

Sumitomo Mitsui Banking Corporation

Malaysia Berhad

(Company No. 926374-U)

(Incorporated in Malaysia)

**Financial statements for the year
ended 31 March 2012**

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

Directors' report for the year ended 31 March 2012

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

Principal activities

The Bank is principally engaged in the provision of banking and related financial services. There has been no significant change in the nature of these activities during the financial year.

Results

	RM'000
Profit before taxation	5,590
Tax expense	(1,327)
Profit for the year	<u>4,263</u>

Dividends

Since the end of the previous financial period, no dividend was paid and the Directors do not recommend any dividend to be paid for the financial year.

Reserves and provisions

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

Bad and doubtful debts and financing

Before the statements of financial position and statements of comprehensive income of the Bank were made out, the Directors took reasonable steps to ascertain that adequate provision made for impaired loans, advances and financing.

At the date of this report, the Directors are not aware of any circumstances, which would render the amount of the provision for impaired loans, advances and financing in the Bank inadequate to any substantial extent.

Current assets

Before the statements of financial position and statements of comprehensive income of the Bank were made out, the Directors took reasonable steps to ascertain that the value of any current assets, other than debts and financing, which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances, which would render the value attributed to the current assets in the financial statements of the Bank misleading.

Valuation methods

At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Bank misleading or inappropriate.

Contingent and other liabilities

At the date of this report, there does not exist:

- i) any charge on the assets of the Bank that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) any contingent liability in respect of the Bank that has arisen since the end of the financial year.

No contingent liability or other liability of the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Bank to meet their obligations as and when they fall due.

Change of circumstances

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Bank, that would render any amount stated in the financial statements misleading.

Items of an unusual nature

In the opinion of the Directors, the financial performance of the Bank for the financial year ended 31 March 2012 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Company No. 926374-U

Directors

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

Hitoshi Suyama
 Masayuki Shimura
 Lim Choon Eng
 Razman Hafidz bin Abu Zarim
 Hiroshi Irie (appointed on 19 September 2011)
 Yuichi Hirano (resigned on 19 September 2011)

Directors' interests in shares

The interests and deemed interests in the shares of the Bank and of its related corporations of those who were Directors at financial year end as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares*			At 31.3.2012
	At 1.4.2011	Bought	Sold	
Ultimate holding company				
Sumitomo Mitsui Financial Group				
- Hitoshi Suyama	1,118	184	-	1,302

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

None of the other Directors holding office at the end of the financial year had any interest in the ordinary shares of the Bank and of its related corporations during the financial year.

Directors' benefits

Since the date of the last financial period end, no Director of the Bank has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full-time employee of the Bank) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

Compliance with Bank Negara Malaysia's expectation on Financial Reporting

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

Bank ratings

The Bank has not been rated by any external agencies.

Issue of shares and debentures

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

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Bank during the financial year.

Holding companies

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

Business Results for the financial year ended 31 March 2012

The Bank recorded a profit before taxation of RM5.6 million for the financial year ended 31 March 2012. Net interest income for the year was RM14.9 million, generated mainly from interest income from interbank lending of RM19.7 million, net of interest expense incurred on deposits from customers of RM10.2 million.

Other operating income of RM36.3 million is attributed mainly from foreign exchange gains and mark to market gain on revaluation of derivatives. Personnel costs, information systems and equipment cost together with operations and systems outsourcing expense make up the bulk of other operating expenses of RM40.0 million. Increase in allowance for impairment on loans, advances and financing of RM5.5 million is the collective impairment provision made for loan base.

The Bank's total assets stood at RM1,418 million as at 31 March 2012, comprised mainly of interbank lending and loans disbursed to customers, derived from its paid-up capital and increase in deposits from customers and interbank borrowing.

Business Results for the financial year ended 31 March 2012 (continued)

As at 31 March 2012, the Bank's core capital ratio and risk-weighted capital ratio stood high at 40.63% and 41.27% respectively.

Since the commencement of operation on 11 April 2011, the Bank has successfully built up its customer base especially for Japanese corporates.

Outlook for the financial year ending 31 March 2013

Malaysia's GDP is expected to grow moderately at 4%-5% in 2012 despite the uncertainties arising from the sovereign debt crisis in Europe. The Bank foresees that the growth of Malaysian banking industry to also remain stable for coming few years. For the financial year ending 31 March 2013, the Bank will continue to offer basic commercial banking services such as loan, deposit, foreign exchange, derivatives and cash management service to both Japanese and Non-Japanese clients. In order to grow sustainably, the Bank needs to strengthen its base income by capturing the flow of business of the clients. The Bank continues to make efforts to support the trade and investment between Japan and Malaysia which will contribute to further growth of Malaysian economy.

Corporate governance

The Board of Directors

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

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

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

Mr Hitoshi Suyama, aged 50, was appointed as the CEO of the Bank on 16 March 2011. He holds a Bachelor of Arts from Jochi (Sophia) University in Japan.

Mr Masayuki Shimura, aged 53, was appointed as a Director and Chairman of the Bank on 16 March 2011. He resigned as Chairman of the Bank on 20 March 2012. He graduated from the Faculty of Economics from the University of Tokyo, Japan.

Mr Yuichi Hirano resigned as a director of the Bank on 19 September 2011.

Mr Hiroshi Irie, aged 47, was appointed as a Director on 19 September 2011. He holds a Bachelor of Economics from Kyushu University in Japan.

Mr Razman Hafidz bin Abu Zarim, aged 56, was appointed as a Director on 16 March 2011 and as the Chairman of the Bank on 20 March 2012. He is also the Chairman of the Audit Committee and Nominating Committee. He graduated with a Joint Honours degree in Economics and Accounting from University College Cardiff, University of Wales in United Kingdom.

Mr Lim Choon Eng, aged 53, was appointed as a Director on 16 March 2011. He holds a Master of Applied Finance from Macquarie University in Sydney, Australia. He also holds a Bachelor of Economics from Sydney University in Australia. He is the Chairman of the Risk Management Committee and Remuneration Committee.

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

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Corporate governance (continued)

The Board of Directors (continued)

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

Roles and responsibilities of the Board

The Board reviews and approves strategies, business plans and significant policies and monitor the Management's execution in implementing the approved strategies, plans and policies. The Board ensures that there are adequate controls and systems in place to facilitate the implementation of the Bank's policies. The Bank establishes comprehensive risk management policies, processes and infrastructure, to manage the various types of risks. The Board monitors and assesses current developments in the country which may affect the Bank's strategic plans.

The Board reviews the adequacy and the integrity of the Bank's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

The Board approves corporate strategy, business plans, annual budget and policies.

Performance criteria used to assess the Board as a whole

The Board has established a performance evaluation mechanism to assess the effectiveness of the Board, the Board Committee and each Director's contribution annually. The effectiveness of the Board is measured against the Bank's performance including profitability, internal controls, and risk management.

Frequency and conduct of Board meetings

Meetings are conducted not less than six times a year to discuss key issues of the Bank including review of the financial performance, operations and risk management of the Bank and to deliberate on matters which require the Board's decision and approval.

A total of seven meetings were held during the financial year ended 31 March 2012 as reflected below:-

Name of Director	Number of Meetings	
	Held	Attended
Razman Hafidz bin Abu Zarim – Chairman	7	7
Masayuki Shimura	7	7
Hitoshi Suyama	7	7
Lim Choon Eng	7	7
Hiroshi Irie (appointed on 19.9.2011)	5	5

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Corporate governance (continued)

Board Committees

The Board established the Nominating Committee, Remuneration Committee, Audit Committee and Risk Management Committee to assist the Board oversee critical and major functional areas of the Bank.

The functions and terms of reference of Board Committees have been approved by the Board.

Nominating Committee (NC)

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

The NC held 2 meetings during the financial year.

The details of attendance of each member at the NC Meetings held during the financial year ended 31 March 2012 are as follows:-

Name of Director	Number of Meetings	
	Held	Attended
Razman Hafidz bin Abu Zarim - Chairman	2	2
Masayuki Shimura	2	2
Lim Choon Eng	2	2
Hitoshi Suyama	2	2
Hiroshi Irie (appointed on 19.9.2011)	1	1

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

The functions and responsibilities of the NC are:

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

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Corporate governance (continued)

Board Committees (continued)

Remuneration Committee (RC)

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

The RC held one meeting during the financial year.

The details of attendance of each member at the RC Meetings held during the financial year ended 31 March 2012 are as follows:-

Name of Director	Number of Meetings	
	Held	Attended
Lim Choon Eng - Chairman	1	1
Masayuki Shimura	1	1
Razman Hafidz bin Abu Zarim	1	1
Hiroshi Irie (appointed on 19.9.2011)	N/A	N/A

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

The functions and responsibilities of the RC are:

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

Audit Committee (AC)

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

The AC held 5 meetings during the financial year.

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Corporate governance (continued)

Board Committees (continued)

Audit Committee (AC) (continued)

The details of attendance of each member at the AC Meetings held during the financial year ended 31 March 2012 are as follows:-

Name of Director	Number of Meetings	
	Held	Attended
Razman Hafidz bin Abu Zarim - Chairman	5	5
Lim Choon Eng	5	5
Hiroshi Irie (appointed on 19.9.2011)	4	4

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

The functions and responsibilities of the AC are:

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

Related Party Transactions

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

External Experts

The AC has the ability to engage external experts in circumstances where the internal audit function lacks the expertise needed to perform the audit of specialized areas and to ensure that the independence of the external auditor in its role as statutory auditor of the Bank is not compromised if the external auditor is engaged.

Internal audit and control activities

Internal Audit is independent and staffed with qualified internal audit personnel to perform the internal audit functions, covering the financial and management audit. The AC oversees the functions of the Internal Audit department and ensures compliance with BNM/Guidelines on Internal Audit Functions of Licensed Institutions.

Corporate governance (continued)

Board Committees (continued)

Internal audit and control activities (continued)

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

1. develop a flexible annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by Management and submit that plan to the Audit Committee for review and approval;
2. implement the approved annual audit plan, including, any special appropriate tasks or projects requested by the Management and directed by the Audit Committee;
3. maintain clearly documented audit programs to provide guidance to auditors in gathering information, documenting procedures performed and making assessment;
4. maintain a team of professional audit staff with sufficient knowledge, skills and experience to meet the requirements of this charter;
5. issue written audit reports to the Audit Committee and Management, detailing the audit findings and recommendations as well as the client's responses and action plans in a timely manner after the completion of the audit;
6. monitor progress of rectification actions on findings raised taking into consideration the timeline committed by Management; and
7. conduct investigation on suspected fraudulent activities when required and notify Management and the Audit Committee of the results.

Risk Management Committee (RMC)

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

The RMC held 5 meetings during the financial year.

The details of attendance of each member at the RMC Meetings held during the financial year ended 31 March 2012 are as follows:-

Name of Director	Number of Meetings	
	Held	Attended
Lim Choon Eng - Chairman	5	5
Masayuki Shimura	5	5
Razman Hafidz bin Abu Zarim	5	5
Hiroshi Irie (appointed on 19.9.2011)	4	4

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

Corporate Governance (continued)

Board Committees (continued)

Overall Risk Management Framework

The functions and responsibilities of the RMC are:

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

The outline for risk management is as follows:-

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

The Bank established its management committee to determine the operational issues for the Bank's overall risk management and to complete the necessary management and decision making process within the Bank.

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Significant event during the reporting period

On 11 April 2011, the Bank commenced its banking and related financial services operations.

Auditors

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

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

.....
Hitoshi Suyama

.....
Razman Hafidz bin Abu Zarim

Kuala Lumpur

Date:

Sumitomo Mitsui Banking Corporation Malaysia Berhad

(Company No. 926374-U)

(Incorporated in Malaysia)

Statements of financial position as at 31 March 2012

	Note	2012 RM'000	2011 RM'000
Assets			
Cash and short-term funds	3	741,953	331,553
Deposits and placements with banks and other financial institutions	4	251,532	-
Investment securities available-for-sale	5	19,825	-
Loans, advances and financing	6	363,686	-
Derivative financial assets	30	18,384	-
Other assets	7	10,520	916
Statutory deposits with Bank Negara Malaysia	8	674	-
Plant and equipment	9	11,551	13,220
Deferred tax assets	22	236	-
Total assets		<u>1,418,361</u>	<u>345,689</u>
Liabilities			
Deposits from customers	10	876,464	-
Deposits and placements of banks and other financial institutions	11	173,156	-
Bills and acceptances payable		2,973	-
Derivative financial liabilities	30	8,336	-
Other liabilities	12	7,256	72
Tax payable		381	80
Total liabilities		<u>1,068,566</u>	<u>152</u>
Equity			
Share capital	13	350,000	350,000
Reserves	14	(205)	(4,463)
Total equity attributable to equity holder of the Bank		<u>349,795</u>	<u>345,537</u>
Total liabilities and equity		<u>1,418,361</u>	<u>345,689</u>
Commitments and contingencies	27	<u>1,532,484</u>	<u>-</u>

The notes on pages 19 to 72 are an integral part of these financial statements.

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Statements of comprehensive income for the year ended 31 March 2012

	Note	1.4.2011 to 31.3.2012 RM'000	22.12.2010 to 31.3.2011 RM'000
Interest income	15	27,522	-
Interest expense	16	(12,664)	-
Net interest income		14,858	-
Other operating income	17	36,257	342
Net operating income		51,115	342
Other operating expenses	18	(39,986)	(4,725)
Operating profit / (loss)		11,129	(4,383)
Provision for loans, advances and financing	20	(5,539)	-
Profit / (loss) before taxation		5,590	(4,383)
Tax expense	21	(1,327)	(80)
Profit / (loss) after taxation		4,263	(4,463)
Other comprehensive income for the year/ period, net of income tax			
Fair value changes of investment securities available-for-sale		(5)	-
Total comprehensive income / (loss) for the year / period		4,258	(4,463)
Basic earnings / (loss) per share (sen)	23	1.22	(1.28)

The notes on pages 19 to 72 are an integral part of these financial statements.

Sumitomo Mitsui Banking Corporation Malaysia Berhad

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Statement of changes in equity for the year ended 31 March 2012

	← Non-distributable reserves →			Distributable reserves	Total RM'000
	Share Capital RM'000	Statutory reserve RM'000	Available-for- sale reserve RM'000	Accumulated losses RM'000	
At 22 December 2010 (date of incorporation)	*	-	-	-	*
Issue of shares	350,000	-	-	-	350,000
Net loss for the period	-	-	-	(4,463)	(4,463)
Total comprehensive loss for the period	-	-	-	(4,463)	(4,463)
At 31 March 2011 / 1 April 2011	350,000	-	-	(4,463)	345,537
Profit for the year	-	-	-	4,263	4,263
Fair value of available-for-sale financial assets	-	-	(5)	-	(5)
Total comprehensive income for the year	-	-	(5)	4,263	4,258
Transfer to statutory reserve	-	2,132	-	(2,132)	-
At 31 March 2012	350,000	2,132	(5)	(2,332)	349,795

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

The notes on pages 19 to 72 are an integral part of these financial statements.

Sumitomo Mitsui Banking Corporation Malaysia Berhad

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Statements of cash flows for the year ended 31 March 2012

	1.4.2011 to 31.3.2012 RM'000	22.12.2010 to 31.3.2011 RM'000
Cash flows from operating activities		
Profit/ (Loss) from ordinary activities before taxation	5,590	(4,383)
Adjustments for:		
Depreciation of property and equipment	2,871	285
Loan loss provision	5,539	-
Equipment written off	2	-
Accretion of discount on debt securities	(42)	-
Operating profit before working capital changes	<u>13,960</u>	<u>(4,098)</u>
Increase in operating assets		
Deposits and placements from banks and other financial institutions	(251,532)	-
Loans and advances	(369,225)	-
Derivative financial instruments	(10,048)	-
Other assets	(9,604)	(916)
Statutory deposit with Bank Negara Malaysia	(674)	-
Increase in operating liabilities		
Deposits from customers	876,464	-
Deposits and placements of banks and other financial institutions	173,156	-
Bills and acceptances payable	2,973	-
Other liabilities	7,184	72
Cash generated from / (used in) operating activities	<u>432,654</u>	<u>(4,942)</u>
Taxation paid	(1,260)	-
Net cash generated from / (used in) operating activities	<u>431,394</u>	<u>(4,942)</u>
Cash flows from investing activities	(1,204)	(13,505)
Purchase of securities available-for-sale	(19,790)	-
Net cash used in investing activities	<u>(20,994)</u>	<u>(13,505)</u>
Cash flows from financing activities		
Proceeds from issuance of shares	-	350,000
Net cash generated from financing activities	<u>-</u>	<u>350,000</u>

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Statements of cash flows for the year ended 31 March 2012

(continued)

	1.4.2011 to 31.3.2012 RM'000	22.12.2010 to 31.3.2011 RM'000
Net increase in cash and cash equivalents during the financial year	410,400	331,553
Cash and cash equivalents at beginning of the financial year / period	331,553	-
Cash and cash equivalents at end of financial year / period	<u>741,953</u>	<u>331,553</u>

The notes on pages 19 to 72 are an integral part of these financial statements.

Sumitomo Mitsui Banking Corporation Malaysia Berhad

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Notes to the financial statements for the year ended 31 March 2012

Sumitomo Mitsui Banking Corporation Malaysia Berhad is a public limited company, incorporated and domiciled in Malaysia. The address of its registered office and principal place of business is Level 51, Vista Tower, The Intermark, No. 348, Jalan Tun Razak, 50400 Kuala Lumpur.

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

The immediate and ultimate holding companies during the financial year are Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Financial Group respectively. Both companies were incorporated in Japan.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 31 May 2012.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with the Companies Act, 1965 in Malaysia, Financial Reporting Standards (FRS) issued by the Malaysian Accounting Standards Board (MASB) as modified by Bank Negara Malaysia Guidelines and, accounting principles generally accepted in Malaysia.

The Bank has not applied the following accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective for the Bank:

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2011

- IC Interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*
- Amendments to IC Interpretation 14, *Prepayments of a Minimum Funding Requirement*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2012

- FRS 124, *Related Party Disclosures* (revised)
- Amendments to FRS 1
- Amendments to FRS 7
- Amendments to FRS 12

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2012

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

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013

- FRS 10, *Consolidated Financial Statements*
- FRS 11, *Joint Arrangements*
- FRS 12, *Disclosure of Interests in Other Entities*
- FRS 13, *Fair Value Measurement*
- FRS 119, *Employee Benefits* (2011)
- FRS 127, *Separate Financial Statements* (2011)
- FRS 128, *Investments in Associates and Joint Ventures* (2011)
- IC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*
- Amendments to FRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014

- Amendments to FRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2015

- FRS 9, *Financial Instruments* (2009)
- FRS 9, *Financial Instruments* (2010)
- Amendments to FRS 7, *Financial Instruments: Disclosures – Mandatory Date of FRS 9 and Transition Disclosures*

The Bank's financial statements for annual period beginning on 1 April 2012 will be prepared in accordance with the Malaysian Financial Reporting Standards (MFRSs) issued by the MASB and International Financial Reporting Standards (IFRSs). As a result, the Bank will not be adopting the above FRSs, interpretation and amendments.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis other than as disclosed in note 2(b)(ii).

(c) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia (RM), which is the Bank's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

1. Basis of preparation (continued)

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with FRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements used in applying accounting policies that have significant effect on the amount recognised in the financial statements other than those disclosed in the following notes:

- Note 5 - Investment securities available-for-sale
- Note 30 - Fair value of financial assets and financial liabilities

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and have been applied consistently by the Bank, unless otherwise stated.

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

2. Significant accounting policies (continued)

(b) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Bank becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial instrument categories and subsequent measurement

The Bank categorises and measures financial instruments as follows:

Financial assets

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

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss. Interest income from the financial assets held for trading, calculated using effective interest method, is recognised in profit or loss.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

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

Financial assets (continued)

(b) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market. Financial assets classified under this category includes cash and short-term funds, deposits and placements with banks and other financial institutions, loans, advances and financing and other assets.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

(c) Available-for-sale financial assets

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see note 2(f)(i)).

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

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

Financial liabilities

The financial liabilities of the Bank include deposits from customers, deposits and placements of banks and other financial institutions, bills and acceptances payable, financial derivatives and other liabilities.

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are held for trading, derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are classified as deferred income and are amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

(iv) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

- (a) the recognition of an asset to be received and the liability to pay for it on the trade date; and
- (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

(v) Hedge accounting

Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the profit or loss.

In a fair value hedge, the gain or loss from remeasuring the hedging instrument at fair value or the foreign currency component of its carrying amount translated at the exchange rate prevailing at the end of the reporting period is recognised in profit or loss. The gain or loss on the hedged item, except for hedge item categorised as available-for-sale, attributable to the hedged risk is adjusted to the carrying amount of the hedged item and recognised in profit or loss.

For a hedge item categorised as available-for-sale, the fair value gain or loss attributable to the hedge risk is recognised in profit or loss.

Fair value hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective or the hedge designation is revoked.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

(vi) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(c) Plant and equipment

(i) Recognition and measurement

Items of plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

The gain or loss on disposal of an item of plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and is recognised net within “other income” and “other expenses” respectively in profit or loss.

2. Significant accounting policies (continued)

(c) Plant and equipment (continued)

(ii) Subsequent costs

Cost of replacing a part of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised to profit or loss. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment.

The estimated useful lives for the current and comparative periods are as follows:

- | | |
|------------------------------------|--------------|
| • motor vehicles | 5 years |
| • furniture, fixtures and fittings | 5 - 10 years |
| • computer equipment | 3 years |
| • renovations | 10 years |

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

(d) Operating lease

Leases, where the Bank does not assume substantially all the risks and rewards of ownership are classified as operating leases and the leased assets are not recognised in the statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease.

2. Significant accounting policies (continued)

(e) Cash and short-term funds

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

(f) Impairment

(i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment.

An impairment loss in respect of loans and receivables and held-to-maturity investments is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

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

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale is not reversed through profit or loss.

2. Significant accounting policies (continued)

(f) Impairment (continued)

(i) Financial assets (continued)

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(ii) Other assets

The carrying amounts of other assets (except for deferred tax assets) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets (known as cash-generating unit).

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Impairment losses are recognised in profit or loss. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

2. Significant accounting policies (continued)

(g) Employee benefits

(i) Short term employee benefits

Short term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimate reliably.

(ii) State plans

The Bank's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Once the contributions have been paid, the Bank has no further payment obligations.

(h) Provisions and contingent liabilities

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

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits remote.

(i) Revenue and other income

(i) Interest income

Interest income is recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

2. Significant accounting policies (continued)

(i) Revenue and other income (continued)

(i) Interest income (continued)

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

(ii) Fees and other income

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

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

(j) Tax expense

Tax expense comprises current and deferred tax. Tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax expense is the expected tax payable on the taxable income using tax rates enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, on temporary differences arising between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

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

2. Significant accounting policies (continued)

(j) Tax expense (continued)

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

A tax incentive that is not a tax base of an asset is recognised as a reduction of tax expense in profit or loss as and when it is granted and claimed. Any unutilised portion of the tax incentive is recognised as a deferred tax asset to the extent that it is probable that future taxable profits will be available against which the unutilised tax incentive can be utilised.

(k) Earnings per ordinary share

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

3. Cash and short-term funds

	2012 RM'000	2011 RM'000
Cash and balances with banks and other financial institutions	5,769	31,553
Money at call and deposit placements maturing within one month	736,184	300,000
	<u>741,953</u>	<u>331,553</u>

4. Deposits and placements with banks and other financial institutions

	2012 RM'000	2011 RM'000
Licensed Malaysian banks and foreign banks	<u>251,532</u>	<u>-</u>

5. Investments securities available-for-sale

	2012 RM'000	2011 RM'000
At fair value		
Bank Negara Monetary Notes	19,825	-

6. Loans, advances and financing

	2012 RM'000	2011 RM'000
(a) By type:		
At amortised cost:		
Syndicated term loans	83,227	-
Other term loans	97,016	-
Revolving credits	188,982	-
Gross loans, advances and financing	369,225	-
Less: Impairment provision		
Collective impairment provision	(5,539)	-
Net loans, advances and financing	363,686	-
(b) By geographical distribution:		
Malaysia	369,225	-
(c) By type of customer:		
Domestic non-bank financial institutions	91,404	-
Domestic business enterprises	277,821	-
	369,225	-
(d) By interest rate sensitivity:		
Fixed rate		
- Other fixed rate loans	26,974	-
Variable rate	342,251	-
	369,225	-
(e) By economic purposes:		
Working Capital	369,225	-

6. Loans, advances and financing (continued)

	2012	2011
	RM'000	RM'000
(f) By sector:		
Primary agriculture	1,003	-
Manufacturing	122,047	-
Electricity, gas and water	153,269	-
Wholesale and retail trade, and restaurants and hotels	1,502	-
Finance, insurance, real estate and business services	91,404	-
	<u>369,225</u>	<u>-</u>
(g) By residual contractual maturity:		
Maturing within one year	279,702	-
One year to three years	89,523	-
	<u>369,225</u>	<u>-</u>
(h) Movements in collective impairment provision on loans, advances and financing:		
At beginning of financial period	-	-
Made during the financial year	5,539	-
At end of financial year/period	<u>5,539</u>	<u>-</u>
(As % of gross loans, advances and financing (net of individual allowance))	<u>1.5%</u>	<u>-</u>

7. Other assets

	2012	2011
	RM'000	RM'000
Interest receivable	790	24
Amount due from related parties	4,095	-
Other receivables, deposits and prepayments	5,635	892
	<u>10,520</u>	<u>916</u>

8. Statutory deposits with Bank Negara Malaysia

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act 1958 (revised 1994) to satisfy the Statutory Reserve Requirement (“SRR”); the amounts of which are determined as set percentages of total eligible liabilities.

9. Plant and equipment

	Renovations RM'000	Computer equipment RM'000	Furniture, fixtures and fittings RM'000	Motor vehicles RM'000	Total RM'000
<i>Cost</i>					
At 22 December 2010 (date of incorporation)	-	-	-	-	-
Additions	5,136	5,109	1,867	1,393	13,505
At 31 March 2011/ 1 April 2011	5,136	5,109	1,867	1,393	13,505
Additions	74	1,030	100	-	1,204
Written off	(2)	-	-	-	(2)
Reclassifications	158	(158)	-	-	-
At 31 March 2012	5,366	5,981	1,967	1,393	14,707
<i>Accumulated depreciation</i>					
At 22 December 2010 (date of incorporation)	-	-	-	-	-
Charge for the period	124	88	54	19	285
At 31 March 2011/ 1 April 2011	124	88	54	19	285
Charge for the year	527	1,805	260	279	2,871
Written off	-	-	-	-	-
Reclassifications	13	(13)	-	-	-
At 31 March 2012	664	1,880	314	298	3,156
<i>Net book value</i>					
At 31 March 2011	5,012	5,021	1,813	1,374	13,220
At 31 March 2012	4,702	4,101	1,653	1,095	11,551

10. Deposits from customers

	2012	2011
	RM'000	RM'000
(a) By type of deposits:		
Demand deposits	473,832	-
Fixed deposits	151,665	-
Short-term deposits	250,967	-
	<u>876,464</u>	<u>-</u>
Maturity structure of fixed deposits is as follows:		
Due within six months	149,665	-
Six months to one year	2,000	-
	<u>151,665</u>	<u>-</u>
(b) By type of customers:		
Domestic non-bank financial institutions	20,281	-
Domestic business enterprises	855,673	-
Foreign non-bank entities	510	-
	<u>876,464</u>	<u>-</u>

11. Deposits and placements of banks and other financial institutions

	2012	2011
	RM'000	RM'000
Licensed banks	80,000	-
Foreign banks	93,156	-
	<u>173,156</u>	<u>-</u>

12. Other liabilities

	2012	2011
	RM'000	RM'000
Interest payable	1,421	-
Amount due to related companies	4,783	7
Other payables and accruals	1,052	65
	<u>7,256</u>	<u>72</u>

13. Share Capital

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

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

Ordinary shares

The holder of ordinary shares is entitled to receive dividends as and when declared by the Bank, after obtaining the regulatory approval from Bank Negara Malaysia prior to the declaration of dividends.

All ordinary shares carry one vote per share at meetings of the Bank and rank equally with regard to the Bank's residual assets.

14. Reserves

	2012 RM'000	2011 RM'000
<i>Non-distributable:</i>		
Statutory reserves	2,132	-
Available-for-sale ("AFS") reserves	<u>(5)</u>	<u>-</u>
	2,127	-
<i>Distributable:</i>		
Accumulated losses	<u>(2,332)</u>	<u>(4,463)</u>
	<u>(205)</u>	<u>(4,463)</u>

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

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

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15. Interest income

	1.4.2011 to 31.3.2012 RM'000	22.12.2010 to 31.3.2011 RM'000
Loans, advances and financing		
- Interest income	7,731	-
Money at call and deposit placements with banks and other financial institutions	19,749	-
Accretion of discount on debt securities held	42	
	<u>27,522</u>	<u>-</u>

16. Interest expense

	1.4.2011 to 31.3.2012 RM'000	22.12.2010 to 31.3.2011 RM'000
Deposits and placements of bank and other financial institutions	2,422	-
Deposits from customers	10,242	-
	<u>12,664</u>	<u>-</u>

17. Other operating income

	1.4.2011 to 31.3.2012 RM'000	22.12.2010 to 31.3.2011 RM'000
Fee and commission income		
- Service charges/ fees	55	-
- Guarantee fees	49	-
Gain from derivative financial instruments	557	-
Unrealised net gain on revaluation of derivatives	10,011	-
Foreign exchange net gain	20,003	-
Other income		
- Interest income	-	342
- Management fees	4,095	-
- Rental of fixed assets	1,409	-
- Miscellaneous income	78	-
	<u>36,257</u>	<u>342</u>

18. Other operating expenses

	1.4.2011 to 31.3.2012 RM'000	22.12.2010 to 31.3.2011 RM'000
Personnel costs		
Salaries, allowance and bonuses	9,561	1,737
Employee provident fund	778	111
Staff training expenses	278	-
Staff welfare expenses	28	-
Other personnel expenses	1,299	333
	<u>11,944</u>	<u>2,181</u>
Establishment costs		
Rental of premises	853	18
Depreciation	2,871	285
Repair and maintenance	646	14
Other establishment expenses	4,985	61
	<u>9,355</u>	<u>378</u>
Marketing expenses		
Advertisement and publicity	410	24
Other marketing expenses	288	-
	<u>698</u>	<u>24</u>
Administration and general expenses		
Auditors' remuneration		
- Statutory audit	160	35
- Other services	38	-
Professional fees	513	185
Communication expenses	183	11
Management fees	11,982	-
License fees and stamp duties	28	-
Non-executive directors' fees and allowances	194	-
Other administration and general expenses	4,891	1,911
	<u>17,989</u>	<u>2,142</u>
	<u>39,986</u>	<u>4,725</u>

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19 Directors' remuneration

The Directors of the Bank remuneration are as follows:-

	← 2012 →					← 2011 →		
	Salary and other remuneration, including meeting allowance	Bonus	Fees	Benefit-in-kind	Total	Salary and other remuneration, including meeting allowance	Fees	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Executive Director and Chief Executive Officer								
Mr. Hitoshi Suyama	480	147	-	118	745	-	-	-
Non-executive Directors								
Mr. Razman Hafidz bin Abu Zarim	9	-	93	-	102	-	8	8
Mr. Masayuki Shimura	-	-	-	-	-	-	-	-
Mr. Hiroshi Irie	-	-	-	-	-	-	-	-
Mr. Lim Choon Eng	9	-	83	-	92	-	8	8
	<u>498</u>	<u>147</u>	<u>176</u>	<u>118</u>	<u>939</u>	<u>-</u>	<u>16</u>	<u>16</u>

20. Provision for loans, advances and financing

	1.4.2011 to 31.3.2012 RM'000	22.12.2010 to 31.3.2011 RM'000
Collective impairment provision	5,539	-

21. Tax expense

Recognised in profit or loss

	1.4.2011 to 31.3.2012 RM'000	22.12.2010 to 31.3.2011 RM'000
Current tax expense		
Malaysian income tax in respect of current financial year	1,561	80
Deferred tax expense		
Origination/reversal of temporary differences	(234)	-
Total tax expense	<u>1,327</u>	<u>80</u>

Reconciliation of effective tax expense

Profit/ (loss) before taxation	<u>5,590</u>	<u>(4,383)</u>
Income tax calculated using Malaysian tax rate of 25%	1,397	(1,096)
Tax exempt income	(245)	-
Non-deductible expenses	175	1,176
	<u>1,327</u>	<u>80</u>

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22. Deferred tax assets

Recognised deferred tax assets/ (liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Plant and equipment	-	-	(1,151)	-	(1,151)	-
Collective impairment on loans, advances and financing	1,385	-	-	-	1,385	-
Available-for-sale reserves	2	-	-	-	2	-
Tax assets/ (liabilities)	1,387	-	(1,151)	-	236	-
Set off of tax	(1,151)	-	1,151	-	-	-
Net tax assets	236	-	-	-	236	-

Movement in temporary differences during the year

	At 22.12.2011 (date of incorporation) / 31.3.2011 RM'000	Recognised in profit or loss RM'000	Recognised directly in equity RM'000	At 31.3.2012 RM'000
	Plant and equipment	-	(1,151)	-
Collective impairment on loans, advances and financing	-	1,385	-	1,385
Available-for-sale reserves	-	-	2	2
	-	234	2	236

23. Earnings/ (Loss) per ordinary share

Basic earnings/ (loss) per ordinary share

The calculation of the basic earnings/ (loss) per ordinary share at 31 March 2012 was based on the profit/ (loss) attributable to ordinary shareholder and the number of ordinary shares outstanding during the financial year:-

	2012	2011
	RM'000	RM'000
Net profit/ (loss) attributable to ordinary shareholder	4,263	(4,463)
	<u> </u>	<u> </u>
	2012	2011
	Number	Number
	('000)	('000)
Number of ordinary shares outstanding	350,000	350,000
	<u> </u>	<u> </u>
	2012	2011
Basic earnings/ (loss) per ordinary shares (sen)	1.22	(1.28)
	<u> </u>	<u> </u>

24. Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Bank if the Bank has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Bank and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly. Key management personnel includes all the Directors of the Bank, and certain members of senior management of the Bank.

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24. Related parties (continued)

(a) The significant transactions and outstanding balances of the Bank with related parties are as follows:

	Amount transacted for the year ended 31 March RM'000	Gross balance outstanding at 31 March RM'000	Allowance for impairment loss at 31 March RM'000	Net balance outstanding at 31 March RM'000	Impairment loss recognised for the year ended 31 March RM'000
2012					
Immediate holding company					
Income					
- Interest income from deposits and placements with banks and other financial institutions	54	-	-	-	-
- Fee and commission income	6	-	-	-	-
Expenses					
- Interest expense on deposits and placements of banks and other financial institutions	2	-	-	-	-
Other operating expenses	4,758	-	-	-	-
Amount due from					
- Cash and short-term funds	-	80,467	-	80,467	-
- Deposits and placements with banks and other financial institutions	-	-	-	-	-
- Derivative financial assets	-	104	-	104	-

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24. Related parties (continued)

	Amount transacted for the year ended 31 March RM'000	Gross balance outstanding at 31 March RM'000	Allowance for impairment loss at 31 March RM'000	Net balance outstanding at 31 March RM'000	Impairment loss recognised for the year ended 31 March RM'000
2012					
Immediate holding company(continued)					
Amount due to					
- Deposits and placements of banks and other financial institutions	-	499	-	499	-
- Derivative financial liabilities	-	1,401	-	1,401	-
- Other liabilities	-	207	-	207	-
Other related companies					
Income					
- Interest income from deposits and placements with banks and other financial institutions	220	-	-	-	-
- Interest income from loans, advances and financing	1,030	-	-	-	-
- Fee and commission income	4	-	-	-	-
- Other income	5,511	-	-	-	-
Expenses					
- Interest expense on deposits from customers	34	-	-	-	-
- Interest expense on deposits and placements of banks and other financial institutions	148	-	-	-	-
Other operating expenses	12,398	-	-	-	-

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24. Related parties (continued)

	Amount transacted for the year ended 31 March RM'000	Gross balance outstanding at 31 March RM'000	Allowance for impairment loss at 31 March RM'000	Net balance outstanding at 31 March RM'000	Impairment loss recognised for the year ended 31 March RM'000
2012					
Other related companies					
Amount due from					
- Cash and short-term funds	-	314,608	-	314,608	-
- Deposits and placements with banks and other financial institutions	-	1,532	-	1,532	-
- Loans, advances and financing	-	44,864	(673)	44,191	(673)
- Derivative financial assets	-	29	-	29	-
- Other assets	-	4,100	-	4,100	-
Amount due to					
- Deposits from customers	-	2,085	-	2,085	-
- Deposits and placements of banks and other financial institutions	-	92,658	-	92,658	-
- Bill and acceptances payable	-	48	-	48	-
- Derivative financial liabilities	-	203	-	203	-
- Other liabilities	-	4,585	-	4,585	-

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24. Related parties (continued)

	Amount transacted for the year ended 31 March RM'000	Gross balance outstanding at 31 March RM'000	Allowance for impairment loss at 31 March RM'000	Net balance outstanding at 31 March RM'000	Impairment loss recognised for the year ended 31 March RM'000
2011					
Immediate holding company					
Amount due to	15,032	-	-	-	-
Related companies					
Amount due from	(926)	-	-	-	-
Amount due to	7	7	-	7	-

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

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

24. Related parties (continued)

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

	1.4.2011 to 31.3.2012 RM'000	22.12.2010 to 31.3.2011 RM'000
Executive Directors:		
- Remuneration	627	-
- Other short term employee benefit	118	-
	<u>745</u>	<u>-</u>
Non-executive Directors:		
- Fees	176	16
- Allowances	18	-
	<u>194</u>	<u>16</u>
Other key management personnel:		
- Short term employee benefits	<u>5,749</u>	<u>470</u>

Other key management personnel comprise persons other than the Directors of the Bank, having authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly.

25. Credit exposures to connected parties

Bank Negara Malaysia's Guidelines on Credit Transactions and Exposures with Connected Parties' came into effect in October 2008. The credit exposures of the Bank to connected parties are as follows:

	2012 RM'000	2011 RM'000
Aggregate value of outstanding credit exposures to connected parties	44,864	-
As a percentage of total credit exposure	12.15%	-

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

26. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	1.4.2011 to 31.3.2012 RM'000	22.12.2010 to 31.3.2011 RM'000
Less than one year	2,011	1,604
Between one and five years	1,341	3,352
	<u>3,352</u>	<u>4,956</u>

27. Commitments and contingencies

In the ordinary course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

The commitment and contingencies are as follows:

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

* *The credit equivalent amount is arrived at using the credit conversion factor as per Bank Negara Malaysia Guidelines.*

28. Financial Instruments

28.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follow:-

- (a) Loans and receivables (“L&R”)
- (b) Fair value through profit or loss (“FVTPL”)
 - Designated upon initial recognition (“DUIR”)
- (c) Available-for-sale financial assets (“AFS”)
- (d) Other liabilities (“OL”)

2012	Carrying amount RM'000	L&R / OL RM'000	FVTPL -DUIR RM'000	AFS RM'000
<u>Financial Assets</u>				
Cash and short term funds	741,953	741,953	-	-
Deposit and placements with banks and other financial institutions	251,532	251,532	-	-
Investment securities available-for-sale	19,825	-	-	19,825
Loans, advances and financing	363,686	363,686	-	-
Derivative financial assets	18,384	-	18,384	-
Other assets	10,345	10,345	-	-
Statutory deposit with Bank Negara Malaysia	674	674	-	-
Total financial assets	1,406,399	1,368,190	18,384	19,825
<u>Financial Liabilities</u>				
Deposits from customers	(876,464)	(876,464)	-	-
Deposits and placements of bank and other financial institution	(173,156)	(173,156)	-	-
Bills and acceptances payable	(2,973)	(2,973)	-	-
Derivative financial liabilities	(8,336)	-	(8,336)	-
Other liabilities	(6,510)	(6,510)	-	-
Total financial liabilities	(1,067,439)	(1,059,103)	(8,336)	-

28. Financial Instruments (continued)

28.1 Categories of financial instruments (continued)

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

28.2 Net gains and losses arising from financial instruments

	2012 RM'000	2011 RM'000
Net gains/ (losses) arising on:		
Fair value through profit or loss:	30,571	-
- Designated upon initial recognition	30,572	-
- Held for hedging	(1)	-
Available-for-sale financial assets	37	-
- Accretion of discount on debt securities held recognised in profit and loss	42	-
- Revaluation on available-for-sale investment securities recognised in other comprehensive income	(5)	-
Loans and receivables	27,584	342
Financial liabilities measured at amortised cost	12,664	-
	70,856	342

29. Financial risk management

The Bank adopts Basel II policies to establish sound risk management practices with the proper risk management discipline, practices and processes.

Currently, the Bank is in compliance with the regulatory standards under the Basel II Pillar-1. For Basel II Pillar-2, the Bank is in preparation for the Internal Capital Adequacy Assessment Process (“ICAAP”) that involves self-assessment exercise of the level of capital required to be held. The Bank is also in compliance with the Basel II Pillar-3, which is related to market discipline and disclosure requirements.

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

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Board of Directors has overall responsibility for the establishment and oversight of the Bank’s risk management framework. The Board has established Risk Management Committee (RMC), which are responsible for developing the risk management policies and assessing the implementation of risk management by the management of the Bank. The Bank has also established ALM/Risk Management Committee as one of the management committees to formulate the policies, procedures and risk limits and conduct periodical monitoring on risk exposure, risk portfolio and risk management activities.

(a) Credit risk

Credit risk is the risk of a financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank’s exposure to credit risk arises principally from loans and advances to customers and placements with other banks.

The Bank has established Credit Committee as one of the management committees with following objectives:

- (i) to discuss, formulate, review and implement the credit policy, procedures and manuals; and
- (ii) to review, analyse and approve credit proposals by ensuring effective credit limit control and monitoring.

The Bank has credit policies in place and the exposure to credit risk is monitored on an ongoing basis. Normally financial guarantees given by banks, shareholders or directors of customers are obtained, and credit evaluations are required to be performed on customers requiring credit.

29. Financial risk management (continued)

(a) Credit risk (continued)

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

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

The ALM/Risk Management Committee conducts periodical monitoring on credit exposure trend, asset quality by obligor grading/impaired loans, portfolio concentration analysis and credit related limits control such as single counterparty exposure limit, large loan limit, exposure to connected parties, exposure to broad property sector and exposure for financing share/unit trust.

(i) Maximum exposure to credit

The following tables present the Bank's maximum exposure to credit risk of its on-balance sheet and off-balance sheet financial instruments at 31 March 2012 and 31 March 2011, before taking into account any collateral held or other credit enhancements. For on-balance sheet financial instruments, the maximum exposure to credit risk is the carrying amount reported on the statements of financial position. For off-balance sheet financial instruments, the maximum exposure to credit risk represented the contractual nominal amount.

	2012	2011
	<u>RM'000</u>	<u>RM'000</u>
<u>On-balance sheet assets</u>		
Cash and short-term funds	741,953	-
Deposits and placements with banks and other financial institutions	251,532	-
Financial investments available-for-sale	19,825	-
Loans, advances and financing	363,686	-
Statutory Deposits with BNM	674	-
Derivative Financial Assets	18,384	-
Other assets	10,345	-
	<u>1,406,399</u>	<u>-</u>
<u>Off-balance sheet assets</u>		
Contingent commitment	18,770	-
Undrawn irrevocable standby facilities, credit line and other commitments to lend	140,212	-
	<u>158,982</u>	<u>-</u>
Total maximum exposure to credit risk	<u>1,565,381</u>	<u>-</u>

29. Financial risk management (continued)

(a) Credit risk (continued)

(i) Summary analysis of loan, advances and financing

	Loans, advances and financing to customers RM'000	Loans, advances and financing to banks* RM'000
31 March 2012		
Carrying amount	363,686	993,485
Assets at amortised cost		
Neither past due nor impaired:	369,225	993,485
Collective allowance for impairment	(5,539)	-
	<u>363,686</u>	<u>993,485</u>

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

	Loans, advances and financing to customers RM'000	Loans, advances and financing to banks* RM'000
31 March 2012		
Carrying amount	369,225	993,485
Concentration of credit risk based on geographical location		
Malaysia	369,225	595,335
Other countries		
- Singapore	-	314,894
- Japan	-	80,468
- Others	-	2,788
	<u>369,225</u>	<u>993,485</u>

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

29. Financial risk management (continued)

(a) Credit risk (continued)

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

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

	<u>R&I</u> <u>RM'000</u>	<u>RAM</u> <u>RM'000</u>	<u>S&P</u> <u>RM'000</u>
AAA	-	46,000	-
AA- to AA+	-	-	871
A- to A+	486,997	-	672
A1	-	-	-
AA1	-	100,000	-
	<u>486,997</u>	<u>146,000</u>	<u>1,543</u>

29.2 Summary analysis on securities portfolio

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

	<u>2011</u> <u>RM'000</u>
Bank Negara Monetary Notes	<u>19,825</u>

29.3 Credit quality of gross loans and advances

Gross loans and advances are analysed as follow:-

	<u>2012</u> <u>RM'000</u>	<u>2011</u> <u>RM'000</u>
Neither past due nor individual impaired	369,225	-
Collective allowance for impairment	(5,539)	-
	<u>363,686</u>	<u>-</u>

29.4 Loans and advances neither past due nor impaired

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

	<u>2012</u> <u>RM'000</u>	<u>2011</u> <u>RM'000</u>
Borrower's Grading		
Good	369,225	-
Close Watch	-	-
	<u>369,225</u>	<u>-</u>

29. Financial risk management (continued)

(b) Liquidity risk

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

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

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29. Financial risk management (continued)

(b) Liquidity risk (continued)

Cash flows payable by the Bank (financial liabilities) based on remaining contractual maturity as at the financial year end, on an undiscounted basis are as follow:

2012	Carrying	Contractual	Contractual	Under 3	3-12 months	1-5 years
Liabilities	amount	interest	Cash flows	months	RM'000	RM'000
	RM'000	rate/ coupon	RM'000	RM'000		
		%				
Deposits from customers	876,464	0.0% to 3.3%	877,441	859,734	17,707	-
Deposits & placements of banks & other financial institutions	173,156	0.0% to 3.2%	173,230	173,230	-	-
Bills and acceptances payable	2,973	-	2,973	2,973	-	-
Other liabilities	6,510	-	6,510	4,849	1,661	-
Total liabilities	1,059,103		1,060,154	1,040,786	19,368	-
Derivative financial liabilities, Gross settled						
Outflows	423,354	-	398,498	116,156	43,277	239,065
Inflows	(415,018)	-	(362,442)	(94,417)	(46,760)	(221,265)
	8,336		36,056	21,739	(3,483)	17,800
Grand Total	1,067,439		1,096,210	1,062,525	15,885	17,800
2011						
Other liabilities	72	-	72	72	-	-

29. Financial risk management (continued)

(c) Market risk

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

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

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

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

Interest rate risk management

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

Foreign exchange risk management

Foreign currency exchange risk arises from exchange rate movements, which affects the profit of the Bank from its foreign exchange open positions taken from the time to time. This risk is principally managed by setting predetermined limits on open foreign exchange positions against these limits and the setting and monitoring of cut-loss mechanisms. The Bank enters into foreign exchange related derivatives, namely spot and forward contracts, as part of its strategies to manage foreign currency risk.

29. Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk

The tables below summarise the Bank's financial instruments at carrying amounts, categorised by contractual re-pricing or maturity dates.

	← Non-trading book →					Trading book RM'000	Total RM'000
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Non- interest bearing RM'000		
31 March 2012							
<u>Assets</u>							
Cash and short-term funds	736,184	-	-	-	5,769	-	741,953
Deposits and placements with banks and other financial institutions	-	251,532	-	-	-	-	251,532
Financial investments available-for-sale	-	-	19,825	-	-	-	19,825
Loans, advances and financing	281,981	58,879	1,365	27,000	(5,539) ^	-	363,686
Other assets	4,470	-	-	-	5,875	-	10,345
Derivative assets	-	46	-	-	-	18,338	18,384
Statutory deposits with BNM	-	-	-	-	674	-	674
Total assets	1,022,635	310,457	21,190	27,000	6,779	18,338	1,406,399

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

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29. Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk (continued)

	← Non-trading book →					Trading book RM'000	Total RM'000
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Non- interest bearing RM'000		
31 March 2012							
<u>Liabilities</u>							
Deposits from customers	(309,697)	(75,434)	(17,500)	-	(473,833)	-	(876,464)
Deposits and placements of banks and other financial institutions	(171,921)	-	-	-	(1,235)	-	(173,156)
Other liabilities	-	-	-	-	(6,510)	-	(6,510)
Derivative liabilities	-	(8)	-	-	-	(8,328)	(8,336)
Total liabilities	<u>(481,618)</u>	<u>(75,442)</u>	<u>(17,500)</u>	<u>-</u>	<u>(481,578)</u>	<u>(8,328)</u>	<u>(1,064,466)</u>
On balance sheet interest rate gap	541,017	235,015	3,690	27,000	(474,799)	10,010	341,933
Off balance sheet interest rate gap	-	27,000	-	(27,000)	-	-	-
Total interest rate gap	<u>541,017</u>	<u>262,015</u>	<u>3,690</u>	<u>-</u>	<u>(474,799)</u>	<u>10,010</u>	<u>341,933</u>

29. Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk (continued)

The table below details the disclosure for interest rate risk in the Banking Book, the increase or decline in earnings and equity for upward and downward rate shocks which are consistent with shocks applied in stress test for measuring interest rate risk, broken down by various currencies where relevant:-

Type of Currency	Impact on Positions as at Reporting Period (100 basis points) Hike	
	Increase/ (Decline) in profit before taxation 2012 RM'000	Increase/ (Decline) in equity 2012 RM'000
JPY	(6)	(5)
USD	(33)	(25)
MYR	<u>(400)</u>	<u>(300)</u>

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

	<u>2012</u>		<u>2011</u>	
	MYR %	USD %	MYR %	USD %
<u>Financial assets</u>				
Cash and short-term funds	3.03	0.18	2.90	-
Deposits and placements with banks and other financial institutions	3.14	0.40	-	-
Loans, advances and financing	3.95	1.60	-	-
<u>Financial liabilities</u>				
Deposits from customers	3.07	0.14	-	-
Deposits and placements of banks and other financial institutions	<u>3.04</u>	<u>0.28</u>	-	-

29. Financial risk management (continued)

(c) Market risk (continued)

Currency risk

The table below summarises the Bank's foreign exchange position for its financial instruments outstanding by major currencies. "Others" include mainly Australian Dollar, Euro, Hong Kong Dollar and Thailand Baht.

2011	MYR RM'000	USD RM'000	JPY RM'000	Others RM'000	Total RM'000
<u>Financial Assets</u>					
Cash and short term funds	253,414	405,321	80,467	2,751	741,953
Deposit and placements with bank and other financial institutions	250,000	1,532	-	-	251,532
Financial investment available-for-sale	19,825	-	-	-	19,825
Loans, advances and financing	344,324	24,898	-	-	369,222
Derivative financial assets	46	16,701	1,595	42	18,384
Other assets	10,332	13	-	-	10,345
Statutory deposit with Bank Negara Malaysia	674	-	-	-	674
Total Financial Assets	878,615	448,465	82,062	2,793	1,411,935

29. Financial risk management (continued)

(c) Market risk (continued)

Currency risk (continued)

2011	MYR RM'000	USD RM'000	JPY RM'000	Others RM'000	Total RM'000
<u>Financial Liabilities</u>					
Deposits from customers	(448,314)	(346,968)	(80,276)	(906)	(876,464)
Deposits and placements of banks and other financial institutions	(81,235)	(91,921)	-	-	(173,156)
Derivative financial liabilities	(4,798)	(3,456)	(59)	(23)	(8,336)
Other liabilities	(5,204)	(1,305)	-	-	(6,509)
Total Financial Liabilities	(539,551)	(443,650)	(80,335)	(929)	(1,064,465)
Total foreign currency sensitivity gap	339,064	4,815	1,727	1,864	347,470

Stress test has been performed on foreign currency trading positions to assess impact of a 10% fall in Malaysia Ringgit exchange rates, adjusted to incorporate impact of correlation between different currencies. The impact has been assessed to be a decrease of RM841,000 in profit before tax and RM630,000 in equity. This analysis assumes that all variables, in particular interest rates, remained constant.

29. Financial risk management (continued)

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human behaviour and systems, or from external events. Operational risk is inherent in each of the Bank's business activities. These include breakdowns, error, business interruption and inappropriate behaviour of employees, and can potentially result in financial losses and other damage to the Bank.

Operational risks are managed and controlled within the individual business lines. The ALM/Risk Management Committee monitors the predetermined items to assess the trend of operational risks

The Calculation of Value Equivalent to Operational Risk-weighted Asset

The Bank currently uses Basic Indicator Approach (BIA) to calculate its value equivalent to operational risk-weighted asset as at 31 March 2012.

30. Fair values of financial assets and financial liabilities

Recognised financial instruments

The estimated fair values of the financial assets and financial liabilities carried on the statement of financial position as at 31 March are as follows:

	Carrying amount		Fair Value	
	2012	2011	2012	2011
<u>Financial Asset</u>	RM'000	RM'000	RM'000	RM'000
Cash and short term funds	741,953	331,553	741,953	331,553
Deposits and placements with bank and other financial institutions	251,532	-	251,532	-
Investment securities available-for-sale	19,825	-	19,825	-
Loans, advances and financing*	369,225	-	369,225	-
Derivative financial assets	18,384	-	18,384	-
Total financial asset	1,400,919	331,553	1,400,919	331,553
<u>Financial Liabilities</u>				
Deposits from customer	876,464	-	876,464	-
Deposits and placements of bank and other financial institution	173,156	-	173,156	-
Bills and acceptances payable	2,973	-	2,973	-
Derivative financial liabilities	8,336	-	8,336	-
Total financial liabilities	1,060,929	-	1,060,929	-

* The collective impairment provision of the Bank of RM5,539,000 is not included in the carrying amount.

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

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

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

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

(b) Financial Investment available-for-sale

The estimated fair value is based on quoted or observable market prices at the statements of financial position date. Where such quoted or observable market prices are not available, the fair value is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, the estimated future cash flows are discounted using the prevailing market rates for similar instrument at the statements of financial position date.

(c) Loans, advances and financing

The fair values of fixed rate loans with remaining maturity less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate loans with maturities of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at prevailing rates at reporting date offered for similar loans. In respect of impaired loans, the fair values are deemed to approximate the carrying values, net of individual assessment impairment allowance.

(d) Deposits from customers

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

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

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

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

Fair value hierarchy

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

	Level 1	Level 2	Level 3
Fair Value determined using	Unadjusted quoted prices in an active market for identical assets and liabilities	Valuation models with directly or indirectly market observable inputs	Valuation models using significant non-market observable inputs
Type of financial assets	Actively traded government and agency securities	Corporate and other government bonds and loans Over-the-counter ("OTC") derivatives	Private debt equity investments Corporate bonds in liquid market
Type of financial liabilities	-	OTC derivatives	-

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

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

Derivative financial instruments

Derivatives held for hedging

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

Derivative financial instruments by sector:

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

31. Capital adequacy

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

	31 March 2012 RM'000
<u>Capital ratios</u>	
Core capital ratio	40.63%
Risk-weighted capital ratio	41.27%
<u>Tier-1 capital</u>	
Paid-up ordinary share capital	350,000
Accumulated losses	(2,332)
Statutory Reserve	2,132
	<u>349,800</u>
Less: Deferred tax assets	(236)
Total Tier-1 Capital	<u>349,564</u>
<u>Tier-2 capital</u>	
Collective allowance for impairment	<u>5,539</u>
Total Tier-2 Capital	<u>5,539</u>
Total capital base	<u><u>355,103</u></u>
Breakdown of risk-weighted assets in the various categories of risk-weights are as follows :	
Credit risk	681,237
Market risk	83,620
Operational risk	95,511
Total risk-weighted assets	<u><u>860,368</u></u>

No comparative figures are presented as the Bank commenced its banking and related financial operations on 11 April 2011.

31. Capital adequacy (continued)

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

31 March 2012		Gross exposures	Net exposures	Risk-weighted assets	Capital requirements
Exposure class		RM'000	RM'000	RM'000	RM'000
(i) Credit risk					
On-balance sheet exposures:					
Sovereigns/ central banks		127,884	127,884	-	-
Banks, development financial institutions and MDBs		891,195	891,195	178,239	14,259
Corporates		369,225	369,225	327,612	26,209
Other assets		35,361	35,361	35,195	2,816
Total on-balance sheet exposures		1,423,665	1,423,665	541,046	43,284
Off-balance sheet exposures:					
Credit-related exposures		184,807	184,807	140,191	11,215
Total off-balance sheet exposures		184,807	184,807	140,191	11,215
Total on and off-balance sheet exposures		1,608,472	1,608,472	681,237	54,499
(ii) Large exposure risk requirement					
		-	-	-	-
(iii) Market risk					
	Long position	Short position			
Interest rate risk	1,364,531	1,354,111	10,420	82,953	6,636
Foreign exchange risk	667	-	667	667	53
	1,365,198	1,354,111	11,807	83,620	6,689
(iv) Operational risk					
				95,511	7,641
Total RWA and capital requirements				860,368	68,829

Company No. 926374-U

31. Capital adequacy (continued)

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

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

32. Capital management

The objective of the Bank's capital management policy is to maintain an adequate level of capital to support business growth strategies under an acceptable risk framework, and to meet its regulatory minimum. The Bank's capital management process includes analysis of the risk appetite and the capital requirement for the business growth and periodical monitoring of capital adequacy ratios.

The Bank's capital requirements and capital adequacy ratios, in accordance with Bank Negara Malaysia's Risk-Weighted Capital Adequacy Framework ('RWCAF'): Standardised Approach for Credit Risk and Market Risk and Basic Indicator Approach for Operational Risk (Basel II) are disclosed in Note 31.

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

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

In the opinion of the Directors, the financial statements set out on pages 14 to 72 are drawn up in accordance with Financial Reporting Standards as modified by Bank Negara Malaysia Guidelines and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 March 2012 and of its financial performance and cash flows for the financial year then ended.

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

.....
Hitoshi Suyama

.....
Razman Hafidz bin Abu Zarim

Kuala Lumpur

Date: 31 May 2012

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

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

I, Takeshi Futagami, the chief financial officer primarily responsible for the financial management of Sumitomo Mitsui Banking Corporation Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 14 to 72 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur in the Federal Territory on 31 May 2012.

.....
Takeshi Futagami

Before me:

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

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

Report on the Financial Statements

We have audited the financial statements of Sumitomo Mitsui Banking Corporation Malaysia Berhad ("Bank"), which comprise the statement of financial position as at 31 March 2012 of the Bank, and the statements of comprehensive income, changes in equity and cash flows of the Bank for the period then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 14 to 72.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation of financial statements that give a true and fair view in accordance with the Companies Act, 1965 in Malaysia and Financial Reporting Standards issued by the Malaysian Accounting Standards Board ("MASB") as modified by Bank Negara Malaysia Guidelines, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Company No. 926374-U

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Companies Act, 1965 in Malaysia and Financial Reporting Standards issued by the MASB as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Bank as of 31 March 2012 and of its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

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

Other Matters

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

KPMG

Firm Number: AF 0758
Chartered Accountants

Khaw Hock Hoe

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

Petaling Jaya,

Date: