	574,581	8,884,844

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

(c) Liquidity risk (cont'd.)

Bank 31 December 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	-	1,766,701	549,235	-	14,166	-	2,330,102
Deposits from other financial institutions	-	325,524	-	-	1,235	-	326,759
Medium term notes	-	-	-	-	507,040	-	507,040
Term loans	-	-	230,786	2,880,850	-	-	3,111,636
Other liabilities	-	-	-	-	-	164,520	164,520
Total undiscounted financial liabilities	-	2,092,225	780,021	2,880,850	522,441	164,520	6,440,057
Net maturity mismatches	4,037,346	(993,433)	(350,265)	(2,532,948)	1,874,026	410,061	2,444,787

The Bank is subject to liquidity requirements to support calls under outstanding contingent liabilities and undrawn credit facility commitments as disclosed in Notes 33. These have been incorporated in the net off-balance sheet position for year ended 31 December 2013. 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. Dividends

Group and Bank	
2013	2012
RM'000	RM'000

In respect of the financial year ended 31 December 2012,
final tax exempt dividend (single tier) of 0.50 sen per share

<u>6,750</u>	<u>-</u>
--------------	----------

At the forthcoming Annual General Meeting, a final tax exempt (single tier) dividend in respect of the financial year ended 31 December 2013, of 0.50 sen per share on 1,350,000,000 ordinary shares, amounting to a dividend payable of RM6,750,000 will be proposed for the shareholder’s approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholder, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2014.

39. Islamic banking business

The state of affairs as at 31 December 2013 and results for the financial year then ended under the Islamic Banking business of the Bank and included in the Group and Bank financial statements are summarised as follows:

Statements of financial position

As at 31 December 2013

	Note	As at 31 December 2013 RM'000	Group and Bank As at 31 December 2012 Restated RM'000	As at 1 January 2012 Restated RM'000
Assets				
Cash and short-term funds	(a)	987,244	1,101,021	1,187,036
Deposits and placements with financial institutions	(b)	187,204	260,853	26,323
Available-for-sale financial investments	(c)	1,497,169	871,292	286,039
Held-to-maturity financial investments	(d)	381,503	208,308	141,750
Advances and financing	(e)	3,458,258	2,407,228	1,958,270
Other assets	(f)	22,055	13,232	6,574
Investments in subsidiaries		500	-	-
Property and equipment		73,994	61,876	43,313
Investment properties (Note 13)		150,825	143,276	159,988
Deferred tax	(l)	15,958	9,313	18,516
Total assets		6,774,710	5,076,399	3,827,809
Liabilities				
Deposits acceptance	(g)	3,139,717	1,197,576	1,237,426
Deposits from other financial institutions	(h)	100,103	50,078	-
Medium term note (Note 18)		507,040	507,040	-
Long term financing	(i)	987,490	1,063,116	706,960
Other liabilities	(j)	1,330,766	1,563,715	1,211,828
Government funds	(k)	159,952	161,005	188,593
Total liabilities		6,225,068	4,542,530	3,344,807
Islamic general fund		549,642	533,869	483,002
Total liabilities and islamic banking funds		6,774,710	5,076,399	3,827,809
Commitments				
	(u)	1,396,238	1,233,251	765,768



39. Islamic banking business (cont'd.)

Statements of comprehensive income For the financial year ended 31 December 2013

	Note	Group and Bank 2013 RM'000	2012 RM'000 Restated
Income from Islamic banking business	(m)	306,880	246,596
Profit expense attributable to Islamic banking business	(o)	(100,801)	(70,051)
Net provision for profit equalisation reserve	(p)	3,237	(5,049)
Gross income from islamic banking business		209,316	171,496
Other operating expenses	(q)	(111,688)	(74,407)
Operating profit		97,628	97,089
Allowance for impairment on advances and financing	(r)	(21,341)	(39,700)
Profit before taxation and zakat		76,287	57,389
Tax expense	(s)	(9,433)	(7,297)
Zakat	(t)	(2,846)	1,160
Net profit for the year		64,008	51,252
Other comprehensive loss to be reclassified to profit or loss in subsequent periods			
Unrealised loss on revaluation of available for sale financial investments		(64,313)	(513)
Income tax relating to components of other comprehensive income		16,078	128
Net other comprehensive loss to be reclassified in profit or loss in subsequent periods		(48,235)	(385)
Total comprehensive income for the year		15,773	50,867

39. Islamic banking business (cont'd.)

Statements of changes of Islamic General Funds For the financial year ended 31 December 2013

Group and Bank	Capital funds RM'000	Non-distributable available-for-sale reserve RM'000	Non-distributable profit equalisation reserve RM'000	Retained profits / losses (Accumulated) RM'000	Total RM'000
At 1 January 2013, as previously stated	550,564	538	1,009	(23,133)	528,978
Prior year adjustment (Note 40)	-	(135)	-	5,026	4,891
At 1 January 2013, as restated	550,564	403	1,009	(18,107)	533,869
Unrealised loss on revaluation of available-for-sale financial investments	-	(48,235)	-	-	(48,235)
Net provision of profit equalisation reserve for the year	-	-	(606)	606	-
Net profit for the year	-	-	-	64,008	64,008
Total comprehensive income for the year	-	(48,235)	(606)	64,614	15,773
At 31 December 2013	550,564	(47,832)	403	46,507	549,642
At 1 January 2012, as previously stated	550,564	1,051	-	(85,133)	466,482
Prior year adjustment (Note 40)	-	(263)	-	16,783	16,520
At 1 January 2012, as restated	550,564	788	-	(68,350)	483,002
Unrealised loss on revaluation of available-for-sale financial investments	-	(385)	-	-	(385)
Net provision of profit equalisation reserve for the year	-	-	1,009	(1,009)	-
Net profit for the year	-	-	-	51,252	51,252
Total comprehensive income for the year	-	(385)	1,009	50,243	50,867
At 31 December 2012	550,564	403	1,009	(18,107)	533,869



39. Islamic banking business (cont'd.)

Statements of cash flows

For the financial year ended 31 December 2013

	Group and Bank	
	2013	2012
	RM'000	RM'000
		Restated
Cash flows from operating activities		
Profit before taxation and zakat	76,287	57,389
Adjustments for:		
Allowance for impairment loss of advances and financing	19,641	111,682
Advances and financing written-off	16,734	51,340
Advances and financing waived	313	-
Recoveries from impaired advances and financing written-off	(15,347)	(23,077)
Government funds released/(writeback)	443	(16,665)
Depreciation of property and equipment	7,028	6,605
Operating profit before working capital changes	05,099	187,274
Changes in working capital:		
Other assets	(8,823)	(16,338)
Advances and financing	(1,072,370)	(554,514)
Deposits and placements with financial institutions	73,649	(330,465)
Deposits from customers	1,942,141	(43,767)
Deposits from other financial institutions	50,025	50,000
Other liabilities	(891,067)	587,587
Cash generated from/(used in) operations	198,654	(120,223)
Zakat paid	(963)	(187)
Net cash generated/(used in) from operations	197,691	(120,410)

39. Islamic banking business (cont'd.)

Statements of cash flows

For the financial year ended 31 December 2013 (cont'd.)

	Group and Bank	
	2013	2012
	RM'000	RM'000
		Restated
Cash flow from investing activities		
Purchase of negotiable instrument deposits	-	(150,000)
Net cash outflow on incorporation of a subsidiary	(500)	-
Purchase of private debt securities	(1,385,664)	(1,990,000)
Proceed from redemption of private debt securities	522,278	1,337,674
Net cash used in investing activity	(863,886)	(802,326)
Cash flows from financing activities		
Payment for paid up capital	(500)	-
Proceed from redeemable guaranteed notes	-	500,000
Drawdown from long-term advances	705,400	427,061
Repayment from long-term advances	(152,482)	(87,152)
Net cash generated financing activities	552,418	839,909
Net decrease in cash and cash equivalents	(113,777)	(82,827)
Cash and cash equivalents at beginning of year	1,101,021	1,183,848
Cash and cash equivalents at end of year	987,244	1,101,021

39. Islamic banking business (cont'd.)

Statements of cash flows

For the financial year ended 31 December 2013 (cont'd.)

Cash and cash equivalents

For the purpose of statements of cash flows, cash and cash equivalents represent the following items in the statements of financial position:

Cash and short term funds

Group and Bank	
2013	2012
RM'000	RM'000
<u>987,244</u>	<u>1,101,021</u>

Notes to the financial statements

For the financial year ended 31 December 2013

(a) Cash and short-term funds

Cash at banks and on hand
Money at call and deposit placements
maturing within three months

Group and Bank	
2013	2012
RM'000	RM'000
31,495	27,230
<u>955,749</u>	<u>1,073,791</u>
<u>987,244</u>	<u>1,101,021</u>

39. Islamic banking business (cont'd.)

Notes to the financial statements

For the financial year ended 31 December 2013 (cont'd.)

(b) Deposits and placements with banks and other financial institutions

	Group and Bank 2013 RM'000	2012 RM'000
Licensed banks	187,204	229,267
Other financial institutions	-	31,586
	<u>187,204</u>	<u>260,853</u>

The maturity structure of deposits and placements are as follows:

	Group and Bank 2013 RM'000	2012 RM'000
Three months to six months	17,860	82,296
Six months to one year	18,446	27,476
One to five years	150,898	151,081
	<u>187,204</u>	<u>260,853</u>

(c) Available-for-sale financial investments

	Group and Bank 2013 RM'000	2012 RM'000
At fair value		
Money market instruments:		
Private debt securities	626,836	417,316
Malaysian Government Investment Issues	746,867	453,976
Commercial papers	123,466	-
Total available-for-sale financial investments	<u>1,497,169</u>	<u>871,292</u>

	Group and Bank 2013 RM'000	2012 RM'000
Within one year	138,405	-
More than one year to three years	55,072	75,738
More than three years to five years	89,393	5,145
More than five years	1,214,299	790,409
	<u>1,497,169</u>	<u>871,292</u>

39. Islamic banking business (cont'd.)

Notes to the financial statements

For the financial year ended 31 December 2013 (cont'd.)

(d) Held-to-maturity financial investments

	Group and Bank 2013 RM'000	2012 RM'000
At amortised cost		
<u>Money market instruments:</u>		
Malaysian Government Investment Issues	90,283	90,334
Cagamas bonds	5,018	5,038
	<u>95,301</u>	<u>95,372</u>
<u>Unquoted securities</u>		
Private debt securities	286,202	112,936
	<u>381,503</u>	<u>208,308</u>

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

	Group and Bank 2013 RM'000	2012 RM'000
Within one year	35,031	-
More than one year to three years	30,334	45,095
More than three years to five years	5,028	-
More than five years	311,110	163,213
	<u>381,503</u>	<u>208,308</u>

The indicative market value of held-to-maturity financial instruments are as follows:

	Group and Bank 2013 RM'000	2012 RM'000
Malaysian Government Investment Issues	90,627	93,179
Cagamas bonds	5,040	10,185
Private debt securities	278,960	114,694

39. Islamic banking business (cont'd.)

Notes to the financial statements
for the financial year ended 31 December 2013 (cont'd.)

(e) Advances and financing

	2013 RM'000	Group and Bank 2012 RM'000 Restated	2011 RM'000 Restated
Bai Bithaman Ajil	2,035,758	1,397,751	1,150,310
Ijarah	256,985	242,276	234,269
Murabahah	53,390	39,704	16,362
Bai' Dayn	81,415	60,232	54,10
Istisna	479,900	437,353	320,842
Ijarah Thumma Al-Bai	256,032	220,918	224,014
Murabahah Dayn	188,275	191,034	120,055
Mali	603,234	19,049	117,302
Maluk	1,125	206	3,428
Bai' Inah - Personal Micro Financing	41	258,215	14,233
	<u>3,956,155</u>	<u>2,866,738</u>	<u>2,254,920</u>
Less: Unearned income	<u>(376,813)</u>	<u>(327,042)</u>	<u>(150,970)</u>
Gross advances and financing	<u>3,579,342</u>	<u>2,539,696</u>	<u>2,103,950</u>
Less: Allowance for impairment on advances and financing			
- Individual assessment allowance (Note 39(e)(x))	(56,770)	(62,931)	(98,696)
- Collective assessment allowance (Note 39(e)(x))	(64,314)	(69,537)	(46,984)
Net advances and financing	<u>3,458,258</u>	<u>2,407,228</u>	<u>1,958,270</u>
Gross impaired advances and financing (Note 39(e)(vi))	<u>218,540</u>	<u>194,599</u>	<u>237,550</u>
Net impaired advances and financing	<u>161,770</u>	<u>131,668</u>	<u>138,854</u>

Included in advances and financing are gross advances and financing of RM217,682,000 (2012: RM104,516,000) financed by the Government funds. The treatment of the income earned and credit losses incurred for these advances and financing are as disclosed in Note 2.15.

39. Islamic banking business (cont'd.)

**Notes to the financial statements
for the financial year ended 31 December 2013 (cont'd.)**

(e) Advances and financing (cont'd.)

(i) The maturity profile of the gross advances and financing are as follows:

	Group and Bank	
	2013	2012
	RM'000	RM'000
Maturity within one year	936,178	600,317
More than one year to three years	400,155	415,282
More than three years to five years	766,118	682,093
More than five years	1,476,891	842,004
	<u>3,579,342</u>	<u>2,539,696</u>

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

	Group and Bank	
	2013	2012
	RM'000	RM'000
Domestic business enterprise	3,521,679	2,479,981
Individual	57,663	59,715
	<u>3,579,342</u>	<u>2,539,696</u>

39. Islamic banking business (cont'd.)

Notes to the financial statements
for the financial year ended 31 December 2013 (cont'd.)

(e) Advances and financing (cont'd.)

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

	Group and Bank	
	2013	2012
	RM'000	RM'000
Import, export, wholesale, retail trade, restaurants and hotels	582,076	388,114
Manufacturing	860,409	695,482
Community, social and personal services	595,540	340,501
Transportation and communication	729,373	539,777
Financial, insurance, real estate and business services	280,021	217,426
Constructions	434,401	259,906
Mining and quarrying	38,370	33,132
Agriculture, forestry and fishing	13,051	17,735
Electricity, gas and water supply	16,543	16,146
Others	29,558	31,477
	<u>3,579,342</u>	<u>2,539,696</u>



39. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2013 (cont'd.)

(e) Advances and financing (cont'd.)

(iv) Gross advances and financing analysed by location and sector are as follows:

	Perlis RM'000	Kedah RM'000	Penang RM'000	Perak RM'000	Selangor RM'000	Kuala Lumpur RM'000	Melaka RM'000	Balance c/f RM'000
Group and Bank								
Import, export, wholesale, retail trade, restaurants and hotels	6,969	42,895	42,550	40,673	103,361	137,183	27,265	400,896
Manufacturing	10,294	56,166	55,150	42,743	237,136	141,516	53,131	596,136
Community, social and personal services	1,150	15,813	42,226	23,903	39,671	138,971	112,982	374,716
Transportation and communication	9,265	85,144	32,855	10,651	158,857	93,874	12,503	403,149
Financial, insurance, real estate and business services	61,660	2,531	4,476	1,799	63,853	87,038	6,385	227,742
Constructions	26,293	37,652	7,846	2,818	87,504	66,481	26,660	255,254
Mining and quarrying	-	-	-	-	9,635	12,218	-	21,853
Agriculture, forestry and fishing	-	-	-	-	-	2,083	-	2,083
Electricity, gas and water supply	-	-	-	-	8,917	4,314	1,969	15,200
Others	-	-	-	-	-	29,558	-	29,558
At 31 December 2013	115,631	240,201	185,103	122,587	708,934	713,236	240,895	2,326,587

39. Islamic banking business (cont'd.)

**Notes to the financial statements
for the financial year ended 31 December 2013 (cont'd.)**

(e) Advances and financing (cont'd.)

(iv) Gross advances and financing analysed by location and sector are as follows:

	Balance b/f RM'000	Negeri Sembilan RM'000	Johore RM'000	Pahang RM'000	Kelantan RM'000	Terengganu RM'000	Sabah & Sarawak RM'000	Total RM'000
Import, export, wholesale, retail trade, restaurants and hotels	400,896	3,215	11,647	33,949	19,896	47,812	64,661	582,076
Manufacturing	596,136	55,207	81,686	6,460	16,977	57,292	46,651	860,409
Community, social and personal services	374,716	28,907	4,611	79,089	43,418	26,513	38,286	595,540
Transportation and communication	403,149	9,176	53,232	18,366	10,769	95,072	139,609	729,373
Financial, insurance, real estate and business services	227,742	248	8,068	6,146	1,427	8,151	28,239	280,021
Constructions	255,254	11,957	46,895	30,261	221	20,000	69,813	434,401
Mining and quarrying	21,853	57	53	9,263	1,085	3,103	2,956	38,370
Agriculture, forestry and fishing	2,083	-	-	327	41	7,929	2,671	13,051
Electricity, gas and water supply	15,200	-	1,138	-	-	21	184	16,543
Others	29,558	-	-	-	-	-	-	29,558
At 31 December 2013	2,326,587	108,767	207,330	183,861	93,834	265,893	393,070	3,579,342



39. Islamic banking business (cont'd.)

Notes to the financial statements
for the financial year ended 31 December 2013 (cont'd.)

(e) Advances and financing (cont'd.)

(iv) Gross advances and financing analysed by location and sector are as follows:

	Perlis RM'000	Kedah RM'000	Penang RM'000	Perak RM'000	Selangor RM'000	Kuala Lumpur RM'000	Melaka RM'000	Balance c/f RM'000
Group and Bank								
Import, export, wholesale, retail trade, restaurants and hotels	4,586	20,419	56,191	9,149	97,785	80,505	10,180	278,815
Manufacturing	10,098	51,368	46,646	38,482	252,160	64,099	38,917	501,770
Community, social and personal services	157	4,596	38,074	20,336	39,797	19,983	19,871	142,814
Transportation and communication	6,386	51,392	24,807	11,358	127,428	65,999	12,399	299,769
Financial, insurance, real estate and business services	62,717	2,787	6,219	1,956	45,062	51,140	2,005	171,886
Constructions	72	32,533	15,925	1,356	51,183	47,838	15,318	164,225
Mining and quarrying	-	-	-	-	1,218	13,293	-	14,511
Agriculture, forestry and fishing	-	-	-	-	-	2,657	-	2,657
Electricity, gas and water supply	-	-	-	-	3,730	11,474	-	15,204
Others	-	-	-	-	-	31,477	-	31,477
At 31 December 2012	84,016	163,095	187,862	82,637	618,363	388,465	98,690	1,623,128

39. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2013 (cont'd.)

(e) Advances and financing (cont'd.)

(iv) Gross advances and financing analysed by location and sector are as follows:

	Balance b/f RM'000	Negeri Sembilan RM'000	Johore RM'000	Pahang RM'000	Kelantan RM'000	Terengganu RM'000	Sarawak RM'000	Sabah & Total RM'000
Import, export, wholesale, retail trade, restaurants and hotels	278,815	1,908	6,853	26,303	11,841	29,880	32,514	388,114
Manufacturing	501,770	26,770	48,736	17,728	13,161	43,651	43,666	695,482
Community, social and personal services	142,814	27,092	5,598	82,505	40,522	5,604	36,366	340,501
Transportation and communication	299,769	5,993	43,364	12,325	8,204	74,426	95,696	539,777
Financial, insurance, real estate and business services	171,886	350	4,015	5,975	1,455	5,645	28,100	217,426
Constructions	164,225	932	12,732	8,563	766	23,816	48,872	259,906
Mining and quarrying	14,511	75	78	7,090	1,750	4,013	5,615	33,132
Agriculture, forestry and fishing	2,657	-	-	335	45	12,59	32,105	17,735
Electricity, gas and water supply	15,204	-	647	-	-	-	295	16,146
Others	31,477	-	-	-	-	-	-	31,477
At 31 December 2012	1,623,128	63,120	122,023	160,824	77,744	199,628	293,229	2,539,696

39. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2013 (cont'd.)

(e) Advances and financing (cont'd.)

(v) Gross advances and financing analysed by profit rate sensitivity are as follows:

	Group and Bank	
	2013	2012
	RM'000	RM'000
Fixed rate		
- Staff financing	29,558	31,477
- Personal financing	28,105	28,238
- Hire purchase receivables	149,552	121,698
- Leasing	188,040	167,044
- Revolving credits	106,347	111,670
- Other term financing	841,396	692,497
Variable rate		
- Hire purchase receivables	106,424	98,952
- Leasing	67,072	75,750
- Revolving credits	216,733	179,300
- Other term financing	1,846,115	1,033,07
	<u>3,579,342</u>	<u>2,539,696</u>

(vi) Movements in impaired advances and financing ("impaired financing") are as follows:-

	Group and Bank	
	2013	2012
	RM'000	RM'000
At 1 January	194,599	237,550
Impaired during the year	138,477	88,442
Reclassified as non-impaired	(46,428)	(30,267)
Amount recovered	(20,349)	(25,137)
Amount written-off	(47,759)	(75,989)
At 31 December	<u>218,540</u>	<u>194,599</u>

Net impaired financing as % of net advances and financing are as follows:

- 31 December 2013	<u>4.59%</u>
- 31 December 2012	<u>5.32%</u>

39. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2013 (cont'd.)

(e) Advances and financing (cont'd.)

(vii) Impaired advances and financing analysed by location and sector are as follows:

	Perlis RM'000	Kedah RM'000	Penang RM'000	Perak RM'000	Selangor RM'000	Kuala Lumpur RM'000	Melaka RM'000	Balance c/f RM'000
Group and Bank								
Import, export, wholesale, retail trade, restaurants and hotels	35	979	1,995	258	11,026	1,190	1,370	16,853
Manufacturing	49	9,040	2,272	11,885	19,890	5,165	505	48,806
Community, social and personal services	54	267	473	10,266	2,019	978	506	14,563
Transportation and communication	-	260	7,185	634	3,486	315	430	12,310
Financial, insurance, real estate and business services	51	14	43	602	4,401	188	56	5,355
Constructions	-	148	465	-	237	49	-	899
Mining and quarrying	-	-	-	-	-	-	-	-
Agriculture, forestry and fishing	-	-	-	-	-	-	-	-
Electricity, gas and water supply	-	-	-	-	-	-	-	-
At 31 December 2013	189	10,708	12,433	23,645	41,059	7,885	2,867	98,786



39. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2013 (cont'd.)

(e) Advances and financing (cont'd.)

(vii) Impaired advances and financing analysed by location and sector are as follows: (cont'd.)

	Balance b/f RM'000	Negeri Sembilan RM'000	Johore RM'000	Pahang RM'000	Kelantan RM'000	Terengganu RM'000	Sabah & Sarawak RM'000	Total RM'000
Import, export, wholesale, retail trade, restaurants and hotels	16,853	217	307	185	1,463	409	1,393	20,827
Manufacturing	48,806	10,128	3,709	3,978	1,336	12,162	20,032	100,151
Community, social and personal services	14,563	94	1,544	-	197	1,253	10,397	28,048
Transportation and communication	12,310	976	2,067	676	162	2,386	22,975	41,552
Financial, insurance, real estate and business services	5,355	-	286	641	47	195	19,162	25,686
Constructions	899	-	331	-	-	106	-	1,336
Mining and quarrying	-	-	-	-	-	-	-	-
Agriculture, forestry and fishing	-	-	-	327	-	-	-	327
Electricity, gas and water supply	-	-	613	-	-	-	-	613
At 31 December 2013	98,786	11,415	8,857	5,807	3,205	16,511	73,959	218,540

39. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2013 (cont'd.)

(e) Advances and financing (cont'd.)

(viii) Gross advances and financing analysed by location and sector are as follows:(cont'd.)

	Perlis RM'000	Kedah RM'000	Penang RM'000	Perak RM'000	Selangor RM'000	Kuala Lumpur RM'000	Melaka RM'000	Balance c/f RM'000
Group and Bank								
Import, export, wholesale, retail trade, restaurants and hotels	-	741	1,700	172	6,152	360	1,693	10,818
Manufacturing	24	3,934	731	9,636	20,253	5,623	7,660	47,861
Community, social and personal services	52	354	342	9,911	3,981	418	469	15,527
Transportation and communication	-	5,395	936	344	535	1,941	-	9,151
Financial, insurance, real estate and business services	50	-	-	465	6,546	583	-	7,644
Constructions	-	-	92	-	882	48	-	1,022
Mining and quarrying	-	-	-	-	-	-	-	-
Agriculture, forestry and fishing	-	-	-	-	-	-	-	-
Electricity, gas and water supply	-	-	-	-	-	-	-	-
At 31 December 2012	126	10,424	3,801	20,528	38,349	8,973	9,822	92,023



39. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2013 (cont'd.)

(e) Advances and financing (cont'd.)

(viii) Gross advances and financing analysed by location and sector are as follows:(cont'd.)

	Balance b/f RM'000	Negeri Sembilan RM'000	Johore RM'000	Pahang RM'000	Kelantan RM'000	Terengganu RM'000	Sabah & Sarawak RM'000	Total RM'000
Import, export, wholesale, retail trade, restaurants and hotels	10,818	195	-	391	626	1,445	1,743	15,218
Manufacturing	47,861	770	9,404	13,809	525	12,538	7,760	92,667
Community, social and personal services	15,527	-	2,787	-	81	1,392	11,673	31,460
Transportation and communication	9,151	743	2,301	449	34	2,273	11,454	26,405
Financial, insurance, real estate and business services	7,644	207	535	397	-	-	18,264	27,047
Constructions	1,022	-	338	-	-	107	-	1,467
Mining and quarrying	-	-	-	-	-	-	-	-
Agriculture, forestry and fishing	-	-	-	335	-	-	-	335
Electricity, gas and water supply	-	-	-	-	-	-	-	-
At 31 December 2012	92,023	1,915	15,365	15,381	1,266	17,755	50,894	194,599

39. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2013 (cont'd.)

(e) Advances and financing (cont'd.)

(ix) Impaired financing analysed by industry are as follows:

	Group and Bank	
	2013	2012
	RM'000	RM'000
Import, export, wholesale, retail trade, restaurants and hotels	20,827	15,218
Manufacturing	100,151	92,667
Community, social and personal services	28,048	31,460
Transportation and communication	41,552	26,405
Financial, insurance, real estate and business services	25,686	27,047
Constructions	1,336	1,467
Electricity, gas and water supply	613	-
Agriculture, forestry and fishing	327	335
	218,540	194,599

39. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2013 (cont'd.)

(e) Advances and financing (cont'd.)

(x) Movements in the allowance for financing are as follows:

	2013 RM'000	Group and Bank 2012 RM'000 Restated	2011 RM'000 Restated
Individual assessment allowance			
At 1 January, as previously restated	45,674	92,010	191,653
Reclassification (Note 40)	17,257	6,686	13,952
At 1 January, as restated	62,931	98,696	205,605
Amount written-off	(29,783)	(51,340)	(63,868)
Allowance made during the year	51,546	67,122	20,517
Writeback made during the year	(27,924)	(51,547)	(63,558)
At 31 December	56,770	62,931	98,696
Collective assessment allowance			
At 1 January, as previously restated	42,611	51,298	51,744
Prior year adjustment (Note 40)	26,926	(4,314)	-
At 1 January, as restated	69,537	46,984	51,744
Amount written-off	(1,242)	-	-
Allowance made during the year	114,466	44,560	29,885
Writeback made during the year	(118,447)	(22,007)	(34,645)
At 31 December	64,314	69,537	46,984

39. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2013 (cont'd.)

(e) Advances and financing (cont'd.)

(xi) Gross advances and financing by types and Shariah contracts are as follows:

31 December 2013	Hire purchase	Leasing receivables	Other term loans	Revolving credit	Staff financing	Total
Group and Bank	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Bai Bithaman Ajil	74	-	1,722,289	-	29,558	1,751,921
Ijarah	-	255,112	-	-	-	255,112
Murabahah	-	-	-	53,390	-	53,390
Bai' Dayn	-	-	-	81,415	-	81,415
Istisna	-	-	407,775	-	-	407,775
Ijarah Thumma Al-Bai	255,974	-	-	-	-	255,974
Murabahah Dayn	-	-	-	188,275	-	188,275
Mali	-	-	584,314	-	-	584,314
Maluk	-	-	1,125	-	-	1,125
Bai' Inah - Personal Micro Financing	-	-	41	-	-	41
At 31 December 2013	256,048	255,112	2,715,544	323,080	29,558	3,579,342
31 December 2012						
Group and Bank						
Bai Bithaman Ajil	-	-	1,183,162	-	31,477	1,214,639
Ijarah	-	242,234	-	-	-	242,234
Murabahah	-	-	-	39,704	-	39,704
Bai' Dayn	-	-	-	60,232	-	60,232
Istisna	-	-	312,986	-	-	312,986
Ijarah Thumma Al-Bai	220,652	-	-	-	-	220,652
Murabahah Dayn	-	-	-	191,034	-	191,034
Mali	-	-	-	-	-	-
Maluk	-	-	-	-	-	-
Bai' Inah - Personal Micro Financing	-	-	258,215	-	-	258,215
At 31 December 2012	220,652	242,234	1,754,363	290,970	31,477	2,539,696

39. Islamic banking business (cont'd.)

**Notes to the financial statements
for the financial year ended 31 December 2013 (cont'd.)**

(f) Other assets

	Group and Bank	
	2013	2012
	RM'000	RM'000
Other receivables and prepayments	5,945	4,043
Income receivables	16,110	9,189
	<u>22,055</u>	<u>13,232</u>

(g) Deposits acceptance

	Group and Bank	
	2013	2012
	RM'000	RM'000
Term deposit:		
- Mudharabah deposit acceptance	42,772	1,197,576
- Commodity Murabahah	3,096,945	-
	<u>3,139,717</u>	<u>1,197,576</u>

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

	Group and Bank	
	2013	2012
	RM'000	RM'000
Government and statutory bodies	3,139,512	1,156,618
Business enterprises	205	40,958
	<u>3,139,717</u>	<u>1,197,576</u>

(ii) The deposits maturity structure are as follows:

	Group and Bank	
	2013	2012
	RM'000	RM'000
Less than three months	1,854,784	663,605
Three months to six months	1,091,655	343,701
Six months to one year	193,278	190,270
	<u>3,139,717</u>	<u>1,197,576</u>

39. Islamic banking business (cont'd.)

Notes to the financial statements
for the financial year ended 31 December 2013 (cont'd.)

(h) Deposits from other financial institutions

	Group and Bank	
	2013	2012
	RM'000	RM'000
Licensed banks	100,103	50,078

The deposit maturity structure is as follows:

	Group and Bank	
	2013	2012
	RM'000	RM'000
Less than three months	100,103	50,078

(i) Long term financing

	Group and Bank	
	2013	2012
	RM'000	RM'000
Long term financing - Unsecured	987,490	1,063,116

The maturity structure of the term loans are as follows:

	Group and Bank	
	2013	2012
	RM'000	RM'000
Within twelve months	883,730	410,250
More than twelve months	103,760	652,866
	987,490	1,063,116

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

	Group and Bank	
	2013	2012
	RM'000	RM'000
Loans from:		
- Government of Malaysia	653,690	629,371
- Bank Negara Malaysia ("BNM")	333,800	433,745
	987,490	1,063,116

The interest rates on the loans from the Government of Malaysia is 1.50% and (2012: 1.50%) per annum. The rate for BNM ranges from 4% - 6% (2012: 4% - 6%)



39. Islamic banking business (cont'd.)

Notes to the financial statements
for the financial year ended 31 December 2013 (cont'd.)

(j) Other liabilities

	Group and Bank	
	2013	2012
	RM'000	RM'000
Other payables and accruals	1,146,080	1,501,556
Islamic margin account	180,934	54,151
Profit equalisation reserve - depositors	1,813	5,049
Provision for zakat	1,939	2,959
	<u>1,330,766</u>	<u>1,563,715</u>

(k) Government funds

	Group and Bank	
	2013	2012
	RM'000	RM'000
To finance:		
Advances and financing	159,952	161,005
	<u>159,952</u>	<u>161,005</u>

39. Islamic banking business (cont'd.)

**Notes to the financial statements
for the financial year ended 31 December 2013 (cont'd.)**

(k) Government funds (cont'd.)

(a) To finance advances and financing

Group and Bank	Soft Loan Scheme RM'000	Program dan Skim Usahawan Batik RM'000	Basic Capital Scheme (SMA) RM'000	Tabung Usahawan Siswazah (TUS) RM'000	Dana Usahawan Negeri Terengganu RM'000	Skim Pembangunan Ekonomi Desa-Islamic RM'000	Program dan Skim Usahawan Kraf RM'000	Total RM'000
At 1 January 2013	36,638	4,064	29,936	19,543	9,439	56,719	4,666	161,005
Received	-	-	-	-	-	899	-	899
Write-off	-	(3)	(50)	(1,066)	(28)	(1,762)	(6)	(2,915)
Loan written-off recoverable	-	38	1,713	537	198	955	51	3,492
Expenses	-	-	-	-	-	(134)	-	(134)
Muqasah	-	-	-	-	(1,825)	(570)	-	(2,395)
At 31 December 2013	36,638	4,099	31,599	19,014	7,784	56,107	4,711	159,952
At 1 January 2012	36,638	4,394	33,798	22,559	11,724	74,785	4,695	188,593
Payment	-	-	-	-	-	(10,000)	-	(10,000)
Write-off	-	(330)	(3,862)	(3,016)	(2,066)	(7,150)	(29)	(16,453)
Expenses	-	-	-	-	-	(212)	-	(212)
Hibah/Muqasah	-	-	-	-	(219)	(704)	-	(923)
At 31 December 2012	36,638	4,064	29,936	19,543	9,439	56,719	4,666	161,005

39. Islamic banking business (cont'd.)

Notes to the financial statements
for the financial year ended 31 December 2013 (cont'd.)

(I) Deferred tax

	2013 RM'000	Group and Bank 2012 RM'000 Restated	2011 RM'000 Restated
At 1 January, as previously stated	(6,888)	4,105	4,105
Prior year adjustment (Note 40)	16,201	14,411	-
At 1 January, as restated	9,313	18,516	4,105
Recognised in profit or loss (Note s)	(9,433)	(9,331)	14,411
Recognised in equity	16,078	128	-
At 31 December	15,958	9,313	18,516
	2013 RM'000	Group and Bank 2012 RM'000 Restated	2011 RM'000 Restated
Presented after appropriate offsetting as follows:			
Deferred tax assets	32,798	25,561	35,071
Deferred tax liabilities	(16,840)	(16,248)	(16,555)
	15,958	9,313	18,516

39. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2013 (cont'd.)

(I) 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:

Group and Bank	Collective impairment allowance RM'000	Unabsorbed business losses and capital allowance RM'000	Provision RM'000	MTM revaluation on bonds RM'000	Total RM'000
At 1 January 2013	16,213	7,730	1,618	-	25,561
Recognised in profit or loss	(5,281)	(4,064)	504	-	(8,841)
Recognised in equity	-	-	-	16,078	16,078
At 31 December 2013	10,932	3,666	2,122	16,078	32,798
At 1 January 2012	13,842	15,301	5,928	-	35,071
Recognised in profit or loss	2,371	(7,571)	(4,310)	-	(9,510)
Recognised in equity	-	-	-	-	-
At 31 December 2012	16,213	7,730	1,618	-	25,561

39. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2013 (cont'd.)

(I) Deferred tax (cont'd.)

Deferred tax liabilities of the Group and Bank:

	MTM revaluation on bonds RM'000	Property and equipment RM'000	Total RM'000
At 1 January 2013, as previously stated	-	(32,449)	(32,449)
Prior year adjustment (Note 40)	(135)	16,336	16,201
At 1 January 2013, as restated	(135)	(16,113)	(16,248)
Recognised in profit or loss	-	(592)	(592)
Recognised in equity	-	-	-
At 31 December 2013	(135)	(16,705)	(16,840)
At 1 January 2012, as previously stated	-	(30,966)	(30,966)
Prior year adjustment (Note 40)	(263)	14,674	14,411
At 1 January 2012, as restated	(263)	(16,292)	(16,555)
Recognised in profit or loss	-	179	179
Recognised in equity	128	-	128
At 31 December 2012	(135)	(16,113)	(16,248)

39. Islamic banking business (cont'd.)

Notes to the financial statements
for the financial year ended 31 December 2013 (cont'd.)

(m) Income from Islamic banking business

	Group and Bank	
	2013	2012
	RM'000	RM'000
Income from advances and financing		
- Bai Bithaman Ajil	105,549	65,897
- Ijarah	17,916	17,129
- Bai' Istisna	23,100	16,957
- Ijarah Thuma Al-Bai	8,627	8,749
- Murabahah Dayn	12,544	8,060
- Mali	15,083	9,736
- Bai' Dayn	4,572	2,948
- Maluk	72	134
- Bai' Murabahah	2,715	1,669
- I-cash	2,349	1,723
- Others	521	1,540
	193,048	134,542
Mudharabah deposit acceptance	36,110	52,474
Available-for-sale financial investments	47,255	20,078
Held-to-maturity financial investments	12,808	7,809
Other income (Note 35(n))	17,659	31,693
	306,880	246,596



39. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2013 (cont'd.)

(n) Other income

	Group and Bank	
	2013	2012
	RM'000	RM'000
Fee income	9,251	7,006
Rental income	8,727	7,961
Government funds released	(443)	16,665
Others	124	61
	<u>17,659</u>	<u>31,693</u>

(o) Profit expense attributable to Islamic banking business

	Group and Bank	
	2013	2012
	RM'000	RM'000
Mudharabah deposit acceptance	19,763	56,149
Deposits from other financial institutions	1,130	78
Medium term note	18,225	7,040
Long term financing	8,798	6,690
Commodity murabahah	49,640	-
Others	3,245	94
	<u>100,801</u>	<u>70,051</u>

(p) Profit equalisation reserve ("PER")

	Group and Bank	
	2013	2012
	RM'000	RM'000
Provided during the year	868	5,049
Utilised during the year	(4,105)	-
	<u>(3,237)</u>	<u>5,049</u>

Profit equalisation reserve at the end of the financial year of which the shareholder's portion is RM403,000 (2012: RM1,009,000).

Under the new BNM PER Guideline, the PER of the Bank is to be classified as a separate reserve in equity.

39. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2013 (cont'd.)

(q) Other operating expenses

	Group and Bank	
	2013	2012
	RM'000	RM'000
Personnel expenses	72,298	42,484
Establishment related expenses	18,899	12,842
Promotion and marketing expenses	3,191	2,609
Administration and general expenses	17,300	16,472
	<u>111,688</u>	<u>74,407</u>

(r) Allowance/ (writeback) for impairment on advances and financing

	Group and Bank	
	2013	2012
	RM'000	RM'000
Allowance for advances and financing during the year		
- Individual assessment allowance	51,546	67,122
- Collective assessment allowance	114,466	44,560
	<u>166,012</u>	<u>111,682</u>
Writeback for advances and financing during the year		
- Individual assessment allowance	(27,924)	(51,547)
- Collective assessment allowance	(118,447)	(22,007)
	<u>(146,371)</u>	<u>(73,554)</u>
Advances and financing written-off	16,734	24,649
Advances and financing waived	313	-
Recoveries from advances and financing written-off	(15,347)	(23,077)
	<u>21,341</u>	<u>39,700</u>

39. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2013 (cont'd.)

(s) Tax expense

Income tax:

Income tax expense for the year
Over provision in prior years

Deferred tax:

Origination or reversal of temporary differences
Under recognition of deferred tax assets in prior year

Group and Bank	
2013	2012
RM'000	RM'000
-	-
-	(2,034)
-	(2,034)
19,592	9,331
(10,159)	-
9,433	7,297

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2012: 25%) of the estimated assessable profit for the year.

Tax savings during the current financial year arising from utilisation of the following items:

Utilisation of tax losses brought forward from previous year
Utilisation of capital allowances

Group and Bank	
2013	2012
RM'000	RM'000
12,256	30,172
1,603	3,169
13,859	33,341

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

Profit before taxation and zakat
Income tax at 25% (2012:25%)
Non-deductible expenses
Non-taxable income
Tax exempt income
Over provision of tax expenses in prior years
Under recognition of deferred tax asset in prior years
Tax expense for the year

Group and Bank	
2013	2012
RM'000	RM'000
76,287	57,389
19,072	14,347
745	6,707
(225)	(5,527)
-	(6,196)
-	(2,034)
(10,159)	-
9,433	7,297

39. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2013 (cont'd.)

(t) Zakat

	Group and Bank	
	2013	2012
	RM'000	RM'000
Zakat for the year	1,600	1,110
Under/(over provision) of zakat expenses in prior year	1,246	(2,270)
	2,846	(1,160)

(u) Commitments

	Group and Bank	
	2013	2012
	RM'000	RM'000
Direct credit substitutes	191,393	209,624
Transaction-related-contingent items	242,088	182,527
Irrevocable commitments to extend credit:		
- maturity exceeding one year	92,724	99,348
- maturity not exceeding one year	870,033	741,752
	1,396,238	1,233,251

(v) Capital adequacy

Capital management

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

	2013	Bank	2011
	RM'000	2012	RM'000
		RM'000	RM'000
<u>Tier I Capital</u>			
Capital funds	550,564	550,5645	50,564
Retained profit/(Accumulated losses)	46,507	(18,107)	(68,350)
Less: Deferred tax assets	(32,798)	(25,561)	(35,071)
Total Tier I capital	564,273	506,896	447,143



39. Islamic banking business (cont'd.)

Notes to the financial statements
for the financial year ended 31 December 2013 (cont'd.)

(v) Capital adequacy (cont'd.)
Capital management (cont'd.)

	2013 RM'000	Bank 2012 RM'000	2011 RM'000
<u>Tier II Capital</u>			
Collective allowance for advances and financing*	40,403	59,589	32,458
Government funds	<u>159,952</u>	<u>161,005</u>	<u>188,593</u>
Total Tier II capital	<u>200,355</u>	<u>220,594</u>	<u>221,051</u>
Total capital	764,628	727,490	668,194
Less: Investment in subsidiaries	<u>(500)</u>	<u>-</u>	<u>-</u>
Total capital base	<u>764,128</u>	<u>727,490</u>	<u>668,194</u>

* The eligible amounts for Tier II Capital is only limited to the excess of total collective allowances over the identifiable incurred losses in the collective allowance pool.

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

	2013 RM'000	Bank 2012 RM'000	2011 RM'000
10%	500	500	500
20%	240,995	274,138	243,430
50%	36,801	39,263	27,337
100%	<u>4,297,921</u>	<u>2,955,542</u>	<u>2,257,693</u>
	<u>4,576,217</u>	<u>3,269,443</u>	<u>2,528,960</u>
Before deducting proposed dividends:			
Core capital ratio	12.33%	15.50%	17.68%
Risk-weighted capital ratio	<u>16.70%</u>	<u>22.25%</u>	<u>26.42%</u>
After deducting proposed dividends:			
Core capital ratio	12.27%	15.42%	17.68%
Risk-weighted capital ratio	<u>16.64%</u>	<u>22.17%</u>	<u>26.42%</u>

40. Prior year adjustments and reclassifications

(i) Prior year adjustments

During the current financial year, the following prior year adjustments were made:

(a) Deferred tax liabilities

Overstatement of deferred tax liabilities in prior years due to the inclusion of assets that do not give rise to taxable temporary difference.

(b) Collective allowance ('CA')

The collective allowance on loans under the Islamic banking business were understated in prior years.

(ii) Reclassifications

The presentation and classification of items in the current year's financial statements have been consistent with the previous financial year except for the following comparative amounts which have been reclassified to conform with the current year's presentation:

(a) Profit/interest in suspense on written off loans

The gross loans, advances and financing and the related individual allowance ("IA") have been understated due to the inclusion of profit/interest in suspense on written off loans.

(b) Presentation of interest receivables and interest payables

Interest receivables and interest payables were reclassified and presented within their respective principal balances.



40. Prior year adjustments and reclassifications (cont'd.)

Statement of financial position

	Group			As restated RM'000
	As previously stated RM'000	As at 31 December 2012 Prior year adjustment RM'000	Reclassification RM'000	
ASSETS				
Cash and short term funds institutions	1,462,147	-	427,507	1,889,654
Deposits and placements with banks and other financial institutions	867,028	-	(414,074)	452,954
Other assets	87,478	-	(13,433)	74,045
Property, plant and equipment	147,778	-	(9,161)	138,617
Intangible asset	-	-	9,161	9,161
Deferred tax	16,596	26,553	-	43,149
LIABILITIES				
Deposits from customers	2,293,395	-	22,541	2,315,936
Deposits from other financial institutions	325,000	-	524	325,524
Medium term note	500,000	-	7,040	507,040
Term loans	3,078,091	-	33,545	3,111,636
Other liabilities	228,945	-	(63,650)	165,295
EQUITY				
Accumulated losses	(331,616)	26,777	-	(304,839)
Other reserves	12,018	(224)	-	11,794

40. Prior year adjustments and reclassifications (cont'd.)

Statement of financial position

	As previously stated RM'000	Bank As at 31 December 2012		As restated RM'000
		Prior year adjustment RM'000	Reclassification RM'000	
ASSETS				
Cash and short term funds institutions	1,461,752	-	427,507	1,889,259
Deposits and placements with banks and other financial institutions	867,028	-	(414,074)	452,954
Other assets	86,789	-	(13,433)	73,356
Property, plant and equipment	147,778	-	(9,161)	138,617
Intangible asset	-	-	9,161	9,161
Deferred tax	16,596	26,553	-	43,149
LIABILITIES				
Deposits from customers	2,293,395	-	22,541	2,315,936
Deposits from other financial institutions	325,000	-	524	325,524
Medium term note	500,000	-	7,040	507,040
Term loans	3,078,091	-	33,545	3,111,636
Other liabilities	228,170	-	(63,650)	164,520
EQUITY				
Accumulated losses	(338,496)	26,777	-	(311,719)
Other reserves	12,018	(224)	-	11,794



40. Prior year adjustments and reclassifications (cont'd.)

Statement of comprehensive income

	Group			
	As previously stated RM'000	As at 31 December 2012		As restated RM'000
		Prior year adjustment RM'000	Reclassification RM'000	
Interest income	141,540	-	1,374	142,914
Gross income from Islamic banking business	170,298	-	1,198	171,496
Allowance for impairment loss:				
- loans, advances and financing	(11,657)	-	(2,572)	(14,229)
Tax expense	(15,401)	2,725	-	(12,676)
Income tax relating to components of other comprehensive income	-	395	-	395
	<hr/>			<hr/>
	Bank			
	As previously stated RM'000	As at 31 December 2012		As restated RM'000
		Prior year adjustment RM'000	Reclassification RM'000	
Interest income	141,540	-	1,374	142,914
Gross income from Islamic banking business	170,298	-	1,198	171,496
Allowance for impairment loss:				
- loans, advances and financing	(11,657)	-	(2,572)	(14,229)
Tax expense	(14,649)	2,725	-	(11,924)
Income tax relating to components of other comprehensive income	-	395	-	395
	<hr/>			<hr/>

40. Prior year adjustments and reclassifications (cont'd.)

Statement of financial position (cont'd.)

	Group			
	As previously stated RM'000	As at 31 December 2011		As restated RM'000
		Prior year adjustment RM'000	Reclassification RM'000	
ASSETS				
Cash and short term funds	3,347,701	-	9,446	3,357,147
Deposits and placements with banks and other financial institutions	64,648	-	505	65,153
Other assets	130,620	-	(9,951)	120,669
Deferred tax	34,613	23,433	-	58,046
LIABILITIES				
Deposits from customers	3,153,347	-	12,748	3,166,095
Term loans	3,413,674	-	44,800	3,458,474
Other liabilities	187,552	-	(57,548)	130,004
EQUITY				
Accumulated losses	(404,429)	24,052	-	(380,377)
Other reserves	12,591	(619)	-	11,972
Bank				
	As previously stated RM'000	As at 31 December 2011		As restated RM'000
		Prior year adjustment RM'000	Reclassification RM'000	
ASSETS				
Cash and short term funds	3,347,701	-	9,446	3,356,639
Deposits and placements with banks and other financial institutions	64,648	-	505	65,153
Other assets	130,620	-	(9,951)	120,073
Deferred tax	34,613	23,433	-	58,046
LIABILITIES				
Deposits from customers	3,153,347	-	12,748	3,166,095
Term loans	3,413,674	-	44,800	3,458,474
Other liabilities	179,731	-	(57,548)	122,183
EQUITY				
Accumulated losses	(446,945)	24,052	-	(422,893)
Other reserves	12,591	(619)	-	11,972



40. Prior year adjustments and reclassifications (cont'd.)

Statement of financial position (cont'd.)

Islamic banking business

	Group and Bank As at 31 December 2012			As restated RM'000
	As previously stated RM'000	Prior year adjustment RM'000	Reclassification RM'000	
ASSETS				
Cash and short term funds	848,639	-	252,382	1,101,021
Deposits and placements with banks and other financial institutions	506,663	-	(245,810)	260,853
Advances and financing	2,433,918	(26,690)	-	2,407,228
- Gross advances and financing	2,522,203	-	17,493	2,539,696
- Individual assessment allowance	(45,674)	236	(17,493)	(62,931)
- Collective assessment allowance	(42,611)	(26,926)	-	(69,537)
Other assets	19,804	-	(6,572)	13,232
Deferred tax asset	-	9,313	-	9,313
LIABILITIES				
Deposit acceptance	1,189,534	-	8,042	1,197,576
Deposits from other financial institutions	50,000	-	78	50,078
Medium term note	500,000	-	7,040	507,040
Long term financing	1,039,623	-	23,493	1,063,116
Other liabilities	1,617,748	(15,380)	(38,653)	1,563,715
Deferred tax liabilities	6,888	(6,888)	-	-
EQUITY				
Accumulated losses	(23,133)	-	5,026	(18,107)
Other reserves	1,547	-	(135)	1,412

40. Prior year adjustments and reclassifications (cont'd.)

Statement of comprehensive income (cont'd.)

Islamic banking business (cont'd.)

	Group and Bank			As restated RM'000
	As at 31 December 2012			
	As previously stated RM'000	Prior year adjustment RM'000	Reclassification RM'000	
Income from Islamic banking business	245,398	-	1,198	246,596
Gross income from Islamic banking business	170,298	-	1,198	171,496
Allowance for impairment on advances and financing	(25,083)	(13,419)	(1,198)	(39,700)
Tax expense	(8,959)	1,662		(7,297)
Income tax relating to components of other comprehensive income	-	128	-	128




40. Prior year adjustments and reclassifications (cont'd.)

Statement of financial position (cont'd.)

Islamic banking business (cont'd.)

	Group and Bank As at 31 December 2011			As restated RM'000
	As previously stated RM'000	Prior year adjustment RM'000	Reclassification RM'000	
ASSETS				
Cash and short term funds	1,183,848	-	3,188	1,187,036
Deposits and placements with banks and other financial institutions	26,198	-	125	26,323
Advances and financing	1,953,956	4,314	-	1,958,270
- Gross advances and financing	2,097,264		6,686	2,103,950
- Individual assessment allowance	(92,010)		(6,686)	(98,696)
- Collective assessment allowance	(51,298)	4,314		(46,984)
Other assets	9,887	-	(3,313)	6,574
Deferred tax	4,105	14,411	-	18,516
LIABILITIES				
Deposit acceptance	1,233,301	-	4,125	1,237,426
Long term financing	699,716	-	7,244	706,960
Other liabilities	1,220,992	2,205	(11,369)	1,211,828
EQUITY				
Accumulated losses	(85,133)	16,783	-	(68,350)
Other reserves	1,051	(263)	-	788

This page intentionally left blank



Small Medium Enterprise Development Bank Malaysia Berhad (49572-H)

(Formerly known as Bank Perusahaan Kecil & Sederhana Malaysia Berhad)

Menara SME Bank, Jalan Sultan Ismail, PO Box 12352, 50774 Kuala Lumpur

Tel: +603 2615 2020, +603 2615 2828 Fax: +603 2692 8520, +603 2698 1748

www.smebank.com.my