THE ROYAL BANK OF SCOTLAND BERHAD
(Company No. 301932 - A)
(Incorporated in Malaysia)

REPORT OF THE DIRECTORS
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014
(In Ringgit Malaysia)

These Audited Financial Statements of the Group and of the Bank with Unqualified Auditors' Report for the financial year ended 31 December 2014 were tabled at the Annual General Meeting/Adjourned Annual General Meeting held on ____________________

Company No. 301932 - A

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

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THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their report together with the audited financial statements of The Royal Bank of Scotland Berhad (the "Bank") and its subsidiaries (collectively referred as the "Group") for the financial year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are banking and related financial services. The principal activities of the subsidiaries are disclosed in Note 11 to the financial statements. There have been no significant changes in the nature of the principal activities of the Bank and of its subsidiaries during the financial year.

RESULTS OF OPERATIONS

The results of operations of the Group and of the Bank for the financial year are as follows:

	Group RM'000	Bank RM'000
Profit before taxation	26,935	26,987
Tax expense	(9,954)	(9,954)
Profit for the year	16,981	17,033

The results of the operations of the Group and of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than the share of group cost waiver as disclosed in Note 26(b) to the financial statements.

DIVIDENDS

No dividend has been paid or declared by the Bank since the end of the previous financial year.

The Directors do not recommend the payment of any final dividend for the current financial year.

RESERVES AND PROVISIONS

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

ISSUE OF SHARES AND DEBENTURES

As approved by the shareholder at an Extraordinary General Meeting ("EGM") held on 30 May 2014, the issued and paid-up share capital of the Bank was increased from RM203,000,002, comprising 203,000,002 ordinary shares of RM1.00 each, to RM343,000,002 comprising 343,000,002 ordinary shares of RM1.00 each by way of issuance of 140,000,000 new ordinary shares at RM1.00 each in the Company for the purpose of meeting Tier 2 capital requirement through the redemption of subordinate debt capital.

The Bank has not issued any debentures during the current financial year.

SHARE OPTIONS

No options have been granted by the Bank to any parties during the financial year to take up unissued shares of the Bank.

No shares have been issued during the financial year by virtue of the exercise of any option to take up unissued shares of the Bank. As of the end of the financial year, there were no unissued shares of the Bank under options.

DIRECTORS

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

Tan Sri Datuk Asmat bin Kamaludin
Andrew Mark Sill
Peter Andrew Akwaboah
Choo Tuck Wai
Jonathan William Addis (appointed on 8 August 2014)
David Edward Hourican (resigned on 30 June 2014)
Dato' Jorgen Bornhoft (resigned on 15 August 2014)

In accordance with Article 90A of the Bank's Articles of Association, Mr. Choo Tuck Wai retires by rotation at the forthcoming Annual General Meeting of the Bank and, being eligible, offers himself for re-election.

Tan Sri Datuk Asmat Bin Kamaludin, being over seventy years of age, retires at the forthcoming Annual General Meeting of the Bank in accordance with Section 129(6) of the Companies Act, 1965, and, being eligible for re-appointment, offers himself for re-appointment and to hold office until the conclusion of the next Annual General Meeting of the Bank.

DIRECTORS' INTERESTS

The shareholdings in the holding company of those who were Directors at the end of the financial year, as recorded in the Register of Directors' shareholdings kept by the Bank under Section 134 of the Companies Act, 1965, are as follows:

	No. of ordinary shares of £1.00 each			
	Balance as of 1.1.2014/ date of appointment	**Awarded**	**Sold**	**Balance as of 31.12.2014**
Shares in the holding company, The Royal Bank of Scotland Group plc				
Andrew Mark Sill	24,099	4,688	-	28,787
Jonathan William Addis	4,000	-	-	4,000
Peter Andrew Akwaboah	56,237	33,563	(89,800)	-
Choo Tuck Wai	12,139	3,648	-	15,787

By virtue of their interest in the shares of the holding company, the abovementioned Directors are also deemed to have an interest in the shares of the Bank to the extent that the holding company has an interest.

Except for the above, none of the other Director in office at the end of the financial year, according to the register required to be kept under Section 134 of the Companies Act, 1965, held shares or had beneficial interest in the shares of the Bank or its related corporations during or at the beginning and end of the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the Directors of the Bank has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as disclosed in Note 26 to 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.

During and at the end of the financial year, no arrangement subsisted to which the Bank was a party whereby the Directors of the Bank might acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

COMPLIANCE WITH BANK NEGARA MALAYSIA'S EXPECTATIONS ON FINANCIAL REPORTING

In the preparation of the financial statements, the Directors have taken reasonable steps to ensure that Bank Negara Malaysia's expectations on financial reporting have been complied with as set out in the Guidelines/Policy Documents on Financial Reporting for Banking Institutions and the Guidelines on Classification and Impairment Provisions for Loans/Financing.

NON-PERFORMING DEBTS AND FINANCING

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and financing and the making of allowances for non-performing debts and financing and have satisfied themselves that all known non-performing debts and financing had been written off and that adequate allowance had been made for non-performing debts and financing.

At the date of this report, the Directors are not aware of any circumstances which would render the amount written off for non-performing debts and financing, or the amount of the allowance for non-performing debts and financing, in the financial statements of the Group and of the Bank inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that current assets, other than debts and financing, which were unlikely to realise their book values in the ordinary course of business, have been written down to their estimated realisable values.

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

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen that render adherence to the existing methods of valuation of assets or liabilities in the financial statements of the Group and 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 Group or of the Bank which has arisen since the end of the financial year and secures the liabilities of any other person; or

(ii) any contingent liability in respect of the Group or of the Bank that has arisen since the end of the financial year, other than those incurred in the normal course of business.

No contingent or other liability of the Group and 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 Group and of the Bank to meet their obligations as and when they fall due other than as disclosed in Note 33 to the financial statements.

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 Group and of the Bank, that would render any amount stated in the financial statements of the Group and of the Bank misleading.

ITEMS OF AN UNUSUAL NATURE

In the opinion of the Directors:

(i) the results of the operations of the Group and of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than as disclosed in Note 26 (b) of the financial statements

(ii) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature which is likely to affect substantially the results of the operations of the Group and of the Bank for the current financial year in which this report is made.

SUBSEQUENT EVENT

In February 2015, The Royal Bank of Scotland Group Plc (“RBS Group”) announced that it will reduce its geographical footprint to approximately 13 countries, compared with 38 at the end of 2014, and the RBS Group is evaluating the options to implement the strategy announced. In addition to its main distribution and trading hubs in the UK, US and Singapore, RBS Group will remain present in a number of Western European countries with coverage teams.

The Bank operates outside RBS Group’s prospective geographical footprint and has ceased marketing to new customers. It continues to serve existing customers and regards its business as a going concern. As of date of approving the financial statements, the impact of the change cannot be estimated.

BUSINESS REVIEW 2014

In early 2014, The Royal Bank of Scotland Group plc ("RBS Group") announced its strategy for the Markets business whereby RBS Group is to exit all structured retail investor products and equity derivatives, as well as peripheral market-making activities. This has created simpler and sustainable business that focuses on RBS Group's core strengths and servicing RBS Group's client well.

The Bank achieved significant growth in its loan portfolio in 2014 and the strategy has contributed to the increase in overall operating revenue by 3.2% from 2013, with improvements shown on net interest income. Cost continues to decrease and the improvement to the cost income ratio demonstrates the progressive achievement of RBS Group's cost to income ratio target.

From a capital perspective, the Bank has redeemed its subordinated debt of RM200 million and RBS Group has injected RM140 million of capital into the Bank in June 2014 to continue to support the growth in business. As a result, the Bank continues to maintain its strong capital base.

BUSINESS PLAN AND OUTLOOK FOR 2015

On the local front, consumption demand may be constrained by the additional fiscal tightening, which has been necessitated by lower revenue and activity from the oil sector, and the implementation of Goods and Services Tax ("GST"). The GST which will be implemented from 1 April 2015 will result in a one-time upward adjustment of prices.

While private consumption is expected to moderate, it will remain supported by the additional disposable income freed up by lower oil prices. Investment activity is projected to remain resilient, with broad-based capital spending by both the private and public sectors cushioning the lower oil and gas related investment activity. Export growth, on the other hand, will be affected by lower commodity prices and slower economic growth in Malaysia's large trading partner countries.

The Ringgit depreciated against USD in end of 2014, and in 2015 is expected to be continuously affected by movements in the oil price and commercial flows.

RATING BY AGENCY

On 29 August 2014, RAM Ratings has received confirmation that the Bank has fully redeemed its RM200 million Subordinated Negotiable Instruments of Deposit (2007/2017) on 6 June 2014. As such, RAM Ratings have withdrawn the AA3/Negative rating of the said instrument together with the Bank's financial institution ratings of AA2/Negative/P1. Under the circumstances, RAM no longer has any rating obligation on the Bank's issue.

HOLDING COMPANIES

The Bank's immediate holding company is RBS AA Holdings (U.K.) Limited ("RBS AA Holdings") and the ultimate holding consolidating parent of the Bank, The Royal Bank of Scotland Group Plc ("RBS Group"), is controlled by the UK Government. The UK Government is therefore a related party of the Bank.

Given the reach of the UK Government and their controlled bodies and the volume and diversity of transactions with them, the disclosure of transactions with these related parties is impractical. Hence, for purposes of the financial statements of the Group and of the Bank, related companies refer to members of RBS Group's group of companies.

AUDITORS

The auditors, Messrs. Deloitte & Touche, have indicated their willingness to continue in office.

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

TAN SRI DATUK ASMAT
BIN KAMALUDIN

ANDREW MARK SILL

Kuala Lumpur
25 March 2015

Company No. 301932 - A

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

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

We, **TAN SRI DATUK ASMAT BIN KAMALUDIN** and **ANDREW MARK SILL**, being two of the Directors of **THE ROYAL BANK OF SCOTLAND BERHAD**, do hereby state that in the opinion of the Directors, the financial statements set out on pages 13 to 127 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2014 and of the financial performance and cash flows of the Group and of the Bank for the year then ended.

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

TAN SRI DATUK ASMAT BIN KAMALUDIN

ANDREW MARK SILL

Kuala Lumpur
25 March 2015

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

I, **KOK WENG KHEONG**, being the Officer primarily responsible for the financial management of **THE ROYAL BANK OF SCOTLAND BERHAD**, do solemnly and sincerely declare that the accompanying financial statements set out on pages 13 to 127 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.

KOK WENG KHEONG

Subscribed and solemnly declared by the abovenamed **KOK WENG KHEONG** at **KUALA LUMPUR** in the Federal Territory on the 25th day of March, 2015.

Before me,

COMMISSIONER FOR OATHS

PESURUHJAYA SUMPAH
No. W 358
SHAFIE B. DAUD
MALAYSIA

38A, JALAN TUN MOHD FUAD 1
TAMAN TUN DR. ISMAIL
60000 KUALA LUMPUR

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of **THE ROYAL BANK OF SCOTLAND BERHAD**, which comprise the statements of financial position of the Group and of the Bank as of 31 December 2014 and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 13 to 127.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation of these financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditors' Responsibility

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

(Forward)

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2014 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Emphasis of Matter

We draw attention to Note 37 to the financial statements which indicate that the Bank operates outside The Royal Bank of Scotland Group Plc's ("RBS Group") prospective geographical footprint and has ceased marketing to new customers. It continues to serve existing customers and regards its business as a going concern. As of date of approving the financial statements, the impact of the change cannot be estimated as the RBS Group is evaluating the options to implement the strategy announced. Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that:

(a) in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and by the subsidiary companies, have been properly kept in accordance with the provisions of the Act;

(b) we are satisfied that the accounts of the subsidiary companies that have been consolidated with the financial statements of the Bank are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group, and we have received satisfactory information and explanations as required by us for those purposes; and

(c) the auditors' reports on the accounts of the subsidiary companies did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

(Forward)

Company No. 301932 - A

Other Matter

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 towards any other person for the contents of this report.

Deloitte & Touche

DELOITTE & TOUCHE
AF 0834
Chartered Accountants

SITI HAJAR OSMAN
Partner - 3061/04/15 (J)
Chartered Accountant

25 March 2015

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

**STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014**

	Note	Group 2014 RM'000	Group 2013 RM'000
ASSETS			
Cash and short-term funds	5	1,682,256	1,261,546
Deposits and placements with other financial institutions		-	147,488
Securities available-for-sale	6	385,332	674,179
Loans, advances and financing	7	731,157	353,158
Derivative financial assets	8	689,173	613,403
Statutory deposits with Bank Negara Malaysia	9	4,741	10,596
Other assets	10	49,710	43,212
Investment in associated company	12	1,300	2,752
Property, plant and equipment	13	9,121	11,511
Intangible assets	14	666	915
Deferred tax assets	15	19,170	28,135
TOTAL ASSETS		3,572,626	3,146,895
LIABILITIES AND SHAREHOLDER'S FUNDS			
Deposits from customers	16	1,215,387	1,202,932
Deposits and placements from banks and other financial institutions	17	705,952	241,910
Derivative financial liabilities	8	837,976	739,672
Other liabilities	18	70,295	167,646
Subordinated debt capital	19	-	208,553
TOTAL LIABILITIES		2,829,610	2,560,713
Share capital	20	343,000	203,000
Reserves	21	400,016	383,182
SHAREHOLDER'S FUNDS		743,016	586,182
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS		3,572,626	3,146,895
COMMITMENTS AND CONTINGENCIES	33	31,758,198	38,142,178

(Forward)

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Note	Bank 2014 RM'000	Bank 2013 RM'000
ASSETS			
Cash and short-term funds	5	1,682,256	1,261,546
Deposits and placements with other financial institutions		-	147,488
Securities available-for-sale	6	385,332	674,179
Loans, advances and financing	7	731,157	353,158
Derivative financial assets	8	689,173	613,403
Statutory deposits with Bank Negara Malaysia	9	4,741	10,596
Other assets	10	49,710	43,212
Investment in subsidiary companies	11	20	20
Investment in associated company	12	1,300	2,700
Property, plant and equipment	13	9,121	11,511
Intangible assets	14	666	915
Deferred tax assets	15	19,170	28,135
TOTAL ASSETS		3,572,646	3,146,863
LIABILITIES AND SHAREHOLDER'S FUNDS			
Deposits from customers	16	1,215,407	1,202,952
Deposits and placements from banks and other financial institutions	17	705,952	241,910
Derivative financial liabilities	8	837,976	739,672
Other liabilities	18	70,295	167,646
Subordinated debt capital	19	-	208,553
TOTAL LIABILITIES		2,829,630	2,560,733
Share capital	20	343,000	203,000
Reserves	21	400,016	383,130
SHAREHOLDER'S FUNDS		743,016	586,130
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS		3,572,646	3,146,863
COMMITMENTS AND CONTINGENCIES	33	31,758,198	38,142,178

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

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

		Group		Bank	
	Note	**2014 RM'000**	**2013 RM'000**	**2014 RM'000**	**2013 RM'000**
Operating revenue	22	82,524	79,738	82,776	80,243
Interest income	23	56,662	50,089	56,662	50,089
Interest expense	24	(10,203)	(26,903)	(10,203)	(26,903)
Net interest income		46,459	23,186	46,459	23,186
Other operating income	25	25,862	29,649	26,114	30,154
Other operating expenses	26	(45,785)	(50,503)	(46,668)	(50,503)
Write back /(Allowance) for impairment on loans, advances and financing	27	1,082	(1,402)	1,082	(1,402)
Share of loss of associated company		(683)	(477)	-	-
Profit before tax		26,935	453	26,987	1,435
Tax (expense)/credit	28	(9,954)	5,259	(9,954)	5,259
Profit for the year attributable to equity holder of the Bank		16,981	5,712	17,033	6,694
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Net loss on securities available-for-sale		(147)	(1,482)	(147)	(1,482)
		(147)	(1,482)	(147)	(1,482)
Total comprehensive income for the year		16,834	4,230	16,886	5,212
Earnings per share (sen)	29	6.22	2.81	6.24	3.30

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

Company No. 301932 - A

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

Group		← **Non-distributable Reserves**		→	**Distributable Reserve**	
	Share capital RM'000	**Share premium RM'000**	**Statutory reserves RM'000**	**Unrealised reserves RM'000**	**Retained earnings RM'000**	**Total RM'000**
At 1 January 2013	203,000	76,182	162,068	673	140,029	581,952
Profit for the year	-	-	-	-	5,712	5,712
Transfer to statutory reserves	-	-	1,674	-	(1,674)	-
Net loss on securities available-for-sale	-	-	-	(1,976)	-	(1,976)
Deferred tax (Note 15)	-	-	-	494	-	494
Other comprehensive loss	-	-	-	(1,482)	-	(1,482)
At 31 December 2013	203,000	76,182	163,742	(809)	144,067	586,182

(Forward)

Group

	Share capital RM'000	← Share premium RM'000	Non-distributable Reserves Statutory reserves RM'000	Unrealised reserves RM'000	Regulatory reserves RM'000 →	Distributable Reserve Retained earnings RM'000	Total RM'000
At 1 January 2014	203,000	76,182	163,742	(809)	-	144,067	586,182
Issuance of ordinary shares (Note 20)	140,000	-	-	-	-	-	140,000
Profit for the year	-	-	-	-	-	16,981	16,981
Transfer to statutory reserves	-	-	8,517	-	-	(8,517)	-
Transfer to regulatory reserves	-	-	-	-	4,237	(4,237)	-
Net loss on securities available-for-sale	-	-	-	(196)	-	-	(196)
Deferred tax (Note 15)	-	-	-	49	-	-	49
Other comprehensive loss	-	-	-	(147)	-	-	(147)
At 31 December 2014	343,000	76,182	172,259	(956)	4,237	148,294	743,016

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

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

Bank		← **Non-distributable Reserves**		→	**Distributable Reserve**	
	Share capital RM'000	**Share premium RM'000**	**Statutory reserves RM'000**	**Unrealised reserves RM'000**	**Retained earnings RM'000**	**Total RM'000**
At 1 January 2013	203,000	76,182	162,068	673	138,995	580,918
Profit for the year	-	-	-	-	6,694	6,694
Transfer to statutory reserves	-	-	1,674	-	(1,674)	-
Net loss on securities available-for-sale	-	-	-	(1,976)	-	(1,976)
Deferred tax (Note 15)	-	-	-	494	-	494
Other comprehensive loss	-	-	-	(1,482)	-	(1,482)
At 31 December 2013	203,000	76,182	163,742	(809)	144,015	586,130

(Forward)

Bank

	← Non-distributable Reserves →					Distributable Reserve	
	Share capital RM'000	Share premium RM'000	Statutory reserves RM'000	Unrealised reserves RM'000	Regulatory reserves RM'000	Retained earnings RM'000	Total RM'000
At 1 January 2014	203,000	76,182	163,742	(809)	-	144,015	586,130
Issuance of ordinary shares (Note 20)	140,000	-	-	-	-	-	140,000
Profit for the year	-	-	-	-	-	17,033	17,033
Transfer to statutory reserves	-	-	8,517	-	-	(8,517)	-
Transfer to regulatory reserves	-	-	-	-	4,237	(4,237)	-
Net loss on securities available-for-sale	-	-	-	(196)	-	-	(196)
Deferred tax (Note 15)	-	-	-	49	-	-	49
Other comprehensive loss	-	-	-	(147)	-	-	(147)
At 31 December 2014	343,000	76,182	172,259	(956)	4,237	148,294	743,016

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

Company No. 301932 - A

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Group		Bank	
	2014	**2013**	**2014**	**2013**
	RM'000	**RM'000**	**RM'000**	**RM'000**
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES				
Profit before tax	26,935	453	26,987	1,435
Adjustments for:				
Unrealised loss on derivatives trading	18,836	33,921	18,836	33,921
Unrealised foreign exchange loss/(gain)	7,322	(24,991)	7,322	(24,991)
Depreciation of property, plant and equipment	3,509	3,753	3,509	3,753
Amortisation of premium less accretion of discount	1,865	5,863	1,865	5,863
(Write back)/Allowance for impairment on loans, advances and financing	(1,082)	1,402	(1,082)	1,402
Share of loss of associated company	683	477	-	-
Impairment loss of investment in associate company	517	-	1,400	-
Amortisation of intangible assets	249	190	249	190
Subordinated debt capital effective interest rate adjustment	(7,904)	-	(7,904)	-
Amortisation of cost and premium relating to subordinated debt capital	(649)	613	(649)	613
(Gain)/Loss from sale of securities available-for-sale	(43)	64	(43)	64
Property, plant and equipment written-off	-	1,009	-	1,009
Securities available-for-sale written-off	-	20	-	20
Dividends received from associated company	-	-	(252)	(505)
Gain from sale of securities held-for-trading	-	(2,211)	-	(2,211)
Operating Profit Before Working Capital Changes	50,238	20,563	50,238	20,563

(Forward)

	Group		Bank	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
(Increase)/Decrease in:				
Loans, advances and financing	(376,917)	(55,256)	(376,917)	(55,256)
Statutory deposits with Bank Negara Malaysia	5,855	17,404	5,855	17,404
Cash collateral pledged for derivative transactions	(106,424)	245,731	(106,424)	245,731
Derivative financial assets	(101,928)	105,029	(101,928)	105,029
Other assets	(16,496)	(1,304)	(16,496)	(1,304)
Securities held-for-trading	-	31,848	-	31,848
Increase/(Decrease) in:				
Deposits from customers	12,455	(556,422)	12,455	(556,422)
Deposits and placements from banks and other financial institutions	464,042	(766,724)	464,042	(766,724)
Derivative financial liabilities	98,304	(138,740)	98,304	(138,740)
Other liabilities	(99,127)	18,279	(99,127)	18,279
Cash Used In Operations	(69,998)	(1,079,592)	(69,998)	(1,079,592)
Income taxes refunded	15,810	-	15,810	-
Income taxes paid	(4,976)	(7,650)	(4,976)	(7,650)
Net Cash Used In Operating Activities	(59,164)	(1,087,242)	(59,164)	(1,087,242)
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES				
Proceeds from securities available-for-sale upon maturity	250,000	115,305	250,000	115,305
Net sale of securities available-for-sale	36,829	-	36,829	-
Dividends received from associated company	252	505	252	505
Purchase of property, plant and equipment	(1,119)	(5,933)	(1,119)	(5,933)
Proceeds from capital repayment of investment in associated company	-	2,018	-	2,018
Purchase of intangible assets	-	(540)	-	(540)
Net Cash From Investing Activities	285,962	111,355	285,962	111,355

(Forward)

	Group 2014 RM'000	Group 2013 RM'000	Bank 2014 RM'000	Bank 2013 RM'000
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES				
Proceeds from share issuance	140,000	-	140,000	-
Redemption of subordinated debt capital	(200,000)	-	(200,000)	-
Net Cash Used In Financing Activities	(60,000)	-	(60,000)	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	166,798	(975,887)	166,798	(975,887)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	1,364,034	2,339,921	1,364,034	2,339,921
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	1,530,832	1,364,034	1,530,832	1,364,034
Cash and cash equivalents comprise the following:				
Cash and short-term funds (Note 5)	1,682,256	1,261,546	1,682,256	1,261,546
Cash collateral pledged (Note 5)	(151,424)	(45,000)	(151,424)	(45,000)
Deposits and placements with other financial institutions	-	147,488	-	147,488
	1,530,832	1,364,034	1,530,832	1,364,034

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

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The principal activities of the Bank are banking and related financial services. The principal activities of the subsidiaries are disclosed in Note 11 to the financial statements. There have been no significant changes in the nature of the principal activities of the Bank and of its subsidiaries during the financial year.

The Bank is a limited liability company, incorporated and domiciled in Malaysia. The registered office and the principal place of business of the Bank is located at Level 9, Menara Maxis, Kuala Lumpur City Centre, 50088 Kuala Lumpur.

The Bank's immediate holding company is RBS AA Holdings (U.K.) Limited ("RBS AA Holdings") and the ultimate holding consolidating parent of the Bank, The Royal Bank of Scotland Group Plc ("RBS Group"), is controlled by the UK Government. The UK Government therefore is a related party of the Bank.

Given the reach of the UK Government and their controlled bodies and the volume and diversity of transactions with them, the disclosure of transactions with these related parties is impractical. Hence, for purposes of the financial statements of the Group and the Bank, related companies refer to members of The Royal Bank of Scotland Group Plc's group of companies.

The consolidated financial statements of the Bank for the year ended 31 December 2014 comprise the Bank and its subsidiaries (collectively referred as the "Group" and individually referred as the "Group entities") and the Group's interest in associates. The financial statements of the Bank as at and for the year ended 31 December 2014 do not include other entities.

The financial statements of the Group and of the Bank were authorised by the Board of Directors for issuance in accordance with a resolution of the Directors on 25 March 2015.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Statement of Compliance

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

The financial statements are presented in Ringgit Malaysia ("RM") and are rounded to the nearest thousand ("000"), unless otherwise stated.

2.1 Adoption of New and Revised Malaysian Financial Reporting Standards and Bank Negara Malaysia ("BNM") Guidelines

In the current period, the Group and the Bank have adopted revised Standards issued by the Malaysian Accounting Standards Board ("MASB") that are relevant to their operations and effective for annual periods beginning on or after 1 January 2014 as follows:

MFRS 10, MFRS 12 and MFRS 127	Consolidated Financial Statements, Disclosure of Interest in Other Entities and Separate Financial Statements: Investment Entities
MFRS 132	Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities
MFRS 136	Impairment of Assets: Recoverable Amounts Disclosures for Non-Financial Assets
MFRS 139	Financial Instruments: Novation of Derivatives and Continuation of Hedge Accounting

The adoption of new and revised MFRSs has had no material impact on the disclosures in the Group and the Bank's financial statements.

BNM Guidelines

On 4 February 2014, BNM issued a letter requiring banking institutions to maintain, in aggregate, collective impairment provisions and regulatory reserves of no less than 1.2% of total outstanding loans/financing, net of individual impairment provisions, pursuant to paragraph 13 of the BNM's Policy Document on Classification and Impairment Provisions for Loans/Financing. The regulatory reserves are maintained in addition to the impairment provisions required under the MFRS 139 *Financial Instruments: Recognition and Measurement*, and it will be set aside from the retained earnings to a separate reserve within equity as an additional credit risk absorbent. Banking institutions are required to comply with this requirement by 31 December 2015. During the financial year, the Group and the Bank have transferred RM4.237 million from its retained earnings to regulatory reserves in accordance with BNM's requirements upon the early adoption by the Group and the Bank. The early adoption of this requirement did not have any impact to the current year profit or loss of the Group and of the Bank. The regulatory reserves do not qualify as common equity Tier I ("CET I") capital and Tier I capital under BNM's Capital Adequacy Framework (Capital Components).

2.2 New and Revised Standards and Amendments in issue but not yet effective

At the date of authorisation for issue of these financial statements, the relevant new and revised Standards and Amendments which were in issue but not yet effective and not adopted early by the Group and the Bank are as listed below:

MFRS 9	Financial Instruments (IFRS 9 issued by IASB in July 2014)[5]
MFRS 15	Revenue from Contracts with Customers[4]
Amendments to MFRS 10, MFRS 12 and MFRS 128	Investment Entities: Applying the Consolidation Exception[3]
Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to MFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to MFRS 101	Disclosure Initiative[3]
Amendments to MFRS 116 and MFRS 138	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to MFRS 119	Defined Benefit Plans: Employee Contributions[1]
Amendments to MFRS 127	Equity Method in Separate Financial Statements[3]

Amendments to MFRSs	Annual Improvements to MFRSs 2010 - 2012 Cycle[2]
Amendments to MFRSs	Annual Improvements to MFRSs 2011 - 2013 Cycle[1]
Amendments to MFRSs	Annual Improvements to MFRSs 2012 - 2014 Cycle[3]

[1] Effective for annual periods beginning on or after 1 July 2014
[2] Effective for annual periods beginning on or after 1 July 2014, with limited exceptions
[3] Effective for annual periods beginning on or after 1 January 2016
[4] Effective for annual periods beginning on or after 1 January 2017
[5] Effective for annual periods beginning on or after 1 January 2018

The Directors anticipate that the abovementioned Standards and Amendments will be adopted in the annual financial statements of the Group and the Bank when they become effective and that the adoption of these Standards, and Amendments will have no material impact on the financial statements of the Group and of the Bank in the period of initial application.

MFRS 9 Financial Instruments

MFRS 9 (IFRS issued by IASB in July 2014) introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

Key requirements of MFRS 9:

- all recognised financial assets that are within the scope of MFRS 139 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at fair values at the end of subsequent accounting periods. In addition, under MFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of equity instruments (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, MFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under MFRS 139, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

- in relation to the impairment of financial assets, MFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under MFRS 139. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in MFRS 139. Under MFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors are currently assessing the impact of adoption of MFRS 9 and have not made any accounting policy decision. Thus, the impact of adopting the new MFRS 9 on the Group's and the Bank's annual financial statements cannot be determined now until the process is complete.

MFRS 15 Revenue from Contracts with Customers

In May 2014, MFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contract with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 *Revenue, MFRS 111 Construction Contracts* and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition.

Step 1: Identify the contracts with a customer
Step 2: Indentify the performance obligations in the contract
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under MFRS 15, an entity recognised revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more perspective guidance has been added in MFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by MFRS 15.

The Directors of the Group and the Bank do not anticipate that the application of MFRS 15 in the future have a material impact on the amounts reported and disclosures made in the Group's and of the Bank's financial statements.

Amendments to MFRS 11 Accounting for Acquisition of Interests in Joint Operations

The amendments to MFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in MFRS 3 *Business Combinations*. Specially, the amendments state that the relevant principles on accounting for business combination in MFRS 3 and other standards (e.g. MFRS 136 *Impairment of Assets* regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by MFRS 3 and other standards for business combination.

The amendments to MFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The Directors the Bank do not anticipate that the application of these amendments to MFRS 11 will have a material impact on the Group's and the Bank's financial statements.

Amendments to MFRS 116 and MFRS 138 Clarification of Acceptance Methods of Depreciation and Amortisation

The amendments to MFRS 116 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to MFRS 138 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. The presumption can only be rebutted in the following two limited circumstances:

(a) When the intangible asset is expressed as a measure of revenue; or

(b) When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. The Group and the Bank use the straight-line method for depreciation and amortisation for the property, plant and equipment, and intangible assets respectively. The Directors of the Bank believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the Directors of the Bank do not anticipate that the application of these amendments to MFRS 116 and MFRS 138 will have a material impact on the Group's and the Bank's financial statements.

Amendments to MFRS 119 Defined Benefit Plans: Employee Contributions

The amendments to MFRS 119 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method, whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The Directors of the Bank do not anticipate that the application of these amendments to MFRS 119 will have a significant impact of the Group's and of the Bank's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of Accounting

The financial statements of the Group and of the Bank have been prepared on the historical cost basis, unless otherwise indicated in the significant accounting policies stated below.

Historical cost is generally based on the fair value of consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group and Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of MFRS 2, leasing transactions that are within the scope of MFRS 117 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in MFRS 102 or value-in-use in MFRS 136.

The principal accounting policies are set out below.

3.2 Subsidiaries and Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved when the Bank has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its return.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the statements of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Bank.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable Standards).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 139 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate.

Investment in subsidiaries which are eliminated on consolidation, are stated at cost less impairment losses, if any, in the Bank's separate financial statements.

3.3 Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At acquisition date, the identifiable assets acquired and liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with MFRS 112 *Income Taxes* and MFRS 119 *Employee Benefits* respectively;

- liabilities or equity instruments related to the share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with MFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another Standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held equity interests in the acquiree are remeasured to fair value at the acquisition date (i.e. the date when the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised at that date.

3.4 Investment in Associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of MFRS 139 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with MFRS 136 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with MFRS 136 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with MFRS 139. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate.

In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as that would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive by that associate would be reclassified to profit or loss on disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of the Group's interest in the associate that are not related to the Group.

Investment in associate is accounted for in the consolidated financial statements using the equity method less any impairment losses, unless it is classified as held for sale or distribution. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the associates, after adjustments if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest including any long-term investments is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

3.5 Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

Interest income

Interest income is recognised in profit or loss for all interest bearing assets using the effective interest method. Interest income includes the amortisation of premium or accretion of discount.

Interest income on loans, advances and financing is accounted for using the effective interest method by reference to rest periods as stipulated in the loan agreements, which are either monthly or daily.

For impaired financial assets where the value of the financial asset has been written down as a result of an impairment loss, interest/financing income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

Loan arrangement, commissions and service charges/fees are recognised as income when all conditions precedent are fulfilled.

Commitment fees and guarantee fees which are material are recognised when the transaction is completed.

Dividends

Dividends from held-for-trading and available-for-sale securities are recognised when declared.

3.6 Leasing

A lease is recognised as a finance lease if it transfers substantially to the Group and the Bank all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

(i) Finance leases

Assets acquired by way of hire-purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the statements of financial position as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's and the Bank's incremental borrowing rate is used. Any initial direct costs are also added to the carrying amount of such assets.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in profit or loss over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 3.10.

(ii) Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

3.7 Foreign Currencies

(i) **Functional and presentation currency**

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

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM’000) except where otherwise indicated.

(ii) **Foreign currency transactions**

In preparing the financial statements of the individual entities, transactions in currencies other than the entity’s functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the year.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income. Exchange differences arising from such non-monetary items are also recognised directly in other comprehensive income.

3.8 Employee Benefits

(i) Short-term employee benefits

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

(ii) Defined contribution plans

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

3.9 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statements of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's and the Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(ii) **Deferred tax**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences, unused tax losses and unused tax credits can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group and the Bank are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group and the Bank expect, at the end of the reporting period, to recover or settle the carrying amount of their assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group and the Bank intend to settle their current tax assets and liabilities on a net basis.

(iii) **Current and deferred tax for the period**

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

3.10 Property, Plant and Equipment

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

Subsequent to recognition, property, plant and equipment except for freehold land and building are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Motor vehicle	20%
Office equipment and machinery	20%
Furniture, fixtures and fittings	10% - 20%
Computer equipment	20% - 33 1/3%

The residual values, useful life and depreciation method are reviewed at the end of each reporting period to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss.

3.11 Intangible Assets

Computer software acquired is measured at cost on initial recognition. Following initial recognition, computer software is carried at cost less accumulated amortisation and accumulated impairment losses, if any. The cost are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that it may be impaired. The amortisation period and amortisation method are reviewed at least at end of each reporting period.

3.12 Impairment of Non-financial Assets

At end of each reporting period, the Group and the Bank review the carrying amounts of non-financial assets, other than deferred tax assets, to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value-in-use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

An impairment loss is recognised in profit or loss immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any available previously recognised revaluation surplus for the same asset.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised.

The reversal is recognised in profit or loss immediately, unless the asset is carried at revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in profit or loss, a reversal of that impairment loss is recognised as income in profit or loss.

3.13 Provisions

Provisions are recognised when the Group and the Bank have a present obligation (legal or constructive) as a result of a past event, it is probable that the Group and the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Restructurings

A restructuring provision is recognised when the Group and the Bank have developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

3.14 Contingent Liabilities and Contingent Assets

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 is remote.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group. The Group and the Bank does not recognise contingent assets but discloses their existence where inflows of economic benefits are probable, but not virtually certain.

3.15 Financial Instruments

Financial assets and financial liabilities are recognised in the statements of financial position when, and only when, the Group and the Bank become a party to the contractual provisions of the financial instruments.

Financial assets and financial liabilities are initially measured a fair value. Transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial asset/liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial assets/liability, or, where appropriate, a shorter period. Income/expense is recognised on an effective interest basis for debt instruments other than those financial asset/liability designated as at fair value through profit and loss.

3.15.1 Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss", "held-to-maturity" investments, "available-for-sale" financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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

Financial assets are classified as FVTPL when the financial asset is either held for trading or it is designated as FVTPL.

A financial asset is classified as held for trading if:

(a) it has been acquired principally for the purpose of selling in the near future; or

(b) on initial recognition it is part of a portfolio of identified financial instruments that the Group and the Bank manage together and have a recent actual pattern of short-term profit-taking or

(c) it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as FVTPL upon initial recognition if:

(a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(b) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's and the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

(c) it forms part of a contract containing one or more embedded derivatives, and MFRS 139 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains of losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 35.

(ii) **Available-for-sale financial assets (AFS)**

AFS financial assets, comprising government securities and investment securities, are intended to be held for a longer period of time and may be sold in response to the needs for liquidity or changes in interest rates, exchange rates or prices. The Group and the Bank use trade date accounting where the purchase and sale of an investment is under a contract whose terms require delivery of the investments within the timeframe established by the market concerned. The investments are stated at fair value. Fair value is determined in the manner described in Note 35.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of the reporting period.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's and the Bank's right to receive the dividends is established.

(iii) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified in this category include cash and balances with banks, reverse repurchase agreement and loans, advances and financing. These financial assets are initially recognised at fair value, including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest income on loans and receivables is recognised in "Interest income" in profit or loss. Impairment losses on loans, advances and financing are recognised in profit or loss as "Allowance for impairment on loans, advances and financing". Regular way recognition of loans, advances and financing is recorded on settlement date, when all the conditions under the loan contract have been fulfilled.

(iv) **Cash and cash equivalents**

Cash and cash equivalents as stated in the statements of cash flows comprise cash and short-term funds, deposits and placements with financial institutions that are readily convertible to cash with insignificant risk of changes in value.

(v) **Securities**

The holdings of the securities portfolio of the Group and the Bank are segregated based on the following categories and valuation methods:

(a) **Securities held-for-trading**

Securities are classified as held-for-trading if they are acquired and held principally with the intention of resale in the near term. The securities held-for-trading will be stated at fair value and any gain or loss arising from a change in their fair values and the derecognition of held-for-trading securities are recognised in profit or loss.

(b) **Securities available-for-sale**

Securities available-for-sale are financial assets that are not classified as held-for-trading or held-to-maturity. The securities available-for-sale are measured at fair value or at cost (less impairment losses) if the fair value cannot be reliably measured. Any gain or loss arising from a change in fair value is recognised directly in other comprehensive income until the financial asset is sold, collected, disposed of or impaired, at which time the cumulative gain or loss previously recognised in equity will be transferred to profit or loss, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss.

(vi) **Securities purchased under resale agreements**

Securities purchased under resale agreements are securities which the Group and the Bank had purchased with a commitment to resell at a future date. The commitment to resell the securities is reflected as an asset on the statements of financial position.

Conversely, obligations on securities sold under repurchase agreements are securities which the Group and the Bank have sold from its portfolio, with a commitment to repurchase at a future date. Such financing transactions and the obligation to repurchase the securities are reflected as a liability on the statements of financial position.

3.15.2 Impairment of financial assets

(i) Loans, advances and financing

Loans, advances and financing ("loans") of the Group and of the Bank are classified as impaired when they fulfill any of the following criteria:

(a) Principal or interest or both are past due for three (3) months or more;

(b) Where a loan is in arrears for less than three (3) months, the loan exhibits indications of credit weaknesses; or

(c) Where an impaired loan has been rescheduled or restructured, the loan will continue to be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for certain period of months.

For determination of impairment on loans, the Group and the Bank assess at the end of each reporting period whether there is objective evidence that a loan or a group of loans is impaired. A loan or a group of loans is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (i.e. an incurred loss event) and that loss event has an impact on the estimated future cash flows of the loans or a group of loans that can be reliably estimated.

The Group and the Bank first assess individually whether objective evidence of impairment exists individually for loans which are individually significant, or collectively for loans which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financing, the loan is then included in a group of financing with similar credit risk characteristics and collectively assessed for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective profit rate. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Where appropriate, the calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics. Impairment for this group is assessed based on the historical loss experience in terms of default rate and estimated recovery rate.

Future cash flows of the loans are evaluated depending on the availability of security for the loans. For unsecured loans, the fraction of exposure at default that will not be recovered following the default is taken in full.

For loans secured with collateral pledged to the Group and the Bank, the fraction of exposure at default would take into account value of the security discounted based on the expected period of recovery of the security using the effective interest rate.

The likelihood that the loan would fall into default is computed based on average default rates for the latest number of years using historical data of outstanding balance that flow through to the following month. Similar rate of the likelihood of default is applied to the group of loans with similar credit risk characteristics.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to customers are classified in loan impairment charges.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

(ii) **Available-for-sale financial assets (AFS)**

The Group and the Bank assess at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, cumulative gain or losses previously recognised in other comprehensive income are classified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated in other reserves. In respect of available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

(iii) **Held-to-maturity investments**

The Group and the Bank assess at the end of each reporting period whether objective evidence of impairment of financial investments held-to-maturity exists as a result of one or more loss events and that loss event has an impact on the estimated future cash flows of the financial investment or group of financial investments that can be reliably estimated.

Where there is objective evidence of impairment, an impairment loss is recognised as the difference between the acquisition cost and the present value of the estimated future cash flows, less any impairment loss previously recognised.

If held to maturity investments have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group and the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

(iv) **Rescheduled and restructured financing**

Where a loan shows evidence of credit weaknesses, the Group and the Bank may seek to renegotiate the loan rather than to take possession of collateral. This may involve an extension of the payment arrangements via rescheduling or the renegotiation of new loan terms and conditions via restructuring. Management monitors the renegotiated financing to ensure that all the revised terms are met and that the repayments are made promptly for a continuous period. Where an impaired loan is renegotiated, the borrower must adhere to the revised and/or restructured repayment terms for a continuous period of six months before the loan is classified as non-impaired. These financing continue to be subjected to individual or collective impairment assessment.

3.15.3 Derecognition of financial assets

Financial assets are derecognised when the contractual rights to the cash flows from the assets expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the assets to another entity. If the Group and the Bank neither transfer nor retain substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group and the Bank recognise their retained interest in the asset and an associated liability for amounts it may have to pay.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated equity is recognised in profit or loss.

3.15.4 Financial Liabilities and Equity Instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group and the Bank are recognised at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities "at fair value through profit or loss" or "other financial liabilities".

(i) **Financial liabilities at fair value through profit or loss (FVTPL)**

Financial liabilities are classified as FVTPL when the financial liability is either held for trading or it is designated as FVTPL.

A financial liability is classified as held for trading if:

(a) it has been incurred principally for the purpose of repurchasing in the near future; or

(b) on initial recognition it is part of a portfolio of identified financial instruments that the Group and the Bank manage together and has a recent actual pattern of short-term profit-taking; or

(c) it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as FVTPL upon initial recognition if:

(a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(b) the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's and the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

(c) it forms part of a contract containing one or more embedded derivatives, and MFRS 139 *Financial Instruments: Recogntion and Measurement* permits the entire combined contract (asset or liability) to be designated as FVTPL.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 35.

(ii) **Subordinated debt capital**

The interest-bearing instruments are recognised as liability and are recorded at amortised cost. Interest expense is recognised on an effective interest basis.

(iii) **Other financial liabilities**

Deposits of non-bank customers, deposits and balances of banks and other financial institutions and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest method, with interest expense recognised on an effective yield basis.

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of the amount of obligation under the contract recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies described above.

3.15.5 Derecognition of financial liabilities

The Group and the Bank derecognise financial liabilities when, and only when, the Group's and the Bank's obligations are discharged, cancelled or they expire.

3.16 Derivatives Financial Instruments

Derivatives are financial instruments where the contracted or notional amounts of which are not included in the statements of financial position either because rights and obligations arise out of one and the same contract, the performance of which is due after reporting date, or because the notional amounts serve merely as variables for calculation purposes. Examples of derivatives are forward exchange contracts, options, swaps, futures and forward rate agreements. The underlying value may involve interest rate, currency, commodity, bond or equity products or a combination of these.

All foreign currency contracts and interest rate swaps undertaken as a hedge against open positions created by customer transactions have been disclosed as contingent items.

These transactions are measured at fair value and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gain or loss arising from the change in the fair value of the derivative instrument is recognised in profit or loss unless they are part of a hedging relationship which qualifies for hedge accounting where the gain or loss is recognised as follows:

(i) **Fair value hedge**

Where a derivative financial instrument hedges the changes in fair value of a recognised asset or liability, any gain or loss on the hedging instrument is recognised in profit or loss. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in profit or loss.

(ii) **Cash flow hedge**

Gains and losses on the hedging instruments, to the extent that the hedge is effective, are deferred in the separate component of equity. The ineffective part of any gain or loss is recognised in profit or loss. The deferred gains and losses are then released to the statements of comprehensive income in the periods when the hedged item affects profit or loss.

(iii) **Embedded derivatives**

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and it is not expected to be realised or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

(iv) **Forward exchange contracts**

Unmatured forward exchange contracts are valued at forward rates as at the end of the reporting period, applicable to their respective dates of maturity, and unrealised losses and gains are recognised in the statements of profit or loss and other comprehensive income.

(v) **Interest rates swap, futures, forward and option contracts**

The Group and the Bank act as an intermediary with counterparties who wish to swap their interest obligations. The Group and the Bank also use interest rate swaps, futures, forward and option contracts in its trading account activities and in its overall interest rate risk management.

Interest income or interest expense associated with interest rate swaps that qualify as hedges is recognised over the life of the swap agreement as a component of interest income or interest expense. Gains and losses on interest rates futures, forward and option contracts that qualify as hedges are generally deferred and amortised over the life of the hedged assets or liabilities as adjustments to interest income or interest expense.

Gains and losses on interest rate swaps, futures, forward and option contracts that do not qualify as hedges are recognised in the current year using the mark-to-market method, and are included in profit or loss.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Preparation of the financial statements involved making certain estimates and assumptions concerning the future judgments. They affect the accounting policies applied, amounts of assets, liabilities, income and expenses reported and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Changes in these estimates and assumptions made by management may have an effect on the balances as reported in the financial statements.

(i) Fair value estimation for available-for-sale securities, securities purchased under resale agreements and derivative financial instruments

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

Where the fair values of financial assets and financial liabilities recorded on the statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible but where this is not feasible, a degree of judgment is required in establishing fair values. The judgment includes consideration of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

(ii) Deferred tax assets

Deferred tax assets are recognised on provisions for various costs and are measured and recognised based on the tax rates that are expected to apply in the period when the asset is realised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(iii) **Impairment losses on loans, advances and financing**

A loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate. The Group and the Bank review their loans and advances to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in profit or loss, management exercises judgment on whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a loan before the decrease can be identified within an individual loan.

There are two components to the Group's and the Bank's loan impairment provisions: individual assessment and collective assessment.

Individual assessment - All impaired loans that exceed specific thresholds are individually assessed for impairment. Impairment losses are recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held. These estimates take into account the customer's debt capacity and financial flexibility; the level and quality of its earnings; the amount and sources of cash flows; the industry in which the counterparty operates; and the realisable value of any security held. Estimating the quantum and timing of future recoveries involves significant judgment. The size of receipts will depend on the future performance of the borrower and the value of security, both of which will be affected by future economic conditions; additionally, collateral may not be readily marketable. The actual amount of future cash flows and the date they are received may differ from these estimates and consequently actual losses incurred may differ from those recognised in the financial statements.

Collective assessment - Under MFRS 139, collective assessment is performed on loans, advances and financing which are not individually significant based on the incurred loss approach. All loans, advances and financing (excluding those assessed individually as impaired above) are pooled into groups with similar credit risk characteristics and the future cash flows for each group is estimated on the basis of historical loss experience for such assets and discounted to present value.

(iv) **Impairment of securities available-for-sale**

The Group and the Bank assess at the end of each reporting period whether there is objective evidence that a financial investment classified as available-for-sale is impaired. In the case of quoted equity investments, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether objective evidence of impairment exists. Where such evidence exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised) is removed from equity and recognised in profit or loss.

For unquoted equity investments which are measured at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the asset 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 on equity instruments are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of unrealised reserves.

For debt instruments, impairment is assessed based on the same criteria as other financial investments available-for-sale. Where impairment losses have been previously recognised in profit or loss, if there is a subsequent increase in the fair value of the debt instrument that can be objectively related to a credit event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

5. CASH AND SHORT-TERM FUNDS

	Group/Bank	
	2014	**2013**
	RM'000	**RM'000**
Cash and balances with banks and other financial institutions	357,896	125,826
Money at call and deposit placements maturing within one month	1,324,360	1,135,720
	1,682,256	1,261,546

Included in money at call and deposit placements maturing within one month of the Group and of the Bank is an amount of RM151,424,000 (2013: RM45,000,000) representing cash collateral pledged for derivative transactions.

6. SECURITIES AVAILABLE-FOR-SALE

	Group/Bank 2014 RM'000	Group/Bank 2013 RM'000
At fair value		
Money market instruments:		
Malaysian Government Securities	383,633	637,432
Government Investment Issues	-	35,048
At cost		
Unquoted shares in Malaysia	1,699	1,699
	385,332	674,179

7. LOANS, ADVANCES AND FINANCING

	Group/Bank 2014 RM'000	Group/Bank 2013 RM'000
At amortised cost		
(i) **By type**		
Overdrafts	38,043	10,929
Term loans/financing:		
Housing loans/financing	17,626	19,815
Other term loans/financing	196	254
Factoring receivables	51,258	44,057
Bills receivables	84,296	35,704
Claims on customers under acceptance credits	47,333	43,707
Staff loans	2,287	3,518
Revolving credit	495,369	200,957
Trust receipt	141	708
	736,549	359,649
Less: Allowance for impaired loans, advances and financing:		
Collective assessment allowance	(4,592)	(5,548)
Individual assessment allowance	(800)	(943)
Net loans, advances and financing	731,157	353,158

(Forward)

7. LOANS, ADVANCES AND FINANCING (CONT'D.)

	Group/Bank 2014 RM'000	Group/Bank 2013 RM'000
(ii) By type of customer		
Domestic business enterprises:		
Small/medium enterprises	933	934
Others	703,068	321,859
Individuals	20,108	23,586
Foreign entity	11,152	9,093
Domestic banking institutions	1,288	4,177
	736,549	359,649
(iii) By interest rate sensitivity		
Fixed rate		
Housing loans/financing	1,450	2,454
Other fixed rate loan/financing	837	1,064
Variable rate		
BLR plus	20,224	31,705
Cost plus	714,038	324,426
	736,549	359,649
(iv) By residual contractual maturity		
Maturity within one year	717,205	336,417
More than one year to three years	844	915
More than three years to five years	753	547
More than five years	17,747	21,770
	736,549	359,649

7. LOANS, ADVANCES AND FINANCING (CONT'D.)

	Group/Bank 2014 RM'000	Group/Bank 2013 RM'000
(v) By geographical distribution		
Malaysia:		
Selangor	449,249	241,714
Kuala Lumpur	245,645	89,481
Johor	20,917	25,281
Perak	19,948	2,153
Penang	388	537
Negeri Sembilan	327	375
Melaka	75	103
Labuan	-	5
	736,549	359,649
(vi) By sector		
Manufacturing	272,200	111,958
Construction	9,583	4,964
Purchase of residential landed properties	18,747	22,079
Wholesale and retail	278,790	132,688
Finance, insurance and business services	80,899	13,270
Mining and quarrying	74,718	71,488
Consumption credit	115	199
Transport, storage and communication	251	1,695
Purchase of transport vehicles	1,246	1,308
	736,549	359,649
(vii) Movements in impaired loans, advances and financing are as follows:		
At 1 January	1,885	8,458
Impaired during the year	674	762
Reclassified as non-impaired	(498)	(7,335)
Amount written off	(33)	-
At 31 December	2,028	1,885
Individual assessment allowance	(800)	(943)
Net impaired loans, advances and financing	1,228	942
Gross impaired loans, advances and financing as a percentage of gross loans, advances and financing	0.28%	0.52%

7. LOANS, ADVANCES AND FINANCING (CONT'D.)

	Group/Bank 2014 RM'000	Group/Bank 2013 RM'000
(viii) Movements in allowance for impaired loans, advances and financing are as follows:		
Collective Assessment Allowance		
At 1 January	5,548	4,156
Allowance made during the year (Note 27)	1,700	2,307
Amount written back (Note 27)	(2,656)	(915)
At 31 December	4,592	5,548
Individual Assessment Allowance		
At 1 January	943	933
Allowance made during the year (Note 27)	864	1,206
Amount written back (Note 27)	(974)	(1,196)
Amount written off	(33)	-
At 31 December	800	943
(ix) Impaired loans, advances and financing by sector		
Purchase of landed properties (Residential)	1,646	1,498
Purchase of motor vehicle	48	53
Wholesale and retail	334	334
	2,028	1,885

8. DERIVATIVE FINANCIAL ASSETS/LIABILITIES

Derivative financial instruments are off-balance sheet financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, interest rates and security prices) of the underlying instruments. Most of the Group's and of the Bank's derivative trading activities relate to deals with customers which are normally laid off with counterparties. The Group and the Bank may also take positions with the expectation to gain from favourable movements in prices, rates or indices.

As at the end of the reporting period, the Group and the Bank have positions in the following types of derivatives:

		2014	
Group/Bank	**Notional RM'000**	**Assets RM'000**	**Liabilities RM'000**
Derivatives held for trading at fair value through profit or loss			
Foreign exchange contracts:			
Forward	3,522,920	86,155	66,870
Cross currency swaps and options	1,945,804	18,982	56,402
Interest rate contracts:			
Swaps	18,459,825	364,035	461,274
Cross currency interest rate swaps	5,317,722	219,271	252,700
Equity related contracts	22,398	730	730
	29,268,669	689,173	837,976

		2013	
Group/Bank	**Notional RM'000**	**Assets RM'000**	**Liabilities RM'000**
Derivatives held for trading at fair value through profit or loss			
Foreign exchange contracts:			
Forward	2,840,767	42,907	42,907
Cross currency swaps and options	4,229,446	61,860	61,690
Interest rate contracts:			
Swaps	22,565,183	332,306	311,227
Cross currency interest rate swaps	5,985,131	173,386	320,904
Equity related contracts	75,569	2,944	2,944
	35,696,096	613,403	739,672

8. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONT'D.)

The table above shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded at gross, is the amount of a derivative's underlying variable or reference rate and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the end of the reporting period and are indicative of neither the market risk nor the credit risk.

The fair values of the Group's and the Bank's derivative instruments are estimated by reference to quoted market prices. Internal models are used where no market price is available.

9. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

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

10. OTHER ASSETS

	Group/Bank	
	2014	**2013**
	RM'000	**RM'000**
Tax recoverable	11,654	21,652
Other receivables, deposits and prepayments	38,056	21,560
	49,710	43,212

11. INVESTMENT IN SUBSIDIARY COMPANIES

	Bank	
	2014	**2013**
	RM'000	**RM'000**
At cost		
Unquoted shares in Malaysia	20	20

11. INVESTMENT IN SUBSIDIARY COMPANIES (CONT'D.)

The subsidiary companies of the Bank, both of which are incorporated in Malaysia, are as follows:

Name of Subsidiary	Principal Activities	Proportion of Ownership Interest/ Voting Power Held by the Group 2014	2013
RBS Nominees (Tempatan) Sdn. Bhd.	Nominee services	100%	100%
RBS Nominees (Asing) Sdn. Bhd.	Nominee services	100%	100%

All income and expenditure arising from the nominee activities of the subsidiary companies have been recognised in the Bank's results.

During the financial year, the Bank has submitted applications to the Registrar of Companies ("ROC") to strike-off the Bank's two wholly owned subsidiary companies. The strike-off have no material effect on the earnings and net assets of the Bank for the financial year ended 31 December 2014. At the date of the report, the strike-off has not been approved by ROC.

12. INVESTMENT IN ASSOCIATED COMPANY

	Group 2014 RM'000	2013 RM'000
Unquoted shares at cost	2,700	2,700
Share of post-acquisition (loss)/reserves	(883)	52
Impairment loss (Note 26(b))	(517)	-
	1,300	2,752

	Bank 2014 RM'000	2013 RM'000
Unquoted shares at cost	2,700	2,700
Impairment loss (Note 26(b))	(1,400)	-
	1,300	2,700

12. INVESTMENT IN ASSOCIATED COMPANY (CONT'D.)

Details of the associated company, which is incorporated in Malaysia, is as follows:

Name of Associate	Principal Activities	Proportion of Ownership Interest/ Voting Power Held by the Group 2014	2013
Gale Force Sdn. Bhd.	Investing in or acquiring non-performing loans	25%	25%

The unaudited summarised financial information of the associated company is as follows:

	2014 RM'000	2013 RM'000
Assets and liabilities		
Current assets	9,377	10,960
Total assets	9,377	10,960
Current liabilities	2,173	52
Total liabilities	2,173	52
Results		
Revenue	712	896
Loss for the year	(1,873)	(1,978)

13. PROPERTY, PLANT AND EQUIPMENT

2014 Group and Bank	Freehold Land and Building RM'000	Motor Vehicle RM'000	Office Equipment and Machinery RM'000	Furniture, Fixtures and Fittings RM'000	Computer Equipment RM'000	Total RM'000
Cost						
At 1 January 2014	388	616	3,459	12,472	15,110	32,045
Additions	-	-	124	198	797	1,119
At 31 December 2014	388	616	3,583	12,670	15,907	33,164
Accumulated Depreciation						
At 1 January 2014	-	345	3,265	6,344	10,580	20,534
Depreciation charge for the year	-	123	318	1,588	1,480	3,509
At 31 December 2014	-	468	3,583	7,932	12,060	24,043
Carrying Amounts	388	148	-	4,738	3,847	9,121

Subsequent to the financial year end, the Bank entered into Sale and Purchase agreement, ("SPA") to dispose the freehold land and building located in Penang, Malaysia along with certain office equipment and machinery, furniture, fixtures and fittings for a sales proceed of approximately RM18 million. The disposal will result in an estimated gain of RM14 million.

(Forward)

13. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

2013 **Group and Bank**	**Freehold Land and Building RM'000**	**Motor Vehicle RM'000**	**Office Equipment and Machinery RM'000**	**Furniture, Fixtures and Fittings RM'000**	**Computer Equipment RM'000**	**Total RM'000**
Cost						
At 1 January 2013	388	616	6,245	21,619	19,285	48,153
Additions	-	-	208	3,035	2,690	5,933
Write-off	-	-	(2,994)	(12,182)	(6,865)	(22,041)
At 31 December 2013	388	616	3,459	12,472	15,110	32,045
Accumulated Depreciation						
At 1 January 2013	-	222	5,602	12,961	16,026	34,811
Depreciation charge for the year	-	123	576	1,771	1,283	3,753
Write-off	-	-	(2,913)	(8,388)	(6,729)	(18,030)
At 31 December 2013	-	345	3,265	6,344	10,580	20,534
Accumulated Impairment Loss						
At 1 January 2013	-	-	-	3,002	-	3,002
Write-off	-	-	-	(3,002)	-	(3,002)
At 31 December 2013	-	-	-	-	-	-
Carrying Amounts	388	271	194	6,128	4,530	11,511

14. INTANGIBLE ASSETS

	Group/Bank 2014 RM'000	Group/Bank 2013 RM'000
<u>Computer Software:</u>		
Cost		
At 1 January	3,831	3,640
Additions	-	540
Write-off	-	(349)
At 31 December	3,831	3,831
Accumulated Amortisation		
At 1 January	2,916	3,075
Amortisation for the year	249	190
Write-off	-	(349)
At 31 December	3,165	2,916
Carrying Amounts	666	915

15. DEFERRED TAX

	Group/Bank 2014 RM'000	Group/Bank 2013 RM'000
At 1 January	28,135	22,591
Recognised in profit or loss (Note 28)	(9,014)	5,050
Recognised in equity	49	494
At 31 December	19,170	28,135

15. DEFERRED TAX (CONT'D.)

	Group/Bank 2014 RM'000	Group/Bank 2013 RM'000
Presented after appropriate offsetting as follows:		
Deferred tax assets	19,428	29,273
Deferred tax liabilities	(258)	(1,138)
Net	19,170	28,135

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

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

Deferred tax assets of the Group and of the Bank:

	Other Payables RM'000	Other Temporary Differences RM'000	Unrealised Reserves RM'000	Total RM'000
At 1 January 2013	23,541	39	-	23,580
Recognised in profit or loss	5,693	-	-	5,693
At 31 December 2013	29,234	39	-	29,273
At 1 January 2014	29,234	39	-	29,273
Transfer from deferred tax liabilities	-	-	269	269
Recognised in equity	-	-	49	49
Recognised in profit or loss	(20,018)	9,855	-	(10,163)
At 31 December 2014	9,216	9,894	318	19,428

15. DEFERRED TAX (CONT'D.)

Deferred tax liabilities of the Group and of the Bank:

	Capital Allowances RM'000	Unrealised Reserves RM'000	Total RM'000
At 1 January 2013	764	225	989
Recognised in profit or loss	643	-	643
Recognised in equity	-	(494)	(494)
At 31 December 2013	1,407	(269)	1,138
At 1 January 2014	1,407	(269)	1,138
Transfer from deferred tax assets		269	269
Recognised in profit or loss	(1,149)	-	(1,149)
At 31 December 2014	258	-	258

The availability of capital allowances for offsetting against taxable profits is subject to agreement by the relevant tax authorities.

16. DEPOSITS FROM CUSTOMERS

	Group	
	2014 RM'000	2013 RM'000
Type		
At amortised cost		
Demand deposits	1,032,137	910,938
Savings deposits	1,293	1,763
Fixed deposits	178,678	287,070
Negotiable instruments of deposits	3,279	3,161
	1,215,387	1,202,932

	Bank	
	2014 RM'000	2013 RM'000
Type		
At amortised cost		
Demand deposits	1,032,157	910,958
Savings deposits	1,293	1,763
Fixed deposits	178,678	287,070
Negotiable instruments of deposits	3,279	3,161
	1,215,407	1,202,952

16. DEPOSITS FROM CUSTOMERS (CONT'D.)

(i) Maturity structure of fixed deposits and negotiable instruments of deposits is as follows:

	Group/Bank 2014 RM'000	Group/Bank 2013 RM'000
Due within six months	177,352	282,496
Six months to one year	4,605	1,960
One year to three years	-	5,775
	181,957	290,231

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

	Group 2014 RM'000	Group 2013 RM'000
Government and statutory bodies	22,112	29,381
Business enterprises	1,089,481	898,577
Individuals	14,044	16,238
Others	89,750	258,736
	1,215,387	1,202,932

	Bank 2014 RM'000	Bank 2013 RM'000
Government and statutory bodies	22,112	29,381
Business enterprises	1,089,481	898,577
Individuals	14,044	16,238
Others	89,770	258,756
	1,215,407	1,202,952

17. DEPOSITS AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group/Bank	
	2014 RM'000	2013 RM'000
At amortised cost		
Licensed banks	19,091	11,308
Other financial institutions	686,861	230,602
	705,952	241,910

18. OTHER LIABILITIES

	Group/Bank	
	2014 RM'000	2013 RM'000
Other liabilities	33,225	43,794
Internal settlement cost	35,294	123,852
Tax liabilities	1,776	-
	70,295	167,646

19. SUBORDINATED DEBT CAPITAL

	Group/Bank	
	2014 RM'000	2013 RM'000
At amortised cost		
At 1 January	208,553	207,940
Net amortisation during the year	(8,553)	613
Redemption of subordinated debt capital	(200,000)	-
At 31 December	-	208,553

On 8 June 2007, the Bank issued RM200 million in aggregate principal amount of redeemable Subordinated Negotiable Instruments of Deposits ("NIDs") maturing on 8 June 2017 at 4.15% per annum subject to revision on year 6 onwards. The Subordinated NIDs bore an interest stepped up by 0.5% per annum from the 6th year onwards till the end of maturity.

On 6 June 2014, the Bank has fully redeemed its subordinated debt capital which resulted in a change in estimation of effective interest rate of the subordinated debt resulting in a gain of RM7,904,000 in the statements of profit or loss and other comprehensive income.

20. SHARE CAPITAL

	The Bank			
	Number of shares			
	2014	2013	2014	2013
	'000	'000	RM'000	RM'000
Authorised:				
Ordinary shares of RM1 each:				
At beginning/end of the year	500,000	500,000	500,000	500,000
Issued and fully paid:				
Ordinary shares of RM1 each:				
At beginning of year	203,000	203,000	203,000	203,000
Issued during the year	140,000	-	140,000	-
At end of the year	343,000	203,000	343,000	203,000

As approved by the shareholder at an Extraordinary General Meeting held on 30 May 2014, the issued and paid-up share capital of the Bank was increased from RM203,000,002, comprising 203,000,002 ordinary shares of RM1.00 each, to RM343,000,002 comprising 343,000,002 ordinary shares of RM1.00 each by way of issuance of 140,000,000 new ordinary shares at RM1.00 each in the Company for the purpose of maintaining a strong Risk Weighted Capital Ratio ("RWCR") through the redemption of subordinate debt capital.

21. RESERVES

	Group 2014 RM'000	Group 2013 RM'000
Non-distributable:		
Share premium	76,182	76,182
Statutory reserves (Note a)	172,259	163,742
Unrealised reserves (Note b)	(956)	(809)
Regulatory reserves (Note c)	4,237	-
Distributable:		
Retained earnings (Note d)	148,294	144,067
	400,016	383,182

	Bank 2014 RM'000	Bank 2013 RM'000
Non-distributable:		
Share premium	76,182	76,182
Statutory reserves (Note a)	172,259	163,742
Unrealised reserves (Note b)	(956)	(809)
Regulatory reserves (Note c)	4,237	-
Distributable:		
Retained earnings (Note d)	148,294	144,015
	400,016	383,130

(a) **Statutory reserves**

The statutory reserves are maintained in compliance with Section 47(2)(f) of the Financial Services Act, 2013 and are not distributable as dividends.

(b) **Unrealised reserves**

The unrealised reserves comprise fair value changes on securities available-for-sale.

(c) **Regulatory reserves**

The reserves are maintained in line with the requirement of Bank Negara Malaysia as disclosed in Note 2.

(d) **Retained earnings**

The Bank is currently under the single-tier income tax system effective 1 January 2014. Accordingly, there is no further need to deduct tax when paying dividends. Dividends can be freely distributed without having to keep track of a dividend franking account.

22. OPERATING REVENUE

Operating revenue of the Group and of the Bank comprises all types of revenue derived from the business of banking and comprises gross interest income (after adding back net interest/income suspended), fee and commission income, investment income, gross dividends and other income derived from banking operations.

23. INTEREST INCOME

	Group/Bank	
	2014	**2013**
	RM'000	**RM'000**
Loans, advances and financing	21,777	19,455
Money at call and deposit placements with financial institutions	18,585	6,344
Securities available-for-sale	18,165	28,493
Securities held-for-trading	-	1,660
	58,527	55,952
Amortisation of premium less accretion of discount	(1,865)	(5,863)
Total interest income	56,662	50,089
Of which:		
Interest income earned on impaired loans, advances and financing	69	154

24. INTEREST EXPENSE

	Group/Bank 2014 RM'000	Group/Bank 2013 RM'000
Deposits and placements from banks and other financial institutions	3,868	3,783
Deposits from customers	9,837	13,258
Subordinated debt capital (Note 19)	(3,502)	9,862
	10,203	26,903

25. OTHER OPERATING INCOME

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Fee income:				
Commissions	1,895	1,110	1,895	1,110
Service charges and fees	1,853	1,531	1,853	1,531
Guarantee fees	4,680	4,526	4,680	4,526
Other fee income	6,648	6,885	6,648	6,885
	15,076	14,052	15,076	14,052
Net gain/(loss) arising from sale of securities:				
Securities held-for-trading	-	2,211	-	2,211
Securities available-for-sale	43	(64)	43	(64)
	43	2,147	43	2,147
Gross dividend income from:				
Securities available-for-sale	125	113	125	113
Associated company	-	-	252	505
	125	113	377	618

(Forward)

25. OTHER OPERATING INCOME (CONT'D)

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Other income:				
Foreign exchange gain/(loss)				
Unrealised	(7,322)	24,991	(7,322)	24,991
Realised	11,329	28,943	11,329	28,943
(Loss)/Gain on derivatives trading				
Unrealised	(18,836)	(33,921)	(18,836)	(33,921)
Realised	26,311	(5,800)	26,311	(5,800)
Others	(864)	(876)	(864)	(876)
	10,618	13,337	10,618	13,337
	25,862	29,649	26,114	30,154

26. OTHER OPERATING EXPENSES

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Personnel costs (Note a)	19,619	22,614	19,619	22,614
Establishment costs (Note b)	16,304	16,610	17,187	16,610
Marketing expenses (Note c)	859	752	859	752
Administration and general expenses (Note d)	9,003	10,527	9,003	10,527
	45,785	50,503	46,668	50,503

26. OTHER OPERATING EXPENSES (CONT'D)

(a) Personnel costs

	Group/Bank 2014 RM'000	Group/Bank 2013 RM'000
Salaries, bonuses and allowances	14,000	16,845
Other staff related expenses	2,680	2,769
EPF – defined contribution plan	2,348	2,641
Social security costs	483	207
Rental of accommodation	108	152
	19,619	22,614

(b) Establishment costs

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Share of group costs after offsetting waiver of management charges of RM18,438,000 (2013: RM28,893,000) for prior years	6,066	2,314	6,066	2,314
Depreciation of property, plant and equipment (Note 13)	3,509	3,753	3,509	3,753
Property, plant and equipment written-off	-	1,009	-	1,009
Amortisation of intangible assets (Note 14)	249	190	249	190
Rental of premises	1,409	2,018	1,409	2,018
Impairment loss on investment in associated company (Note 12)	517	-	1,400	-
Securities available-for-sale written-off	-	20	-	20
Others	4,554	7,306	4,554	7,306
	16,304	16,610	17,187	16,610

26. OTHER OPERATING EXPENSES (CONT'D.)

(c) Marketing expenses

	Group/Bank	
	2014	2013
	RM'000	RM'000
Advertising	305	416
Others	554	336
	859	752

(d) Administration and general expenses

	Group/Bank	
	2014	2013
	RM'000	RM'000
Communication	2,441	4,729
Legal and professional fees	1,185	1,333
Transportation	760	854
Property maintenance	1,328	619
Others	3,289	2,992
	9,003	10,527

Included in the above expenditure are the following statutory disclosures:

	Group/Bank	
	2014	2013
	RM'000	RM'000
Directors' remuneration and benefits-in-kind	1,975	2,332
Auditors' remuneration		
Statutory audit	234	220
Audit related services*	45	38

* Audit related services included validation review based on agreed-upon procedures required for regulatory purposes.

26. OTHER OPERATING EXPENSES (CONT'D.)

Details of Directors' remuneration of the Bank during the year are as follows:

	Salary and other remuneration RM'000	Fees RM'000	Bonuses RM'000	Benefits -in-kind RM'000	Total RM'000
2014					
Executive director:					
Andrew Mark Sill	1,464	-	270	35	1,769
Non-executive directors:					
Tan Sri Datuk Asmat bin Kamaludin	-	110	-	-	110
Dato' Jorgen Bornhoft	-	56	-	-	56
Jonathan William Addis	-	40	-	-	40
	1,464	206	270	35	1,975

	Salary and other remuneration RM'000	Fees RM'000	Bonuses* RM'000	Benefits -in-kind RM'000	Total RM'000
2013					
Executive director:					
Andrew Mark Sill	1,433	-	576	28	2,037
Non-executive directors:					
General (Rtd) Tan Sri Dato' Mohd Ghazali Seth	-	110	-	-	110
Tan Sri Datuk Asmat bin Kamaludin	-	95	-	-	95
Dato' Jorgen Bornhoft	-	90	-	-	90
	1,433	295	576	28	2,332

* These bonuses are for prior years' performance.

27. ALLOWANCE/(WRITE BACK) FOR IMPAIRMENT ON LOANS, ADVANCES AND FINANCING

	Group/Bank	
	2014	2013
	RM'000	RM'000
Allowance/(Write back) for impairment on loans, advances and financing:		
Individual Assessment Allowance:		
Made in the financial year (Note 7)	864	1,206
Written back in the financial year (Note 7)	(974)	(1,196)
Written off loans recovered	(16)	-
	(126)	10
Collective Assessment Allowance:		
Made in the financial year (Note 7)	1,700	2,307
Written back in the financial year (Note 7)	(2,656)	(915)
	(956)	1,392
	(1,082)	1,402

28. TAXATION

	Group/Bank	
	2014	2013
	RM'000	RM'000
Malaysian income tax based on results for the year:		
Current year	-	2,047
(Under)/Over provision in prior years	940	(2,256)
Current tax expense/(credit)	940	(209)
Deferred tax (Note 15):		
Relating to origination and reversal of temporary differences	7,491	(2,420)
(Under)/Over provision in prior years	1,523	(2,630)
Deferred tax expense/(credit)	9,014	(5,050)
Tax expense/(credit)	9,954	(5,259)

28. TAXATION (CONT'D)

Reconciliation of tax expense

	Group		Bank	
	2014 RM'000	**2013 RM'000**	**2014 RM'000**	**2013 RM'000**
Profit before tax	26,935	453	26,987	1,435
Taxation at Malaysian statutory tax rate of 25%	6,734	113	6,747	359
Income not subject to tax	(31)	(1,798)	(94)	(1,798)
Expenses not deductible for tax purposes	788	1,066	838	1,066
Tax effect of share of an associate's post-tax profit included in Group's results before taxation	-	246	-	-
Over/(Under) provision of deferred tax assets in prior years	1,523	(2,630)	1,523	(2,630)
Under/(Over) provision of current income tax payable in prior years	940	(2,256)	940	(2,256)
Tax expense/(income) for the year	9,954	(5,259)	9,954	(5,259)

The Budget 2014 announced on 25 October 2013 reduced the corporate income tax rate from 25% to 24% with effect from year of assessment 2016. Accordingly, the applicable tax rates to be used for the measurement of any applicable deferred tax will be the expected rates.

29. EARNINGS PER SHARE

The earnings per share of the Group and of the Bank have been calculated based on the profit for the year of RM16,981,000 and RM17,033,000 respectively (profit for the year in 2013 of RM5,712,000 and RM6,694,000 respectively) on the weighted average number of ordinary shares of RM1 each in issue of 273,000,002 (2013: 203,000,002) during the year.

30. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

Given the reach of the UK Government and their controlled bodies and the volume and diversity of transactions with them, the disclosure of transactions with these related parties is impractical. Hence, for purposes of the financial statements of the Bank and the Group, related companies refer to members of The Royal Bank of Scotland Group Plc's group of companies.

(a) Significant transactions undertaken by the Group and the Bank with related companies are as follows:

2014	**Subsidiary companies RM'000**	**Associated company RM'000**	**Other related companies RM'000**
Income:			
Commissions and fees	-	-	5,660
Interest income	-	-	1,310
Share of group and information technology costs	-	-	5,334
Dividend received*	-	252	-
Expense:			
Interest expense	-	-	243
Share of group and information technology costs	-	-	6,066
Assets:			
Cash and short-term funds			1,499,750
Interest receivable	-	-	4
Derivative financial assets	-	-	226,582
Liabilities:			
Deposits from customers	20	-	3,999
Deposits and placements from banks and other financial institutions	-	-	686,861
Interest payable	-	-	36
Derivative financial liabilities	-	-	279,734
Internal settlement cost	-	-	35,294

30. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D)

2013	Subsidiary companies RM'000	Associated company RM'000	Other related companies RM'000
Income:			
Commissions and fees	-	-	6,378
Interest income	-	-	3,582
Share of group and information technology costs			4,740
Directors fee received	-	368	-
Dividend received*	-	505	-
Expense:			
Interest expense	-	-	1,406
Share of group and information technology costs	-	-	2,314
Assets:			
Cash and short-term funds	-	-	1,134,399
Interest receivable	-	-	62
Derivative financial assets	-	-	224,325
Liabilities:			
Deposits from customers	20	-	2,536
Deposits and placements from banks and other financial institutions	-	-	230,602
Interest payable	-	-	1
Derivative financial liabilities	-	-	283,863
Internal settlement cost	-	-	123,852

* Significant transaction by the Bank only.

30. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D)

(b) Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year are as follows:

	Group/Bank 2014 RM'000	Group/Bank 2013 RM'000
Short-term employee benefits	5,170	5,026
Post-employment benefits:		
Defined contribution plan	487	534
	5,657	5,560

Included in the total compensation of key management personnel are:

	Group/Bank 2014 RM'000	Group/Bank 2013 RM'000
Directors' remuneration excluding benefits-in-kind	1,940	2,304

31. OPERATING LEASE ARRANGEMENTS

The Group and the Bank have entered into non-cancellable operating lease agreements for the use of buildings. These leases have an average term of 9 years with an option for cancellation every 3 years. There are no restrictions placed upon the Group and the Bank by entering into these leases.

The future aggregate minimum lease payments under non-cancellable operating leases contracted for as of the reporting date but not recognised as liabilities are as follows:

	Group/Bank 2014 RM'000	Group/Bank 2013 RM'000
Future minimum rental payments:		
Not later than 1 year	1,204	1,204
Later than 1 year and not later than 5 years	201	1,354
	1,405	2,558

32. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	Group/Bank	
	2014	**2013**
	RM'000	**RM'000**
Outstanding credit exposures with connected parties	138,773	215,811
Total credit exposures	4,125,825	4,548,022
Percentage of outstanding credit exposures to connected parties:		
- as a proportion of total credit exposures	3.36%	4.75%
- as a proportion of capital base (Note 36)	19.48%	30.67%

The credit exposures above are derived based on Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties, which are effective on 1 January 2008.

Based on these guidelines, a connected party refers to the following:

(i) Directors of the Bank and their close relatives;
(ii) Controlling shareholder and their close relatives;
(iii) Executive officer, being a member of management having authority and responsibility for planning and directing and/or controlling the activities of the Bank, and their close relatives;
(iv) Officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and their close relatives;
(v) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (iv) above, or in which they have an interest, as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;
(vi) Any person for whom the persons listed in (i) to (iv) above is a guarantor; and
(vii) Subsidiary of or an entity controlled by the Bank and its connected parties.

Due care has been taken to ensure that the credit worthiness of the connected party is not less than that normally required of other persons.

32. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES (CONT'D)

Credit transactions and exposure to connected parties as disclosed above include the extension of credit facilities and/or off-balance sheet credit exposure such as guarantees, trade-related facilities and loan commitments. It also includes holding of equities and private debt securities issued by the connected parties.

33. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group and the Bank make various commitments and incur certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions. The commitments and contingencies are not secured against the Group's and Bank's assets.

Risk Weighted Exposures of the Group and of the Bank as of 31 December are as follows:

	2014			2013		
	Principal amount RM'000	**Credit equivalent amount * RM'000**	**Risk-weighted amount RM'000**	**Principal amount RM'000**	**Credit equivalent amount * RM'000**	**Risk-weighted amount RM'000**
Direct credit substitutes	6,338	6,338	6,338	48,273	48,273	48,273
Transaction-related contingent items	644,368	322,184	314,521	593,503	296,752	275,703
Short-term self-liquidating trade						
- related contingencies	124,068	24,814	24,766	106,869	21,374	21,350
Irrevocable commitments to extend credit:						
maturity less than one year	1,714,432	342,886	327,188	1,697,114	339,423	303,432
maturity more than one year	323	162	121	323	162	121
Foreign exchange related contracts:						
less than one year	5,019,236	159,122	125,160	6,698,183	195,930	111,200
one year to less than five years	449,488	38,957	23,763	345,033	24,245	9,651
five years and above	-	-	-	26,997	2,700	1,350

(Forward)

33. COMMITMENTS AND CONTINGENCIES (CONT'D.)

	2014 Principal amount RM'000	2014 Credit equivalent amount * RM'000	2014 Risk-weighted amount RM'000	2013 Principal amount RM'000	2013 Credit equivalent amount * RM'000	2013 Risk-weighted amount RM'000
Interest rate related contracts:						
less than one year	5,984,083	154,793	115,634	4,306,665	34,339	15,645
one year to less than five years	13,058,632	820,425	332,081	18,465,077	975,251	469,615
five years and above	4,734,832	600,754	391,776	5,778,572	812,742	520,178
Equity related contracts:						
one year to less than five years	22,398	2,074	1,221	75,569	8,990	6,355
	31,758,198	2,472,509	1,662,569	38,142,178	2,760,181	1,782,873

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

34. FINANCIAL RISK MANAGEMENT POLICIES

The Group and the Bank adopt the risk management policies of the holding company, which encompass a variety of controls and reporting processes. This includes establishing risk management policies and guidelines which set out the Group's and the Bank's overall business strategies, tolerance for risk and general risk management philosophy to ensure that adequate resources are available for the development of the Group's and the Bank's business whilst managing its interest rate, market, credit and liquidity risks. The Board of Directors has approved guidelines pertaining to the risk management policies of the Group and the Bank which are closely adhered to, ensuring that the operations of the Bank are conducted in a prudent manner.

The Group and the Bank govern risk by adopting a 'three lines of defence' model to ensure appropriate responsibility is allocated for the management, reporting and escalation of risk matters. The first line of defence consists of the business and functions, which are responsible for owning, raising, capturing, confirming and resolving risks within their areas including performing self-certification to test and certify the adequacy and effectiveness of controls to meet these responsibilities. The second line of defence consists of RBS Group Risk Management and this includes Credit risk, Market risk, Operational risk and Regulatory risk. Each RBS Group Risk Management department is responsible for owning and developing their respective risk management frameworks, systems and tools, which the business and functions use to discharge their responsibilities. Additionally, the second line of defence provides oversight and challenge to the business and functions to ensure that risk exposure is adequately and effectively managed. The third line of defence is Internal Audit ("IA"). IA is responsible for providing independent assurance on the design, adequacy and effectiveness of the Group's system of internal controls.

Capital Management

Capital management is performed at the holding company level. The aim is to maintain an appropriate level of capital to meet its business needs and regulatory requirements, and operate within an agreed risk appetite.

The Group and the Bank have set a capital contingency framework to safe guard that the capital level stays within appropriate levels. This framework includes Early Warning Indicators, as well as setting Internal Capital Target levels above the regulatory minimum. The Early Indicator Trigger levels as well as the Internal Capital Target level will be reviewed annually inline with the Internal Capital Adequacy Assessment Process to ensure it remains adequate for the Group.

(a) **Operational Risk**

The Operational Risk Management ("ORM") team is responsible for providing effective guidance and oversight of operational risk within the business in the Asia Pacific region.

As part of the second line of defence, ORM provides assistance and guidance to the business and functions within the first line of defence, and ensures adherence to all appropriate operational risk policies and reporting requirements. ORM is responsible for the development and maintenance of the operational risk framework, systems, tools and methodologies including the deployment of these to the businesses and functions.

The ORM toolkit includes tools to assist with determining:

- **How much risk is acceptable?** This is achieved via Group & Divisional Policy Framework (supporting a consistent approach to 'how we do business') and helping the business determine its Risk Appetite.

- **What risks we face?** Tools include Change Risk Assessment (which focuses on risks associated with change related activities, as opposed to 'business as usual' activities), Risk Assessments (used to identify and assess the operational risks faced with 'business as usual' activities) and Scenario Analysis (forward looking assessment to determine exposure to extreme but plausible operational risk events).

- **How do we reduce risk?** Event & Loss Data Management process (to help effectively manage and report our operational risk events and includes the Group Notifiable Event Process ("GNEP") and Incident Analysis Reporting Procedure ("IAR")) and Risk Issues Management (to allow the identification, capture, classification and monitoring of operational risk issues and associated actions).

- **How do we know it's working?** ORM provides oversight and challenge to the first line of defence on the management of its operational risk primarily via the Control Environment Certification ("CEC") and the Risk & Control Assurance Program ("RACA") whereby the first line of defence conducts periodic testing and certification of its controls within their respective areas to ensure that these are adequate and effective.

34. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

(b) Credit Risk

Credit risk considers the ability of a borrower or counterparty to honor commitments under an agreement as any such failure has an adverse impact on the banks' financial performance. The Group and the Bank are exposed to credit risk through its various lending activities such as funded facilities, non-funded facilities as well as hedging facilities.

The Group and the Bank's credit risk management process is independent of the business so as to protect integrity of the risk assessment process and decision making. The global as well as local policies guide the credit risk team to make informed decisions.

Credit risk in respect of exposures to corporate borrowers is measured and managed at both individual counterparty level as well as at a portfolio level. Credit rating tools are an integral part of risk-assessment of the corporate borrowers and different rating models are used for each segment that has distinct risk characteristics such as large corporate and financial companies.

The credit rating tools use a combination of quantitative inputs and qualitative inputs to arrive at a 'point-in-time' view of the rating of counterparty. Each internal rating grade corresponds to a distinct probability of default. Model validation is carried out periodically at a global level by objectively assessing the accuracy and stability of ratings.

All credit exposures, once approved, are monitored and reviewed periodically against the approved limits. Borrowers with lower credit rating are subject to more frequent reviews. Besides this, there are monthly risk migration analysis and monthly watch list meeting.

Risk review involves independent review of credit risk assessment, compliance with internal policies of the Group and the Bank and with the regulatory framework, compliance of sanction terms and conditions and effectiveness of loan administration.

Customers with emerging credit problems are identified early and classified accordingly. Remedial action is initiated promptly to minimise the potential loss to the Group and the Bank.

The Group and the Bank control and limit concentration risk by means of appropriate structural limits and borrower limits based on creditworthiness. The exposures to individual clients or group are based on the internal rating of the borrower as well as group-wise borrowing limits and capped by the regulatory ceiling.

34. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Industry analysis plays an important part in assessing the concentration risk within the loan portfolio. Particular attention is given to industry sectors where the Group and the Bank believe there is a high degree of risk or potential for volatility in the future. The Group and the Bank have fixed internal limits for aggregate commitments to different sectors so that the exposures are evenly spread over various sectors.

34. **FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

The following table represents the Group's and Bank's credit risk concentrations as of 31 December 2014:

	Short term funds and placements with financial institutions including Statutory Deposit with BNM RM'000	**Securities available-for-sale RM'000**	**Loans, advances and financing* RM'000**	**Derivative financial assets RM'000**	**Commitments and contingencies RM'000**
Government and Central Banks	19,344	385,332	-	-	-
Mining and quarrying	-	-	74,718	22,278	1,036,741
Manufacturing	-	-	272,200	49,318	2,733,179
Electricity, gas and water	-	-	-	-	150,000
Construction	-	-	9,583	11,150	513,840
Purchase of residential landed properties	-	-	18,328	-	323
Wholesale and retail	-	-	278,456	1,615	810,805
Transport, storage and communication	-	-	251	204,947	2,178,733
Finance, insurance and business services	1,664,139	-	80,899	399,865	24,334,557
Purchase of transport vehicles	-	-	1,199	-	-
Consumption credit	-	-	115	-	-
Community, social and personal services	-	-	-	-	20
Others	3,514	-	(4,592)	-	-
	1,686,997	385,332	731,157	689,173	31,758,198

* Net of collective and individual assessment allowance RM4,592,000 and RM800,000 respectively.

34. **FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

The following table represents the Group's and Bank's credit risk concentrations as of 31 December 2013:

	Short term funds and placements with financial institutions including Statutory Deposit with BNM RM'000	Securities available-for-sale RM'000	Loans, advances and financing* RM'000	Derivative financial assets RM'000	Commitments and contingencies RM'000
Government and Central Banks	65,118	674,179	-	-	-
Mining and quarrying	-	-	71,488	12,380	741,725
Manufacturing	-	-	111,958	22,999	2,402,921
Electricity, gas and water	-	-	-	69	182,531
Construction	-	-	4,964	-	231,359
Purchase of residential landed properties	-	-	21,470	-	323
Wholesale and retail	-	-	132,354	305	452,277
Transport, storage and communication	-	-	1,695	129,780	2,272,221
Finance, insurance and business Services	1,353,467	-	13,270	445,024	31,785,416
Purchase of transport vehicles	-	-	1,308	-	-
Consumption credit	-	-	199	-	-
Community, social and personal services	-	-	-	2,846	73,405
Others	1,045	-	(5,548)	-	-
	1,419,630	674,179	353,158	613,403	38,142,178

* Net of collective and individual assessment allowance RM5,548,000 and RM943,000 respectively.

34. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Gross loans, advances and financing are analysed as follow:

	Group/Bank	
	2014	**2013**
	RM'000	**RM'000**
Neither past due nor impaired	733,169	355,456
Past due but not impaired	1,352	2,308
Impaired	2,028	1,885
	736,549	359,649

The breakdown of the gross amount of loans, advances and financing individually assessed as impaired, by class, along with the fair value of related collateral held by the Group and the Bank as security are as follow:

Group/Bank	**Total Gross Impaired Loans, Advances and Financing RM'000**	**Individual Assessment Allowance RM'000**	**Fair Value of Collateral RM'000**
2014			
Purchase of landed properties (Residential)	1,646	419	1,227
Purchase of transport vehicles	48	47	1
Wholesale and retail	334	334	-
	2,028	800	1,228
2013			
Purchase of landed properties (Residential)	1,498	556	942
Purchase of transport vehicles	53	53	-
Wholesale and retail	334	334	-
	1,885	943	942

34. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

(c) Market Risk

Market risk is the risk of losses arising from changes in market rates or prices that can affect either the value of financial instruments that can be marked to market or the derivatives credit risk exposure to counterparties.

The Group and the Bank have a comprehensive market risk management framework in place to identify measure, monitor, analyse and control market risk arising from its trading activities on a consistent and timely basis. Market risk management is governed through policies and procedures and levels of risk appetite in terms of Value at Risk ("VaR"). Limits are then proposed by the business within the terms of agreed policy.

These are agreed and monitored by an independent market risk management function. Policies cover both the trading and non-trading books.

Market risk exposures are monitored daily by independent market risk management team using relevant systems. Daily reports measuring utilisation of currency and holding limits together with price value basis points limits are generated and circulated to the relevant parties for information and action. The Bank has no significant exposure to equity and commodity price risk.

Value at Risk (VaR) and limits, independent stress testing of portfolios, factor sensitivity measures and derivatives are used as additional risk management tools to manage and hedge market risk exposures.

The table below provides the aggregate VaR for 31 December 2014 and 31 December 2013 at 99% confidence level, one day holding period.

	Group/Bank	
	2014	**2013**
	RM'mil	**RM'mil**
Aggregate VaR	0.75	1.15

The aggregate VaR includes the diversification effect of imperfect or negative correlations between certain risk types. Therefore the aggregate VaR can be lower than the sum of individual risk types on the same day (e.g. year end).

In practice, the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profit or loss in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation.

34. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

(d) Interest Risk

Sensitivity to interest rates in banking activities arises from mismatches in the interest rate characteristics of the assets and their corresponding liabilities funding these assets. One of the major causes of these mismatches is timing differences in the re-pricing of the financial assets and the liabilities. The Group and the Bank set limits on the level of gaps or mismatch of interest rates of items on and off the statements of financial position.

34. **FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

The following table represents the Group's assets and liabilities at carrying amounts as of 31 December 2014:

The Group 31.12.2014	**Non-Trading Book**								
	Up to 1 month RM'000	**1 - 3 months RM'000**	**3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-interest sensitive RM'000**	**Impairment RM'000**	**Trading book RM'000**	**Total RM'000**
Assets									
Cash and short-term funds	1,682,256	-	-	-	-	-	-	-	1,682,256
Securities available-for-sale	-	60,025	216,878	106,730	-	1,699	-	-	385,332
Loans, advances and financing	369,866	329,959	17,380	1,597	17,747	-	(5,392)	-	731,157
Derivative financial assets	-	-	-	-	-	-	-	689,173	689,173
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	4,741	-	-	4,741
Other assets	-	-	-	-	-	49,710	-	-	49,710
Investment in associated company	-	-	-	-	-	1,300	-	-	1,300
Property, plant and equipment	-	-	-	-	-	9,121	-	-	9,121
Intangible asset	-	-	-	-	-	666	-	-	666
Deferred tax assets	-	-	-	-	-	19,170	-	-	19,170
Total Assets	2,052,122	389,984	234,258	108,327	17,747	86,407	(5,392)	689,173	3,572,626

(Forward)

34. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

The Group 31.12.2014	Non-Trading Book: Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Impairments RM'000	Trading book RM'000	Total RM'000
Liabilities									
Deposits from customers	1,194,260	7,054	14,073	-	-	-	-	-	1,215,387
Deposits and placements from banks and other financial institutions	461,197	244,755	-	-	-	-	-	-	705,952
Derivative financial liabilities	-	-	-	-	-	-	-	837,976	837,976
Other liabilities	-	-	-	-	-	70,295	-	-	70,295
Total Liabilities	1,655,457	251,809	14,073	-	-	70,295	-	837,976	2,829,610
On balance sheet interest sensitivity gap	396,665	138,175	220,185	108,327	17,747	16,112	(5,392)	(148,803)	743,016
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-	(239,519)	(239,519)
Net interest sensitivity gap	396,665	138,175	220,185	108,327	17,747	16,112	(5,392)	(388,322)	503,497

34. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

The following table represents the Group's assets and liabilities at carrying amounts as of 31 December 2013:

The Group	←			**Non-Trading Book**		→			
31.12.2013	**Up to 1 month RM'000**	**1 - 3 months RM'000**	**3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-interest sensitive RM'000**	**Impairments RM'000**	**Trading book RM'000**	**Total RM'000**
Assets									
Cash and short-term funds	1,261,546	-	-	-	-	-	-	-	1,261,546
Deposits and placements with other financial institutions	-	147,488	-	-	-	-	-	-	147,488
Securities available-for-sale	-	35,048	251,098	386,334	-	1,699	-	-	674,179
Loans, advances and financing	225,613	63,429	47,375	1,462	21,770	-	(6,491)	-	353,158
Derivative financial assets	-	-	-	-	-	-	-	613,403	613,403
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	10,596	-	-	10,596
Other assets	-	-	-	-	-	43,212	-	-	43,212
Investment in associated company	-	-	-	-	-	2,752	-	-	2,752
Property, plant and equipment	-	-	-	-	-	11,511	-	-	11,511
Intangible asset	-	-	-	-	-	915	-	-	915
Deferred tax assets	-	-	-	-	-	28,135	-	-	28,135
Total Assets	1,487,159	245,965	298,473	387,796	21,770	98,820	(6,491)	613,403	3,146,895

(Forward)

34. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

The Group 31.12.2013	← Non-Trading Book →								
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Impairments RM'000	Trading book RM'000	Total RM'000
Liabilities									
Deposits from customers	1,181,199	9,615	6,343	5,775	-	-	-	-	1,202,932
Deposits and placements from banks and other financial institutions	228,800	13,110	-	-	-	-	-	-	241,910
Derivative financial liabilities	-	-	-	-	-	-	-	739,672	739,672
Other liabilities	-	-	-	-	-	167,646	-	-	167,646
Subordinated debt capital	-	-	-	208,553	-	-	-	-	208,553
Total Liabilities	1,409,999	22,725	6,343	214,328	-	167,646	-	739,672	2,560,713
On balance sheet interest sensitivity gap	77,160	223,240	292,130	173,468	21,770	(68,826)	(6,491)	(126,269)	586,182
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-	(740,477)	(740,477)
Net interest sensitivity gap	77,160	223,240	292,130	173,468	21,770	(68,826)	(6,491)	(866,746)	(154,295)

34. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

The following table represents the Bank's assets and liabilities at carrying amounts as of 31 December 2014:

The Bank **31.12.2014**	**Non-Trading Book** Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Impairments RM'000	**Trading book RM'000**	**Total RM'000**
Assets									
Cash and short-term funds	1,682,256	-	-	-	-	-	-	-	1,682,256
Securities available-for-sale	-	60,025	216,878	106,730	-	1,699	-	-	385,332
Loans, advances and financing	369,866	329,959	17,380	1,597	17,747	-	(5,392)	-	731,157
Derivative financial assets	-	-	-	-	-	-	-	689,173	689,173
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	4,741	-	-	4,741
Other assets	-	-	-	-	-	49,710	-	-	49,710
Investment in subsidiary company	-	-	-	-	-	20	-	-	20
Investment in associated company	-	-	-	-	-	1,300	-	-	1,300
Property, plant and equipment	-	-	-	-	-	9,121	-	-	9,121
Intangible asset	-	-	-	-	-	666	-	-	666
Deferred tax assets	-	-	-	-	-	19,170	-	-	19,170
Total Assets	2,052,122	389,984	234,258	108,327	17,747	86,427	(5,392)	689,173	3,572,646

(Forward)

34. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

The Bank 31.12.2014	← Non-Trading Book						→		
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Impairments RM'000	Trading book RM'000	Total RM'000
Liabilities									
Deposits from customers	1,194,280	7,054	14,073	-	-	-	-	-	1,215,407
Deposits and placements from banks and other financial institutions	461,197	244,755	-	-	-	-	-	-	705,952
Derivative financial liabilities	-	-	-	-	-	-	-	837,976	837,976
Other liabilities	-	-	-	-	-	70,295	-	-	70,295
Total Liabilities	1,655,477	251,809	14,073	-	-	70,295	-	837,976	2,829,630
On balance sheet interest sensitivity gap	396,645	138,175	220,185	108,327	17,747	16,132	(5,392)	(148,803)	743,016
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-	(239,519)	(239,519)
Net interest sensitivity gap	396,645	138,175	220,185	108,327	17,747	16,132	(5,392)	(388,322)	503,497

34. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

The following table represents the Bank's assets and liabilities at carrying amounts as of 31 December 2013:

The Bank	←		**Non-Trading Book**				→		
31.12.2013	**Up to 1 month RM'000**	**1 - 3 months RM'000**	**3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-interest sensitive RM'000**	**Impairments RM'000**	**Trading book RM'000**	**Total RM'000**
Assets									
Cash and short-term funds	1,261,546	-	-	-	-	-	-	-	1,261,546
Deposits and placements with other financial institutions	-	147,488	-	-	-	-	-	-	147,488
Securities available-for-sale	-	35,048	251,098	386,334	-	1,699	-	-	674,179
Loans, advances and financing	225,613	63,429	47,375	1,462	21,770	-	(6,491)	-	353,158
Derivative financial assets	-	-	-	-	-	-	-	613,403	613,403
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	10,596	-	-	10,596
Other assets	-	-	-	-	-	43,212	-	-	43,212
Investment in subsidiary company	-	-	-	-	-	20	-	-	20
Investment in associated company	-	-	-	-	-	2,700	-	-	2,700
Property, plant and equipment	-	-	-	-	-	11,511	-	-	11,511
Intangible asset	-	-	-	-	-	915	-	-	915
Deferred tax assets	-	-	-	-	-	28,135	-	-	28,135
Total Assets	1,487,159	245,965	298,473	387,796	21,770	98,788	(6,491)	613,403	3,146,863

(Forward)

34. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

The Bank 31.12.2013	Non-Trading Book Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Impairments RM'000	Trading book RM'000	Total RM'000
Liabilities									
Deposits from customers	1,181,219	9,615	6,343	5,775	-	-	-	-	1,202,952
Deposits and placements from banks and other financial institutions	228,800	13,110	-	-	-	-	-	-	241,910
Derivative financial liabilities	-	-	-	-	-	-	-	739,672	739,672
Other liabilities	-	-	-	-	-	167,646	-	-	167,646
Subordinated debt capital	-	-	-	208,553	-	-	-	-	208,553
Total Liabilities	1,410,019	22,725	6,343	214,328	-	167,646	-	739,672	2,560,733
On balance sheet interest sensitivity gap	77,140	223,240	292,130	173,468	21,770	(68,858)	(6,491)	(126,269)	586,130
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-	(740,477)	(740,477)
Net interest sensitivity gap	77,140	223,240	292,130	173,468	21,770	(68,858)	(6,491)	(866,746)	(154,347)

34. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Included in the tables below are the Group's and the Bank's assets and liabilities categorised by their average effective interest rates per annum at the end of the reporting period.

Group/Bank	**2014**						**2013**					
	MYR	**USD**	**AUD**	**EUR**	**GBP**	**SGD**	**MYR**	**USD**	**AUD**	**EUR**	**GBP**	**SGD**
	%	%	%	%	%	%	%	%	%	%	%	%
Financial Assets												
Cash and short-term fund	3.23	0.11	-	-	-	-	2.99	0.25	-	-	-	-
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-	1.07	-	-	-	-
Securities available-for-sale	3.86	-	-	-	-	-	3.99	-	-	-	-	-
Loans, advances and financing	3.64	-	-	-	-	-	3.81	-	-	-	-	-
Financial Liabilities												
Deposits from customers	3.13	0.03	3.15	-	0.53	-	2.92	0.05	3.19	0.10	-	-
Deposits and placements from banks and other financial institutions	-	0.16	-	-	-	-	-	0.25	-	0.08	-	0.10
Subordinated debt capital	-	-	-	-	-	-	4.88	-	-	-	-	-

34. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

(e) Liquidity Risk

The Group liquidity risk is managed centrally by the Bank. Liquidity risk is the risk that the Group is unable to meet their financial obligations, including wholesale maturities or customer deposit withdrawals, as and when they fall due.

The risk arises through the maturity transformation role that banks perform. It is dependent on the Bank's specific factors such as maturity profile, composition of sources and uses of funding, the quality and size of the liquidity profile as well as broarder market factors such as wholesale market conditions.

The Bank uses a suite of tools to monitor, limit and stress test the risks within the balance sheet. The limits and targets control the amount and composition of funding sources, asset and liability mismatches and funding concentrations, in addition to the liquidity risk.

Stress testing is performed on a regular basis as part of the liquidity risk management activities. Liquidity stress tests apply scenarios based on behavioural and contractual assumptions.

The Bank has a Contingency Funding Plan ("CFP") that is updated at least annually. The CFP provides a description of availability, size and timing of contingent liability sources available to the Bank. The CFP also includes documented processes for actions that maybe required to meet outflows and specific roles and responsibilities for effective implementation of the CFP.

The following tables show the assets and liabilities of the Group and the Bank based on contractual undiscounted repayment obligations at year ended 31 December 2014 and year ended 31 December 2013:

34. **FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

The following table summarises the maturity profile of the Group's assets and liabilities as of 31 December 2014 based on remaining contractual maturity:

The Group 31.12.2014	**Up to 1 month RM'000**	**1 - 3 months RM'000**	**3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**No specific maturity RM'000**	**Total RM'000**
Assets							
Cash and short-term funds	1,682,256	-	-	-	-	-	1,682,256
Securities available-for-sale	-	60,025	216,878	106,730	-	1,699	385,332
Loans, advances and financing	369,866	329,959	17,380	1,597	17,747	(5,392)	731,157
Derivative financial assets	115,094	56,144	58,582	301,689	157,664	-	689,173
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	4,741	4,741
Other assets	-	-	-	-	-	49,710	49,710
Investment in associated company	-	-	-	-	-	1,300	1,300
Property, plant and equipment	-	-	-	-	-	9,121	9,121
Intangible asset	-	-	-	-	-	666	666
Deferred tax assets	-	-	-	-	-	19,170	19,170
Total Assets	2,167,216	446,128	292,840	410,016	175,411	81,015	3,572,626

(Forward)

34. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

The Group 31.12.2014	**Up to 1 month RM'000**	**1 - 3 months RM'000**	**3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**No specific maturity RM'000**	**Total RM'000**
Liabilities							
Deposits from customers	1,194,260	7,054	14,073	-	-	-	1,215,387
Deposits and placements from banks and other financial institutions	461,197	244,755	-	-	-	-	705,952
Derivative financial liabilities	240,340	37,285	79,810	222,742	257,799	-	837,976
Other liabilities	-	-	-	-	-	70,295	70,295
Total Liabilities	1,895,797	289,094	93,883	222,742	257,799	70,295	2,829,610
Net liquidity gap	271,419	157,034	198,957	187,274	(82,388)	10,720	743,016

The following table summarises the maturity profile of the Group's assets and liabilities as of 31 December 2013 based on remaining contractual maturity:

The Group 31.12.2013	**Up to 1 month RM'000**	**1 - 3 months RM'000**	**3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**No specific maturity RM'000**	**Total RM'000**
Assets							
Cash and short-term funds	1,261,546	-	-	-	-	-	1,261,546
Deposits and placements with other financial institutions	-	147,488	-	-	-	-	147,488
Securities available-for-sale	-	35,048	251,098	386,334	-	1,699	674,179
Loans, advances and financing	225,613	63,429	47,375	1,462	21,770	(6,491)	353,158
Derivative financial assets	28,831	22,308	65,878	296,686	199,700	-	613,403
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	10,596	10,596
Other assets	-	-	-	-	-	43,212	43,212
Investment in associated company	-	-	-	-	-	2,752	2,752
Property, plant and equipment	-	-	-	-	-	11,511	11,511
Intangible asset	-	-	-	-	-	915	915
Deferred tax assets	-	-	-	-	-	28,135	28,135
Total Assets	1,515,990	268,273	364,351	684,482	221,470	92,329	3,146,895

(Forward)

34. **FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

The Group 31.12.2013	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Liabilities							
Deposits from customers	1,181,199	9,615	6,343	5,775	-	-	1,202,932
Deposits and placements from banks and other financial institutions	228,800	13,110	-	-	-	-	241,910
Derivative financial liabilities	18,820	17,388	98,540	256,029	348,895	-	739,672
Other liabilities	-	-	-	-	-	167,646	167,646
Subordinated debt capital	-	-	-	208,553	-	-	208,553
Total Liabilities	1,428,819	40,113	104,883	470,357	348,895	167,646	2,560,713
Net liquidity gap	87,171	228,160	259,468	214,125	(127,425)	(75,317)	586,182

34. **FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

The following table summarises the maturity profile of the Bank's assets and liabilities as of 31 December 2014 based on remaining contractual maturity:

The Bank 31.12.2014	**Up to 1 month RM'000**	**1 - 3 months RM'000**	**3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**No specific maturity RM'000**	**Total RM'000**
Assets							
Cash and short-term funds	1,682,256	-	-	-	-	-	1,682,256
Securities available-for-sale	-	60,025	216,878	106,730	-	1,699	385,332
Loans, advances and financing	369,866	329,959	17,380	1,597	17,747	(5,392)	731,157
Derivative financial assets	115,094	56,144	58,582	301,689	157,664	-	689,173
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	4,741	4,741
Other assets	-	-	-	-	-	49,710	49,710
Investments in subsidiary companies	-	-	-	-	-	20	20
Investment in associated company	-	-	-	-	-	1,300	1,300
Property, plant and equipment	-	-	-	-	-	9,121	9,121
Intangible asset	-	-	-	-	-	666	666
Deferred tax assets	-	-	-	-	-	19,170	19,170
Total Assets	2,167,216	446,128	292,840	410,016	175,411	81,035	3,572,646

(Forward)

34. **FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

The Bank 31.12.2014	**Up to 1 month RM'000**	**1 - 3 months RM'000**	**3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**No specific maturity RM'000**	**Total RM'000**
Liabilities							
Deposits from customers	1,194,280	7,054	14,073	-	-	-	1,215,407
Deposits and placements from banks and other financial institutions	461,197	244,755	-	-	-	-	705,952
Derivative financial liabilities	240,340	37,285	79,810	222,742	257,799	-	837,976
Other liabilities	-	-	-	-	-	70,295	70,295
Total Liabilities	1,895,817	289,094	93,883	222,742	257,799	70,295	2,829,630
Net liquidity gap	271,399	157,034	198,957	187,274	(82,388)	10,740	743,016

The following table summarises the maturity profile of the Bank's assets and liabilities as of 31 December 2013 based on remaining contractual maturity:

The Bank 31.12.2013	**Up to 1 month RM'000**	**1 - 3 months RM'000**	**3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**No specific maturity RM'000**	**Total RM'000**
Assets							
Cash and short-term funds	1,261,546	-	-	-	-	-	1,261,546
Deposits and placements with other financial institutions	-	147,488	-	-	-	-	147,488
Securities available-for-sale	-	35,048	251,098	386,334	-	1,699	674,179
Loans, advances and financing	225,613	63,429	47,375	1,462	21,770	(6,491)	353,158
Derivative financial assets	28,831	22,308	65,878	296,686	199,700	-	613,403
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	10,596	10,596
Other assets	-	-	-	-	-	43,212	43,212
Investments in subsidiary companies	-	-	-	-	-	20	20
Investment in associated company	-	-	-	-	-	2,700	2,700
Property, plant and equipment	-	-	-	-	-	11,511	11,511
Intangible asset	-	-	-	-	-	915	915
Deferred tax assets	-	-	-	-	-	28,135	28,135
Total Assets	1,515,990	268,273	364,351	684,482	221,470	92,297	3,146,863

(Forward)

34. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

The Bank 31.12.2013	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Liabilities							
Deposits from customers	1,181,219	9,615	6,343	5,775	-	-	1,202,952
Deposits and placements from banks and other financial institutions	228,800	13,110	-	-	-	-	241,910
Derivative financial liabilities	18,820	17,388	98,540	256,029	348,895	-	739,672
Other liabilities	-	-	-	-	-	167,646	167,646
Subordinated debt capital	-	-	-	208,553	-	-	208,553
Total Liabilities	1,428,839	40,113	104,883	470,357	348,895	167,646	2,560,733
Net liquidity gap	87,151	228,160	259,468	214,125	(127,425)	(75,349)	586,130

34. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Financial assets have been reflected in the time band of the latest date on which they could be repaid, unless earlier repayment can be demanded by the Group and the Bank. Financial liabilities are included at the earliest date on which the counterparty can require repayment regardless of whether or not such early repayment results in a penalty. If the repayment of a financial asset or liability is triggered by, or is subject to, specific criteria, such as market price hurdles being reached, the asset is included in the latest date on which it can be repaid regardless of early repayment and the liability is included at the earliest possible date that the conditions can be fulfilled without considering the probability of the conditions being met.

The contractual maturity of the financial assets and liabilities highlight the maturity transformation which underpins the role of banks to lend longer-term but funded predominantly by short-term liabilities such as customer deposits.

Customer assets and liabilities (including non-maturing savings/current deposits) are represented on contractual basis or period when it can legally be withdrawn. On a behavioural basis, the assets and liabilities cash flows may differ from contractual basis.

Financial assets and financial liabilities held for trading are classified based on trading pattern. The cash flows of the derivatives are presented net as they are short-term in nature and held for trading.

(f) Currency Risk

Currency risk is the risk to earnings and value of financial instruments caused by fluctuations in foreign exchange rates.

The Group and the Bank are exposed to movements in the foreign exchange rates from trading and non-trading transactions of their business units. Variations in the foreign exchange rates can lead to capital losses or reduced profit or loss. The Group's and the Bank's exposure to currency risk is controlled and monitored daily by a series of end of day, overnight and dealers' position limits.

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Set out below is the comparison of the carrying amounts and fair values of the financial instruments of the Group. It does not include those short term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values:

Group	2014		2013	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Financial Assets				
Securities available-for-sale	385,332	385,332	674,179	674,179
Loans, advances and financing	731,157	731,221	353,158	353,336
Derivative financial assets	689,173	689,173	613,403	613,403
Financial Liabilities				
Deposits from customers	1,215,387	1,215,259	1,202,932	1,202,817
Derivative financial liabilities	837,976	837,976	739,672	739,672
Subordinated debt capital	-	-	208,553	217,623

(Forward)

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)

Set out below is the comparison of the carrying amounts and fair values of the financial instruments of the Bank. It does not include those short term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values:

Bank	**2014**		**2013**	
	Carrying amount RM'000	**Fair value RM'000**	**Carrying amount RM'000**	**Fair value RM'000**
Financial Assets				
Securities available-for-sale	385,332	385,332	674,179	674,179
Loans, advances and financing	731,157	731,221	353,158	353,336
Derivative financial assets	689,173	689,173	613,403	613,403
Financial Liabilities				
Deposits from customers	1,215,407	1,215,279	1,202,952	1,202,837
Derivative financial liabilities	837,976	837,976	739,672	739,672
Subordinated debt capital	-	-	208,553	217,623

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)

The fair values for financial instruments recognised by the Group and the Bank are estimated based on the assumptions and techniques below.

These methods are subjective in nature and therefore the fair values presented may not be indicative of the actual realisable value.

(i) Cash and Short-Term Funds

The carrying amounts are a reasonable estimate of the fair values because of their short-term nature.

(ii) Deposits and Placements with Other Financial Institutions

Deposits and placements below one year are at carrying amounts while those maturing beyond one year have been valued based on discounted cashflows.

(iii) Securities Available-For-Sale

The estimated fair value is based on quoted and observable market prices at the reporting date. Where such quoted and observable market prices are not available, fair value is estimated using pricing models or discounted cash flows techniques. Where discounted cash flows technique is used, the estimated future cash flows are discounted based on current market rates for similar instrument at the end of the reporting period.

(iv) Loans, Advances and Financing

The fair values of fixed rate loans with remaining maturity of 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 discounted future cash flows of contractual instalment payments. In respect of non-performing loans, the fair values are deemed to approximate the carrying values, net of individual assessment allowance.

The fair value of variable rate financial instruments and those of a fixed rate nature maturing within 12 months of the end of the reporting period are assumed to approximate their carrying amounts.

The fair value of financial instruments with no specific maturity (e.g. cash and balances with banks and central banks, certain deposits from non-bank customers, banks and other financial institutions) are assumed to be the amount payable on demand at the end of the reporting period.

(v) Statutory Deposit with BNM

Statutory deposit with BNM is stated at carrying amount.

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)

(vi) Deposits from Customers

Deposits from customers are valued at carrying amounts for all amounts on demand and below one year, while deposits over one year have been valued at discounted cashflows.

(vii) Deposits and Placements from Banks and Other Financial Institutions

Deposits and placements from banks and other financial institutions are valued at carrying amounts.

(viii) Subordinated Debt Capital

The estimated fair value is based on observable market prices at the reporting date. Where such observable market prices are not available, fair value is estimated using pricing models or discounted cash flows techniques. Where discounted cash flows technique is used, the estimated future cash flows are discounted based on current market rates for similar instrument at the reporting date.

35.1 Valuation of Financial Instruments

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

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

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

(iii) Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)

The following table shows the Group's financial instruments which are measured at fair value and those that are not measured at fair value but for which fair value disclosures are provided, analysed by the various levels within the fair value hierarchy. It does not include those short term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values:

Group	**Carrying amount RM'000**	**Fair value RM'000**	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**
2014					
Financial Assets					
Securities available-for-sale	385,332	385,332	-	383,633	1,699
Derivative financial assets	689,173	689,173	-	689,173	-
Loans, advances and financing *	731,157	731,221	-	731,221	-
Financial Liabilities					
Deposits from customers *	1,215,387	1,215,259	-	1,215,259	-
Derivative financial liabilities	837,976	837,976	-	837,976	-

* Financial instruments that are not measured at fair value but for which fair value disclosures are provided.

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)

Group	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
2013					
Financial Assets					
Securities available-for-sale	674,179	674,179	-	672,480	1,699
Derivative financial assets	613,403	613,403	-	613,403	-
Loans, advances and financing *	353,158	353,336	-	353,336	-
Financial Liabilities					
Deposits from customers *	1,202,932	1,202,817	-	1,202,817	-
Derivative financial liabilities	739,672	739,672	-	739,672	-
Subordinated debt capital *	208,553	217,623	-	-	217,623

* Financial instruments that are not measured at fair value but for which fair value disclosures are provided.

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)

The following table shows the Bank's financial instruments which are measured at fair value and those that are not measured at fair value but for which fair value disclosures are provided, analysed by the various levels within the fair value hierarchy. It does not include those short term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values:

Bank	**Carrying amount RM'000**	**Fair value RM'000**	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**
2014					
Financial Assets					
Securities available-for-sale	385,332	385,332	-	383,633	1,699
Derivative financial assets	689,173	689,173	-	689,173	-
Loans, advances and financing *	731,157	731,221	-	731,221	-
Financial Liabilities					
Deposits from customers *	1,215,407	1,215,279	-	1,215,279	-
Derivative financial liabilities	837,976	837,976	-	837,976	-
Subordinated debt capital *	-	-	-	-	-

* Financial instruments that are not measured at fair value but for which fair value disclosures are provided.

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)

Bank	**Carrying amount RM'000**	**Fair value RM'000**	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**
2013					
Financial Assets					
Securities available-for-sale	674,179	674,179	-	672,480	1,699
Derivative financial assets	613,403	613,403	-	613,403	-
Loans, advances and financing *	353,158	353,336	-	353,336	-
Financial Liabilities					
Deposits from customers *	1,202,952	1,202,837	-	1,202,837	-
Derivative financial liabilities	739,672	739,672	-	739,672	-
Subordinated debt capital *	208,553	217,623	-	-	217,623

* Financial instruments that are not measured at fair value but for which fair value disclosures are provided.

36. CAPITAL ADEQUACY

The components of Tier I and Tier II capital of the Group are as follows:

	Group 2014 RM'000	Group 2013 RM'000
Tier-I capital		
Paid-up share capital	343,000	203,000
Share premium	76,182	76,182
Statutory reserves	172,259	163,742
Unrealised reserves	(956)	(809)
Retained earnings	148,294	144,067
	738,779	586,182
Less: Deferred tax assets	(19,170)	(28,135)
Total Tier-I capital	719,609	558,047
Tier-II capital		
Collective assessment allowance	4,592	5,548
Regulatory reserves	4,237	-
Subordinated debt capital	-	140,000
Total Tier-II capital	8,829	145,548
Total capital funds	728,438	703,595
Capital Ratios		
Core capital ratio	18.540%	14.287%
Risk-weighted capital ratio	18.767%	18.013%

36. CAPITAL ADEQUACY (CONT'D.)

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

	Bank 2014 RM'000	Bank 2013 RM'000
Tier-I capital		
Paid-up share capital	343,000	203,000
Share premium	76,182	76,182
Statutory reserves	172,259	163,742
Unrealised reserves	(956)	(809)
Retained earnings	148,294	144,015
	738,779	586,130
Less: Deferred tax assets	(19,170)	(28,135)
Total Tier-I capital	719,609	557,995
Tier-II capital		
Collective assessment allowance	4,592	5,548
Regulatory reserves	4,237	-
Subordinated debt capital	-	140,000
Total Tier-II capital	8,829	145,548
Total capital funds	728,438	703,543
Less: Investment in subsidiary companies	(20)	(20)
Capital base	728,418	703,523
Capital Ratios		
Core capital ratio	18.540%	14.287%
Risk-weighted capital ratio	18.767%	18.013%

36. CAPITAL ADEQUACY (CONT'D.)

The breakdown of risk-weighted assets by each major risk category is as follows:

	Group	
	2014	**2013**
	RM'000	**RM'000**
Credit risk	2,737,313	2,445,283
Market risk	1,036,089	1,311,955
Operational risk	107,750	148,191
Total risk-weighted assets	3,881,152	3,905,429

	Bank	
	2014	**2013**
	RM'000	**RM'000**
Credit risk	2,737,313	2,445,205
Market risk	1,036,089	1,311,955
Operational risk	107,907	148,506
Total risk-weighted assets	3,881,309	3,905,666

37. SUBSEQUENT EVENT

In February 2015, The Royal Bank of Scotland Group Plc ("RBS Group") announced that it will reduce its geographical footprint to approximately 13 countries, compared with 38 at the end of 2014, and the RBS Group is evaluating the options to implement the strategy announced. In addition to its main distribution and trading hubs in the UK, US and Singapore, RBS Group will remain present in a number of Western European countries with coverage teams.

The Bank operates outside RBS Group's prospective geographical footprint and has ceased marketing to new customers. It continues to serve existing customers and regards its business as a going concern. As of date of approving the financial statements, the impact of the change cannot be estimated.