

Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)

(Incorporated in Malaysia)

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

30 JUNE 2014

Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)

(Incorporated in Malaysia)

MANAGEMENT'S CERTIFICATION

I hereby certify that the attached unaudited condensed financial statements for the half year ended 30 June 2014 have been prepared from the Bank's accounting and other records and that they are in accordance with the requirements of MFRS134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB") and the Revised Guidelines on Financial Reporting for Banking Institutions issued by Bank Negara Malaysia in June 2013.

YUAN BIN
Chief Executive Officer

Date: 31 July 2014

Industrial and Commercial Bank of China (Malaysia) Berhad

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(Incorporated in Malaysia)

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UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	Note	30 Jun 2014 RM'000	31 Dec 2013 RM'000
ASSETS			
Cash and short-term funds	10	1,466,436	2,478,860
Deposits and placements with banks and other financial institutions	11	658,869	556,355
Financial investments available-for-sale	12	112,314	99,040
Loans, advances and financing	13	1,716,594	1,821,613
Other assets	14	11,263	27,222
Statutory deposits with Bank Negara Malaysia		11,468	3,601
Tax recoverable		-	3,431
Plant and equipment		5,212	6,188
Intangible asset		1,604	1,864
Deferred tax assets		1,016	863
TOTAL ASSETS		3,984,776	4,999,037
LIABILITIES			
Deposits from customers	15	1,652,330	1,325,195
Deposits and placements of banks and other financial institutions	16	1,920,170	3,269,095
Other liabilities	17	32,860	37,614
Provision for taxation		475	-
TOTAL LIABILITIES		3,605,835	4,631,904
EQUITY			
Share capital		331,000	331,000
Reserves		47,941	36,133
EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE BANK		378,941	367,133
TOTAL LIABILITIES AND EQUITY		3,984,776	4,999,037
COMMITMENTS AND CONTINGENCIES	25	2,254,830	3,380,078

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2013 and accompanying explanatory notes on pages 5 to 18 attached to the unaudited condensed interim financial statements.

The financial statements were approved by the Board of Directors on 31 July 2014

Industrial and Commercial Bank of China (Malaysia) Berhad

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UNAUDITED CONDENSED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2014

	Note	2nd quarter ended		Year-To-Date ended	
		30 Jun 2014 RM'000	30 Jun 2013 RM'000	30 Jun 2014 RM'000	30 Jun 2013 RM'000
Interest income	18	31,861	29,618	70,486	50,230
Interest expense	19	(18,350)	(21,886)	(40,769)	(36,428)
Net interest income		13,511	7,732	29,717	13,802
Net fee income	20	1,633	3,148	4,626	5,416
Net trading income	21	2,150	2,899	9,651	5,147
Net operating income		17,294	13,779	43,994	24,365
Other operating expenses	22	(13,669)	(9,653)	(23,633)	(18,570)
Operating profit		3,625	4,126	20,361	5,795
Allowance for impairment on loans, advances and financing	23	(4,794)	(1,815)	(4,678)	(2,051)
(Loss)/Profit before taxation		(1,169)	2,311	15,683	3,744
Taxation		442	(704)	(3,906)	(996)
(Loss)/Profit for the period		(727)	1,607	11,777	2,748
Other comprehensive (expense)/income for the period, net of tax					
Fair value reserve					
- Net changes in fair value		(824)	(449)	(122)	(369)
- Deferred tax adjustment		205	11	153	(8)
Total other comprehensive (expense)/income for the period		(619)	(438)	31	(377)
Total comprehensive (expense)/income for the period		(1,346)	1,169	11,808	2,371
Basic (loss)/earnings per ordinary share (sen):		(0.22)	0.49	3.56	0.83

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UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2014

	Share Capital RM'000	Non-distributable Statutory Reserve RM'000	Available- for-sale Reserve RM'000	Regulatory Reserve RM'000	Distributable Retained Earnings RM'000	Total Equity RM'000
At 1 January 2013	331,000	12,629	50	-	15,799	359,478
Total comprehensive income for the period						
Profit for the period	-	-	-	-	2,748	2,748
Other comprehensive expense, net of tax						
Fair value reserve						
- Net changes in fair value	-	-	(369)	-	-	(369)
- Deferred tax adjustment	-	-	(8)	-	-	(8)
Total other comprehensive expense for the period	-	-	(377)	-	-	(377)
Total comprehensive (expense)/income for the period	-	-	(377)	-	2,748	2,371
At 30 June 2013	331,000	12,629	(327)	-	18,547	361,849
At 1 January 2014	331,000	16,607	(251)	6,175	13,602	367,133
Total comprehensive income for the period						
Profit for the period	-	-	-	-	11,777	11,777
Other comprehensive income, net of tax						
Fair value reserve						
- Net changes in fair value	-	-	(122)	-	-	(122)
- Deferred tax adjustment	-	-	153	-	-	153
Total other comprehensive income for the period	-	-	31	-	-	31
Total comprehensive income for the period	-	-	31	-	11,777	11,808
At 30 June 2014	331,000	16,607	(220)	6,175	25,379	378,941

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UNAUDITED CONDENSED STATEMENT OF CASH FLOWS FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2014

	Note	30 Jun 2014 RM'000	30 Jun 2013 RM'000
Cash flows (used in)/from operating activities			
Profit before taxation		15,683	3,744
Adjustments for:			
Depreciation of plant and equipment		1,129	1,003
Amortisation of intangible asset		260	260
Allowance for impairment on loans, advances and financing		4,678	2,051
Net unrealised gains arising from derivative trading		(4,484)	(5,451)
Operating profit before working capital changes		17,266	1,607
(Increase)/Decrease in operating assets			
Deposits and placements with banks and other financial institutions		(102,514)	467,353
Loans, advances and financing		100,341	(604,978)
Other assets		11,065	(13,967)
Statutory deposits with Bank Negara Malaysia		(7,867)	-
Increase/(Decrease) in operating liabilities			
Deposits from customers		327,135	194,361
Deposits and placements of banks and other financial institutions		(1,348,925)	1,819,205
Other liabilities		4,706	9,847
Cash (used in)/generated from operations		(998,793)	1,873,428
Income taxes paid		-	(4,111)
Net cash (used in)/generated from operating activities		(998,793)	1,869,317
Cash flows used in investing activities			
Purchase of plant and equipment		(153)	(3,463)
Net purchase of financial investments available-for-sale		(13,478)	(98,027)
Net cash used in investing activities		(13,631)	(101,490)
Net (decrease)/increase in cash and cash equivalents		(1,012,424)	1,767,827
Cash and cash equivalents at beginning of the financial period		2,478,860	1,335,609
Cash and cash equivalents at end of the financial period		1,466,436	3,103,436
Cash and cash equivalents comprise:			
Cash and short-term funds	10	1,466,436	3,103,436

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2013 and accompanying explanatory notes on pages 5 to 18 attached to the unaudited condensed interim financial statements.

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**EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED
30 JUNE 2014**

1. General Information

Industrial and Commercial Bank of China (Malaysia) Berhad is principally engaged in the provision of banking and other related financial services.

There were no significant changes in these activities during the financial period.

2. Basis of Preparation

The unaudited condensed interim financial statements for the half year ended 30 June 2014 have been prepared in accordance with the requirements of Malaysian Financial Reporting Standards (“MFRS”) 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board (“MASB”).

The unaudited condensed interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited financial statements of the Bank as at and for the financial year ended 31 December 2013. The explanatory notes attached to the unaudited condensed interim financial statements provide an explanation of events and transactions that are significant for an understanding of the changes in the financial position and performance of the Bank since the financial year ended 31 December 2013.

All other significant accounting policies and methods of computation applied in the unaudited condensed interim financial statements are consistent with those adopted in the most recent audited annual financial statements for the year ended 31 December 2013, except for the adoption of the following MFRSs and amendments to MFRSs.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (“MASB”) but have not been adopted by the Bank.

MFRSs, Interpretations and amendments effecting for annual periods beginning on or after 1 July 2014

Amendments to MFRS 1, *First Time Adoption of Malaysian Reporting Standards (Annual Improvements 2011 - 2013 Cycle)*

Amendments to MFRS 2, *Share-based Payment (Annual Improvements 2010 - 2012 Cycle)*

Amendments to MFRS 3, *Business Combinations (Annual Improvements 2010 - 2012 Cycle and 2011-2013 Cycle)*

Amendments to MFRS 13, *Fair Value Measurement (Annual Improvements 2011 - 2013 Cycle)*

Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2010 - 2012 Cycle)*

Amendments to MFRS 119, *Employee Benefits - Defined Benefit Plans: Employee Contributions*

Amendments to MFRS 124, *Related Party Disclosures (Annual Improvements 2010 - 2012 Cycle)*

Amendments to MFRS 138, *Intangible Assets (Annual Improvements 2010 - 2012 Cycle)*

Amendments to MFRS 140, *Investment Property (Annual Improvements 2011 - 2013 Cycle)*

MFRSs, Interpretations and amendments effecting for a date yet to be confirmed

MFRS 9, *Financial Instruments (2009)*

MFRS 9, *Financial Instruments (2010)*

MFRS 9, *Financial Instruments: Financial Instruments (Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139)*

Amendments to MFRS 7, *Financial Instruments: Disclosures - Mandatory Effective Date of MFRS 9 and Transition Disclosures*

2. Basis of Preparation (*continued*)

The Bank plans to apply the abovementioned standards, amendments and interpretations from the annual period beginning on 1 January 2015 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 July 2014, except for Amendments to MFRS 2, Amendments to MFRS 3 and Amendments to MFRS 140 as they are not applicable to the Bank.

The initial applications of the other standards, amendments and interpretations are not expected to have any material financial impact to the current period and prior period financial statements of the Bank, except as mentioned below:

MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities. Upon adoption of MFRS 9, financial assets will be measured at either fair value or amortised cost.

The adoption of MFRS 9 will result in a change in accounting policy. The Bank is currently assessing the financial impact of adopting MFRS 9.

The initial application of a standard, an amendment or an interpretation, which will be applied prospectively or which requires extended disclosures, is not expected to have any financial impacts to the current period financial statements upon their first adoption.

The initial applications of the other standards, amendments and interpretations are not expected to have any material impact on the financial statements of the Bank.

3. Auditors' Report on Preceding Annual Financial Statements

The audit report on the audited annual financial statements for the financial year ended 31 December 2013 was not subject to any qualification.

4. Seasonality or Cyclical Factors

The business operations of the Bank are not subject to material seasonal or cyclical fluctuations.

5. Unusual Items due to Their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Bank for the half year ended 30 June 2014.

6. Changes in Estimates

There were no material changes in estimates of amounts reported in prior financial year that have a material effect on the financial results and position of the Bank for the half year ended 30 June 2014.

7. Issue of Shares and Debentures

There were no issuance of shares and debentures during the half year ended 30 June 2014.

8. Dividend Paid

No dividend was paid during the half year ended 30 June 2014.

9. Significant Events

There were no material events subsequent to the statement of financial position date that require disclosure or adjustments to the unaudited condensed interim financial statements.

10. Cash and short-term funds

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Cash and balances with banks and other financial institutions	91,877	32,106
Money at call and deposit placements maturing within one month	<u>1,374,559</u>	<u>2,446,754</u>
	<u>1,466,436</u>	<u>2,478,860</u>

11. Deposits and placements with banks and other financial institutions

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Foreign banks	<u>658,869</u>	<u>556,355</u>

12. Financial investments available-for-sale

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
At fair value		
Malaysian Government Securities	50,365	50,290
Private debt securities	<u>61,949</u>	<u>48,750</u>
	<u>112,314</u>	<u>99,040</u>
 The maturity structure of financial investments available-for-sale are as follows:		
Within one year	56,975	43,780
More than three years to five years	<u>55,339</u>	<u>55,260</u>
	<u>112,314</u>	<u>99,040</u>

13. Loans, advances and financing

At amortised cost	30 Jun 2014	31 Dec 2013
(i) By type	RM'000	RM'000
Overdrafts	99,948	85,462
Term loans		
- Housing loans	27,894	8,129
- Syndicated term loans	45,259	11,936
- Other term loans	664,483	1,208,311
Bills receivable	6,348	22,633
Trust receipt	-	401
Revolving credit	808,991	385,277
Bankers' acceptances	74,548	105,833
Staff loans	1,469	1,223
Credit card loans	<u>798</u>	<u>874</u>
Gross loans, advances and financing	<u>1,729,738</u>	<u>1,830,079</u>
Less: Allowance for impairment		
- Collective allowance for impairment	(11,115)	(8,466)
- Individual allowance for impairment	<u>(2,029)</u>	<u>-</u>
Net loans, advances and financing	<u>1,716,594</u>	<u>1,821,613</u>

13. Loans, advances and financing (continued)

(ii) By type of customer	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Domestic non-bank financial institutions		
- Others	27,061	10,019
Domestic business enterprises		
- Small medium enterprises	58,477	41,441
- Others	840,541	587,536
Individuals	26,695	17,734
Foreign entities	776,964	1,173,349
	<u>1,729,738</u>	<u>1,830,079</u>
(iii) By interest rate sensitivity	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Fixed rate loans	2,267	4,535
Variable rate		
- Base Lending Rate plus	43,230	23,674
- Cost plus	735,504	468,997
- Other variable rates	948,737	1,332,873
	<u>1,729,738</u>	<u>1,830,079</u>
(iv) By sector	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Primary agriculture	15,707	11,936
Mining and quarrying	-	24,823
Manufacturing	29,000	39,698
Construction	214,148	129,951
Real estate	4,191	13,640
Wholesale & retail trade and restaurants & hotels	740,450	1,055,656
Transport, storage and communication	383,765	203,389
Finance, insurance and business services	288,135	331,730
Education, health and others	14,219	-
Household	40,123	19,256
	<u>1,729,738</u>	<u>1,830,079</u>
(v) By purpose	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Purchase of landed properties		
- Non residential	103,859	60,942
- Residential	28,542	8,612
Purchase of transport vehicles	192	120
Construction	13,219	14,779
Credit card	798	874
Personal use	821	863
Mergers and acquisitions	4,816	4,942
Working capital	1,550,895	1,737,440
Other purpose	26,596	1,507
	<u>1,729,738</u>	<u>1,830,079</u>

13. Loans, advances and financing (continued)

(vi) By geographical distribution	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Within Malaysia	884,766	407,077
Outside Malaysia	844,972	1,423,002
	<u>1,729,738</u>	<u>1,830,079</u>

Concentration by location for loans, advances and financing is based on the location where the credit risk resides.

(vii) By residual contractual maturity	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Maturity within one year	1,339,377	1,158,068
More than one year to three years	181,073	428,826
More than three years to five years	17,585	126,615
More than five years	191,703	116,570
	<u>1,729,738</u>	<u>1,830,079</u>

(viii) Impaired loans, advances and financing

(a) Movement in impaired loans, advances and financing	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
At beginning of the financial period/year	-	-
Impaired during the financial period/year	2,029	-
At end of the financial period/year	2,029	-
Less: Individual allowance for impairment	(2,029)	-
Net impaired loans, advances and financing	<u>-</u>	<u>-</u>
As % of gross loans, advances and financing (net of individual allowance for impairment)	<u>0%</u>	<u>0%</u>

(b) By sector	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Wholesale & retail trade and restaurants & hotels	2,029	-

(c) By purpose	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Working capital	2,029	-

(d) By geographical	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Malaysia	2,029	-

13. Loans, advances and financing (continued)

(ix) Movements in allowance for impairment on loans, advances and financing	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
<u>Collective allowance for impairment</u>		
At beginning of the financial period/year	8,466	3,978
Allowance made during the financial period/year	5,512	6,916
Allowance written back during the financial period/year	<u>(2,863)</u>	<u>(2,428)</u>
At end of the financial period/year	<u><u>11,115</u></u>	<u><u>8,466</u></u>
<u>Individual allowance for impairment</u>		
At beginning of the financial period/year	-	-
Allowance made during the financial period/year	<u>2,029</u>	<u>-</u>
At end of the financial period/year	<u><u>2,029</u></u>	<u><u>-</u></u>

14. Other assets

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Derivative financial assets (Note 27)	2,904	7,880
Interest receivable	6,441	12,181
Deposits	1,278	1,237
Other receivables and prepayments	<u>640</u>	<u>5,924</u>
	<u><u>11,263</u></u>	<u><u>27,222</u></u>

15. Deposits from customers

(i) By type of deposit	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Demand deposits	627,313	409,288
Fixed deposits	658,293	587,849
Savings deposits	40,104	35,871
Money market deposits	289,913	257,464
Short-term deposits	32,343	32,622
Other deposits	<u>4,364</u>	<u>2,101</u>
	<u><u>1,652,330</u></u>	<u><u>1,325,195</u></u>
(ii) By type of customer	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Business enterprises	1,445,836	1,105,461
Individuals	142,976	115,196
Others	<u>63,518</u>	<u>104,538</u>
	<u><u>1,652,330</u></u>	<u><u>1,325,195</u></u>
(iii) By maturity structure of term deposits	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Due within six months	1,541,547	1,282,394
More than six months to one year	53,891	40,548
More than one year to three years	<u>56,892</u>	<u>2,253</u>
	<u><u>1,652,330</u></u>	<u><u>1,325,195</u></u>

16. Deposits and placements of banks and other financial institutions	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Bank Negara Malaysia	103,497	-
Licensed Malaysian banks	903,118	2,256,615
Licensed investment banks	39	28
Licensed Islamic banks	52	-
Other financial institutions	256,884	205,010
Foreign banks	656,580	807,442
	<u>1,920,170</u>	<u>3,269,095</u>

17. Other liabilities	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Interest payable	11,104	13,529
Other payables and accruals	18,899	11,768
Derivative financial liabilities (Note 27)	2,857	12,317
	<u>32,860</u>	<u>37,614</u>

18. Interest income	2nd quarter ended		Year-To-Date ended	
	30 Jun 2014	30 Jun 2013	30 Jun 2014	30 Jun 2013
	RM'000	RM'000	RM'000	RM'000
Loans, advances and financing:	14,335	5,876	27,830	9,513
Money at call and deposit placements with financial institutions	16,281	22,895	40,467	39,418
Investment securities available-for-sale	1,237	847	2,176	1,298
Others	8	-	13	1
	<u>31,861</u>	<u>29,618</u>	<u>70,486</u>	<u>50,230</u>
Of which:				
Interest income earned on impaired loans, advances financing	<u>32</u>	<u>-</u>	<u>32</u>	<u>-</u>

19. Interest expense				
Deposits and placements of banks and other financial institutions	(11,383)	(18,252)	(27,434)	(30,115)
Deposits from customers	(6,958)	(3,631)	(13,320)	(6,308)
Others	(9)	(3)	(15)	(5)
	<u>(18,350)</u>	<u>(21,886)</u>	<u>(40,769)</u>	<u>(36,428)</u>

20. Fee income	2nd quarter ended		Year-To-Date ended	
	30 Jun 2014 RM'000	30 Jun 2013 RM'000	30 Jun 2014 RM'000	30 Jun 2013 RM'000
Fee income:				
- Commission	26	8	31	9
- Service charges and fees	295	292	538	454
- Loan processing fees	311	28	535	66
- Syndication fees	-	-	293	-
- Guarantee fees	297	393	640	612
- Commitment fees	224	138	446	163
- Other loans related fees income	164	1,014	462	1,101
- Credit card	64	23	90	35
- Other fees income	393	1,288	1,941	3,019
	<u>1,774</u>	<u>3,184</u>	<u>4,976</u>	<u>5,459</u>
Fee expense:				
- Brokerage fees	(18)	(36)	(45)	(43)
- Other fees expense	(123)	-	(305)	-
	<u>(141)</u>	<u>(36)</u>	<u>(350)</u>	<u>(43)</u>
Net fee income	<u>1,633</u>	<u>3,148</u>	<u>4,626</u>	<u>5,416</u>

21. Net trading income	2nd quarter ended		Year-To-Date ended	
	30 Jun 2014 RM'000	30 Jun 2013 RM'000	30 Jun 2014 RM'000	30 Jun 2013 RM'000
Net gains/(losses) from dealing in foreign exchange	2,139	(6,402)	10,759	(4,458)
Net (losses)/gains arising from derivative trading	(1,769)	3,821	(5,538)	4,325
Unrealised revaluation gains/(losses) in foreign exchange	535	(174)	(54)	(171)
Net unrealised gains arising from derivative trading	1,245	5,654	4,484	5,451
	<u>2,150</u>	<u>2,899</u>	<u>9,651</u>	<u>5,147</u>

22. Other operating expenses	2nd quarter ended		Year-To-Date ended	
	30 Jun 2014 RM'000	30 Jun 2013 RM'000	30 Jun 2014 RM'000	30 Jun 2013 RM'000
Personnel costs:				
- Salaries, allowances and bonuses	9,398	4,790	14,982	9,496
- Pension fund contributions	576	582	1,152	1,337
- Other staff costs	695	838	1,291	1,422
Promotion and marketing related expenses:				
- Advertising and promotion	42	96	211	213
- Others	89	161	391	319
Establishment costs:				
- Depreciation of plant and equipment	576	577	1,129	1,003
- Amortisation of intangible asset	130	130	260	260
- Rental	854	860	1,705	1,669
- Others	284	249	505	450
Administrative expenses:				
- Auditors' remuneration				
• statutory audit fees	21	35	76	70
• audit related services	36	24	36	24
- Professional fees	61	77	99	161
- Licence fee	35	35	70	70
- Membership fee	14	17	28	24
- Others	858	1,182	1,698	2,052
	<u>13,669</u>	<u>9,653</u>	<u>23,633</u>	<u>18,570</u>

23. Allowance for impairment on loans, advances and financing

	2nd quarter ended		Year-To-Date ended	
	30 Jun 2014 RM'000	30 Jun 2013 RM'000	30 Jun 2014 RM'000	30 Jun 2013 RM'000
Collective allowance for impairment				
- made during the financial period	4,875	2,129	5,512	2,616
- written back during the financial period	(2,110)	(314)	(2,863)	(565)
Individual allowance for impairment				
- made during the financial period	2,029	-	2,029	-
	<u>4,794</u>	<u>1,815</u>	<u>4,678</u>	<u>2,051</u>

24. Credit exposure to connected parties

The credit exposures of the Bank to connected parties, as defined by BNM's "Guidelines on Credit Transactions and Exposures with Connected Parties" are as follows:

	30 Jun 2014 RM'000	31 Dec 2013 RM'000
Aggregate value of outstanding credit exposures to connected parties	<u>9,462</u>	<u>41,394</u>
As a percentage of total credit exposures	<u>0.22%</u>	<u>0.76%</u>
Percentage of outstanding credit exposures to connected parties which is non-performing or in default	<u>0%</u>	<u>0%</u>

25. Commitments and contingencies

The commitments and contingencies constitute the following:

	30 Jun 2014			
	Principal Amount RM'000	Positive Value of Derivative Contracts ^ RM'000	Credit Equivalent Amount * RM'000	Risk-Weighted Assets * RM'000
<u>Credit-related exposures</u>				
Transaction-related contingent items	461,717	-	230,859	128,170
Short term self-liquidating trade-related contingencies	3,759	-	752	685
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- Exceeding one year	196,887	-	98,443	88,013
- Not exceeding one year	898,344	-	179,669	155,365
Unutilised credit card lines	18,922	-	3,784	2,838
<u>Derivative financial contracts</u>				
Foreign exchange related contracts:				
- Less than one year	675,201	2,904	9,077	3,469
Total	<u>2,254,830</u>	<u>2,904</u>	<u>522,584</u>	<u>378,540</u>

Note 14, 27

25. Commitments and contingencies (continued)

	31 Dec 2013			Risk- Weighted Assets *
	Principal Amount RM'000	Positive Value of Derivative Contracts ^ RM'000	Credit Equivalent Amount * RM'000	
<u>Credit-related exposures</u>				
Transaction-related contingent items	379,783	-	189,892	116,823
Short term self liquidating trade-related contingencies	4,866	-	973	849
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- Exceeding one year	344,705	-	172,353	145,462
- Not exceeding one year	788,217	-	157,643	105,887
Unutilised credit card lines	20,105	-	4,021	4,021
<u>Derivative financial contracts</u>				
Foreign exchange related contracts:				
- Less than one year	1,842,402	7,880	27,218	9,857
Total	3,380,078	7,880	552,100	382,899

Note 14, 27

^ The foreign exchange related contracts are off-balance sheet derivative financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates) of the underlying instruments. The tables above show the Bank's derivative financial instruments as at the respective reporting dates. The underlying principal amount of these derivative financial instruments and their corresponding gross positive (derivative financial asset) fair values as at respective reporting dates are as shown above.

* The credit equivalent and risk-weighted amounts are computed using credit conversion factors and risk-weighting rules as per Bank Negara Malaysia ("BNM") guidelines. The credit conversion factors and risk-weighting rules were based on guidelines of the revised Capital Adequacy Framework on the Standardised Approach.

26. Capital adequacy

The total risk-weighted assets of the Bank are computed based on the following approaches:

- (i) Standardised Approach for Credit risk;
- (ii) Standardised Approach for Market risk;
- (iii) Basic Indicator Approach for Operational risk.

The capital adequacy ratios of the Bank are analysed as follows:

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Common Equity Tier 1 (“CET1”) Capital		
Paid-up share capital	331,000	331,000
Retained earnings	13,602	13,602
Statutory reserve	16,607	16,607
Regulatory reserve	6,175	6,175
Unrealised losses on financial investments available-for-sale	(220)	(251)
	367,164	367,133
Less: Regulatory adjustments applied in calculation of CET1 Capital		
- Intangible asset	(1,604)	(1,864)
- Deferred tax assets	(927)	(927)
- Regulatory reserve attributable to loans, advances and financing	(6,175)	(6,175)
	(8,706)	(8,966)
Total CET1 Capital	358,458	358,167
Tier 2 capital		
Collective impairment allowance	11,115	8,466
Regulatory reserve	6,175	6,175
Total Tier 2 Capital	17,290	14,641
Total Capital	375,748	372,808
CET1 capital ratio	20.474%	17.094%
Tier 1 capital ratio	20.474%	17.094%
Total capital ratio	21.462%	17.793%

Breakdown of gross risk-weighted assets (“RWA”) in the various categories of risk-weights:

	30 Jun 2014		31 Dec 2013	
	Principal	Risk-Weighted	Principal	Risk-Weighted
	RM'000	RM'000	RM'000	RM'000
Total RWA for credit risk	4,512,526	1,631,471	5,547,429	1,997,679
Total RWA for market risk	-	3,267	-	2,260
Total RWA for operational risk	-	116,048	-	95,324
	4,512,526	1,750,786	5,547,429	2,095,263

26. Capital adequacy (continued)

- (a) The breakdown of RWA by exposures in each major risk category under standardised approach for the Bank are as follows:

Risk Type	30 Jun 2014			
	Gross Exposures RM'000	Net Exposures RM'000	Risk-Weighted Assets RM'000	Capital Requirements RM'000
<i>Credit Risk</i>				
<u>On-Balance Sheet Exposures</u>				
Sovereigns/Central Banks	1,246,625	1,246,625	-	-
Banks, Development Financial Institutions and MDBs	933,933	933,933	206,053	16,484
Corporates	1,749,535	1,749,535	1,012,164	80,973
Regulatory Retail	10,951	10,951	10,632	851
Residential Mortgages	29,172	29,172	10,936	875
Other Assets	19,726	19,726	13,146	1,052
Total On-Balance Sheet Exposures	3,989,942	3,989,942	1,252,931	100,235
<u>Off-Balance Sheet Exposures</u>				
Credit-related off-balance sheet exposures	513,507	513,507	375,071	30,006
OTC derivatives	9,077	9,077	3,469	278
Total Off-Balance Sheet Exposures	522,584	522,584	378,540	30,284
Total On and Off-Balance Sheet Exposures	4,512,526	4,512,526	1,631,471	130,519
Large exposure risk requirement	-	-	-	-
<i>Market Risk</i>				
	Long position	Short position		
Foreign currency risk	3,267	3,110	3,267	261
<i>Operational Risk</i>	-	-	-	-
Total RWA and Capital Requirements			1,750,786	140,064

Note:

MDBs - Multilateral Development Banks

OTC - Over the counter

26. Capital adequacy (continued)

Risk Type	31 Dec 2013			
	Gross	Net	Risk-Weighted	Capital
	Exposures RM'000	Exposures RM'000	Assets RM'000	Requirements RM'000
<i>Credit Risk</i>				
<u>On-Balance Sheet Exposures</u>				
Sovereigns/Central Banks	874,270	874,270	-	-
Banks, Development Financial Institutions and MDBs	2,270,291	2,270,291	576,925	46,154
Corporates	1,799,752	1,799,752	996,549	79,724
Regulatory Retail	10,026	10,026	9,897	792
Residential Mortgages	9,231	9,231	4,015	321
Other Assets	31,759	31,759	27,394	2,192
Total On-Balance Sheet Exposures	4,995,329	4,995,329	1,614,780	129,183
<u>Off-Balance Sheet Exposures</u>				
Credit-related off-balance sheet exposures	524,882	524,882	373,042	29,843
OTC derivatives	27,218	27,218	9,857	789
Total Off-Balance Sheet Exposures	552,100	552,100	382,899	30,632
Total On and Off-Balance Sheet Exposures	5,547,429	5,547,429	1,997,679	159,815
Large exposure risk requirement	-	-	-	-
<i>Market Risk</i>				
	Long <u>position</u>	Short <u>position</u>		
Foreign currency risk	383	2,260	2,260	181
<i>Operational Risk</i>	-	-	-	-
Total RWA and Capital Requirements			2,095,263	167,622

Note:

MDBs - Multilateral Development Banks

OTC - Over the counter

27. Derivative financial instruments

	30 Jun 2014		31 Dec 2013	
	Assets RM'000	Liabilities RM'000	Assets RM'000	Liabilities RM'000
Foreign exchange derivatives	2,825	2,857	7,880	8,159
Currency swaps	79	-	-	4,158
Total recognised derivative assets/liabilities (Note 14, 17, 25)	<u>2,904</u>	<u>2,857</u>	<u>7,880</u>	<u>12,317</u>

28. Performance review

The Bank registered a profit before taxation of RM15.7 million for the half year ended 30 June 2014, an increase of RM11.9 million compared against the corresponding period in 2013. Operating profit increased by RM14.6 million to RM20.4 million, due to the rise in net interest income by RM15.9 million contributed by strong loan growth during the period. This was partially offset against a higher allowance for impairment on loan, advances and financing and higher operating expenses of RM2.6 million and RM5.1 million respectively.

During the period, The Bank's total assets decreased by 20% or RM1.0 billion to RM4.0 billion compared to 31 December 2013, mainly due to decrease in cash and short term funds by 41% or RM1.0 billion. This was largely attributed to lower of deposits and placements of banks and other financial institutions by 41% or RM1.3 billion.

29. Business prospects

After moderating in the first quarter, the global economy has resumed its path of gradual recovery. Economic activity in the major advanced economies continues to expand at a modest pace. In Asia, the better external environment is supporting growth amid continued expansion in domestic demand. In this environment, international financial markets have remained relatively stable.

For Malaysia, latest indicators point to continued strength in exports and private sector activity. Going forward, the overall growth momentum is expected to be sustained. Exports will continue to benefit from the recovery in the advanced economies and from regional demand. Investment activity is projected to remain robust, led by the private sector. Private consumption will be supported by stable income growth and favourable labour market conditions. The prospects are therefore for the Malaysian economy to remain firmly on a steady growth path.

In line with current economic outlook, the Bank will continue to grow its core lending business and focus on maintaining its current liquidity position. Barring any unforeseen circumstances, the Bank expects to achieve a satisfactory result in 2014.