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 2013
(In Ringgit Malaysia)

These Audited Financial Statements of the Bank with Unqualified Auditors' Report for the financial year ended 31 December 2013 were tabled at the Annual General Meeting/Adjourned Annual General Meeting held on ____________________

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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 2013.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are banking and related financial services. The principal activities of the subsidiaries are disclosed in Note 12 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	453	1,435
Tax credit	5,259	5,259
Profit for the year	5,712	6,694

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 27(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 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

The Bank has not issued any new shares or 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
Dato' Jorgen Bornhoft
Andrew Mark Sill
David Edward Hourican
Peter Andrew Akwaboah
Choo Tuck Wai
General (Rtd) Tan Sri Dato' Mohd Ghazali Seth (retired on 28 June 2013)

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

Dato' Jorgen Bornhoft, being over seventy-two years of age, retires at the forthcoming Annual General Meeting of the Bank in accordance with Article 107(i) of the Articles of Association of the Bank. The Board recommends that he be re-appointed as a Director in accordance with Section 129 of the Companies Act, 1965 until the conclusion of the following 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 £10.00 each			
	Balance as of 1.1.2013	**Awarded**	**Sold**	**Balance as of 31.12.2013**
Shares in the holding company, The Royal Bank of Scotland Group plc				
Andrew Mark Sill	20,092	4,007	-	24,099
David Edward Hourican	5,735	-	-	5,735
Peter Andrew Akwaboah	3,147	8,488	-	11,635
Choo Tuck Wai	6,016	-	-	6,016

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 Directors 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 27 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 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 34 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 27 (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.

BUSINESS PLAN AND STRATEGY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

The Bank looked to capture the full potential of its customer businesses and hence the Bank is undertaking a comprehensive business review of its customer-facing businesses, information technology and operations, and organisational and decision-making structures.

The review will aim to improve the Bank's performance and effectiveness in serving its customers, shareholders and wider stakeholders. This will include plans to realign the Bank's cost base to within an acceptable cost income ratio.

From a business and customer perspective, The Royal Bank of Scotland Group plc ("RBS Group"), announced during the year, a new strategy for the Markets business whereby RBS Group plan to exit all structured retail investor products and equity derivatives, as well as peripheral market-making activities. This resulted in a run-off organisation managed within the Markets business that will be divested through a combination of restructuring, asset sales and business sales where possible. These changes will create a simpler and sustainable business that focuses on the RBS Group's core strengths and serving RBS Group's clients well.

From a capital perspective, the RBS Group continues to build on its capital strength and the Bank maintains its strong capital strength despite a challenging year.

OUTLOOK FOR 2014

We see signs of UK and US economic recovery gaining traction and have observed higher levels of activity and confidence among our customers. Local economy with domestic demand is expected to remain weak and much of the impetus for growth is expected to come from net exports. Nevertheless, we expect a continued muted performance from our core businesses in the short term, due primarily to the continued effects of low interest rates, excess liquidity, a smaller balance sheet, and lower securities gains from our liquidity portfolio.

The RBS Group strategic review will start to drive cost reductions and improve efficiencies from our core businesses during 2014 but the impact will be felt in the years to come.

RATING BY AGENCY

In the annual rating review concluded on 4 December 2013, RAM Ratings reaffirmed the respective long and short-term financial institution ratings of AA2 and P1. Concurrently, the rating of the Bank's RM200 million Subordinated Negotiable Instruments of Deposit (2007/2017) was reaffirmed at AA3. The outlook for both long-term ratings' have been revised to negative from stable to reflect concerns on the Bank's competitive position given a narrower business focus which may in turn affect its profit performance. The 1-notch difference between the long term ratings reflects the subordination of the debt facility to the claims of the Bank's senior creditors.

HOLDING COMPANIES

On 19 April 2011, the Boards of The Royal Bank of Scotland Group plc ("RBS Group")*, The Royal Bank of Scotland plc ("RBS plc")*, RBS Holdings N.V. ("AAH")** and The Royal Bank of Scotland N.V. ("RBS N.V.")** announced their intention to transfer a substantial part of the business activities of RBS N.V. to RBS plc, subject, among other matters, to regulatory and other approval. In connection with this, RBS N.V. and RBS Group entered into a share purchase agreement on 30 September 2011 relating to the sale and purchase of the whole of the issued share capital of RBS AA Holdings (U.K.) Limited ("RBS AA Holdings")*.

Further to the above, RBS N.V. and RBS AA Holdings entered into a share purchase agreement on 12 October 2012 under which RBS N.V. agreed to sell and RBS AA Holdings agreed to purchase the whole of the issued share capital of the Bank. Thereafter, RBS AA Holdings became the immediate holding company of the Bank.

The ultimate consolidating parent of the Bank 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 the Bank, related companies refer to members of The Royal Bank of Scotland Group plc's group of companies.

* RBS Group, RBS plc and RBS AA Holdings are public limited companies incorporated in the United Kingdom.

** AAH and RBS N.V. are public limited companies incorporated in the Netherlands.

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 2014

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 125 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 2013 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 2014

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

I, **LOH JUI HAU**, 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 125 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.

LOH JUI HAU

Subscribed and solemnly declared by the abovenamed **LOH JUI HAU** at **KUALA LUMPUR** in the Federal Territory on the 25th day of March, 2014.

Before me,

COMMISSIONER FOR OATHS

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 2013 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 125.

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 2013 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

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

Other Matters

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

DELOITTE & TOUCHE
AF 0834
Chartered Accountants

NG YEE HONG
Partner – 2886/04/15 (J)
Chartered Accountant

25 March 2014

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

		Group	
	Note	**2013 RM'000**	**2012 RM'000**
ASSETS			
Cash and short-term funds	5	1,261,546	2,230,388
Deposits and placements with other financial institutions		147,488	400,264
Securities held-for-trading	6	-	29,637
Securities available-for-sale	7	674,179	797,407
Loans, advances and financing	8	353,158	299,304
Derivative financial assets	9	613,403	727,362
Statutory deposits with Bank Negara Malaysia	10	10,596	28,000
Other assets	11	43,212	34,049
Investment in associated company	13	2,752	5,752
Property, plant and equipment	14	11,511	10,340
Intangible assets	15	915	565
Deferred tax assets	16	28,135	22,591
TOTAL ASSETS		3,146,895	4,585,659
LIABILITIES AND SHAREHOLDER'S FUNDS			
Deposits from customers	17	1,202,932	1,759,354
Deposits and placements from banks and other financial institutions	18	241,910	1,008,634
Derivative financial liabilities	9	739,672	878,412
Other liabilities	19	167,646	149,367
Subordinated debt capital	20	208,553	207,940
TOTAL LIABILITIES		2,560,713	4,003,707
Share capital	21	203,000	203,000
Reserves	22	383,182	378,952
SHAREHOLDER'S FUNDS		586,182	581,952
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS		3,146,895	4,585,659
COMMITMENTS AND CONTINGENCIES	34	38,142,178	39,946,813

(Forward)

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

		Bank	
	Note	**2013 RM'000**	**2012 RM'000**
ASSETS			
Cash and short-term funds	5	1,261,546	2,230,388
Deposits and placements with other financial institutions		147,488	400,264
Securities held-for-trading	6	-	29,637
Securities available-for-sale	7	674,179	797,407
Loans, advances and financing	8	353,158	299,304
Derivative financial assets	9	613,403	727,362
Statutory deposits with Bank Negara Malaysia	10	10,596	28,000
Other assets	11	43,212	34,049
Investment in subsidiary companies	12	20	20
Investment in associated company	13	2,700	4,718
Property, plant and equipment	14	11,511	10,340
Intangible assets	15	915	565
Deferred tax assets	16	28,135	22,591
TOTAL ASSETS		3,146,863	4,584,645
LIABILITIES AND SHAREHOLDER'S FUNDS			
Deposits from customers	17	1,202,952	1,759,374
Deposits and placements from banks and other financial institutions	18	241,910	1,008,634
Derivative financial liabilities	9	739,672	878,412
Other liabilities	19	167,646	149,367
Subordinated debt capital	20	208,553	207,940
TOTAL LIABILITIES		2,560,733	4,003,727

(Forward)

	Note	Bank 2013 RM'000	Bank 2012 RM'000
Share capital	21	203,000	203,000
Reserves	22	383,130	377,918
SHAREHOLDER'S FUNDS		586,130	580,918
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS		3,146,863	4,584,645
COMMITMENTS AND CONTINGENCIES	34	38,142,178	39,946,813

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 2013

		Group		Bank	
		2013	**2012**	**2013**	**2012**
	Note	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Operating revenue	23	79,738	124,538	80,243	126,304
Interest income	24	50,089	66,923	50,089	66,923
Interest expense	25	(26,903)	(52,517)	(26,903)	(52,517)
Net interest income		23,186	14,406	23,186	14,406
Other operating income	26	29,649	57,615	30,154	59,381
Other operating expenses	27	(50,503)	(90,708)	(50,503)	(90,708)
(Allowance)/Write back for impairment on loans, advances and financing	28	(1,402)	161	(1,402)	161
Share of (loss)/profit of associated company		(477)	1,154	-	-
Profit/(Loss) before tax		453	(17,372)	1,435	(16,760)
Tax credit/(expense)	29	5,259	(6,760)	5,259	(6,760)
Profit/(Loss) for the year attributable to equity holder of the Bank		5,712	(24,132)	6,694	(23,520)
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Net loss on securities available-for-sale		(1,482)	(635)	(1,482)	(635)
Items that will not be reclassified subsequently to profit or loss		-	-	-	-
		(1,482)	(635)	(1,482)	(635)
Total comprehensive income/(loss) for the year		4,230	(24,767)	5,212	(24,155)
Earnings/(Loss) per share (sen)	30	2.81	(11.89)	3.30	(11.59)

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 2013

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 2012	203,000	76,182	162,068	1,308	164,161	606,719
Loss for the year	-	-	-	-	(24,132)	(24,132)
Net loss on securities available-for-sale	-	-	-	(847)	-	(847)
Deferred tax (Note 16)	-	-	-	212	-	212
Other comprehensive loss	-	-	-	(635)	-	(635)
At 31 December 2012	203,000	76,182	162,068	673	140,029	581,952

(Forward)

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
Net loss on securities available-for-sale	-	-	-	(1,976)	-	(1,976)
Deferred tax (Note 16)	-	-	-	494	-	494
Other comprehensive loss	-	-	-	(1,482)	-	(1,482)
Transfer of reserves	-	-	1,674	-	(1,674)	-
At 31 December 2013	203,000	76,182	163,742	(809)	144,067	586,182

(Forward)

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

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 2012	203,000	76,182	162,068	1,308	162,515	605,073
Loss for the year	-	-	-	-	(23,520)	(23,520)
Net loss on securities available-for-sale	-	-	-	(847)	-	(847)
Deferred tax (Note 16)	-	-	-	212	-	212
Other comprehensive loss	-	-	-	(635)	-	(635)
At 31 December 2012	203,000	76,182	162,068	673	138,995	580,918

(Forward)

Bank

	Share capital RM'000	← Non-distributable Reserves → Share premium RM'000	Statutory reserves RM'000	Unrealised reserves RM'000	Distributable Reserve 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
Net loss on securities available-for-sale	-	-	-	(1,976)	-	(1,976)
Deferred tax (Note 16)	-	-	-	494	-	494
Other comprehensive loss	-	-	-	(1,482)	-	(1,482)
Transfer of reserves	-	-	1,674	-	(1,674)	-
At 31 December 2013	203,000	76,182	163,742	(809)	144,015	586,130

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

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Group		Bank	
	2013 **RM'000**	**2012** **RM'000**	**2013** **RM'000**	**2012** **RM'000**
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(Loss) before taxation	453	(17,372)	1,435	(16,760)
Adjustments for:				
Unrealised loss on derivatives trading	33,921	63,253	33,921	63,253
Amortisation of premium less accretion of discount	5,863	4,996	5,863	4,996
Depreciation of property, plant and equipment	3,753	5,462	3,753	5,462
Allowance/(Write back) for impairment on loans, advances and financing	1,402	(161)	1,402	(161)
Property, plant and equipment written-off	1,009	-	1,009	-
Amortisation of cost and premium relating to subordinated debt capital	613	1,098	613	1,098
Share of loss/(profit) of associated company	477	(1,154)	-	-
Amortisation of intangible assets	190	267	190	267
Loss/(Gain) from sale of securities available-for-sale	64	(193)	64	(193)
Securities available-for-sale written-off	20	-	20	-
Unrealised foreign exchange gain	(31,050)	(71,482)	(31,050)	(71,482)
Gain from sale of securities held-for-trading	(2,211)	(1,022)	(2,211)	(1,022)
Impairment loss on property, plant and equipment	-	3,002	-	3,002
Unrealised gain on revaluation of securities held-for-trading	-	(146)	-	(146)
Operating Profit/(Loss) Before Working Capital Changes	14,504	(13,452)	15,009	(11,686)

(Forward)

	Group 2013 RM'000	Group 2012 RM'000	Bank 2013 RM'000	Bank 2012 RM'000
(Increase)/Decrease in:				
Cash collateral pledged for derivative transactions	245,731	31,348	245,731	31,348
Securities held-for-trading	31,848	277,900	31,848	277,900
Loans, advances and financing	(55,256)	68,950	(55,256)	68,950
Derivative financial assets	111,088	325,417	111,088	325,417
Other assets	(1,304)	(67)	(1,304)	(67)
Statutory deposits with Bank Negara Malaysia	17,404	(12,000)	17,404	(12,000)
Increase/(Decrease) in:				
Deposits from customers	(556,422)	(57,897)	(556,422)	(57,897)
Deposits and placements from banks and other financial institutions	(766,724)	475,870	(766,724)	475,870
Derivative financial liabilities	(138,740)	(335,378)	(138,740)	(335,378)
Other liabilities	18,279	(31,390)	18,279	(31,390)
Cash (Used In)/Generated From Operations	(1,079,592)	729,301	(1,079,087)	731,067
Income taxes paid	(7,650)	(5,806)	(7,650)	(5,806)
Net Cash (Used In)/ Generated From Operating Activities	(1,087,242)	723,495	(1,086,737)	725,261
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(5,933)	(2,970)	(5,933)	(2,970)
Purchase of intangible assets	(540)	(203)	(540)	(203)
Net purchase of securities available-for-sale	-	(14,064)	-	(14,064)
Proceeds from securities available-for-sale upon maturity	115,305	-	115,305	-
Proceeds from capital repayment of investment in associated company (Note 13)	2,018	3,785	2,018	3,785
Dividend received	505	1,766	-	-
Net Cash Generated From/(Used In) Investing Activities	111,355	(11,686)	110,850	(13,452)

(Forward)

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(975,887)	711,809	(975,887)	711,809
CASH AND CASH EQUIVALENTS AT 1 JANUARY	2,339,921	1,628,112	2,339,921	1,628,112
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	1,364,034	2,339,921	1,364,034	2,339,921
Cash and cash equivalents comprise the following:				
Cash and short-term funds	1,261,546	2,230,388	1,261,546	2,230,388
Deposits and placements with other financial institutions	147,488	400,264	147,488	400,264
Cash collateral pledged (Note 5)	(45,000)	(290,731)	(45,000)	(290,731)
	1,364,034	2,339,921	1,364,034	2,339,921

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

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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.

On 19 April 2011, the Boards of The Royal Bank of Scotland Group plc ("RBS Group")*, The Royal Bank of Scotland plc ("RBS plc")*, RBS Holdings N.V. ("AAH")** and The Royal Bank of Scotland N.V. ("RBS N.V.")** announced their intention to transfer a substantial part of the business activities of RBS N.V. to RBS plc, subject, among other matters, to regulatory and other approval. In connection with this, RBS N.V. and RBS Group entered into a share purchase agreement on 30 September 2011 relating to the sale and purchase of the whole of the issued share capital of RBS AA Holdings (U.K.) Limited ("RBS AA Holdings")*.

Further to the above, RBS N.V. and RBS AA Holdings entered into a share purchase agreement on 12 October 2012 under which RBS N.V. agreed to sell and RBS AA Holdings agreed to purchase the whole of the issued share capital of the Bank. Thereafter, RBS AA Holdings became the immediate holding company of the Bank.

The ultimate consolidating parent of the Bank 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 as at and for the year ended 31 December 2013 comprise the Bank and its subsidiaries (together referred to 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 2013 do not include other entities.

* RBS Group, RBS plc and RBS AA Holdings are public limited companies incorporated in the United Kingdom.
** AAH and RBS N.V. are public limited companies incorporated in the Netherlands.

The principal activities of the Bank are banking and related financial services. The principal activities of the subsidiary companies are to act as nominees, trustees, custodian trustees and agents on behalf of the Bank. There have been no significant changes in the nature of the principal activities during the financial year.

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 2014.

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.

New and Revised MFRS Affecting Amounts Reported and/or Disclosures in the Financial Statements

In the current year, the Group and the Bank have applied a number of new and revised MFRSs issued by the Malaysian Accounting Standards Board ("MASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2013.

Amendments to MFRS 7 Disclosures: Offsetting Financial Assets and Financial Liabilities

The Group and the Bank have applied the amendments to MFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to MFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments have been applied retrospectively. As the Group and the Bank do not have any offsetting arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognised in these financial statements.

MFRS 13: Fair Value Measurements

The Group and the Bank have applied MFRS 13 for the first time in the current year. MFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of MFRS 13 is broad; the fair value measurement requirements of MFRS 13 apply to both financial instrument items and non-financial instrument items for which other MFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of MFRS 2 Share-based Payment, leasing transactions that are within the scope of MFRS 117 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

MFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under MFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, MFRS 13 includes extensive disclosure requirements.

MFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. Other than the additional disclosures, the application of MFRS 13 has not had any material impact on the amounts recognised in these financial statements.

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

The Group and the Bank have applied the amendments to MFRS 101 Presentation of Items of Other Comprehensive Income for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to MFRS 101, the ‘statement of comprehensive income’ is renamed as the ‘statement of profit or loss and other comprehensive income’ and the ‘income statement’ is renamed as the ‘statement of profit or loss’. The amendments to MFRS 101 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to MFRS 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to MFRS 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Amendments to MFRS 101 Presentation of Financial Statements
(as part of the Annual Improvements to MFRSs 2009 - 2011 Cycle issued in July 2012)

The Annual Improvements to MFRSs 2009 - 2011 have made a number of amendments to MFRSs. The amendments that are relevant to the Group and the Bank are the amendments to MFRS 101 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

MFRS 119 Employee Benefits (IAS 19 as amended by IASB in June 2011)

In the current year, the Group and the Bank have applied MFRS 119 Employee Benefits (IAS 19 as amended by IASB in June 2011) and the related consequential amendments for the first time.

MFRS 119 (IAS 19 as amended by IASB in June 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. It requires the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of MFRS 119 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the statements of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the finance cost and expected return on plan assets used in the previous version of MFRS 119 are replaced with a “net-profits” amount under MFRS 119 (IAS 19 as amended by IASB in June 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.

Standards, Amendments and IC Interpretations issued but not yet effective

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

MFRS 9	Financial Instruments (IFRS 9 issued by IASB in November 2009)[1]
MFRS 9	Financial Instruments (IFRS 9 issued by IASB in October 2010)[1]
MFRS 9	Financial Instruments (Hedge Accounting and amendments to MFRS 9, MFRS 7 and MFRS 139)[1]
Amendments to MFRS 10, MFRS 12 and MFRS 127	Investment Entities[2]
Amendments to MFRS 119	Employee Benefits (Amendments relating to Defined Benefit Plans: Employee Contributions)[3]
Amendments to MFRS 132	Financial Instruments: Presentation (Amendments relating to Offsetting Financial Assets and Financial Liabilities)[2]
Amendments to MFRS 136	Impairment of Assets (Amendments relating to Recoverable Amounts Disclosures for Non-Financial Assets)[2]
Amendments to MFRS 139	Financial Instruments: Recognition and Measurement (Amendments relating to Novation of Derivatives and Continuation of Hedge Accounting)[2]

Amendments to MFRSs contained in the document entitled Annual Improvements to MFRSs 2010 - 2012 Cycle[3]

Amendments to MFRSs contained in the document entitled Annual Improvements to MFRSs 2011 - 2013 Cycle[3]

1 The mandatory effective date of MFRS 9 (IFRS 9 issued by IASB in November 2009 and October 2010 respectively) which was for annual periods beginning on or after 1 January 2015 has been removed with the issuance of MFRS 9 Financial Instruments: Hedge Accounting and amendments to MFRS 9, MFRS 7 and MFRS 139. The effective date of MFRS 9 will be decided when IASB's IFRS 9 project is closer to completion. However, each version of the MFRS 9 is available for early adoption.

2 Effective for annual periods beginning on or after 1 January 2014.

3 Effective for annual periods beginning on or after 1 July 2014.

MFRS 9 and Amendments relating to Mandatory Effective Date of MFRS 9 and Transition Disclosures

MFRS 9 (IFRS 9 issued by IASB in November 2009) introduces new requirements for the classification and measurement of financial assets. MFRS 9 (IFRS 9 issued by IASB in October 2010) includes the requirements for the classification and measurement of financial liabilities and for derecognition.

The amendments to MFRS 9 (IFRS 9 issued by IASB in November 2009 and October 2010 respectively) ("MFRS 9") relating to "Mandatory Effective Date of MFRS 9 and Transition Disclosures" which became immediately effective on the issuance date of 1 March 2012 amended the mandatory effective date of MFRS 9 to annual periods beginning on or after 1 January 2015 instead of on or after January 1, 2013, with earlier application still permitted as well as modified the relief from restating prior periods. However, this mandatory effective date has been removed with the issuance of MFRS 9 *Financial Instruments: Hedge Accounting* and Amendments to MFRS 9, MFRS 7 and MFRS 139 (see below). MFRS 7 which was also amended in tandem with the issuance of the aforementioned amendments introduces new disclosure requirements that are either permitted or required on the basis of the entity's date of adoption and whether the entity chooses to restate prior periods.

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 their 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 instrument (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.

The Directors anticipate that the application of MFRS 9 in the future may have significant impact on amounts reported in respect of the Group's and of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of MFRS 9 until a detailed review has been completed.

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.

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.

(i) 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 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.

(ii) **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 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 the 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.

(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 each reporting date, 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, and interests in joint ventures, 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 its 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 its 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 each financial year end 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 each reporting date.

3.12 Impairment of Non-financial Assets

At each reporting date, the Group and the Bank review the carrying amounts of 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 does not recognise contingent assets but discloses its 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 on 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 36.

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

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group and the Bank has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

(iii) **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 36.

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.

(iv) **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.

(v) **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.

(vi) **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.

(vii) **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. The Group and the Bank continue to recognise the financial asset and also recognise a collaterised borrowing.

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 36.

(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 rate 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 the 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 of the reporting date, 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 the 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 held-for-trading securities, 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 reporting date, 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 statement 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 each reporting date 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	
	2013	2012
	RM'000	RM'000
Cash and balances with banks and other financial institutions	125,826	119,538
Money at call and deposit placements maturing within one month	1,135,720	2,110,850
	1,261,546	2,230,388

Included in money at call and deposit placements maturing within one month of the Group and of the Bank is an amount of RM45,000,000 (2012: RM290,731,000) representing cash collateral pledged for derivative transactions.

6. SECURITIES HELD-FOR-TRADING

	Group/Bank	
	2013	2012
	RM'000	RM'000
At fair value		
Money market instruments:		
Malaysian Government Securities	-	29,637

7. SECURITIES AVAILABLE-FOR-SALE

	Group/Bank	
	2013	2012
	RM'000	RM'000
At fair value		
Money market instruments:		
Malaysian Government Securities	637,432	760,252
Government Investment Issues	35,048	35,436
At cost		
Unquoted shares in Malaysia	1,699	1,719
	674,179	797,407

8. LOANS, ADVANCES AND FINANCING

	Group/Bank	
	2013	2012
	RM'000	RM'000
At amortised cost		
(i) **By type**		
Overdrafts	10,929	8,367
Term loans/financing:		
Housing loans/financing	19,815	22,627
Other term loans/financing	254	307
Factoring receivables	44,057	49,795
Bills receivable	35,704	46,518
Claims on customers under acceptance credits	43,707	42,953
Staff loans	3,518	4,208
Revolving credit	200,957	128,802
Trust receipt	708	816
	359,649	304,393
Less: Allowance for impaired loans and financing:		
Collective assessment allowance	(5,548)	(4,156)
Individual assessment allowance	(943)	(933)
Net loans, advances and financing	353,158	299,304

(Forward)

		Group/Bank 2013 RM'000	Group/Bank 2012 RM'000
(ii)	**By type of customer**		
	Domestic business enterprises:		
	Small/medium enterprises	934	9,862
	Others	321,859	256,718
	Individuals	23,586	27,143
	Foreign entity	9,093	6,664
	Domestic banking institutions	4,177	4,006
		359,649	304,393
(iii)	**By interest rate sensitivity**		
	Fixed rate		
	Housing loans/financing	2,454	2,325
	Other fixed rate loan/financing	1,064	1,738
	Variable rate		
	BLR plus	31,705	32,263
	Cost plus	324,426	268,067
		359,649	304,393
(iv)	**By residual contractual maturity**		
	Maturity within one year	259,906	282,804
	More than one year to three years	655	168
	More than three years to five years	247	972
	More than five years	98,841	20,449
		359,649	304,393
(v)	**By geographical distribution**		
	Malaysia:		
	Kuala Lumpur	359,319	303,659
	Penang	330	734
		359,649	304,393

	Group/Bank 2013 RM'000	Group/Bank 2012 RM'000
(vi) By sector		
Manufacturing	111,958	203,501
Construction	4,964	4,929
Purchase of landed properties (residential)	22,079	25,096
Wholesale and retail	132,688	36,256
Finance, insurance and business services	13,270	17,302
Mining and quarrying	71,488	-
Consumption credit	199	253
Transport, storage and communication	1,695	15,262
Purchase of transport vehicles	1,308	1,794
	359,649	304,393

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

	Group/Bank 2013 RM'000	Group/Bank 2012 RM'000
At 1 January	8,458	48,453
Impaired during the year	762	7,608
Reclassified as non-impaired	(7,335)	(4,577)
Amount written off	-	(43,026)
At 31 December	1,885	8,458
Individual Assessment Allowance	(943)	(933)
Net impaired loans, advances and financing	942	7,525
Gross impaired loans as a percentage of gross loans, advances and financing	0.52%	2.78%

	Group/Bank 2013 RM'000	2012 RM'000
(viii) **Movements in allowance for impaired loans, advances and financing are as follows:**		
Collective Assessment Allowance		
At 1 January	4,156	4,199
Allowance made during the year (Note 28)	2,307	-
Amount written back (Note 28)	(915)	(43)
At 31 December	5,548	4,156
Individual Assessment Allowance		
At 1 January	933	44,077
Allowance made during the year (Note 28)	446	348
Amount written back (Note 28)	(436)	(466)
Amount written off	-	(43,026)
At 31 December	943	933

(ix) **Impaired loans, advances and financing by sector**

	2013 RM'000	2012 RM'000
Purchase of landed properties (Residential)	1,551	1,599
Manufacturing	-	6,518
Construction	-	7
Wholesale and retail	334	334
	1,885	8,458

9. 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 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 of reporting date, the Group and the Bank have positions in the following types of derivatives:

		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

		2012	
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	3,515,160	54,500	23,091
Cross currency swaps and options	2,883,136	16,126	19,019
Interest rate contracts:			
Futures	694,000	-	582
Swaps	23,883,684	509,607	417,305
Cross currency interest rate swaps	7,586,915	147,129	418,415
	38,562,895	727,362	878,412

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 year-end 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.

10. 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 ("SRR"), the amounts of which are determined at set percentages of total eligible liabilities.

11. OTHER ASSETS

	Group/Bank	
	2013	**2012**
	RM'000	**RM'000**
Tax recoverable	21,652	13,793
Other receivables, deposits and prepayments	21,560	20,256
	43,212	34,049

12. INVESTMENT IN SUBSIDIARY COMPANIES

	Bank	
	2013	**2012**
	RM'000	**RM'000**
At cost		
Unquoted shares in Malaysia	20	20

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

		Effective Equity Interest	
Name of Subsidiary	**Principal Activities**	**2013**	**2012**
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.

13. INVESTMENT IN ASSOCIATED COMPANY

	Group	
	2013 RM'000	**2012 RM'000**
Unquoted shares at cost	2,700	4,718
Share of post-acquisition reserves	52	1,034
	2,752	5,752

	Bank	
	2013 RM'000	**2012 RM'000**
Unquoted shares at cost	2,700	4,718

In March 2013, pursuant to Regulation 42 of Table 'A' in the Fourth Schedule of the Companies Act, 1965, the associated company reduced its share capital from RM18,704,039 comprising 18,704,039 ordinary shares of RM1.00 each (which have been issued and are fully paid-up) to RM10,704,039 comprising 10,704,039 ordinary shares of RM1.00 by way of cancelling 8,000,000 ordinary shares of RM1.00 each. The capital repayment amounting to RM2,018,000, being the Group's effective equity interest, has been credited to investment in associated company.

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

Name of Associate	Principal Activities	Effective Equity Interest 2013	2012
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:

	2013 RM'000	2012 RM'000
Assets and liabilities		
Current assets	10,960	22,207
Total assets	10,960	22,907
Current liabilities	52	105
Total liabilities	52	105
Results		
Revenue	896	14,499
(Loss)/Profit for the year	(1,978)	4,573

14. PROPERTY, PLANT AND EQUIPMENT

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

(Forward)

2012 **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 2012	388	616	6,212	21,619	16,348	45,183
Additions	-	-	33	-	2,937	2,970
At 31 December 2012	388	616	6,245	21,619	19,285	48,153
Accumulated Depreciation						
At 1 January 2012	-	144	4,397	10,692	14,116	29,349
Depreciation charge for the year	-	78	1,205	2,269	1,910	5,462
At 31 December 2012	-	222	5,602	12,961	16,026	34,811
Accumulated Impairment Loss						
At 1 January 2012	-	-	-	-	-	-
Impairment loss for the year	-	-	-	3,002	-	3,002
At 31 December 2012	-	-	-	3,002	-	3,002
Carrying Amounts	388	394	643	5,656	3,259	10,340

15. INTANGIBLE ASSETS

	Group/Bank	
	2013	2012
	RM'000	RM'000
Computer Software:		
Cost		
At 1 January	3,640	3,437
Additions	540	203
Write-off	(349)	-
At 31 December	3,831	3,640
Accumulated Amortisation		
At 1 January	3,075	2,808
Amortisation for the year	190	267
Write-off	(349)	-
At 31 December	2,916	3,075
Carrying Amounts	915	565

16. DEFERRED TAX ASSETS

	Group/Bank	
	2013	2012
	RM'000	RM'000
At 1 January	22,591	31,699
Recognised in profit or loss (Note 29)	5,050	(9,320)
Recognised in equity	494	212
At 31 December	28,135	22,591

	Group/Bank	
	2013 RM'000	2012 RM'000
Presented after appropriate offsetting as follows:		
Deferred tax assets	29,273	23,580
Deferred tax liabilities	(1,138)	(989)
Net	28,135	22,591

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	Total RM'000
At 1 January 2012	32,878	47	32,925
Recognised in profit or loss	(9,337)	(8)	(9,345)
At 31 December 2012	23,541	39	23,580
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

Deferred tax liabilities of the Group and of the Bank:

	Capital Allowances RM'000	Unrealised Reserves RM'000	Total RM'000
At 1 January 2012	789	437	1,226
Recognised in profit or loss	(25)	-	(25)
Recognised in equity	-	(212)	(212)
At 31 December 2012	764	225	989
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

17. DEPOSITS FROM CUSTOMERS

	Group	
	2013 RM'000	2012 RM'000
Type		
At amortised cost		
Demand deposits	910,938	1,264,594
Savings deposits	1,763	1,340
Fixed deposits	287,070	487,516
Negotiable instruments of deposits	3,161	5,904
	1,202,932	1,759,354

	Bank	
	2013 RM'000	2012 RM'000
Type		
At amortised cost		
Demand deposits	910,958	1,264,614
Savings deposits	1,763	1,340
Fixed deposits	287,070	487,516
Negotiable instruments of deposits	3,161	5,904
	1,202,952	1,759,374

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

	Group/Bank	
	2013 RM'000	2012 RM'000
Due within six months	282,496	482,670
Six months to one year	1,960	1,924
One year to three years	5,775	8,826
	290,231	493,420

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

	Group	
	2013 RM'000	2012 RM'000
Government and statutory bodies	29,381	125,917
Business enterprises	898,577	1,380,001
Individuals	16,238	14,782
Others	258,736	238,654
	1,202,932	1,759,354

	Bank	
	2013 RM'000	2012 RM'000
Government and statutory bodies	29,381	125,917
Business enterprises	898,577	1,380,001
Individuals	16,238	14,782
Others	258,756	238,674
	1,202,952	1,759,374

18. DEPOSITS AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group/Bank 2013 RM'000	Group/Bank 2012 RM'000
At amortised cost		
Licensed banks	11,308	198,732
Other financial institutions	230,602	809,902
	241,910	1,008,634

19. OTHER LIABILITIES

	Group/Bank 2013 RM'000	Group/Bank 2012 RM'000
Other liabilities	43,794	48,543
Internal settlement cost	123,852	100,824
	167,646	149,367

20. SUBORDINATED DEBT CAPITAL

	Group/Bank 2013 RM'000	Group/Bank 2012 RM'000
At 1 January	207,940	206,842
Net amortisation during the year	613	1,098
At amortised cost	208,553	207,940

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, unless redeemed at end of year 5, shall bear an interest stepped up by 0.5% per annum from the 6th year onwards till the end of maturity. As at 31 December 2013, the subordinated NIDs' interest rate is 4.65% (2012: 4.15%) per annum. The subordinated debts will constitute direct, unconditional and unsecured obligations of the Bank and are subordinated to the Bank's deposits.

21. SHARE CAPITAL

	Group/Bank	
	2013	**2012**
	RM'000	**RM'000**
Authorised:		
500,000,000 ordinary shares of RM1 each	500,000	500,000
Issued and fully paid:		
203,000,002 ordinary shares of RM1 each	203,000	203,000

22. RESERVES

	Group	
	2013	**2012**
	RM'000	**RM'000**
Non-distributable:		
Share premium	76,182	76,182
Statutory reserves (Note a)	163,742	162,068
Unrealised reserves (Note b)	(809)	673
Distributable:		
Retained earnings (Note c)	144,067	140,029
	383,182	378,952

	Bank	
	2013	**2012**
	RM'000	**RM'000**
Non-distributable:		
Share premium	76,182	76,182
Statutory reserves (Note a)	163,742	162,068
Unrealised reserves (Note b)	(809)	673
Distributable:		
Retained earnings (Note c)	144,015	138,995
	383,130	377,918

(a) Statutory reserves

The statutory reserves are maintained in compliance with Section 47 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) **Retained earnings**

In accordance with the Finance Act 2007, the single tier income tax system became effective from the year of assessment 2008. Under this system, tax on a Bank's profit is a final tax, and dividends paid are exempted from tax in the hands of the shareholders. Unlike the previous imputation system, the recipient of the dividend would no longer be able to claim any tax credits.

Companies without Section 108 tax credit balance will automatically move to the single tier tax system on 1 January 2008. However, companies with such tax credits are given an irrevocable option to elect for the single tier tax system and disregard the tax credits or to continue to use the tax credits under Section 108 account to frank the payment of cash dividends on ordinary shares for a period of 6 years ending 31 December 2013 or until the tax credits are fully utilised, whichever comes first. During the transitional period, any tax paid will not be added to the Section 108 account and any tax credits utilised will reduce the tax credit balance.

As of the reporting date, the Bank has not elected for the irrevocable option to disregard the Section 108 tax credits. Such tax credits have expired after 31 December 2013 and any dividends paid will be under the single tier system as explained above.

23. 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.

24. INTEREST INCOME

	Group/Bank 2013 RM'000	Group/Bank 2012 RM'000
Loans, advances and financing	19,455	15,058
Money at call and deposit placements with financial institutions	6,344	13,760
Securities available-for-sale	28,493	29,334
Securities held-for-trading	1,660	13,767
	55,952	71,919
Amortisation of premium less accretion of discount	(5,863)	(4,996)
Total Interest Income	50,089	66,923
Of which:		
Interest income earned on impaired loans, advances and financing	154	231

25. INTEREST EXPENSE

	Group/Bank 2013 RM'000	Group/Bank 2012 RM'000
Deposits and placements from banks and other financial institutions	3,783	22,177
Deposits from customers	13,258	20,092
Subordinated debt capital	9,862	9,922
Others	-	326
	26,903	52,517

26. OTHER OPERATING INCOME

	Group		Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Fee income:				
Commissions	1,110	1,569	1,110	1,569
Service charges and fees	1,531	1,395	1,531	1,395
Guarantee fees	4,526	5,072	4,526	5,072
Other fee income	6,885	1,795	6,885	1,795
	14,052	9,831	14,052	9,831
Net gain/(loss) arising from sale of securities:				
Securities held-for-trading	2,211	1,022	2,211	1,022
Securities available-for-sale	(64)	193	(64)	193
	2,147	1,215	2,147	1,215
Unrealised gain on revaluation of securities:				
Securities held-for-trading	-	146	-	146
Gross dividend income from:				
Securities available-for-sale	113	98	113	98
Associated company	-	-	505	1,766
	113	98	618	1,864
Other income:				
Foreign exchange gain/(loss)				
Unrealised	31,050	71,482	31,050	71,482
Realised	22,884	(67,479)	22,884	(67,479)
(Loss)/Gain on derivatives trading				
Unrealised	(33,921)	(63,253)	(33,921)	(63,253)
Realised	(5,800)	105,575	(5,800)	105,575
Others	(876)	-	(876)	-
	13,337	46,325	13,337	46,325
	29,649	57,615	30,154	59,381

27. OTHER OPERATING EXPENSES

	Group/Bank 2013 RM'000	Group/Bank 2012 RM'000
Personnel costs (Note a)	22,614	25,403
Establishment costs (Note b)	16,610	54,897
Marketing expenses (Note c)	752	608
Administration and general expenses (Note d)	10,527	9,800
	50,503	90,708

	Group/Bank 2013 RM'000	Group/Bank 2012 RM'000
(a) Personnel costs		
Salaries, bonuses and allowances	16,845	17,914
Other staff related expenses	2,769	4,431
EPF - defined contribution plan	2,641	2,877
Social security costs	207	161
Rental of accommodation	152	20
	22,614	25,403
(b) Establishment costs		
Share of group costs after offsetting waiver of management charges of RM28,893,000 (2012: Nil) for prior years	2,314	35,903
Share of information technology costs	-	372
Depreciation of property, plant and equipment	3,753	5,462
Impairment loss of property, plant and equipment	-	3,002
Property, plant and equipment written-off	1,009	-
Amortisation of intangible assets	190	267
Rental of premises	2,018	3,777
Securities available-for-sale written-off	20	-
Others	7,306	6,114
	16,610	54,897

		Group/Bank	
		2013	2012
		RM'000	RM'000
(c)	**Marketing expenses**		
	Advertising	416	411
	Others	336	197
		752	608
(d)	**Administration and general expenses**		
	Communication	4,729	2,542
	Others	2,992	2,693
	Legal and professional fees	1,333	1,405
	Transportation	854	1,262
	Property maintenance	619	1,898
		10,527	9,800

Included in the above expenditure are the following statutory disclosures:

	Group/Bank	
	2013	2012
	RM'000	RM'000
Directors' remuneration and benefits-in-kind	2,332	2,548
Auditors' remuneration		
Statutory audit	220	211
Audit related services*	38	38

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

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
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
2012					
Executive director:					
Andrew Mark Sill	1,451	-	772	35	2,258
Non-executive directors:					
General (Rtd) Tan Sri Dato' Mohd Ghazali Seth	-	110	-	-	110
Tan Sri Datuk Asmat bin Kamaludin	-	90	-	-	90
Dato' Jorgen Bornhoft	-	90	-	-	90
	1,451	290	772	35	2,548

* These bonuses are for prior years' performance.

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

	Group/Bank	
	2013	**2012**
	RM'000	**RM'000**
Allowance/(Write back) for bad and doubtful debts on loans and financing:		
Individual Assessment Allowance:		
Made in the financial year (Note 8)	446	348
Written back in the financial year (Note 8)	(436)	(466)
	10	(118)
Collective Assessment Allowance:		
Made in the financial year (Note 8)	2,307	-
Written back in the financial year (Note 8)	(915)	(43)
	1,392	(43)
	1,402	(161)

29. TAXATION

	Group/Bank	
	2013	**2012**
	RM'000	**RM'000**
Malaysian income tax based on results for the year:		
Current year	2,047	5,235
Over provision in prior years	(2,256)	(7,795)
Current tax credit	(209)	(2,560)
Deferred tax (Note 16):		
Relating to origination and reversal of temporary differences	(2,420)	(6,605)
(Under)/Over provision in prior years	(2,630)	15,925
Deferred tax (credit)/expense	(5,050)	9,320
	(5,259)	6,760

Reconciliation of tax expense

	Group		Bank	
	2013 RM'000	**2012 RM'000**	**2013 RM'000**	**2012 RM'000**
Profit/(Loss) before taxation	453	(17,372)	1,435	(16,760)
Taxation at Malaysian statutory tax rate of 25%	113	(4,343)	359	(4,190)
Income not subject to tax	(1,798)	(189)	(1,798)	(631)
Expenses not deductible for tax purposes	1,066	3,451	1,066	3,451
Tax effect of share of an associate's post-tax profit included in Group's results before taxation	246	(289)	-	-
Over/(Under) provision of deferred tax assets in prior years	(2,630)	15,925	(2,630)	15,925
(Over)/Under provision of current income tax payable in prior years	(2,256)	(7,795)	(2,256)	(7,795)
Tax (income)/expense for the year	(5,259)	6,760	(5,259)	6,760

30. EARNINGS/(LOSS) PER SHARE

The earnings/(loss) per share of the Group and of the Bank has been calculated based on the net profit after taxation of RM5,712,000 and RM6,694,000 respectively (net loss after taxation in 2012 of RM24,132,000 and RM23,520,000 respectively) on the weighted average number of ordinary shares of RM1 each in issue of 203,000,002 (2012: 203,000,002) during the year.

31. **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:

2013	**Immediate holding company RM'000**	**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

2012	**Immediate holding company RM'000**	**Subsidiary companies RM'000**	**Associated company RM'000**	**Other related companies RM'000**
Income:				
Commissions and fees	-	-	-	812
Interest income	-	-	-	14,668
Directors fee received	-	-	18	-
Dividend received*	-	-	1,766	-
Expense:				
Interest expense	-	-	-	21,719
Share of group and information technology costs	-	-	-	36,275
Assets:				
Cash and short-term funds	-	-	-	2,045,448
Deposits and placements with other financial institutions	-	-	-	400,264
Interest receivable	-	-	-	394
Derivative financial assets	-	-	-	200,632
Liabilities:				
Deposits from customers	-	20	-	10,572
Deposits and placements from banks and other financial institutions	-	-	-	795,035
Interest payable	-	-	-	57
Derivative financial liabilities	-	-	-	564,660
Internal settlement cost	-	-	-	100,824

* Significant transaction by the Bank only.

(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 2013 RM'000	Group/Bank 2012 RM'000
Short-term employee benefits	5,026	6,469
Post-employment benefits:		
Defined contribution plan	534	806
	5,560	7,275

Included in the total compensation of key management personnel are:

	Group/Bank 2013 RM'000	Group/Bank 2012 RM'000
Directors' remuneration excluding benefits-in-kind	2,304	2,513

32. 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 2013 RM'000	Group/Bank 2012 RM'000
Future minimum rental payments:		
Not later than 1 year	1,204	1,791
Later than 1 year and not later than 5 years	1,354	2,560
	2,558	4,351

33. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	Group/Bank 2013 RM'000	Group/Bank 2012 RM'000
Outstanding credit exposures with connected parties	215,811	255,146
Total credit exposures	4,548,022	3,872,917
Percentage of outstanding credit exposures to connected parties:		
- as a proportion of total credit exposures	4.75%	6.59%
- as a proportion of capital base (Note 37)	30.67%	34.46%

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.

The credit transactions with connected parties above are all transacted on an arm's length basis and on terms and conditions no more favourable than those entered into with other counterparties with similar circumstances and credit worthiness. 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.

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.

34. 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:

	2013			2012		
	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	48,273	48,273	48,273	60,000	60,000	60,000
Transaction-related contingent items	593,503	296,752	275,703	539,191	269,596	259,674
Short-term self-liquidating trade						
- related contingencies	106,869	21,374	21,350	20,614	4,123	3,246
Irrevocable commitments to extend credit:						
maturity less than one year	1,697,114	339,423	303,432	763,469	152,694	132,174
maturity more than one year	323	162	121	644	322	242
Foreign exchange related contracts:						
less than one year	6,698,183	195,930	111,200	5,247,363	119,635	66,074
one year to less than five years	345,033	24,245	9,651	709,519	70,827	38,638
five years and above	26,997	2,700	1,350	441,414	50,503	47,038

(Forward)

	2013 Principal amount RM'000	2013 Credit equivalent amount * RM'000	2013 Risk-weighted amount RM'000	2012 Principal amount RM'000	2012 Credit equivalent amount * RM'000	2012 Risk-weighted amount RM'000
Interest rate related contracts:						
less than one year	4,306,665	34,339	15,645	6,682,579	64,956	27,116
one year to less than five years	18,465,077	975,251	469,615	18,643,909	921,594	453,018
five years and above	5,778,572	812,742	520,178	6,838,111	879,462	556,140
Equity related contracts:						
one year to less than five years	75,569	8,990	6,355	-	-	-
	38,142,178	2,760,181	1,782,873	39,946,813	2,593,712	1,643,360

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

35. 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.

Capital Management

Capital management is performed at the holding company level. The primary objectives of the Capital Management function include the following:

(i) maintain a capital structure consistent with Group's rating targets;
(ii) ensure that the demand for capital is justified by sufficient returns to achieve the Group's Return on Equity target and that there is sufficient capital available to meet the capital demands;
(iii) comply with regulatory requirements;
(iv) improve the liquidity of Risk Weighted Assets to ensure the financial position remains flexible;
(v) increase strategic and tactical flexibility in deployment of capital;
(vi) meet the strategic funding needs; and
(vii) improve Return on Assigned Risk Capital

The Capital Management Group prepares a monthly capital outlook. Should potential imbalances be identified, the capital outlook will include a proposal for appropriate actions and execution to correct the imbalances.

(a) Operational Risk

Operational risk is the potential for financial loss, damage to reputation, or impact upon customers resulting from fraud, human error, ineffective or inadequately designed processes or systems, improper behavior, or external events. Operational risk is an integral and unavoidable part of the Group's and the Bank's business as it is inherent in the processes it operates to provide services to customers and generate profit for shareholders.

To ensure appropriate responsibility is allocated for the management, reporting and escalation of operational risk, the Group and the Bank operate a three lines of defense model which outlines principles for the roles, responsibilities and accountabilities for operational risk management.

An objective of operational risk management is not to remove operational risk altogether, but to manage the risk to an acceptable level, taking into account the cost of minimising the risk with the resultant reduction in exposure. Strategies to manage operational risk include avoidance, transfer, acceptance and mitigation by controls.

Each business unit must manage its operational risk exposure within an acceptable level, testing the adequacy and effectiveness of controls and other risk mitigants regularly and documenting the results. Where unacceptable control weaknesses are identified, action plans are produced and tracked to completion.

Operational Risk - Three Lines of Defense Model

First Line of Defense

The Business and its functions: The Business owns and manages its risks within the overall Group risk appetite and is responsible for complying with all Group policies. The Business must test and certify the adequacy and effectiveness of its controls in place to meet these responsibilities.

Second Line of Defense

Risk management: It is responsible for owning and developing the risk management framework and tools, which the business uses to discharge its responsibilities. The second line of defense must provide oversight and challenge to the first line on management of its risks.

Third Line of Defense

Group Internal Audit: It is responsible for providing independent assurance on the design, adequacy on effectiveness of the Group's and the Bank's system of internal controls.

The Group's Operational Risk Framework provides the direction for delivering effective operational risk management. They comprise principles and processes that enable the consistent identification, assessment, management, monitoring and reporting of operational risk across the Group and the Bank. The objectives of the standards are to protect the Bank from financial loss or damage to its reputation, its customers or staff and to ensure that it meets all necessary regulatory and legal requirements.

The Operational Risk Framework covers the following areas:

Risk Identification and Assessment:

- Change Risk Assessment: This process has been designed specifically to focus on risks associated with change-related activities, as opposed to 'business as usual' activities, particularly:

    - new or significantly revised products (New Product Risk Assessment);
    - structured transactions or models (Transaction Approval Process);
    - changes that will result from significant change projects (Significant Change Approval Process); and
    - changes to business processes (Business Process Change Risk Assessment).

- Risk Assessment: This process is used to identify and assess the operational risks that the Bank face in the different areas of its business that deal with 'business as usual' (as opposed to change), and includes a review of the core controls that the Bank has in place to reduce these risks. Front-to-back Risk Assessments are conducted on a regular basis.

- Scenario Analysis: This is a forward-looking assessment of the Bank's exposure to extreme but plausible operational risk events. Hypothetical scenarios are used to help the Bank measure and manage operational risks by considering the potential consequences and impacts, and evaluate whether the Bank's systems, processes and controls are sufficient to prevent the situation actually happening in the first place or, if the event did happen, whether the Bank could help to minimise the possible impacts. The scenarios are determined at the global/regional level and the output of this process forms a key component of the Bank's capital model.

Risk Mitigation

- Event and Loss Data Management: This process has been designed to help the Bank effectively manage and report operational risk events so that the Bank minimise losses, inconvenience to clients and damage to its reputation. The process covers all the steps that should be taken from discovery of an event through to the reporting, escalation and analysis of losses. As part of the Bank's 'no surprises' approach, significant events meeting certain criteria are reported as part of the Group Notifiable Event Process (GNEP).

- Risk Issue Management: Where an event or any of the Bank's assessment or analysis tools identifies that a risk falls outside its appetite, the Bank's Risk Issues Management process helps bring the risk back under control. It supports the Bank's Three Lines of Defence approach to managing risks by ensuring consistency in the way the Bank identifies, captures, classifies and monitors its operational risk issues and associated actions, and that issues are appropriately closed or accepted.

Risk Monitoring and Reporting

- Control Environment Certification: CEC is used as a twice-yearly assessment of the robustness of the Bank's control environments. Managers can assess the risk, control and assurance activities that took place during the review period to see if the risks were sufficiently in control. Where the Bank identify controls are not effective, remedial actions are identified. Certificates are issued where there is sufficient control to show that the Bank is meeting its legal and regulatory obligations to monitor and report on its internal controls.

- Governance and Control Committees (GCC): The Country GCC is accountable for advising, reviewing and deciding on key internal controls including supervisory environment, rate setting, financial reporting, infrastructure, conduct, risk management, appropriate governance and ensuring the Bank meet regulatory compliance standards. The Country GCC also reviews the current and emerging risks that the Bank is exposed to, measures these against the risk appetite and ensures activities are prioritised to identify, control, manage, mitigate and remediate these risks front-to-back. This committee also ensures fair and consistent treatment of policy breaches. Operational Risk provides guidance on the content and structure of this framework component by defining the GCC agenda and providing input in the form of reporting and data.

- Risk and Control Assurance (RACA): The Risk and Control Assurance process is used to identify the framework through which the Bank assures that its key controls are adequate and effective in mitigating risk. At least once a year, usually in the first quarter of each year, the businesses and functions produce a plan in line with Control Assurance standards set by Operational Risk. The plan sets out the design content of the tests, providing evidence and justification for adequacy and effectiveness of the internal control framework.

Scope and nature of reporting and measurement systems

Reporting forms an integral part of operational risk management. The Group's and the Bank's risk management processes are designed to ensure that issues are identified, escalated and managed on a timely basis. Exposures for each business division are reported through monthly risk and control reports, which provide detail on the risk exposures and action plans.

Events that have a material, actual or potential impact on the Bank's finances, reputation or customers, are escalated and reported to respective business division and executive.

(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 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, financial companies and project finance.

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 Bank.

The Bank controls and limits 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.

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.

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	-
Construction	-	-	4,964	-	231,359
Purchase of residential landed properties	-	-	21,470	-	263
Wholesale and retail	-	-	132,354	305	442,103
Transport, storage and communication	-	-	1,695	129,780	2,272,221
Finance, insurance and business services	1,353,467	-	13,270	445,024	31,705,911
Purchase of transport vehicles	-	-	1,308	-	-
Consumption credit	-	-	199	-	-
Community, social and personal services	-	-	-	2,846	345,675
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.

The following table represents the Group's and Bank's credit risk concentrations as of 31 December 2012:

	Short term funds and placements with financial institutions including Statutory Deposit with BNM RM'000	Securities held-for-trading 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	33,220	29,637	797,407	-	-	-
Mining and quarrying	-	-	-	-	-	210,771
Manufacturing	-	-	-	203,501	7,917	1,630,600
Construction	-	-	-	4,922	-	376,550
Purchase of landed properties	-	-	-	24,504	-	585
Wholesale and retail	-	-	-	35,922	967	256,807
Transport, storage and communication	-	-	-	15,262	281,483	2,464,272
Finance, insurance and business services	2,624,103	-	-	17,302	436,995	34,812,169
Purchase of transport vehicles	-	-	-	1,794	-	-
Consumption credit	-	-	-	253	-	-
Community, social and personal services	-	-	-	-	-	195,059
Others	1,329	-	-	(4,156)	-	-
	2,658,652	29,637	797,407	299,304	727,362	39,946,813

* Net of collective and individual assessment allowance RM4,156,000 and RM933,000 respectively.

Gross loans, advances and financing are analysed as follow:

	Group/Bank 2013 RM'000	Group/Bank 2012 RM'000
Neither past due nor impaired	355,456	289,606
Past due but not impaired	2,308	6,329
Impaired	1,885	8,458
	359,649	304,393

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**
2013			
Purchase of landed properties (Residential)	1,551	609	942
Wholesale and retail	334	334	-
	1,885	943	942
2012			
Purchase of landed properties (Residential)	1,599	592	1,007
Manufacturing	6,518	-	6,518
Construction	7	7	-
Wholesale and retail	334	334	-
	8,458	933	7,525

(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 2013 and 31 December 2012 at 99% confidence level, one day holding period.

	Group/Bank	
	2013	**2012**
	RM'mil	**RM'mil**
Aggregate VaR	1.15	1.08

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.

(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 statement of financial position.

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	179,131	48,429	32,346	902	98,841	-	(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	1,440,677	230,965	283,444	387,236	98,841	98,820	(6,491)	613,403	3,146,895

(Forward)

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
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	30,678	208,240	277,101	172,908	98,841	(68,826)	(6,491)	(126,269)	586,182
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-	(741)	(741)
Net interest sensitivity gap	30,678	208,240	277,101	172,908	98,841	(68,826)	(6,491)	(127,010)	585,441

The Group	←			Non-Trading Book		→			
31.12.2012	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	2,230,388	-	-	-	-	-	-	-	2,230,388
Deposits and placements with other financial institutions	-	400,264	-	-	-	-	-	-	400,264
Securities held-for-trading	-	-	-	-	-	-	-	29,637	29,637
Securities available-for-sale	-	100,104	153,219	542,365	-	1,719	-	-	797,407
Loans, advances and financing	197,254	73,506	12,044	1,140	20,449	-	(5,089)	-	299,304
Derivative financial assets	-	-	-	-	-	-	-	727,362	727,362
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	28,000	-	-	28,000
Other assets	-	-	-	-	-	34,049	-	-	34,049
Investment in associated company	-	-	-	-	-	5,752	-	-	5,752
Property, plant and equipment	-	-	-	-	-	10,340	-	-	10,340
Intangible asset	-	-	-	-	-	565	-	-	565
Deferred tax assets	-	-	-	-	-	22,591	-	-	22,591
Total Assets	2,427,642	573,874	165,263	543,505	20,449	103,016	(5,089)	756,999	4,585,659

(Forward)

The Group	Non-Trading Book								
31.12.2012	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	1,733,867	10,511	6,150	8,826	-	-	-	-	1,759,354
Deposits and placements from banks and other financial institutions	1,008,634	-	-	-	-	-	-	-	1,008,634
Derivative financial liabilities	-	-	-	-	-	-	-	878,412	878,412
Other liabilities	-	-	-	-	-	149,367	-	-	149,367
Subordinated debt capital	-	-	-	207,940	-	-	-	-	207,940
Total Liabilities	2,742,501	10,511	6,150	216,766	-	149,367	-	878,412	4,003,707
On balance sheet interest sensitivity gap	(314,859)	563,363	159,113	326,739	20,449	(46,351)	(5,089)	(121,413)	581,952
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-	(3,292)	(3,292)
Net interest sensitivity gap	(314,859)	563,363	159,113	326,739	20,449	(46,351)	(5,089)	(124,705)	578,660

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

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**
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	179,131	48,429	32,346	902	98,841	-	(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
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	1,440,677	230,965	283,444	387,236	98,841	98,788	(6,491)	613,403	3,146,863

(Forward)

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	30,658	208,240	277,101	172,908	98,841	(68,858)	(6,491)	(126,269)	586,130
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-	(741)	(741)
Net interest sensitivity gap	30,658	208,240	277,101	172,908	98,841	(68,858)	(6,491)	(127,010)	585,389

The following table represents the Bank's assets and liabilities at carrying amounts as of 31 December 2012:

The Bank			**Non-Trading Book**						
31.12.2012	**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	2,230,388	-	-	-	-	-	-	-	2,230,388
Deposits and placements with other financial institutions	-	400,264	-	-	-	-	-	-	400,264
Securities held-for-trading	-	-	-	-	-	-	-	29,637	29,637
Securities available-for-sale	-	100,104	153,219	542,365	-	1,719	-	-	797,407
Loans, advances and financing	197,254	73,506	12,044	1,140	20,449	-	(5,089)	-	299,304
Derivative financial assets	-	-	-	-	-	-	-	727,362	727,362
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	28,000	-	-	28,000
Other assets	-	-	-	-	-	34,049	-	-	34,049
Investments in subsidiary companies	-	-	-	-	-	20	-	-	20
Investment in associated company	-	-	-	-	-	4,718	-	-	4,718
Property, plant and equipment	-	-	-	-	-	10,340	-	-	10,340
Intangible asset	-	-	-	-	-	565	-	-	565
Deferred tax assets	-	-	-	-	-	22,591	-	-	22,591
Total Assets	2,427,642	573,874	165,263	543,505	20,449	102,002	(5,089)	756,999	4,584,645

(Forward)

The Bank 31.12.2012	←		**Non-Trading Book**			→			
	Up to 1 month RM'000	**1 - 3 months RM'000**	**3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-interest sensitive RM'000**	**Impairments RM'000**	**Trading book RM'000**	**Total RM'000**
Liabilities									
Deposits from customers	1,733,887	10,511	6,150	8,826	-	-	-	-	1,759,374
Deposits and placements from banks and other financial institutions	1,008,634	-	-	-	-	-	-	-	1,008,634
Derivative financial liabilities	-	-	-	-	-	-	-	878,412	878,412
Other liabilities	-	-	-	-	-	149,367	-	-	149,367
Subordinated debt capital	-	-	-	207,940	-	-	-	-	207,940
Total Liabilities	2,742,521	10,511	6,150	216,766	-	149,367	-	878,412	4,003,727
On balance sheet interest sensitivity gap	(314,879)	563,363	159,113	326,739	20,449	(47,365)	(5,089)	(121,413)	580,918
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-	(3,292)	(3,292)
Net interest sensitivity gap	(314,879)	563,363	159,113	326,739	20,449	(47,365)	(5,089)	(124,705)	577,626

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

Group/Bank												
	2013						**2012**					
	MYR	**USD**	**AUD**	**EUR**	**GBP**	**SGD**	**MYR**	**USD**	**AUD**	**EUR**	**GBP**	**SGD**
	%	%	%	%	%	%	%	%	%	%	%	%
Financial Assets												
Cash and short-term funds	2.99	0.25	-	-	-	-	-	0.26	-	-	0.40	-
Deposits and placements with banks and other financial institutions	-	1.07	-	-	-	-	-	0.41	-	-	-	-
Securities available-for-sale	3.99	-	-	-	-	-	3.93	-	-	-	-	-
Loans, advances and financing	3.81	-	-	-	-	-	3.53	-	-	-	-	-
Financial Liabilities												
Deposits from customers	2.92	0.05	3.19	0.10	-	-	2.95	0.07	3.24	0.10	-	-
Deposits and placements from banks and other financial institutions	-	0.25	-	0.08	-	0.10	2.73	0.10	-	0.01	0.35	0.10
Subordinated debt capital	4.88	-	-	-	-	-	4.88	-	-	-	-	-

(e) **Liquidity Risk**

Liquidity risk is the risk that the Group and the Bank are unable to meet their cash flows obligations as they fall due, such as upon the maturity of deposits and loan draw-downs.

Liquidity risk arises in the general funding of the Group's and the Bank's activities. It is unusual for any bank to completely match the maturity profile of its assets and liabilities. The matching and controlled mismatching of the maturities of assets and liabilities are fundamental to the management of the Group's and the Bank's liquidity risk. The Group and the Bank utilise various gapping models and maturity statement of financial position to manage their liquidity. Stress testing and scenario analysis are performed on a regular basis as part of the liquidity risk management activities. In addition, the Group and the Bank envisage that their holding company can also be called upon to provide contingency funding to meet their funding requirement. Liquidity risk is overseen by the Asset Liability Committee (ALCO) on a monthly basis.

The following table analyses financial assets and liabilities of the Group and the Bank at the end of each reporting period based on contractual undiscounted repayment obligations. They have been prepared on the following basis:

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	179,131	48,429	32,346	902	98,841	(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	1,469,508	253,273	349,322	683,922	298,541	92,329	3,146,895

(Forward)

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	40,689	213,160	244,439	213,565	(50,354)	(75,317)	586,182

The following table summarises the maturity profile of the Group's assets and liabilities as of 31 December 2012 based on remaining contractual maturity:

The Group 31.12.2012	**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	2,230,388	-	-	-	-	-	2,230,388
Deposits and placements with other financial institutions	-	400,264	-	-	-	-	400,264
Securities held-for-trading	-	-	-	29,389	248	-	29,637
Securities available-for-sale	-	100,104	153,219	542,365	-	1,719	797,407
Loans, advances and financing	197,254	73,506	12,044	1,140	20,449	(5,089)	299,304
Derivative financial assets	8,986	22,452	43,276	302,292	350,356	-	727,362
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	28,000	28,000
Other assets	-	-	-	-	-	34,049	34,049
Investment in associated company	-	-	-	-	-	5,752	5,752
Property, plant and equipment	-	-	-	-	-	10,340	10,340
Intangible asset	-	-	-	-	-	565	565
Deferred tax assets	-	-	-	-	-	22,591	22,591
Total Assets	2,436,628	596,326	208,539	875,186	371,053	97,927	4,585,659

(Forward)

The Group 31.12.2012	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	1,733,867	10,511	6,150	8,826	-	-	1,759,354
Deposits and placements from banks and other financial institutions	1,008,634	-	-	-	-	-	1,008,634
Derivative financial liabilities	7,334	51,180	102,112	355,658	362,128	-	878,412
Other liabilities	-	-	-	-	-	149,367	149,367
Subordinated debt capital	-	-	-	207,940	-	-	207,940
Total Liabilities	2,749,835	61,691	108,262	572,424	362,128	149,367	4,003,707
Net liquidity gap	(313,207)	534,635	100,277	302,762	8,925	(51,440)	581,952

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	179,131	48,429	32,346	902	98,841	(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	1,469,508	253,273	349,322	683,922	298,541	92,297	3,146,863

(Forward)

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	40,669	213,160	244,439	213,565	(50,354)	(75,349)	586,130

The following table summarises the maturity profile of the Bank's assets and liabilities as of 31 December 2012 based on remaining contractual maturity:

The Bank 31.12.2012	**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	2,230,388	-	-	-	-	-	2,230,388
Deposits and placements with other financial institutions	-	400,264	-	-	-	-	400,264
Securities held-for-trading	-	-	-	29,389	248	-	29,637
Securities available-for-sale	-	100,104	153,219	542,365		1,719	797,407
Loans, advances and financing	197,254	73,506	12,044	1,140	20,449	(5,089)	299,304
Derivative financial assets	8,986	22,452	43,276	302,292	350,356	-	727,362
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	28,000	28,000
Other assets	-	-	-	-	-	34,049	34,049
Investments in subsidiary companies	-	-	-	-	-	20	20
Investment in associated company	-	-	-	-	-	4,718	4,718
Property, plant and equipment	-	-	-	-	-	10,340	10,340
Intangible asset	-	-	-	-	-	565	565
Deferred tax assets	-	-	-	-	-	22,591	22,591
Total Assets	2,436,628	596,326	208,539	875,186	371,053	96,913	4,584,645

(Forward)

The Bank 31.12.2012	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	1,733,887	10,511	6,150	8,826	-	-	1,759,374
Deposits and placements from banks and other financial institutions	1,008,634	-	-	-	-	-	1,008,634
Derivative financial liabilities	7,334	51,180	102,112	355,658	362,128	-	878,412
Other liabilities	-	-	-	-	-	149,367	149,367
Subordinated debt capital	-	-	-	207,940	-	-	207,940
Total Liabilities	2,749,855	61,691	108,262	572,424	362,128	149,367	4,003,727
Net liquidity gap	(313,227)	534,635	100,277	302,762	8,925	(52,454)	580,918

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.

36. 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

	2013		2012	
	Carrying amount RM'000	**Fair value RM'000**	**Carrying amount RM'000**	**Fair value RM'000**
Financial Assets				
Securities held-for-trading	-	-	29,637	29,637
Securities available-for-sale	674,179	674,179	797,407	797,407
Loans, advances and financing	353,158	353,336	299,304	296,912
Derivative financial assets	613,403	613,403	727,362	727,362
Financial Liabilities				
Deposits from customers	1,202,932	1,202,817	1,759,354	1,759,289
Derivative financial liabilities	739,672	739,672	878,412	878,412
Subordinated debt capital	208,553	217,623	207,940	208,890

(Forward)

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

	2013		2012	
	Carrying amount RM'000	**Fair value RM'000**	**Carrying amount RM'000**	**Fair value RM'000**
Financial Assets				
Securities held-for-trading	-	-	29,637	29,637
Securities available-for-sale	674,179	674,179	797,407	797,407
Loans, advances and financing	353,158	353,336	299,304	296,912
Derivative financial assets	613,403	613,403	727,362	727,362
Financial Liabilities				
Deposits from customers	1,202,952	1,202,837	1,759,374	1,759,309
Derivative financial liabilities	739,672	739,672	878,412	878,412
Subordinated debt capital	208,553	217,623	207,940	208,890

The fair values for financial instruments recognized 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 Held-For-Trading and 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 reporting date.

(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 date of statement of financial position 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.

(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.

36.1 **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.

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:

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group					
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.

(Forward)

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group					
2012					
Financial Assets					
Securities held-for-trading	29,637	29,637	-	29,637	-
Securities available-for-sale	797,407	797,407	-	795,688	1,719
Derivative financial assets	727,362	727,362	-	727,362	-
Loans, advances and financing *	299,304	296,912	-	296,912	-
Financial Liabilities					
Deposits from customers *	1,759,354	1,759,289	-	1,759,289	-
Derivative financial liabilities	878,412	878,412	-	878,412	-
Subordinated debt capital *	207,940	208,890	-	-	208,890

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

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:

	Carrying amount RM'000	**Fair value RM'000**	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**
Bank					
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.

(Forward)

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Bank					
2012					
Financial Assets					
Securities held-for-trading	29,637	29,637	-	29,637	-
Securities available-for-sale	797,407	797,407	-	795,688	1,719
Derivative financial assets	727,362	727,362	-	727,362	-
Loans, advances and financing *	299,304	296,912	-	296,912	-
Financial Liabilities					
Deposits from customers *	1,759,374	1,759,309	-	1,759,309	-
Derivative financial liabilities	878,412	878,412	-	878,412	-
Subordinated debt capital *	207,940	208,890	-	-	208,890

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

37. CAPITAL ADEQUACY

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

	Group	
	2013 RM'000	2012 RM'000
Tier-I capital		
Paid-up share capital	203,000	203,000
Share premium	76,182	76,182
Statutory reserves	163,742	162,068
Unrealised reserves	(809)	-
Retained earnings	144,067	140,029
	586,182	581,279
Less: Deferred tax assets	(28,135)	(22,591)
Total Tier-I capital	558,047	558,688
Tier-II capital		
Collective assessment allowance	5,548	4,156
Subordinated debt capital	140,000	180,000
Total Tier-II capital	145,548	184,156
Total capital funds	703,595	742,844
Capital Ratios		
Core capital ratio	14.29%	14.32%
Risk-weighted capital ratio	18.02%	19.04%

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

	Bank 2013 RM'000	Bank 2012 RM'000
Tier-I capital		
Paid-up share capital	203,000	203,000
Share premium	76,182	76,182
Statutory reserves	163,742	162,068
Unrealised reserves	(809)	-
Retained earnings	144,015	138,995
	586,130	580,245
Less: Deferred tax assets	(28,135)	(22,591)
Total Tier-I capital	557,995	557,654
Tier-II capital		
Collective assessment allowance	5,548	4,156
Subordinated debt capital	140,000	180,000
Total Tier-II capital	145,548	184,156
Total capital funds	703,543	741,810
Less: Investment in subsidiary companies	(20)	(20)
Capital base	703,523	741,790
Capital Ratios		
Core capital ratio	14.29%	14.30%
Risk-weighted capital ratio	18.01%	19.02%

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

	Group 2013 RM'000	Group 2012 RM'000
Credit risk	2,445,283	2,342,944
Market risk	1,311,955	1,379,739
Operational risk	148,191	177,923
Total risk-weighted assets	3,905,429	3,900,606

	Bank 2013 RM'000	Bank 2012 RM'000
Credit risk	2,445,205	2,341,393
Market risk	1,311,955	1,379,739
Operational risk	148,506	179,026
Total risk-weighted assets	3,905,666	3,900,158