Ernst & Young

AmIslamic Bank Berhad
(295576-U)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
31 March 2011

Ernst & Young
AF : 0039

AmIslamic Bank Berhad
(Incorporated in Malaysia)

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AmIslamic Bank Berhad
(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors have pleasure in presenting their report and the audited financial statements of the Bank for the financial year ended 31 March 2011.

PRINCIPAL ACTIVITIES

The Bank is a licensed Islamic banking institution providing Islamic retail and commercial banking products and services in accordance with Shariah principles. There have been no significant changes in the nature of the activities of the Bank during the financial year.

FINANCIAL RESULTS

	RM'000
Profit before zakat and taxation	209,125
Zakat	(560)
Taxation	(51,976)
Profit for the year	156,589

There were no material transfers to or from reserves, allowances or provisions during the financial year other than those disclosed in the financial statements.

In the opinion of the directors, the results of the Bank during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature other than the effects arising from the changes in accounting policies due to the adoption of FRS 139 Financial Instruments: Recognition and Measurement which has resulted in a decrease in the Bank's profit for the year by RM62 million as disclosed in Note 2.1b to the financial statements.

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 likely, in the opinion of the directors, to affect substantially the results of the operations of the Bank for the current financial year in which this report is made.

DIVIDENDS

The amount of dividends paid by the Bank since 31 March 2010 were as follows:

	RM'000
In respect of the financial year ended 31 March 2011:	
Interim single-tier dividend of 9.9% on 403,038,000 ordinary shares, approved by the Board of Directors on 26 October 2010 and paid on 22 November 2010	39,901

The directors do not recommend the payment of final dividend in respect of the current financial year.

BUSINESS PLAN AND STRATEGY

AMMB Holdings Berhad and its subsidiaries' (the "Group") Medium Term Aspirations (“MTA”) is to be Malaysia’s preferred banking group with international connectivity, as measured by customer satisfaction, sound financial performances, and well diversified and sustainable growth. For financial year ("FY") 2012, The Group’s strategic priorities focus on profitable growth and rebalancing, diversification and new business development, non-interest income and deposit growth, and customer centricity. To achieve this, the Group will focus on leveraging international connectivity, investing to grow income, increasing customer share of wallet, capitalising on the Economic Transformation Programme (“ETP”), and upgrading capability and productivity.

The Group will tap on the domestic economic growth agenda, particularly in prime sectors of the ETP initiated by the government. To date, a total of 60 entry point projects have been announced, involving over RM95 billion investments primarily from the private sector. The banking industry is poised to benefit from lending growth, the extension of working capital and bridging financing, and the issuance of new private debt securities that will boost capital market activities.

In the upcoming financial year, Retail Banking division’s key agenda is to grow deposits via enlarged distribution channels and enhanced cross-selling, and balanced with assets growth in profitable segments. Additional emphasis will be placed on wealth management initiatives in order to improve revenue diversification and fee income growth.

In the Business Banking front, strategic initiatives are three-pronged: conserving relationship with existing customers, competing for new accounts with good track record and controlling accounts to contain impaired financing. Business Banking continues to generate deposits growth via cash management and transactional banking and increasing fee-based businesses.

BUSINESS PLAN AND STRATEGY (CONTD.)

Corporate and Institutional Banking's aims are to deliver innovative and quality solutions, increase share of wallet, target high-profile and high-value clients. For its lending business, the division aims to widen its clientele and target higher share of project financing with government support in the market.

Since 2008, Treasury and Markets business has gained good momentum and provided income diversification to the Group. For FY2012, the division will remain focused on building a substantive and integrated client-led business.

The Bank continues to function on the shared business model and operating platform of the overall conventional businesses. Capitalising on the sovereign direction and initiatives to catapult Malaysia into becoming a global Islamic financial hub, will accord us the lever to drive our Islamic banking business growth.

Enablement functions are critical to the achievement of our MTA, therefore we continuously make inroads in progressing "best in class" practices to provide seamless customer service. Focus areas include the development of leadership and talent, risk management and financial governance framework, and integration of technology, operations and infrastructure.

Since its launch in May 2006, the Bank has not only shown significant growth but has also capitalised on the robust demand for Islamic financial services. With its universal banking licence and 17 years of experience in offering Islamic banking products and services via the AmBank (M) Berhad's channels, the Bank continues to build its relationship with existing customers as well as cultivate new ones in providing a complete range of innovative retail and commercial banking products and services. This is further complemented by the AmBank (M) Berhad's extensive network of branches including the third dedicated branch in International Islamic University of Malaysia (IIUM), automatic teller machines, online banking, mobile banking and e-banking centres nationwide.

The Bank showed significant progress in an increasingly competitive environment, in line with the increased integration of the Malaysian Islamic financial system into the global Islamic financial landscape. With its pre-tax profit of RM209.1 million and total assets of RM20.2 billion as at 31st March 2011, it has proven itself as an important component of the Group's business. Total financing was reported at RM13.2 billion, which accounted for 65.6% of total assets due to the continued demand for financing in the retail and business banking segments. The Bank's total deposits had increased by 12.3% and stood at RM16.7 billion for the year ended 31st March 2011 due to our competitive rates offer to our customers.

BUSINESS PLAN AND STRATEGY (CONTD.)

Product and business development efforts remain the focus of the Bank. Apart from enhancing existing products and developing new ones, the Bank also invests in tying up its products through various alliances and collaborations with external parties to expand its product reach and market penetration. The following are new products launched by the Bank during the financial year:

i. Card
   - AmIslamic Bank CARz Card-i

ii. Auto Financing
   - AmAuto Cruise

iii. Home Financing
   - HomeLink Financing-i
   - MM Home Financing-i

iv. Personal Financing
   - AmMoneyLine Facility-i

v. Deposit Investment Product
   - Wakalah Investment Account-i
   - AmAdvance Investment Account-i

vi. Islamic Negotiable Instrument of Deposit (NID-i)
   - AmDaily Opportunities NID-i
   - AmEnergy NID-i

vii. SME Financing
   - Industrial Hire Purchase-i (Variable Rate)

The following are some of the major initiatives and awards received by the Bank during the financial year:

- the Bank collaborated with Perbadanan Tabung Pendidikan Tinggi Nasional ("PTPTN") to be the collection agent for the PTPTN financing payment;
- the Bank collaborated with Yayasan Waqaf Malaysia ("YWM") and Universiti Kebangsaan Malaysia ("UKM") to be the collection agent for their “Cash Waqaf Fund” via our extensive channels;
- Received Best Islamic Structured Product (AmIslamic Bank AmMomentum Select NID-i) from The Asset Triple A Islamic Finance Awards 2010;
- Received Best Islamic Product for AmMomentum Select NID-i from FinanceAsia Award.

The Bank has fulfilled its obligation as a business organisation and also the corporate social responsibility to the community through its business zakat distribution for financial year 2010 with zakat payment amounted to RM1.22 million. 34 charity homes and organizations were selected as the recipient in addition to the 14 state zakat collection centers and being distributed through several events organised by the Bank.

BUSINESS PLAN AND STRATEGY (CONTD.)

In tandem with the Bank retail focus strategy, the Bank has participated in Franchise Seminar and Business Opportunities Exhibition in February 2010 and the World Halal Forum and Malaysia International Halal Showcase (MIHAS) in June 2010 to promote our Islamic products and services directly to the target market.

The major strategic initiatives that will continue throughout FY 2012 include:

- Ongoing product development;
- Business tie-ups and dealings;
- Gearing up development and capitalisation of business opportunities in equity business; and
- Increase business penetration for government and government-linked companies for deposits and financing.

OUTLOOK FOR NEXT FINANCIAL YEAR

Regional trade is anticipated to continue to provide support to the domestic economic growth, as global economy shifts towards the Asian emerging markets. Nonetheless, recent developments have resulted in global volatilities, including the geo-political turmoils and natural disasters in various parts of the world. Risk of surging inflationary pressures loom in view of the high commodity prices resulting from scarcity and the frequent spate of unfortunate global events.

In Malaysia, the still robust domestic demand and the implementation of the ETP are expected to support gross domestic product ("GDP") growth. For calendar year 2011, current consensus estimate projects the Malaysian GDP to grow, on average, at circa 5.0% to 6.0%.

Looking ahead, the Group will continue leveraging ANZ's (The Australia and New Zealand Banking Group) international connectivity to drive business growth. ANZ's well-established geographical presence throughout Asia Pacific provides the Group the immediate access to cross-border markets. Plans are in place for higher collaborations in regional structuring and advisory businesses, offshore fund management and Islamic banking, markets, and international trade financing transactions.

The Group is well-positioned to weather economic uncertainties, whilst harnessing on growth opportunities in the market and industry. We are committed and focused on delivering increasing value to our shareholders as outlined in our Medium Term Aspirations.

ISSUANCE OF SHARES

There were no issuance of shares and debentures during the 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 at the end of the financial year, there were no unissued shares of the Bank under options.

BAD AND DOUBTFUL DEBTS AND FINANCING

Before the income statement and statement of financial position of the Bank were made out, the directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and financing and the making of allowances for doubtful debts and financing and have satisfied themselves that all known bad debts and financing had been written off and adequate allowance had been made for doubtful debts and financing.

At the date of this report, the directors are not aware of any circumstances that would render the amount written off for bad debts and financing or the amount of allowance for doubtful debts and financing in the Bank inadequate to any substantial extent.

CURRENT ASSETS

Before the income statement and statement of financial position of the Bank were made out, the directors took reasonable steps to ascertain that any current assets, other than debts and financing, which were unlikely to be realised in the ordinary course of business, their values as shown in the accounting records of the Bank, 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 Bank misleading.

VALUATION METHODS

At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities in the Bank's financial statements misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

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

(a) any charge on the assets of the Bank which has arisen since the end of the financial year and which secures the liability of any other person; or

(b) any contingent liability in respect 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 Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Bank to meet its obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

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

DIRECTORS

The directors of the Bank who served on the Board since the date of the last report and at the date of this report are:

Tan Sri Azman Hashim
Tun Mohammed Hanif Omar
Tan Sri Datuk Clifford Francis Herbert
Dato’ Gan Nyap Liou @ Gan Nyap Liow
Dato' Dr. Mahani binti Zainal Abidin
Cheah Tek Kuang
Ashok Ramamurthy

In accordance with Article 87 of the Bank’s Articles of Association, Tan Sri Datuk Clifford Francis Herbert retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

Pursuant to Section 129 of the Companies Act, 1965, Tan Sri Azman Hashim and Tun Mohammed Hanif Omar, retire at the forthcoming Annual General Meeting ("AGM") and offer themselves for reappointment to hold office until the conclusion of the next AGM.

DIRECTORS' INTERESTS

Under the Bank's Articles of Association, the directors are not required to hold shares in the Bank.

The interests in shares and options 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:

DIRECT INTERESTS

In the holding company,
AMMB Holdings Berhad ("AMMB")

Shares

	No. of ordinary shares of RM1.00 each ("shares")			
	Balance at 1.4.2010	Bought	Sold	Balance at 31.3.2011
Cheah Tek Kuang	78,800	-	-	78,800
Ashok Ramamurthy	100,000	-	-	100,000

Scheme Shares *

	No. of shares pursuant to AMMB Executives' Share Scheme			
	Balance at 1.4.2010	Granted	Vested	Balance at 31.3.2011
Cheah Tek Kuang	110,000	192,200	-	302,200
Ashok Ramamurthy	44,300	135,800	-	180,100

Shares Under Options *

	No. of shares pursuant to AMMB Executives' Share Scheme			
	Balance at 1.4.2010	Granted	Vested	Balance at 31.3.2011
Cheah Tek Kuang	672,400	227,300	-	899,700
Ashok Ramamurthy	264,800	181,900	-	446,700

* The vesting of the Scheme Shares and/or the entitlement to exercise the Options are conditional upon the satisfaction of service condition and the performance targets of the Group, and all other conditions as set out in the By-Laws of AMMB Executives' Share Scheme.

DIRECTORS' INTERESTS (CONTD.)

INDIRECT INTERESTS

In the holding company,
AMMB

Shares

		No. of ordinary shares of RM1.00 each			
	Name of Company	**Balance at 1.4.2010**	**Bought**	**Sold**	**Balance at 31.3.2011**
Tan Sri Azman Hashim	Amcorp Group Berhad	503,853,918	1,926,636	-	505,780,554

By virtue of Tan Sri Azman Hashim's shareholding in the holding company, AMMB Holdings Berhad, he is deemed to have interests in the shares of the Bank and its related corporations to the extent the holding company has an interest.

None of the other directors in office at the end of the financial year had any interest in the shares of the Bank or its related corporations during the year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director of the Bank has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by directors as shown in Note 29 to the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm in which the director is a member, or with a company in which the director has a substantial financial interest except for related party transactions as shown in Note 28 to the financial statements.

Neither during nor at the end of the financial year, did there subsist any arrangements to which the Bank is a party to any arrangements whose object is to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate, other than those arising from the scheme shares and options granted pursuant to the Executives' Share Scheme of AMMB, the holding company.

CORPORATE GOVERNANCE

(a) BOARD RESPONSIBILITY AND OVERSIGHT

The Board of Directors (the “Board”) remains fully committed in ensuring that the principles and best practices in corporate governance are applied consistently in the Bank. The Board complies with the best practices in corporate governance as set out in the Malaysian Code on Corporate Governance.

The Board supervises the management of the Bank’s businesses, policies and affairs with the goal of enhancing shareholder's value. The Board meets nine (9) times in a year to carry out its duties and responsibilities, with additional Board meetings being convened, whenever required.

The Board addresses key matters concerning strategy, finance, organisation structure, business developments, human resource (subject to matters reserved for shareholders' meetings by law), and establishes guidelines for overall business, risk and control policies, capital allocation and approves all key business developments.

The Board currently comprises seven (7) directors with wide skills and experience, four (4) of whom are Independent Non-Executive Directors. The Directors participate fully in decision-making on key issues regarding the Bank. The Independent Non-Executive Directors ensure strategies proposed by the management are fully discussed and examined, as well as taking into account the long term interests of various stakeholders.

There is a clear division between the roles of Chairman and the Chief Executive Officer of the Bank. The Senior Management team of the Bank are invited to attend Board Meetings to provide presentations and detailed explanations on matters that have been tabled. The Company Secretary has been empowered by the Board to assist the Board in matters of governance and in complying with statutory duties.

(b) COMMITTEES OF THE BOARD

The Board delegates certain responsibilities to the Board Committees. The Committees, which were created to assist the Board in certain areas of deliberations, are:

1. Nomination Committee
2. Remuneration Committee
3. Audit and Examination Committee
4. Risk Management Committee

The roles and responsibilities of each Committee are set out under the respective terms of reference, which have been approved by the Board. The minutes of the Committee meetings are tabled at the subsequent Board meetings for comment and notation.

CORPORATE GOVERNANCE (CONTD.)

(b) COMMITTEES OF THE BOARD (CONTD.)

The attendance of Board members at the meetings of the Board and the various Board Committees is set out below:-

Number of meetings attended in Financial Year 2011 ("FY2011")					
	Board of Directors	Nomination Committee	Remuneration Committee	Audit and Examination Committee	Risk Management Committee
Tan Sri Azman Hashim	9 (Chairman)	3	2	N/A	N/A
Tun Mohammed Hanif Omar	8	3 (Chairman)	N/A	7	N/A
Tan Sri Datuk Clifford Francis Herbert	9	3	2 (Chairman)	7 (Chairman)	6 (Chairman)
Dato' Gan Nyap Liou @ Gan Nyap Liow	8	N/A	N/A	7	6
Dato' Dr Mahani binti Zainal Abidin	8	N/A	N/A	N/A	5
Cheah Tek Kuang	8	3	2	N/A	N/A
Ashok Ramamurthy	8	3	2	N/A	N/A
Number of meetings held in FY2011	9	3	2	7	6

Notes:

1. All attendances reflect the number of meetings attended during the Directors' tenure of service.
2. N/A represents non-Committee member.

CORPORATE GOVERNANCE (CONTD.)

(b) COMMITTEES OF THE BOARD (CONTD.)

Nomination Committee

The Committee comprises five (5) members, two (2) of whom are Independent Non-Executive Directors. The Committee is responsible for regularly reviewing the board structure, size and composition, as well as making recommendation to the Board with regard to any changes that are deemed necessary. It also recommends the appointment of Directors to the Board and Committees of the Board as well as annually reviews the mix of skills, experience and competencies that the Directors should bring to the Board.

The Committee also, on an annual basis assesses the effectiveness of the Board as a whole and the Committees as well as the contribution of the Chairman and each Director to the effectiveness of the Board.

The Committee met three (3) times during the financial year 2011.

Remuneration Committee

The Committee comprises four (4) members, all of whom are Non-Executive Directors. The Committee is responsible for determining and recommending to the Board the framework or broad policy for the remuneration of the Directors, the Chief Executive Officer and other Senior Management staff.

Remuneration is determined at levels which would enable the Bank to attract and retain the Directors, the Chief Executive Officer and Senior Management staff with the relevant experience and expertise in managing the Bank effectively.

Audit and Examination Committee

The Committee comprises three (3) members, all of whom are Independent Non-Executive Directors. The Board has appointed the Audit and Examination Committee (“AEC”) to assist in discharging its duties of maintaining a sound system of internal controls to safeguard the Bank’s assets and shareholder’s investments.

The AEC met during the financial year 2011 to review the scope of work of both the internal audit function and the statutory auditors, the results arising thereafter as well as their evaluation of the system of internal controls. The AEC also followed up on the resolution of major issues raised by the internal auditors, statutory auditors as well as the regulatory authorities in the examination reports. The financial statements were reviewed by the AEC prior to their submission to the Board of the Bank for adoption.

CORPORATE GOVERNANCE (CONTD.)

(b) COMMITTEES OF THE BOARD (CONTD.)

Audit and Examination Committee (Contd.)

In addition, the AEC has reviewed the procedures set up by the Bank to identify and report, and where necessary, seek approval for related party transactions and, with the assistance of the internal auditors, reviewed related party transactions.

Risk Management Committee

Risk management is an integral part of the Bank’s strategic decision-making process which ensures that the corporate objectives are consistent with the appropriate risk-return trade-off. The Board approves the risk management strategy and sets the broad risk tolerance level and also approves the engagement of new products or activities after considering the risk bearing capacity and readiness of the Bank.

The Risk Management Committee exercises oversight on behalf of the Board to ensure adequate overall management of credit, market, liquidity, operational, legal and capital risks impacting the Bank.

The Committee is independent from management and comprises three (3) members, all of whom are Independent Non-Executive Directors. The Committee ensures that the Board’s risk tolerance level is effectively enforced, the risk management process is in place and functioning and reviews high-level risk exposures to ensure that they are within the overall interests of the Bank. It also assesses the Bank’s ability to accommodate risks under normal and stress scenarios.

The Risk Management Department is independent of the various business units and acts as the catalyst for the development and maintenance of comprehensive and sound risk management policies, strategies and procedures within the Bank. The functions encompass research and analysis, portfolio risk exposure reporting, compliance monitoring, formulation of policies and risk assessment methodology, and formulation of risk strategies.

Internal Audit and Internal Control Activities

The Head of the Group Internal Audit Department reports to the AEC. Group Internal Audit assists the AEC in assessing and reporting on business risks and internal controls, and operates within the framework defined in the Audit Charter.

The AEC approves the Group Internal Audit’s annual audit plan, which covers the audit of all major business units and operations within the Bank. The results of each audit are submitted to the AEC and significant findings are discussed during the AEC meetings.

CORPORATE GOVERNANCE (CONTD.)

(b) COMMITTEES OF THE BOARD (CONTD.)

Internal Audit and Internal Control Activities (Contd.)

The minutes of the AEC meetings are formally tabled to the Board for notation and action, where necessary. The Chief Internal Auditor and the external auditors also attend the AEC meetings by invitation and the AEC holds separate meetings with the Chief Internal Auditor and external auditors whenever necessary.

The scope of internal audit covers review of adequacy of the risk management processes, operational controls, financial controls, compliance with laws and regulations, lending practices and information technology, including the various application systems in production, data centres and network security.

Group Internal Audit focuses its efforts on performing audits in accordance with the audit plan, which is prioritised based on a comprehensive risk assessment of all significant areas of audit identified in the Bank. The structured audit risk assessment approach ensures that all risk-rated areas are kept in view to ensure appropriate audit coverage and audit frequency. The risk based audit plan is reviewed annually, taking into account the changing financial significance of the business and risk environment.

Group Internal Audit also performs investigations and special reviews, and participates actively in major system development activities and project committees to advise on risk management and internal control measures.

MANAGEMENT INFORMATION

All Directors review Board papers and reports prior to the Board meeting. Information and materials, relating to the operations of the Bank that are important to the Directors' understanding of the items in the agenda and related topics, are distributed in advance of the meeting. The Board reports, include among others, minutes of meetings of all Committees of the Board, monthly performance of the Bank, credit risk management, asset liability and market risk management and industry benchmarking as well as prevailing regulatory developments and the economic and business environment.

These reports are issued giving sufficient time before the meeting to enable the Directors to be prepared and to obtain further explanations, where necessary, and provides input on Bank policies.

HOLDING AND ULTIMATE HOLDING COMPANY

The directors regard AmBank (M) Berhad and AMMB Holdings Berhad, both of which are incorporated in Malaysia, as the holding company and the ultimate holding company, respectively, up to 28 February 2011. On 28 February 2011, AmBank (M) Berhad completed the disposal of its entire shareholding in the Bank to AMMB Holdings Berhad, following the approval from the Minister of Finance and BNM obtained on 21 February 2011. Thereafter, AMMB Holdings Berhad is the holding company of the Bank.

RATING BY EXTERNAL AGENCIES

Rating Agency Malaysia Berhad ("RAM") had reaffirmed the financial institution ratings of AmIslamic Bank at AA3/P1/Stable.

The long-term rating of AmIslamic Bank's RM400.0 million Subordinated Sukuk Musyarakah was reaffirmed at A1/Stable by RAM. The RM3.0 billion Senior Sukuk Musyarakah Programme was assigned a rating of AA3/Stable by RAM.

SHARIAH COMMITTEE

The Shariah Committee comprises three (3) advisors and has been established pursuant to Bank Negara Malaysia ("BNM") "Guidelines on the Governance of Shariah Committee for the Islamic Financial Institutions" (BNM/GPS1). The role of the Shariah Committee is to advise and provide guidance to the Board on all matters pertaining to Shariah in order to ensure the business operations comply with Shariah principles. This includes providing Shariah opinions and validation on products and services offered and relevant documentation to be used.

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors.

TAN SRI AZMAN HASHIM
Chairman

CHEAH TEK KUANG
Director

Kuala Lumpur, Malaysia
16 May 2011

AmIslamic Bank Berhad
(Incorporated in Malaysia)

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

We, **TAN SRI AZMAN HASHIM** and **CHEAH TEK KUANG**, being two of the directors of **AmIslamic Bank Berhad**, do hereby state that, in the opinion of the directors, the accompanying financial statements as set on pages 21 to 139 are drawn up in accordance with the provisions of the Companies Act, 1965, the Islamic Banking Act, 1983 and applicable Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Bank as at 31 March 2011 and of the results and the cash flows of the Bank for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors.

TAN SRI AZMAN HASHIM
Chairman

CHEAH TEK KUANG
Director

Kuala Lumpur, Malaysia
16 May 2011

Company No. 295576–U

AmIslamic Bank Berhad
(Incorporated in Malaysia)

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

I, **LIM HOCK AUN**, being the Officer primarily responsible for the financial management of **AmIslamic Bank Berhad**, do solemnly and sincerely declare that the accompanying financial statements as set out on pages 21 to 139 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed **LIM HOCK AUN** at Kuala Lumpur in the Wilayah Persekutuan on 16 May 2011

LIM HOCK AUN

Before me,

PESURUHJAYA SUMPAH
W 325
TAN BOON CHUA
MALAYSIA

COMMISSIONER FOR OATHS

Lodged on behalf by:
Address: 22nd Floor, Bangunan AmBank Group,
No. 55 Jalan Raja Chulan,
50200 Kuala Lumpur
Telephone Number: 03-20362633

30th Floor, Ambank Group Building
No. 55, Jalan Raja Chulan,
50200 Kuala Lumpur.

Company No. 295576–U

AmIslamic Bank Berhad
(Incorporated in Malaysia)

SHARIAH COMMITTEE'S REPORT TO THE MEMBER OF AMISLAMIC BANK BERHAD

In the Name of Allah, The Compassionate, The Most Merciful

All Praise is due to Allah, the Cherisher of the World, and the Peace and Blessing be upon the Prophet of Allah, on his Family and all his Companions.

We, Associate Professor Dr. Amir Husin Mohd Nor, Associate Professor Datin Dr. Noor Naemah Abd. Rahman and Encik Adnan Yusoff, being members of the Shariah Committee of AmIslamic Bank Berhad, do hereby confirm that we have reviewed the principles and the contracts relating to the transactions and applications introduced by the Bank during the year ended 31 March 2011.

We have provided various aspects of the Shariah advisory to the Bank in order to ensure compliance with applicable Shariah principles as well as the relevant resolutions and rulings made by the Shariah Advisory Councils of the regulatory bodies.

The Bank's management is responsible for ensuring that the Bank conducts its business in accordance with Shariah rules and principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank and to report to you.

We are of the opinion that: -

a) The contracts, transactions and dealings entered into by the Bank during the year ended 31 March 2011, that we have reviewed are in compliance with the Shariah rules and principles;

b) The main sources and investments of the Bank disclosed to us conform to the basis that had been approved by us in accordance with the Shariah rules and principles.

We beg Allah the Almighty to grant us all the success and straightforwardness and Allah knows best.

ASSOC. PROF. DR. AMIR HUSIN MOHD NOR
Chairman of the Committee

ASSOC. PROF. DATIN DR. NOOR NAEMAH ABD. RAHMAN
Member of the Committee

ENCIK ADNAN YUSOFF
Member of the Committee

Kuala Lumpur, Malaysia
16 May 2011

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295576-U

Independent auditors' report to the member of AmIslamic Bank Berhad (Incorporated in Malaysia)

Report on the financial statements

We have audited the financial statements of AmIslamic Bank Berhad, which comprise the statement of financial position as at 31 March 201, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 21 to 139.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards as modified by Bank Negara Malaysia guidelines and the Companies Act, 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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.

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

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

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Independent auditors' report to the member of AmIslamic Bank Berhad (cont'd.) (Incorporated in Malaysia)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards as modified by Bank Negara Malaysia guidelines and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 March 2011 and of their financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

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

Other matters

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

Ernst & Young
AF: 0039
Chartered Accountants

Yap Seng Chong
No. 2190/12/11(J)
Chartered Accountant

Kuala Lumpur, Malaysia
16 May 2011

AmIslamic Bank Berhad
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2011

	Note	2011 RM'000	2010 RM'000
ASSETS			
Cash and short-term funds	5	4,738,758	3,886,453
Deposits and placements with banks and other financial institutions	6	250,000	150,000
Derivative financial assets	7	3,258	3,461
Financial assets held-for-trading	8	991,136	350,934
Financial investments available-for-sale	9	715,937	907,930
Financing and advances	10	13,247,076	11,758,678
Other assets	11	124,657	81,626
Statutory deposit with Bank Negara Malaysia	12	-	32,079
Deferred tax asset	33	118,406	41,500
Property and equipment	13	654	317
Intangible assets	14	278	449
TOTAL ASSETS		20,190,160	17,213,427
LIABILITIES AND EQUITY			
Deposits and placements of banks and other financial institutions	15	1,467,556	1,485,750
Derivative financial liabilities	7	3,254	3,458
Deposits from customers	16	15,249,655	13,398,040
Term funding	17	550,000	-
Bills and acceptances payable	18	879,522	394,986
Subordinated Sukuk Musyarakah	20	400,000	400,000
Other liabilities	19	242,001	191,820
Provision for zakat		559	1,226
TOTAL LIABILITIES		18,792,547	15,875,280
Share capital	21	403,038	403,038
Reserves	22	994,575	935,109
Equity attributable to equity holder of the Bank		1,397,613	1,338,147
TOTAL LIABILITIES AND EQUITY		20,190,160	17,213,427
COMMITMENTS AND CONTINGENCIES	41	7,595,982	4,117,941
NET ASSETS PER SHARE (RM)		3.47	3.32

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

AmIslamic Bank Berhad
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 RM'000	2010 RM'000
Income derived from investment of depositors' funds and others	23	1,025,632	884,705
Income derived from investment of shareholder's funds	24	153,974	148,294
Allowance for impairment on financing and advances	25	(247,791)	(90,297)
Impairment write back/(loss) on financial investments		4,218	(4,218)
(Provision)/write back of provision for commitments and contingencies	19	(6,283)	12,713
Transfer from profit equalisation reserve	19	42,444	12,635
Total distributable income		972,194	963,832
Income attributable to the depositors	26	(448,841)	(327,872)
Total net income		523,353	635,960
Other operating expenses	27	(280,855)	(259,250)
Finance cost	31	(33,373)	(20,100)
Profit before zakat and taxation		**209,125**	**356,610**
Zakat		(560)	(1,270)
Taxation	32	(51,976)	(93,995)
Profit for the year		**156,589**	**261,345**
Earnings per share (sen):			
Basic/Diluted earnings per ordinary share	34	38.85	64.84

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

AmIslamic Bank Berhad
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2011

	2011 RM'000	2010 RM'000
Profit for the year	156,589	261,345
Other comprehensive (loss)/income:		
Net change in revaluation of financial investments available-for-sale	(4,044)	(9,005)
Income tax relating to the components of other comprehensive income	1,011	2,252
Other comprehensive loss for the year, net of tax	(3,033)	(6,753)
Total comprehensive income for the year	153,556	254,592

AmIslamic Bank Berhad
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2011

	<------------- Attributable to Equity Holder of the Bank ---------------->					
		<------------Non-distributable------------->			Distributable	
	Share Capital RM'000	Share Premium RM'000	Statutory Reserve RM'000	Available-For-Sale Reserve RM'000	Retained Earnings RM'000	Total RM'000
At 1 April 2009	403,038	534,068	168,773	8,906	168,770	1,283,555
Total comprehensive (loss)/income for the year	-	-	-	(6,753)	261,345	254,592
Transfer to statutory reserve	-	-	96,396	-	(96,396)	-
Dividends (Note 35)	-	-	-	-	(200,000)	(200,000)
At 31 March 2010	403,038	534,068	265,169	2,153	133,719	1,338,147
At 1 April 2010						
As previously stated	403,038	534,068	265,169	2,153	133,719	1,338,147
Effects of adopting FRS139	-	-	-	(5,444)	(48,745)	(54,189)
At 1 April 2010 (restated)	403,038	534,068	265,169	(3,291)	84,974	1,283,958
Total comprehensive (loss)/income						-
for the year	-	-	-	(3,033)	156,589	153,556
Transfer to statutory reserve	-	-	39,147	-	(39,147)	-
Dividends (Note 35)	-	-	-	-	(39,901)	(39,901)
At 31 March 2011	403,038	534,068	304,316	(6,324)	162,515	1,397,613

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

AmIslamic Bank Berhad
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2011

	2011 RM'000	2010 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before zakat and taxation	209,125	356,610
Adjustments for:		
Allowances for losses on financing	305,508	123,162
Depreciation of property and equipment	200	136
Amortisation of intangible assets	173	164
Impairment (write back)/loss on financial investments	(4,218)	4,218
Transfer from profit equalisation reserve	(42,444)	(12,635)
Accretion of discount less amortisation of premium	(13,818)	(1,259)
Gain on disposal of financial assets held-for-trading	(6,130)	(2,952)
Gain on disposal of financial investments available-for-sale	(6,741)	(4,665)
(Gain)/loss on revaluation of financial assets held-for-trading	(253)	716
Provision/(write back) of provision for commitments and contingencies	6,283	(12,713)
Shares/options granted under Executives' Share Scheme	471	190
Operating profit before working capital changes	448,156	450,972
(Increase)/decrease in operating assets:		
Deposits and placements with banks and other financial institutions	(100,000)	(150,000)
Financial assets held-for-trading	(626,077)	(142,148)
Financing and advances	(1,852,558)	(2,071,363)
Other assets	(43,503)	24,622
Statutory deposit with Bank Negara Malaysia	32,079	54,000
Increase/(decrease) in operating liabilities:		
Deposits from customers	1,851,615	3,242,970
Deposits and placements of banks and other financial institutions	(18,194)	40,698
Bills and acceptances payable	484,536	(217,581)
Other liabilities	32,904	234
Term funding	550,000	-
Cash generated from operations	758,958	1,232,404
Zakat paid	(1,227)	(1,174)
Tax paid	(68,371)	(27,000)
Net cash generated from operating activities	689,360	1,204,230

AmIslamic Bank Berhad
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2011 (CONTD.)

	2011 RM'000	2010 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Net disposal/(purchase) of financial investment available-for-sale	203,385	(335,574)
Purchase of property and equipment	(537)	(60)
Purchase of intangible assets	(2)	(53)
Net cash generated/(used) in investing activities	202,846	(335,687)
CASH FLOW FROM FINANCING ACTIVITY		
Dividends paid, representing net cash used in financing activity	(39,901)	(200,000)
Net increase in cash and cash equivalents	852,305	668,543
Cash and cash equivalents at beginning of year	3,886,453	3,217,910
Cash and cash equivalents at end of year (Note 5)	4,738,758	3,886,453

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

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2011

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Bank is a licensed Islamic banking institution providing Islamic retail and commercial banking products and services in accordance with Shariah principles. There have been no significant changes in the nature of the activities of the Bank during the financial year.

The Bank is a licensed Islamic Bank under the Islamic Banking Act, 1983, incorporated and domiciled in Malaysia. The registered office of the Bank is located at 22nd Floor, Bangunan AmBank Group, No. 55, Jalan Raja Chulan, 50200 Kuala Lumpur. The principal place of business for the Retail and Business Banking Divisions are located at Menara AmBank, Jalan Yap Kwan Seng, 50450 Kuala Lumpur and Menara Dion, Jalan Sultan Ismail, 50250 Kuala Lumpur, respectively.

The financial statements of the Bank have been approved and authorised for issue by the Board of Directors on 25 April 2011.

2. ADOPTION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS ("FRSs")

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

- FRS 4, Insurance Contracts
- FRS 7, Financial Instruments: Disclosures
- FRS 8, Operating Segments
- FRS 101, Presentation of Financial Statements (revised)
- FRS 123, Borrowing Costs (revised)
- FRS 139, Financial Instruments: Recognition and Measurement
- Amendments to FRS 1, First-time Adoption of Financial Reporting Standards and FRS 127, Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- Amendments to FRS 2, Share-based Payment: Vesting Conditions and Cancellations
- Amendments to FRS 132, Financial Instruments: Presentation and FRS 101, Presentation of Financial Statements
  - Puttable Financial Instruments and Obligations Arising on Liquidation
  - Separation of Compound Instruments
- Amendments to FRS 132, Financial Instruments: Presentation – Classification of Rights Issues
- Amendments to FRS 139, Financial Instruments: Recognition and Measurement, FRS 7, Financial Instruments: Disclosures and IC Interpretation 9, Reassessment of Embedded Derivatives
  - Reclassification of Financial Assets
  - Puttable Financial Instruments and Obligations Arising on Liquidation

2. ADOPTION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS ("FRSs") (CONTD.)

- Amendments to FRS 139, Financial Instruments: Recognition and Measurement
  - Collective Assessment of Impairment for Banking Institutions
- Improvements to FRSs (2009)
- IC Interpretation 9, Reassessment of Embedded Derivatives
- IC Interpretation 10, Interim Financial Reporting and Impairment
- IC Interpretation 11, FRS 2 - Group and Treasury Share Transactions
- IC Interpretation 13, Customer Loyalty Programmes
- IC Interpretation 14, FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction
- TR i – 3, Presentation of Financial Statements of Islamic Financial Institutions

2.1 Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements.

2.1a Standards affecting presentation and disclosure

2.1a(i) FRS 101, Presentation of Financial Statements (revised)

FRS 101 (revised) introduces changes in the presentation and disclosures of financial statements. FRS 101 (revised) separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. FRS 101 (revised) also introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Bank has opted for the two statements approach. The adoption of FRS 101 (revised) did not impact the financial position or results of the Bank as the changes introduced are presentational in nature.

In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the reclassification of items in the financial statements.

The FRS101 (revised) also requires the Bank to make new disclosures to enable users of the financial statements to evaluate the Bank's objectives, policies and processes for managing capital (see Note 42).

The Bank has adopted FRS 101 (revised) retrospectively.

2. ADOPTION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS ("FRSs") (CONTD.)

2.1 Standards and Interpretations affecting amounts reported in the current period (and/or prior periods) (Contd.)

2.1a Standards affecting presentation and disclosure (Contd.)

2.1a(ii) FRS 4, Insurance Contracts

FRS 4 specifies the financial reporting requirements for insurance contracts by any entity that issues such contracts (insurers). In particular, it requires disclosures that identify and explain the amounts in an insurer's financial statements arising from insurance contracts and helps users of those financial statements understand the amount, timing and uncertainty of future cash flows from insurance contracts. FRS 4 is not relevant to the Bank.

2.1a(iii) FRS 117, Leases

The amendments to FRS 117 require leasehold land which is in substance finance leases to be classified as Property, Plant and Equipment or Investment Property as appropriate. The change in accounting policy does not have any impact to the financial performance or position of the Bank as the Bank does not have any leasehold land.

2.1a(iv) FRS 7, Financial Instruments: Disclosures

Prior to 1 January 2010, information about financial instruments was disclosed in accordance with the requirements of FRS 132, Financial Instruments: Disclosure and Presentation. FRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk, market risk and sensitivity analysis to market risk.

The Bank has applied FRS 7 prospectively in accordance with the transitional provisions. Hence, FRS 7 disclosures have not been applied to the comparatives but have been included throughout the Bank's financial statements for the year ended 31 March 2011.

2. ADOPTION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS ("FRSs") (CONTD.)

2.1 Standards and Interpretations affecting amounts reported in the current period (and/or prior periods) (Contd.)

2.1a Standards affecting presentation and disclosure (Contd.)

2.1a(v) FRS 8, Operating Segments

FRS 8, which replaces FRS 114, Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. FRS 8 also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Bank operates, and revenue from the Bank's major customers. The Bank concluded that the reportable operating segments determined in accordance with FRS 8 are the same as the business segments previously identified under FRS 114. The Bank has adopted FRS 8 retrospectively. These revised disclosures, including the related revised comparative information, are shown in Note 36.

2.1a(vi) IC Interpretation 13, Customer Loyalty Programmes

IC Interpretation 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple element arrangement. The consideration receivable from the customer is allocated between the components of the arrangement using fair values.

The Bank's AmBonus Rewards Program, operated for the benefit of the Bank's credit card customers, falls within the scope of IC Interpretation 13. Under the AmBonus Rewards Program, credit card customers are entitled to bonus points that can be used to redeem gifts and vouchers. The accounting treatment adopted by the Bank for customer loyalty programmes is consistent with IC Interpretation 13, except that the Bank recorded the expense of the AmBonus points as a set off against finance income in the past. The Bank has applied IC Interpretation 13 retrospectively in accordance with the transitional provisions of IC Interpretation 13 and has reclassified the expense of the AmBonus points from finance income to fee income to reflect the multiple element arrangement. This reclassification did not affect earnings per ordinary share for the current and prior periods.

2. ADOPTION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS ("FRSs") (CONTD.)

2.1 Standards and Interpretations affecting amounts reported in the current period (and/or prior periods) (Contd.)

2.1b Standards and Interpretations affecting the reported results or financial position

FRS 139, Financial Instruments: Recognition and Measurement

FRS 139 establishes the principles for the recognition, derecognition and measurement of an entity's financial instruments and for hedge accounting. The Bank has adopted FRS 139 prospectively. The effects arising from the adoption of FRS 139 has been accounted for by adjusting the opening balance of retained earnings and reserves as at 1 April 2010. Comparatives are not restated.

(i) Impairment of Financing and Advances

The adoption of FRS 139 changes the accounting policy relating to the assessment for impairment of financial assets, particularly financing and advances. The existing accounting policies on the assessment of impairment of other financial assets of the Bank are in line with those of FRS 139. Prior to the adoption of FRS 139, allowances for impaired financing (previously referred to as non-performing financing) were computed in conformity with the BNM/GP3 Guidelines on Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts. Upon adoption of FRS 139, the Bank assesses, at the end of each reporting period, whether there is any objective evidence that a financing or group of financing is impaired. The financing or group of financing is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the financing (an incurred 'loss event') and that the loss event has an impact on the estimated future cash flows of the financing or group of financing that can be reliably estimated.

2. ADOPTION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS ("FRSs") (CONTD.)

2.1 Standards and Interpretations affecting amounts reported in the current period (and/or prior periods) (Contd.)

2.1b Standards and Interpretations affecting the reported results or financial position (Contd.)

FRS 139, Financial Instruments: Recognition and Measurement (Contd.)

(i) Impairment of Financing and Advances (Contd.)

The Bank first assesses whether objective evidence of impairment exists individually for financing which are individually significant, and collectively for financing which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financing, the financing is included in a group of financing with similar credit risk characteristics for purposes of calculating an estimated collective loss. Future cash flows on a group of financial assets that are collectively assessed for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financing's carrying amount and the present value of the estimated future cash flows. The carrying amount of the financing is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

The Bank is currently reporting under the BNM’s transitional arrangement as prescribed in its guidelines on Classification and Impairment Provisions for Loans/Financing issued on 8 January 2010 and as allowed by the Malaysian Accounting Standards Board ("MASB") in its Amendments to FRS 139 issued on the same date. Pursuant to this transitional arrangement, banking institutions are required to maintain collective assessment impairment allowances of at least 1.5% of total outstanding financing, net of individual impairment allowance.

The changes in accounting policies above have been accounted for prospectively, in line with the transitional provisions in paragraph 103AA of FRS 139, with adjustments to the carrying values of financial assets affecting profit or loss as at the beginning of the current financial period being adjusted to opening retained earnings as tabulated in Note 2.1b(iv) below.

2. ADOPTION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS ("FRSs") (CONTD.)

2.1 Standards and Interpretations affecting amounts reported in the current period (and/or prior periods) (Contd.)

2.1b Standards and Interpretations affecting the reported results or financial position (Contd.)

FRS 139, Financial Instruments: Recognition and Measurement (Contd.)

(ii) Financing Income Recognition

FRS 139 prescribes that financial assets classified as held-to-maturity and financing and receivables are measured at amortised cost using the effective profit method. On adoption of FRS 139 on 1 April 2010, profit on financing and advances is no longer recognised based on contractual profit rates but the effective profit rate is applied instead. Effective profit rate refers to the rate that exactly discounts the estimated future cash receipts through the expected life of the financing or, when appropriate, a shorter period to the net carrying amount of the financing.

This change in accounting policy has been accounted for prospectively in line with the transitional provisions in paragraph 103AA of FRS 139 and the resulting opening retained earnings adjustment is tabulated in Note 2.1b(iv) below.

Prior to the adoption of FRS 139, profit accrued and recognised as income prior to the date that a financing is classified as non-performing is reversed out of income and set-off against the profit receivable account in the statement of financial position. Thereafter, profit on the non-performing financing is recognised as income on a cash basis. On adoption of FRS 139, once a financing has been written down for impairment loss, subsequent profit income thereafter is recognised using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss. The opening retained earnings adjustment as a result of this change in accounting policy is presented in Note 2.1b(iv) below.

(iii) Recognition of Embedded Derivatives

On adoption of FRS 139, embedded derivatives are to be separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative are not closely related to that of the host contract and the fair value of the resulting derivative can be reliably measured.

The Bank has assessed the impact of this requirement on adoption of FRS 139 on 1 April 2010 and concluded that there were no material embedded derivatives which were not closely related to the host contracts and which required bifurcation.

2. ADOPTION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS ("FRSs") (CONTD.)

2.1 Standards and Interpretations affecting amounts reported in the current period (and/or prior periods) (Contd.)

2.1b Standards and Interpretations affecting the reported results or financial position (Contd.)

FRS 139, Financial Instruments: Recognition and Measurement (Contd.)

(iv) Opening Retained Earnings Adjustments

The application of the above new accounting policies has the following effects:

Statement of Financial Position	At 1 April 2010 (as previously stated) RM'000	Remeasure-ments RM'000	At 1 April 2010 (restated) RM'000
ASSETS			
Cash and short-term funds	3,886,453	-	3,886,453
Deposits and placements with banks and other financial institutions	150,000	-	150,000
Derivative financial assets	3,461	-	3,461
Financial assets held-for-trading	350,934	(471)	350,463
Financial investments available-for-sale	907,930	(1,129)	906,801
Financing and advances	11,758,678	(58,652)	11,700,026
Other assets	81,626	-	81,626
Statutory deposit with Bank Negara Malaysia	32,079	-	32,079
Deferred tax asset	41,500	18,063	59,563
Property and equipment	317	-	317
Intangible assets	449	-	449
TOTAL ASSETS	17,213,427		17,171,238
LIABILITIES AND EQUITY			
Deposits and placements of banks and other financial institutions	1,485,750	-	1,485,750
Derivative financial liabilities	3,458	-	3,458
Deposits from customers	13,398,040	-	13,398,040
Bills and acceptances payable	394,986	-	394,986
Subordinated Sukuk Musyarakah	400,000	-	400,000
Other liabilities	191,820	12,000	203,820
Provision for zakat	1,226	-	1,226
TOTAL LIABILITIES	15,875,280		15,887,280

2. ADOPTION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS ("FRSs") (CONTD.)

2.1 Standards and Interpretations affecting amounts reported in the current period (and/or prior periods) (Contd.)

2.1b Standards and Interpretations affecting the reported results or financial position (Contd.)

FRS 139, Financial Instruments: Recognition and Measurement (Contd.)

(iv) Opening Retained Earnings Adjustments (Contd.)

	At 1 April 2010 (as previously stated) RM'000	Remeasure-ments RM'000	At 1 April 2010 (restated) RM'000
Share capital	403,038	-	403,038
Share premium	534,068	-	534,068
Statutory reserve	265,169	-	265,169
Available-for-sale reserve	2,153	(5,444)	(3,291)
Retained earnings	133,719	(48,745)	84,974
Equity attributable to equity holder of the Bank	1,338,147		1,283,958
TOTAL LIABILITIES AND EQUITY	17,213,427		17,171,238

Financial impact of adoption of FRS 139 for financial year 2011:

Statement of Financial Position	Increase/ (decrease) 2011 RM'000
Financial assets held-for-trading	(1,230)
Financial investments available-for-sale	(1,213)
Financing and advances	(75,444)
Deferred tax asset	52,583
Other liabilities - provision for commitments and contingencies	5,941
Other liabilities - provision for tax	31,626
Available-for-sale reserve	(910)
Retained earnings	(61,961)

2. ADOPTION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS ("FRSs") (CONTD.)

2.1 Standards and Interpretations affecting amounts reported in the current period (and/or prior periods) (Contd.)

2.1b Standards and Interpretations affecting the reported results or financial position (Contd.)

FRS 139, Financial Instruments: Recognition and Measurement (Contd.)

(iv) Opening Retained Earnings Adjustments (Contd.)

Financial impact of adoption of FRS 139 for financial year 2011 (Contd.):

Income Statement	**Increase/ (decrease) 2011 RM'000**
Income derived from investment of depositors' funds and others	(6,623)
Income derived from investment of shareholder's funds	7,078
Allowances for impairment on financing and advances	77,129
Provision for commitments and contingencies	5,941
Total distributable income	(82,615)
Total net income	(82,615)
Profit before zakat and taxation	(82,615)
Taxation	(20,654)
Profit after zakat and taxation	(61,961)

	Increase/ (decrease) 2011 Sen per share
Basic/Diluted earnings per ordinary share	(15.4)

Statement of Comprehensive Income	**Increase/ (decrease) 2011 RM'000**
Net change in revaluation of financial investments available-for-sale	(1,213)
Income tax relating to the components of other comprehensive income	303
Other comprehensive income for the period, net of tax	(910)
Total comprehensive income for the period	(62,871)

2. ADOPTION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS ("FRSs") (CONTD.)

2.2 Standards and interpretations in issue but not yet adopted

The Bank has not yet adopted the following accounting standards and interpretations that have been issued but are not yet effective:

2.2a FRSs, IC Interpretations and amendments effective for annual periods beginning on or after 1 July 2010

- FRS 1, First-time Adoption of Financial Reporting Standards (revised)
- FRS 3, Business Combinations (revised)
- Amendments to FRS 127, Consolidated and Separate Financial Statements
- Amendments to FRS 2, Share-based Payment
- Amendments to FRS 5, Non-current Assets Held for Sale and Discontinued Operations
- Amendments to FRS 138, Intangible Assets
- Amendments to IC Interpretation 9, Reassessment of Embedded Derivatives
- IC Interpretation 12, Service Concession Arrangements
- IC Interpretation 15, Agreements for the Construction of Real Estate
- IC Interpretation 16, Hedges of a Net Investment in a Foreign Operation
- IC Interpretation 17, Distributions of Non-cash Assets to Owners

2.2b Technical Release effective for annual periods ending on or after 31 December 2010

TR 3, Guidance on Disclosures of Transition to IFRSs

2.2c FRSs, IC Interpretations and amendments effective for annual periods beginning on or after 1 January 2011

- Amendments to FRS 1, First-time Adoption of Financial Reporting Standards
  - Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
  - Additional Exemptions for First-time Adopters
- Amendments to FRS 2, Share-based Payment – Group Cash-settled Share-based Payment Transactions
- Amendments to FRS 7, Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
- IC Interpretation 4, Determining whether an Arrangement contains a Lease
- IC Interpretation 18, Transfers of Assets from Customers
- TR i – 4, Shariah Compliant Sale Contracts

2.2d FRSs, IC Interpretations and amendments effective for annual periods beginning on or after 1 July 2011

- IC Interpretation 19, Extinguishing Financial Liabilities with Equity Instruments

2. ADOPTION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS ("FRSs") (CONTD.)

2.2 Standards and interpretations in issue but not yet adopted (Contd.)

2.2e FRSs, IC Interpretations and amendments effective for annual periods beginning on or after 1 January 2012

- Amendment to IC Interpretation 15, Agreements for the Construction of Real Estate

Except for the new disclosures required under the Amendments to FRS 7, the Directors expect that the adoption of the other accounting standards and interpretations above will not have material impact on the financial statements in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with the provisions of the Companies Act, 1965, the Islamic Banking Act, 1983, Shariah principles and Financial Reporting Standards in Malaysia as modified by BNM Guidelines and Circulars.

3.2 Basis of preparation

The financial statements of the Bank have been prepared on the historical cost basis except as disclosed in the accounting policies below.

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

3.3 Foreign currency

3.3a Functional and presentation currency

The financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates (“the functional currency”). For the purpose of the financial statements, the results and financial position of the Bank are expressed in RM, which is the functional currency of the Bank and the presentation currency for the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.3 Foreign currency (Contd.)

3.3b Foreign currency transactions

In preparing the financial statements of the Bank, transactions in currencies other than the Bank's functional currency (foreign currencies) are recognised at the rates of exchange approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income and accumulated in equity under exchange fluctuation reserve.

3.4 Property, plant and equipment

3.4a Recognition and measurement

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs.

Purchased computer software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.4 Property, plant and equipment (Contd.)

3.4a Recognition and measurement (Contd.)

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged between knowledgeable willing parties in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items when available and replacement cost when appropriate.

3.4b Subsequent costs

Subsequent to initial recognition, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of property and equipment are required to be replaced in intervals, the Bank recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance are recognised in profit or loss as incurred.

3.4c Depreciation

Depreciation of property and equipment is computed on a straight-line basis over the estimated useful lives of the assets.

The annual depreciation rates for the various classes of property and equipment are as follows:

Leasehold improvements	20%
Motor vehicles	20%
Computer hardware	20%
Office equipment, furniture and fittings	20% - 25%

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year end, and adjusted prospectively, if appropriate.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in profit or loss in the year the asset is derecognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.5 Leases

Finance leases, which transfer to the Bank substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Leased payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of profit on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Leased assets are depreciated over the estimated useful life of the asset. However, if there is no reasonable certainty that the Bank will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life and the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

3.6 Intangible assets

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. Intangible assets of the Bank comprise computer software.

Purchased computer software that is not integral to the functionality of the related equipment is capitalised on the basis of the costs incurred to acquire and bring the software application to use. Costs associated with maintaining computer software applications are recognised as expense when incurred. Costs that are directly associated with the software application development stage are recognised as intangible assets. Costs directly associated with software application development include employee payroll and payroll related costs.

Subsequent to initial recognition, computer software is measured at cost less accumulated amortisation and accumulated impairment losses.

Computer software is amortised on a straight-line basis over the estimated useful lives of 3 to 7 years and assessed for impairment whenever there is an indication that the computer software may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.7 Financial assets and financial liabilities (excluding derivatives)

Financial assets and financial liabilities are recognised in the statement of financial position when, and only when, the Bank becomes a party to the contractual provisions of the financial instrument. The Bank classifies its financial assets into the following measurement categories:

a) financial assets held at fair value through profit or loss;
b) financing and receivables;
c) held-to-maturity investments; and
d) available-for-sale investments.

Financial liabilities are classified as either held:
a) at fair value through profit or loss, or
b) at amortised cost, that is, included as other financial liabilities.

Management determines the classification of its financial assets and financial liabilities at initial recognition or, where appropriate, at the time of reclassification.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

3.7a Financial assets and liabilities held at fair value through profit or loss

This category comprises two sub-categories: financial assets and financial liabilities held-for-trading, and those designated by management as at fair value through profit or loss at inception.

3.7a(i) Financial assets held-for-trading

A financial asset is classified as held-for-trading if it is acquired principally for the purpose of selling it in the near term.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.7 Financial assets and financial liabilities (excluding derivatives) (Contd.)

3.7a Financial assets and liabilities held at fair value through profit or loss (Contd.)

3.7a(ii) Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities may be designated at fair value through profit or loss when the following criteria are met, and designation is determined on an instrument by instrument basis:

- the application of the fair value option eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis; or
- the financial assets and/or liabilities are part of a portfolio of financial instruments which is managed and its performance evaluated on a fair value basis; or
- the assets or liabilities include embedded derivatives and such derivatives are required to be recognised separately.

3.7b Financing and receivables

Financing and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investment will be recovered, other than because of credit deterioration.

3.7c Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intention and ability to hold the investment to maturity.

As at 31 March 2011, the Bank does not have any investments held-to-maturity (2010: RM Nil).

3.7d Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in profit rates, exchange rates, commodity prices or equity prices.

Available-for-sale investments refer also to assets that are designated as available-for-sale or are not classified in any of the three preceding categories.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.7 Financial assets and financial liabilities (excluding derivatives) (Contd.)

3.7e Initial recognition

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Bank commits to purchase or sell the asset.

Purchases and sales of financial assets and financial liabilities held at fair value through profit or loss, financial assets held-to-maturity and available-for-sale are initially recognised on trade date.

Financing and receivables are recognised when cash is advanced to the borrowers.

Financial assets and financial liabilities are initially recognised at fair value plus, for those financial assets and financial liabilities not carried at fair value through profit or loss, directly attributable transaction costs. In those cases where the initially recognised fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in profit or loss. The difference is amortised to profit or loss until the inputs become observable, or the transaction matures or is terminated.

3.7f Subsequent measurement

3.7f(i) Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets held at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, profit and dividend income. Exchange differences, profit and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other losses or other income.

3.7f(ii) Financing and receivables

Financing and receivables are subsequently measured at amortised cost using the effective profit method. Gains and losses are recognised in profit or loss when the financing and receivables are derecognised or impaired, and through the amortisation process.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.7 Financial assets and financial liabilities (excluding derivatives) (Contd.)

3.7f Subsequent measurement (Contd.)

3.7f(iii) Held-to-maturity investments

Held-to-maturity investments are subsequently measured at amortised cost using the effective profit method. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

3.7f(iv) Available-for-sale investments

Available-for-sale investments are subsequently carried at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and profit calculated using the effective profit method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income and accumulated in equity under available-for-sale reserve is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Profit income calculated using the effective profit method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the Bank’s right to receive payment is established.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

3.7g Sell and buy back agreements

These are obligations of the Bank to perform its commitment to buy back specified Islamic securities at maturity. Gains and losses are recognised upon sale and shown as trading gain or loss from securities held-for-trading.

3.7h Other financial liabilities

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost using the effective profit method. Financial liabilities measured at amortised cost are deposits from customers or banks, debt securities in issue for which the fair value option is not applied, bonds, subordinated debts, borrowings, bills and acceptances payable, trade and other payables.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.7 Financial assets and financial liabilities (excluding derivatives) (Contd.)

3.7i Borrowings

All borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, profit bearing borrowings are subsequently measured at amortised cost using the effective profit method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

3.7j Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes from Bloomberg, Bond Pricing Agency Malaysia and Reuters.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, KLIBOR/LIBOR yield curve, foreign exchange rates, volatilities and counterparty spreads) existing at the dates of the statement of financial position.

The Bank uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity such as options. For these financial instruments, inputs into models are generally market observable.

For more complex instruments, the Bank uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value derivatives transacted in the over-the-counter market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.7 Financial assets and financial liabilities (excluding derivatives) (Contd.)

3.7j Determination of fair value (Contd.)

The Bank uses its own credit risk spreads in determining the current value for its derivative liabilities and all other liabilities for which it has elected the fair value option. When the Bank's credit spreads widen, the Bank recognises a gain on these liabilities because the value of the liabilities has decreased. When the Bank's credit spreads narrow, the Bank recognises a loss on these liabilities because the value of the liabilities has increased.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Bank holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty credit risk. Based on the established fair value model governance policies, and related controls and procedures applied, management believes that these valuation adjustments are necessary and appropriate to fairly state the values of financial instruments carried at fair value in the statement of financial position. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary, particularly in view of the current market developments.

The fair value of over-the-counter derivatives is determined using valuation methods that are commonly accepted in the financial markets, such as present value techniques and option pricing models. The fair value of foreign exchange forwards is generally based on current forward exchange rates.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for financing and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

The fair values of contingent liabilities and irrevocable financing commitments correspond to their carrying amounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.7 Financial assets and financial liabilities (excluding derivatives) (Contd.)

3.7k Recognition of day-one profit or loss

The best evidence of fair value at initial recognition is the transaction price (that is, the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (that is, without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

The Bank has entered into transactions where fair value is determined using valuation models for which not all inputs are market observable prices or rates. Such financial instruments are initially recognised at the transaction price, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as “day-one profit and loss”, is not recognised immediately in profit or loss.

The timing of recognition of deferred day-one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument’s fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day-one profit and loss. Subsequent changes in fair value are recognised immediately in the profit or loss without immediate reversal of deferred day-one profits and losses.

3.7l Reclassifications

Reclassifications of financial assets, other than as set out below, or of financial liabilities between categories are not permitted following their initial recognition.

Held-for-trading non-derivative financial assets can only be transferred out of the held at fair value through profit or loss category in the following circumstances: to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or to the financing and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a financing and receivable at the date of reclassification and the Bank has the intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets can only be transferred out of the available-for-sale category to the financing and receivables category, where they would have met the definition of a financing and receivable at the date of reclassification and the Bank has the intent and ability to hold the assets for the foreseeable future or until maturity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.7 Financial assets and financial liabilities (excluding derivatives) (Contd.)

3.7l Reclassifications (Contd.)

Held-to-maturity investments must be reclassified to the available-for-sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity investments prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for-sale category into financing and receivables, any gain or loss on those assets recognised in other comprehensive income and accumulated under available-for-sale reserve prior to the date of reclassification is amortised to profit or loss over the remaining life of the financial asset, using the effective profit method.

3.8 Renegotiated financing

Where possible, the Bank seeks to restructure financing rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new financing conditions. Once the terms have been renegotiated, any impairment is measured using the original effective profit rate as calculated before the modification of terms and the financing is no longer considered past due. Management continuously reviews renegotiated financing to ensure that all criteria are met and that future payments are likely to occur. The financing continues to be subject to an individual or collective impairment assessment, calculated using the financing's original effective profit rate.

3.9 Derecognition

3.9a Financial assets

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or where the Bank has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Bank has retained control, the asset continues to be recognised to the extent of the Bank’s continuing involvement.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.9 Derecognition (Contd.)

3.9b Financial liabilities

Financial liabilities are derecognised when they are extinguished. Where an existing financial liability is replaced by another from the same financier on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

3.10 Impairment of financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The following factors are considered in assessing objective evidence of impairment:

- whether the counterparty is in default of principal or profit payments;
- a counterparty files for bankruptcy protection (or the local equivalent) where this would avoid or delay repayment of its obligation;
- the Bank files to have the counterparty declared bankrupt or files a similar order in respect of a credit obligation;
- the Bank consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments;
- the Bank sells a credit obligation at a material credit-related economic loss; or
- there is observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets, although the decrease cannot yet be identified with specific individual financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.10 Impairment of financial assets (Contd.)

3.10a Assets carried at amortised cost

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a financing and receivable or a held-to-maturity investment has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the asset's original effective profit rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a financing and receivable or held-to-maturity investment has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process which considers asset type, industry, geographic location, collateral type, past-due status and other relevant factors). These characteristics are relevant to the estimation of future cash flows for groups of such assets being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.10 Impairment of financial assets (Contd.)

3.10a Assets carried at amortised cost (Contd.)

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based, and to remove the effects of conditions in the historical period that do not exist currently.

To the extent a financing is uncollectible, it is written off against the related provision for financing impairment. Such financing are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for financing impairment in profit or loss. 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.

3.10b Available-for-sale investments

A significant or prolonged decline in the fair value of an equity security below its cost is considered, amongst other factors in assessing objective evidence of impairment for equity securities. Where objective evidence of impairment exists for available-for-sale investments, the cumulative loss (measured as the difference between the acquisition cost/amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) that had been recognised in other comprehensive income is reclassified from equity to profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.11 Impairment of non-financial assets

The carrying values of the Bank’s other non-financial assets, other than deferred tax assets and non-current assets (or disposal groups) held for sale, are reviewed for impairment when there is an indication that the asset might be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.12 Derivative financial instruments

The Bank uses derivatives such as forward foreign exchange contracts and options on equities and commodities. Derivatives are categorised as trading unless they are designated as hedging instruments.

Derivative contracts are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair values. Fair values may be obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. Where the initially recognised fair value of a derivative contract is based on a valuation model that uses inputs which are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets and liabilities. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond held, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss.

3.13 Repurchase and resale agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued profit as a liability within “securities sold under repurchase agreements", reflecting the transaction’s economic substance as a financing to the Bank. The difference between the sale and repurchase prices is treated as financing expense and is accrued over the life of the agreement using the effective profit rate. When the counterparty has the right to sell or repledge the securities, the Bank reclassifies those securities in the statement of financial position to “Financial assets held-for-trading pledged as collateral” or to “Financial investments available-for-sale pledged as collateral”, as appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.13 Repurchase and resale agreements ("Contd")

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued profit, is recorded in the statement of financial position, within “securities purchased under resale agreements”, reflecting the transaction’s economic substance as a financing by the Bank. The difference between the purchase and resale prices is recorded in “net finance income” and is accrued over the life of the agreement using the effective profit rate.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within “financial liabilities held-for-trading” and measured at fair value with any gains or losses included in “net trading income”.

3.14 Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flow comprise cash and short term funds, excluding deposits and monies held in trust, net of bank overdrafts.

3.15 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.16 Provision for commitments and contingencies

Based on management's evaluation, specific provisions for commitments and contingencies are made in the event of a call or potential liability and there is a shortfall in the security value supporting these instruments.

3.17 Contingent liabilities and contingent assets

The Bank does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Bank or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Bank. The Bank does not recognise contingent assets in the statement of financial position but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

3.18 Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the statement of financial position (within "other liabilities") at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in profit or loss, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in profit or loss in "provision for commitments and contingencies". The premium received is recognised in profit or loss in "other operating income" on a straight-line basis over the life of the guarantee.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.19 Profit equalisation reserve

Profit equalisation reserve is the amount appropriated out of the Bank's gross income in order to maintain a certain level of return to depositors which is as stipulated by BNM’s Circular on “Framework of Rate of Return”. Profit equalisation reserve is deducted from the total gross income in deriving the net distributable gross income at a rate which does not exceed the maximum amount of the total of 15% of monthly gross income, monthly net trading income, other income and irregular income. The amount appropriated is shared by the depositors and the Bank. Profit equalisation reserve is maintained up to the maximum of 30% of total capital funds of the Bank.

3.20 Revenue

3.20a Financing income and expense

Financing income and expense are recognised in income statement using the effective profit method.

The effective profit method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the financing income or financing expense over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective profit rate, the Bank estimates cash flows considering all contractual terms of the financial instrument except for future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective profit rate, transaction costs and all other premiums or discounts.

Where the estimates of cash flows have been revised, the carrying amount of the financial asset or financial liability is adjusted to reflect the actual and revised estimated cash flows, discounted at the financial instrument’s original effective profit rate. The adjustment is recognised as financing income or expense in profit or loss.

If the financial asset has been reclassified, subsequent increases in the estimates of future cash receipts as a result of increased recoverability are recognised as an adjustment to the effective profit rate from the date of the change in estimate.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, financing income is recognised using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.20 Revenue (Contd.)

3.20a Financing income and expense (Contd.)

Handling fees paid to motor vehicle dealers for hire purchase financing are amortised in the income statement over the tenor of the financing and is set off against financing income recognised on the hire purchase financing.

3.20b Fees and commissions

Financing arrangement, management and participation fees, underwriting commissions and brokerage fees are recognised as income based on contractual arrangements.

Fees from advisory and corporate finance activities are recognised net of service taxes and discounts on completion of each stage of the assignment.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time apportionment basis.

Financing commitment fees for financing that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective profit rate on the financing. When it is unlikely that a financing will be drawn down, the financing commitment fees are recognised over the commitment period on a straight-line basis.

3.20c Dividend income

Dividend income is recognised when the right to receive the payment is established.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.20 Revenue (Contd.)

3.20d Investment and trading income

Results arising from investments and trading activities include all gains and losses from trading, changes in fair value and dividends. This includes any ineffectiveness recorded in hedging transactions.

3.20e Sale of trust units

Revenue from sale of trust units is recognised upon allotment of units, net of cost of units sold.

3.20f Customer loyalty programmes

Award credits under customer loyalty programmes are accounted for as a separately identifiable component of the transaction in which they are granted. The fair value of the consideration in respect of the initial sale is allocated between the award credits and the other components of the sale. The cost of providing the loyalty points is set off against fee income. The fair values of the points earned by the credit card customer are recognised as revenue when the Bank fulfils its obligations in respect of the awards.

3.21 Employee benefits

3.21a Short-term benefits

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

3.21b Defined contribution pension plan

As required by law, the Bank makes contributions to the state pension scheme. Such contributions are recognised as an expense in profit or loss as incurred. Once the contributions have been paid, the Bank has no further payment obligations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.21 Employee benefits (Contd.)

3.21c Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to present value.

3.21d Share-based payment transactions

The holding company, AMMB Holdings Berhad ("AMMB"), operates an equity-settled share-based compensation scheme wherein shares or options to subscribe for shares of AMMB are granted to eligible directors and employees of the Group based on the financial and performance criteria and such conditions as it may deem fit.

Where the Group pays for services of its employees using share options or via grant of shares, the fair value of the transaction is recognised as an expense in the income statement over the vesting periods of the grants, with a corresponding increase in equity. The total amount to be recognised as compensation expense is determined by reference to the fair value of the share options or shares granted at the date of the grant and the number of share options or shares granted to be vested by the vesting date, taking into account, if any, the market vesting conditions upon which the options or shares were granted but excluding the impact of any non-market vesting conditions. At the reporting date, the Group revises its estimate of the number of share options or shares granted that are expected to vest by the vesting date. Any revision of this estimate is included in the income statement and a corresponding adjustment to equity over the remaining vesting period.

3.22 Finance costs

Finance costs consist of profit and other costs that the Bank incurred in connection with the use of funds.

Finance costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of finance costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and finance costs are incurred. Finance costs are capitalised until the assets are substantially completed for their intended use or sale.

All other finance costs are recognised in profit or loss in the period they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.23 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the reporting period that are approved after the reporting date are disclosed as an event after the reporting date.

3.24 Income taxes

3.24a Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

3.24b Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.24 Income taxes (Contd.)

3.24b Deferred tax (Contd.)

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and tax losses, to the extent it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.25 Zakat

This represents business zakat. It is an obligatory amount payable by the Bank to comply with the principles of Shariah. Zakat provision is calculated based on 2.5% of net profit after taxation.

3.26 Segment reporting

Segment information is presented in respect of the Bank’s business segments. The business segment information is prepared based on internal management reports, which are regularly reviewed by the chief operating decision-maker in order to allocate resources to a segment and to assess its performance.

All transactions between business segments are conducted on arm’s length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

In accordance with FRS 8, the Bank has the following business segments: retail banking, business banking, corporate and institutional banking, treasury and markets with minor segments aggregated under group functions and others.

3.27 Share capital and share issuance expenses

An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all the liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs.

3.28 Equity reserves

The reserves recorded in equity on the Bank’s statement of financial position include:

3.28a Share premium

“Share premium” is used to record premium arising from new shares issued in the Bank.

3.28b Statutory reserve

“Statutory reserve” is maintained in compliance with the provisions of the Islamic Banking Act, 1983. The statutory reserve is not distributable as cash dividends.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

3.28c Available-for-sale reserve

"Available-for-sale reserve" comprises changes in fair value of available-for-sale investments.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

In the process of applying the Bank's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgment and estimates are as follows:

(a) Impairment losses on financing and advances

The Bank reviews its individually significant financing and advances at each reporting date to assess whether an impairment loss should be recorded in the income statement. In particular, management judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Financing and advances that have been assessed individually and found not to be impaired and all individually insignificant financing and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the financing portfolio (such as levels of arrears, credit utilisation, financing to collateral ratios, etc.), and judgements to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

(b) Deferred tax and income taxes

There are many transactions and interpretations of tax laws for which the final outcome will not be established until sometime later. Liabilities for taxation are recognised based on estimates of whether additional taxes will be payable. The estimation process includes seeking expert advice where appropriate. Where the final liability for taxation is different from the amounts that were initially recorded, the difference will affect the income tax and deferred tax provisions in the period in which the estimate is revised or the final liability is established.

Deferred tax assets are recognised for all unutilised tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement 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.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTD.)

(c) Fair value of financial assets determined using valuation techniques

Fair value, in the absence of an active market, is estimated by using valuation techniques, such as recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and/or option pricing models. For reference to similar instruments, instruments must have similar credit ratings.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counter-parties. Discount rates are influenced by risk-free profit rates and credit risk.

Option pricing models incorporate all factors that market participants would consider and are based on observable market data when available. These models consider, among other factors, contractual and market prices, correlation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions.

The valuation techniques described above are calibrated annually.

5. CASH AND SHORT-TERM FUNDS

	2011 RM'000	2010 RM'000
Cash and balances with banks and other financial institutions	7,718	3,553
Money at call and deposits placements maturing within one month	4,731,040	3,882,900
	4,738,758	3,886,453

The net interbank financing position of the Bank is detailed as follows:

	2011 RM'000	2010 RM'000
Interbank financing:		
Cash and short-term funds	4,731,040	3,882,900
Deposits and placements with banks and other financial institutions (Note 6)	250,000	150,000
	4,981,040	4,032,900
Interbank borrowing (Note 15)	(129,338)	(296,931)
Net interbank financing	4,851,702	3,735,969

6. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2011 RM'000	2010 RM'000
Licensed banks	250,000	-
Other financial institutions	-	150,000
	250,000	150,000

Included in the above are interbank financing of RM250,000,000 (2010: RM150,000,000).

7. DERIVATIVE FINANCIAL ASSETS/LIABILITIES

Derivative financial instruments are financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, profit rates and security prices) of the underlying instruments. These instruments allow the Bank and its customers to transfer, modify or reduce their foreign exchange and profit rate risks via hedge relationships. The default classification for derivative financial instruments is trading, unless designated in a hedge relationship and are in compliance with the hedge effectiveness criteria. The risks associated with the use of derivative financial instruments, as well as management's policy for controlling these risks are set out in Note 40.

7. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONTD.)

The table below shows the Bank's derivative financial instruments as at the reporting date. The contractual or underlying principal amounts of these derivative financial instruments and their corresponding gross positive (derivative financial asset) and gross negative (derivative financial liability) fair values at the reporting date are analysed below:

	Contract/ Notional Amount RM'000	Positive Fair Value RM'000	Negative Fair Value RM'000
31 March 2011			
Equity and commodity related contracts	222,526	3,258	3,254
31 March 2010			
Equity and commodity related contracts	151,000	3,461	3,458

Fair values of derivative financial instruments are normally zero or negligible at inception and the subsequent change in value is favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates of return or foreign exchange rates relative to their terms.

8. FINANCIAL ASSETS HELD-FOR-TRADING

	2011 RM'000	2010 RM'000
At fair value:		
Money Market Securities In Malaysia:		
Malaysian Government Investment Certificates	549,823	189,911
Islamic Treasury Bills	18,302	39,141
Sukuk Bank Negara Malaysia	1,469	14,990
Bank Negara Malaysia Monetary Notes	179,241	48,716
	748,835	292,758
Unquoted Securities in Malaysia:		
Private debt securities	242,301	58,176
Total financial assets held-for-trading	991,136	350,934

9. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	2011 RM'000	2010 RM'000
At fair value		
Money Market Securities in Malaysia:		
Malaysian Government Investment Certificates	190,141	76,005
Negotiable instruments of deposit	348,470	577,330
	538,611	653,335
Quoted securities in Malaysia:		
Unit trusts	10,000	-
Unquoted securities in Malaysia:		
Private debt securities	167,326	254,595
Total financial investments available-for-sale	715,937	907,930

The Bank was appointed as Islamic Principal Dealer ("i-PD") by Bank Negara Malaysia ("BNM") for Islamic Government and BNM Sukuk Berhad issuances with effect from 1 July 2009 until 31 December 2012.

As an i-PD, the Bank is required to undertake certain obligations as well as accorded certain incentives in the appointment period. One of the incentives accorded is the eligibility to maintain 1% Statutory Reserve Requirement ("SRR") in the form of Government Investment Certificates ("GIC") holdings instead of cash. As at 31 March 2011, the nominal values of GIC holdings maintained for SRR purposes amount to RM190.26 million (2010: RM 75.26 million).

10. FINANCING AND ADVANCES

(i) Financing and advances analysed by type are as follows:

	2011 RM'000	2010 RM'000
At amortised cost:		
Cash lines	376,204	252,506
Term financing		
- House financing	1,077,494	772,823
- Hire purchase receivables	8,730,827	7,947,593
- Other financing *	6,586,784	4,751,206
Card receivables	313,246	292,842
Trust receipts	91,670	70,239
Claims on customers under acceptance credit	957,590	917,819
Revolving credit	1,608,944	771,311
Total	19,742,759	15,776,339
Unearned income	(4,291,192)	(3,422,336)
	15,451,567	12,354,003
Less: Islamic financing sold to Cagamas Berhad	(1,700,034)	(345,738)
Gross financing and advances	13,751,533	12,008,265
Allowances for bad and doubtful financing		
- Collective allowance	(479,010)	-
- Individual allowance	(25,447)	-
- General allowance	-	(184,803)
- Specific allowance	-	(64,784)
Net financing and advances	13,247,076	11,758,678

* Included in other financing is financing amounting to RM202,955,000 (2010: RM210,619,000) which is exempted from collective/general allowance by Bank Negara Malaysia.

(ii) Financing and advances analysed by contract are as follows:

	2011 RM'000	2010 RM'000
Bai' Bithaman Ajil	2,364,361	1,260,664
Ijarah/Al-Ijarah Thumma Al-Bai'	5,623,929	6,271,747
Murabahah	1,271,257	1,033,047
Other Islamic contracts	4,491,986	3,442,807
Gross financing and advances	13,751,533	12,008,265

10. FINANCING AND ADVANCES (CONTD.)

(iii) Financing and advances analysed by type of customer are as follows:

	2011 RM'000	2010 RM'000
Domestic non-bank financial institutions	134,867	58,012
Domestic business enterprises		
- Small medium enterprises	1,431,397	1,150,197
- Others	3,824,101	2,063,244
Government and statutory bodies	260,385	210,619
Individuals	8,093,551	8,519,544
Other domestic entities	1,783	2,078
Foreign entities	5,449	4,571
Gross financing and advances	13,751,533	12,008,265

(iv) Financing and advances analysed by geographical distribution are as follows:

	2011 RM'000	2010 RM'000
In Malaysia	13,751,533	12,008,265

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

	2011 RM'000	2010 RM'000
Fixed rate		
- House financing	292,844	325,779
- Hire purchase receivables	5,195,687	6,271,747
- Other financing	5,010,842	4,360,448
Variable rate		
- Base financing rate plus	934,352	83,079
- Cost plus	2,317,808	967,212
Gross financing and advances	13,751,533	12,008,265

10. FINANCING AND ADVANCES (CONTD.)

(vi) Financing and advances analysed by sector are as follows:

	2011 RM'000	2010 RM'000
Primary agriculture	136,324	112,353
Mining and quarrying	20,023	12,746
Manufacturing	1,456,937	948,257
Electricity, gas and water	216,324	203,262
Construction	922,841	311,351
Wholesale, retail trade, restaurant and hotel	497,651	478,520
Transport, storage and communication	764,120	299,988
Finance, insurance, real estate and business activities	1,168,643	496,301
Education and health	415,475	318,030
Household	9,765,682	8,869,853
of which:		
- purchase of residential properties	453,697	377,089
- purchase of transport vehicles	6,882,486	6,143,134
- others	2,429,499	2,349,630
Others	87,547	303,342
Less: Islamic financing sold to Cagamas Berhad	(1,700,034)	(345,738)
Gross financing and advances	13,751,533	12,008,265

(vii) The maturity structure of financing and advances is as follows:

	2011 RM'000	2010 RM'000
Maturing within one year	3,090,124	1,982,230
One year to three years	1,374,951	804,687
Three years to five years	2,405,274	2,074,631
Over five years	6,881,184	7,146,717
Gross financing and advances	13,751,533	12,008,265

(viii) Impaired financing and advances analysed by geographical distribution are as follows:

	2011 RM'000	2010 RM'000
In Malaysia	320,418	182,232

10. FINANCING AND ADVANCES (CONTD.)

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

	2011 RM'000	2010 RM'000
Primary agriculture	429	497
Mining and quarrying	106	20
Manufacturing	28,397	9,358
Electricity, gas and water	1	68
Construction	5,201	4,492
Wholesale, retail trade, restaurant and hotel	23,584	8,677
Transport, storage and communication	1,714	839
Finance, insurance, real estate and business activities	2,948	1,250
Education and health	1,834	539
Household	256,119	156,492
of which:		
- purchase of residential properties	20,923	37,872
- purchase of transport vehicles	98,508	104,474
- others	136,688	14,146
Others	85	-
Impaired financing and advances	320,418	182,232

(x) Movements in impaired financing and advances are as follows:

	2011 RM'000	2010 RM'000
Balance at beginning of year		
- as previously stated	182,232	239,637
- effect of adopting FRS 139	9,662	-
Balance at beginning of year (restated)	191,894	239,637
Impaired during the year	309,733	155,135
Reclassified as non-impaired	(56,861)	(54,810)
Amount recovered	(34,476)	(21,151)
Amount written off	(89,872)	(136,579)
Balance at end of year	320,418	182,232
Gross financing and advances	13,751,533	12,008,265
Add: Islamic financing sold to Cagamas Berhad	1,700,034	345,738
Gross financing and advances (including Islamic financing sold to Cagamas Berhad)	15,451,567	12,354,003
Ratio of gross impaired financing and advances to total financing and advances (including Islamic financing sold to Cagamas Berhad)	2.1%	1.5%

10. FINANCING AND ADVANCES (CONTD.)

(xi) Movements in the allowance for impaired financing and advances are as follows:

	2011 RM'000	2010 RM'000
Collective Allowance		
Balance at beginning of year		
- as previously stated	-	-
- effect of adopting FRS 139	287,844	-
Balance at beginning of year (restated)	287,844	-
Allowance made during the year (Note 25)	281,169	-
Amount written off	(90,003)	-
Balance at end of year	479,010	-
As % of gross financing and advances (including Islamic financing sold to Cagamas Berhad) less individual allowance and financing exempted from collective allowance by Bank Negara Malaysia	3.1%	-
Individual Allowance		
Balance at beginning of year		
- as previously stated	-	-
- effect of adopting FRS 139	1,108	-
Balance at beginning of year (restated)	1,108	-
Allowance made during the year - net (Note 25)	24,339	-
Balance at end of year	25,447	-

10. FINANCING AND ADVANCES (CONTD.)

(xi) Movements in the allowance for impaired financing and advances are as follows (Contd.):

	2011 RM'000	2010 RM'000
General Allowance		
Balance at beginning of year		
- as previously stated	184,803	166,507
- effect of adopting FRS 139	(184,803)	-
Balance at beginning of year (restated)	-	166,507
Allowance made during the year (Note 25)	-	18,296
Balance at end of year	-	184,803
As % of net financing and advances (including Islamic financing sold to Cagamas Berhad) less financing exempted from general allowance by Bank Negara Malaysia	-	1.5%

	2011 RM'000	2010 RM'000
Specific Allowance		
Balance at beginning of year		
- as previously stated	64,784	99,053
- effect of adopting FRS 139	(64,784)	-
Balance at beginning of year (restated)	-	99,053
Allowance made during the year (Note 25)	-	149,764
Amount written back in respect of recoveries during the year (Note 25)	-	(44,898)
Net charge to income statement	-	104,866
Amount written off	-	(139,135)
Balance at end of year	-	64,784

11. OTHER ASSETS

	Note	2011 RM'000	2010 RM'000
Other receivables and prepayments	(a)	51,365	18,578
Profit receivable		14,132	9,528
Deferred charges		59,160	53,520
		124,657	81,626

(a) Other receivables and prepayments are net of allowance for doubtful debts which amounted to RM36,000 (2010: RM36,000)

12. STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA

The non-profit bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (revised 1994), the amounts of which are determined as a set percentage of total eligible liabilities. As at 31 March 2011, a total of RM190.26 million nominal value of Government Investment Certificates, classified as financial investments available-for-sale, was used for Statutory Reserve Requirement purposes, as mentioned in Note 9 (2010: RM75.26 million).

13. PROPERTY AND EQUIPMENT

	Leasehold improvements RM'000	Office equipment, furniture and fittings RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
Cost					
As at 1 April 2010	262	89	377	-	728
Additions	61	1	20	455	537
As at 31 March 2011	323	90	397	455	1,265
Accumulated Depreciation					
As at 1 April 2010	146	65	200	-	411
Depreciation for the year	64	18	76	42	200
As at 31 March 2011	210	83	276	42	611
Net Book Value					
As at 31 March 2011	113	7	121	413	654
Cost					
As at 1 April 2009	214	88	366	-	668
Additions	48	1	11	-	60
As at 31 March 2010	262	89	377	-	728
Accumulated Depreciation					
As at 1 April 2009	102	47	126	-	275
Depreciation for the year	44	18	74	-	136
As at 31 March 2010	146	65	200	-	411
Net Book Value					
As at 31 March 2010	116	24	177	-	317
Fully depreciated assets:					
- 2011	-	10	-	-	10
- 2010	-	-	-	-	-

14. INTANGIBLE ASSETS

The net carrying amount of intangible assets are as follows:

	2011 RM'000	2010 RM'000
Computer Software		
Cost		
At the beginning of the year	862	809
Additions	2	53
At the end of the year	864	862
Accumulated Amortisation		
At the beginning of the year	413	249
Amortisation for the year	173	164
At the end of the year	586	413
Net Book Value	278	449

15. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2011 RM'000	2010 RM'000
Non-Mudharabah		
Licensed Islamic banks	-	289,762
Licensed banks	811,398	450,363
Licensed investment banks	129,806	123,224
Other financial institutions	142,647	48,159
Bank Negara Malaysia	15,216	2,823
	1,099,067	914,331
Mudharabah		
Licensed investment banks	157	152
Other financial institutions	368,332	571,267
	368,489	571,419
Total	1,467,556	1,485,750

Included under deposits and placements of banks and other financial institutions are the following:

Negotiable instruments of deposits	951,306	610,619
Interbank borrowings (Note 5)	129,338	296,931

16. DEPOSITS FROM CUSTOMERS

(i) By type of deposit:

	2011 RM'000	2010 RM'000
Non-Mudharabah		
Demand deposits	1,166,546	903,437
Savings deposits	1,335,281	1,146,174
Negotiable instruments of deposits	13,168	155,782
Other deposits	22,490	9,544
	2,537,485	2,214,937
Mudharabah		
Demand deposits	11,286	7,322
Savings deposits	4,617	8,239
General investment deposits	12,585,105	11,088,972
Structured deposits	111,162	78,570
	12,712,170	11,183,103
Total	15,249,655	13,398,040

Included in deposits from customers are deposits of RM180,370,000 (2010: RM161,705,000) held as collateral for financing and advances.

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

	2011 RM'000	2010 RM'000
Government and other statutory bodies	5,881,071	4,745,630
Business enterprises	6,528,508	6,163,798
Individuals	2,532,779	2,171,919
Others	307,297	316,693
	15,249,655	13,398,040

(iii) The maturity structure of negotiable instruments of deposits, general investment deposits and structured deposits are as follows:

	2011 RM'000	2010 RM'000
Due within six months	11,585,122	10,616,372
Six months to one year	720,194	411,653
One year to three years	190,603	232,968
Three years to five years	213,516	62,331
	12,709,435	11,323,324

17. TERM FUNDING

On 20 September 2010, the Bank issued RM550 million senior sukuk under its programme of up to RM3 billion in nominal value. The senior sukuk bears profit rate at 4.3% per annum and has a tenor of seven years. The RM3 billion Senior Sukuk Musyarakah Programme was assigned a rating of AA3/Stable by Rating Agency Malaysia.

18. BILLS AND ACCEPTANCES PAYABLE

Bills and acceptances payable represent the Bank's own bills and acceptances rediscounted and outstanding in the market.

19. OTHER LIABILITIES

	2011 RM'000	2010 RM'000
Profit payable	94,193	48,910
Other creditors and accruals	60,638	73,441
Lease deposits and advance rentals	12,898	10,355
Profit equalisation reserve	6,854	49,298
Amount due to related companies	284	2,428
Provision for commitments and contingencies	18,620	337
Deferred income	26	-
Provision for taxation	48,488	7,051
	242,001	191,820

Profit equalisation reserve

The movements in profit equalisation reserve are as follows:

	2011 RM'000	2010 RM'000
Balance at beginning of year	49,298	61,933
Transfer to income statement	(42,444)	(12,635)
Balance at end of year	6,854	49,298

19. OTHER LIABILITIES (CONTD.)

Provision for commitments and contingencies

The movements in provision for commitments and contingencies are as follows:

	2011 RM'000	2010 RM'000
Balance at beginning of year		
- as previously stated	337	-
- effect of adopting FRS 139	12,000	-
Balance at beginning of year (restated)	12,337	-
Charge for the year	6,283	337
Balance at end of year	18,620	337

20. SUBORDINATED SUKUK MUSYARAKAH

On 21 December 2006, the Bank issued the RM400 million Subordinated Sukuk Musyarakah in one lump sum in the format of a 10 year Non-Call 5 year. Subject to the prior approval of Bank Negara Malaysia ("BNM"), the Bank may exercise its call option and redeem in whole (but not in part) the Subordinated Sukuk Musyarakah on the 5th anniversary of the issue date or on any anniversary date thereafter at 100% of the principal amount together with the expected profit payments.

The Subordinated Sukuk Musyarakah bears an expected profit rate of 4.80% per annum for the first 5 years and commencing from the beginning of the 6th year from the issue date and at the beginning of every subsequent year thereafter, the expected profit rate shall be stepped up by 0.50% per annum to legal maturity date.

The Subordinated Sukuk Musyarakah, which has been awarded a long term rating of A1 by Rating Agency Malaysia, is not listed on Bursa Securities Malaysia Berhad or on any other stock exchange but is traded and prescribed under the Scripless Securities Trading System maintained by BNM.

The Subordinated Sukuk Musyarakah qualifies as Tier II capital of the Bank.

21. SHARE CAPITAL

	2011 RM'000	2010 RM'000
Authorised:		
Balance at beginning and end of year		
Ordinary shares of RM1.00 each	2,000,000	2,000,000
Issued and fully paid:		
Balance at beginning and end of year		
Ordinary shares of RM1.00 each	403,038	403,038

22. RESERVES

	Note	2011 RM'000	2010 RM'000
Non-distributable reserves:			
Share premium	(a)	534,068	534,068
Statutory reserve	(b)	304,316	265,169
Available-for-sale reserve	(c)		
At 1 April			
- as previously stated		2,153	8,906
- effects of adopting FRS 139		(5,444)	-
At 1 April (restated)		(3,291)	8,906
Net unrealised gain/(loss) on financial investments available-for-sale		2,697	(8,558)
Net realised gain on financial investments available-for-sale reclassified to the income statement		(6,741)	(4,665)
Cumulative loss reclassified to the income statement		-	4,218
Deferred tax		1,011	2,252
At 31 March		(6,324)	2,153
Total non-distributable reserves		832,060	801,390
Distributable reserve:			
Retained earnings	(d)	162,515	133,719
Total reserves		994,575	935,109

22. RESERVES (CONTD.)

Movement in reserves are shown in the statement of changes in equity.

(a) Share premium is used to record premium arising from new shares issued by the Bank.

(b) The statutory reserve is maintained in compliance with Section 15 of the Islamic Banking Act, 1983 and is not distributable as cash dividends.

(c) The available-for-sale reserve is in respect of unrealised fair value gains and losses on financial investments available-for-sale.

(d) Retained earnings are those reserves available for distribution by way of dividends. Prior to the year of assessment 2008, Malaysian companies adopted the full imputation system. In accordance with the Finance Act, 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividends paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard the Section 108 balance and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the Section 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act, 2007.

During the previous financial year, the Bank had fully utilised the tax credit under Section 108 of the Income Tax Act, 1967 to distribute cash dividend payments. The Bank may distribute dividends out of its entire retained earnings under the single tier system.

23. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	2011 RM'000	2010 RM'000
Income derived from investment of:		
(i) General investment deposits	685,779	647,960
(ii) Other deposits	339,853	236,745
	1,025,632	884,705

23. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS (CONTD.)

(i) Income derived from investment of general investment deposits

	2011 RM'000	2010 RM'000
Finance income and hibah:		
Financing and advances		
- Financing income	562,877	554,540
- Financing income on impaired financing	243	-
Financial assets held-for-trading	12,147	5,287
Money at call and deposits with financial institutions	75,395	57,112
Total finance income and hibah	650,662	616,939
Other operating income:		
Fee and commission income:		
- Commission	5,641	5,819
- Other fee income	25,326	23,799
Net gain from sale of financial assets held-for-trading	4,099	1,896
Gain/(loss) on revaluation of financial assets held-for-trading	169	(460)
Foreign exchange	(122)	(19)
Others	4	(14)
Total other operating income	35,117	31,021
Total	685,779	647,960

23. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS (CONTD.)

(ii) **Income derived from investment of other deposits**

	2011 RM'000	2010 RM'000
Finance income and hibah:		
Financing and advances		
- Financing income	278,946	202,612
- Financing income on impaired financing	120	-
Financial assets held-for-trading	6,020	1,932
Money at call and deposits with financial institutions	37,364	20,867
Total finance income and hibah	322,450	225,411
Other operating income:		
Fee and commission income:		
- Commission	2,796	2,126
- Other fee income	12,551	8,695
Net gain from sale of financial assets held-for-trading	2,031	693
Gain/(loss) on revaluation of financial assets held-for-trading	84	(168)
Foreign exchange	(61)	(7)
Others	2	(5)
Total other operating income	17,403	11,334
Total	339,853	236,745

24. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	2011 RM'000	2010 RM'000
Finance income and hibah:		
Financing and advances		
- Financing income	112,393	106,280
Financial assets held-for-trading	-	636
Financial investments available-for-sale	19,084	19,823
Money at call and deposits with financial institutions	-	10,946
Total finance income and hibah	131,477	137,685
Other operating income:		
Fee and commission income:		
- Commission	4,538	1,115
- Other fee income	11,218	4,561
Net gain from sale of financial assets held-for-trading	-	363
Net gain from sale of financial investments available-for-sale	6,741	4,665
Loss on revaluation of financial assets held-for-trading	-	(88)
Foreign exchange	-	(4)
Others	-	(3)
Total other operating income	22,497	10,609
Total	153,974	148,294

25. ALLOWANCE FOR IMPAIRMENT ON FINANCING AND ADVANCES

	2011 RM'000	2010 RM'000
Allowance for impaired financing and advances:		
Individual allowance - net {Note 10(xi)}	24,339	-
Collective allowance {Note 10(xi)}	281,169	-
Specific allowance		
– made in the financial year {Note 10(xi)}	-	149,764
– written back {Note 10(xi)}	-	(44,898)
General allowance made in the financial year {Note 10(xi)}	-	18,296
Bad debts and financing recovered - net	(57,717)	(32,865)
	247,791	90,297

26. INCOME ATTRIBUTABLE TO THE DEPOSITORS

	2011 RM'000	2010 RM'000
Deposit from customers		
- Mudharabah fund	309,470	242,259
- Non-Mudharabah fund	25,926	25,565
	335,396	267,824
Deposits and placements of banks and other financial institutions		
- Mudharabah fund	10,259	13,036
- Non-Mudharabah fund	44,202	22,130
	54,461	35,166
Others	58,984	24,882
	448,841	327,872

27. OTHER OPERATING EXPENSES

	2011 RM'000	2010 RM'000
Personnel costs		
- Salaries, allowances and bonuses	7,187	5,184
- Shares and options granted under Executives' Share Scheme	471	190
- Others	1,754	1,148
Establishment costs		
- Depreciation of property and equipment	200	136
- Amortisation of intangible assets	173	164
- Rental	748	664
- Cleaning, maintenance and security	51	30
- Computerisation cost	80	29
- Others	46	26
Marketing and communication expenses		
- Communication, advertising and marketing expenses	4,295	8,539
- Others	96	68
Administration and general expenses		
- Professional services	2,895	2,995
- Others	703	304
Service transfer pricing expenses	262,156	239,773
	280,855	259,250

27. OTHER OPERATING EXPENSES (CONTD.)

The above expenditure includes the following statutory disclosures:

	2011 RM'000	2010 RM'000
Directors' remuneration (Note 29)	564	554
Rental of premises	748	664
Auditors' remuneration		
– Audit	164	164
– Assurance related services	45	95

Personnel costs include salaries, bonuses, contributions to Employees' Provident Fund ("EPF") and all other staff related expenses. Contributions to EPF by the Bank amounted to RM1,134,000 (2010: RM829,000).

28. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

The directors regard AmBank (M) Berhad and AMMB Holdings Berhad as the holding company and the ultimate holding company respectively, up to 28 February 2011. Thereafter, AMMB Holdings Berhad is the holding company of the Bank, following the disposal by AmBank (M) Berhad of its entire shareholding in the Bank to AMMB Holdings Berhad on 28 February 2011.

Key management personnel are the persons who have authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly. Key management personnel of the Bank are the directors and certain members of senior management of the Bank including close members of their families.

Related party transactions also include transactions with entities that are controlled, jointly controlled or significantly influenced directly or indirectly by any key management personnel or their close family members.

In addition to the transactions detailed elsewhere in the financial statements, the Bank had the following transactions with related parties during the financial year:

	2011 RM'000	2010 RM'000
Income		
Related company		
Profit on deposits and placements	12	8
Expenditure		
Holding company		
Profit on deposits and placements	29,106	137
Service transfer pricing expenses	238,226	238,292
Related companies		
Profit on deposits and placements	7,494	2,184
Service transfer pricing expenses	23,930	1,480
Substantial shareholder of holding company		
Professional fees	-	35

28. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTD.)

	2011 RM'000	2010 RM'000
Expenditure (contd.)		
Key management personnel		
Profit on deposits and placements	42	36
Amount due from		
Related company		
Other receivables	37,073	-
Key management personnel		
Financing (card receivables)	9	4
Amount due to		
Ultimate Holding Company		
Other payable	-	278
Holding company		
Deposits and placements	-	328,686
Other payable	-	2,021
Profit payable	-	6
Related companies		
Deposits and placements	969,276	158,002
Other payable	284	129
Profit payable	268	119
Key management personnel		
Deposits and placements	4,719	4,654

The above transactions have been entered into in the normal course of business and have been established under terms and conditions that are no less favourable than those arranged with independent parties.

28. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTD.)

Directors related transactions

The significant transactions of the Bank with companies in which certain directors and/or their close family members are deemed to have a substantial interest, are as follows:

Supplier	Types of Transactions	2011 RM'000	2010 RM'000
Harpers Travel (M) Sdn Bhd	Provision of airline ticketing services	60	8
Islamic Banking and Finance Institute Malaysia Sdn Bhd	Seminar attendance fee	-	9
Financial Information Services Sdn Bhd	Provision of information service	39	43
Institute of Bankers Malaysia	Training	2	3
AmFirst Real Estate Investment Trust	Rental of premises, management fee and charges	774	640
Gubahan Impian	Flower arrangement and hamper	-	2
Bursa Malaysia Bhd	Training	-	2
Restoran Seri Melayu Sdn Bhd	Food and beverages	5	1
AmTrustee Bhd	Management fees	2	-
Melawangi Sdn Bhd	Rental of premises	52	-
Asia Smart Cards Centre (M) Sdn Bhd	Embossing credit cards	19	-
LittleDrops Sdn Bhd	Food and beverages	3	-

The above transactions have been entered into in the normal course of business and have been established under terms and conditions that are not materially different from those arranged with independent parties.

29. CHIEF EXECUTIVE OFFICER'S AND DIRECTORS' REMUNERATION

The total remuneration (including benefits-in-kind) of the Chief Executive Officer and Directors of the Bank are as follows:

2011	Salary RM'000	Fees RM'000	Bonus RM'000	Other Emoluments RM'000	Benefits-in-kind RM'000	Total RM'000
Chief Executive Officer:						
Datuk Mahdi Bin Morad	590	-	319	145	100	1,154
	590	-	319	145	100	1,154
Non-Executive Directors:						
Tan Sri Azman Hashim	-	-	-	154	-	154
Tun Mohammed Hanif Omar	-	60	-	46	-	106
Tan Sri Datuk Clifford Francis Herbert	-	60	-	51	-	111
Dato' Gan Nyap Liou @ Gan Nyap Liow	-	60	-	31	-	91
Dato' Dr. Mahani binti Zainal Abidin	-	60	-	13	-	73
Cheah Tek Kuang #	-	-	-	29	-	29
Ashok Ramamurthy #	-	-	-	-	-	-
	-	240	-	324	-	564
Total remuneration	590	240	319	469	100	1,718

Directors' fees for directors who are executives of the subsidiaries of AMMB Holdings Berhad are paid to their respective companies.

29. CHIEF EXECUTIVE OFFICER'S AND DIRECTORS' REMUNERATION (CONTD.)

The total remuneration (including benefits-in-kind) of the Chief Executive Officer and Directors of the Bank are as follows (Contd.):

2010	Salary RM'000	Fees RM'000	Bonus RM'000	Other Emoluments RM'000	Benefits-in-kind RM'000	Total RM'000
Chief Executive Officer:						
Datuk Mahdi Bin Morad *	360	-	-	116	82	558
	360	-	-	116	82	558
Non-Executive Directors:						
Tan Sri Azman Hashim	-	-	-	153	-	153
Tun Mohammed Hanif Omar	-	60	-	49	-	109
Tan Sri Datuk Clifford Francis Herbert	-	60	-	56	-	116
Dato' Gan Nyap Liou @ Gan Nyap Liow	-	60	-	28	-	88
Dato' Dr. Mahani binti Zainal Abidin	-	52	-	12	-	64
Cheah Tek Kuang #	-	-	-	24	-	24
Ashok Ramamurthy #	-	-	-	-	-	
	-	232	-	322	-	554
Total remuneration	360	232	-	438	82	1,112

\# Directors' fees for directors who are executives of the subsidiaries of AMMB Holdings Berhad are paid to their respective companies.
* Appointed as Chief Executive Officer of the Bank with effect from 1 August 2009.

30. SHARIAH COMMITTEE'S MEMBERS' REMUNERATION

Shariah committee's members' remuneration charged to the income statement for the year was RM50,000 (2010: RM56,000).

31. FINANCE COST

Finance cost is mainly in respect of income attributable to investors of the Subordinated Sukuk Musyarakah and senior sukuk.

32. TAXATION

Taxation consists of the following:

	2011 RM'000	2010 RM'000
Current year taxation:		
Current income tax	111,487	34,052
Over provision in prior years	(1,679)	-
	109,808	34,052
Deferred tax (Note 33) :		
Relating to origination and reversal of temporary differences	(57,655)	57,327
(Over)/under provision in prior years	(177)	2,616
	(57,832)	59,943
Tax expense for the year	51,976	93,995

During the previous financial year, the Bank has fully utilised the unabsorbed tax losses of approximately RM226.6 million to offset against taxable income.

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Bank is as follows:

	2011 RM'000	2010 RM'000
Profit before taxation	209,125	356,610
Taxation at Malaysian statutory tax rate of 25% (2010: 25%)	52,281	89,153
Income not subject to tax	(1,055)	-
Expenses not deductible for tax purposes	2,606	2,226
Over provision of income tax in prior years	(1,679)	-
(Over)/under provision of deferred tax in prior years	(177)	2,616
Tax expense for the year	51,976	93,995

33. DEFERRED TAX ASSET

	2011 RM'000	2010 RM'000
Balance at beginning of year		
- as previously stated	41,500	99,191
- effect of adopting FRS 139	18,063	-
Balance at beginning of year (restated)	59,563	99,191
Recognised in equity	1,011	2,252
Transfer to income statement (Note 32)	57,832	(59,943)
Balance at end of year	118,406	41,500

Deferred tax assets/(liabilities) are in respect of the following temporary differences:

	2011 RM'000	2010 RM'000
Temporary differences between depreciation and tax allowances on property and equipment	(109)	(147)
Temporary differences arising from collective/general allowance for bad and doubtful debts and financing	142,254	46,201
Temporary differences arising from profit equalisation reserve	1,713	12,324
Temporary difference recognised in equity	2,108	(718)
Others	(27,560)	(16,160)
	118,406	41,500

Deferred tax asset/(liability) recognised directly in equity:

	2011 RM'000	2010 RM'000
Balance at beginning of year		
- as previously stated	(718)	(2,970)
- effect of adopting FRS 139	1,815	-
Balance at beginning of year (restated)	1,097	(2,970)
Relating to net unrealised gain on financial investments available-for-sale	1,011	2,252
Balance at end of year	2,108	(718)

34. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to equity holder of the Bank by the weighted average number of ordinary shares in issue during the financial year.

Diluted earnings per share is calculated by dividing the adjusted net profit attributable to equity holder of the Bank by the adjusted weighted average number of ordinary shares in issue and issuable during the financial year.

	2011	2010
Basic/diluted		
Net profit attributable to equity holder of the Bank (RM'000)	156,589	261,345
Number of ordinary shares at beginning and end of year representing weighted average number of ordinary shares in issue ('000)	403,038	403,038
Basic/diluted earnings per share (sen)	38.85	64.84

35. DIVIDENDS

	2011 RM'000	2010 RM'000
Recognised during the financial year:		
In respect of financial year ended 31 March 2011:		
Interim single tier dividend of 9.9% on 403,038,000 ordinary shares	39,901	-
In respect of financial year ended 31 March 2010:		
First interim dividend of 33.08% less 25% tax on 403,038,000 ordinary shares	-	100,000
Second interim dividend, consisting of:		
- Gross dividends of 16.56% less 25% tax on 403,038,000 ordinary shares	-	50,060
- Single-tier dividend of 12.39% on 403,038,000 ordinary shares	-	49,940
	39,901	200,000

The directors do not recommend the payment of final dividend in respect of the current financial year.

36. BUSINESS SEGMENT ANALYSIS

Business Segment Analysis

Segment information is presented in respect of the Bank's business segments. The business segment information is prepared based on internal management reports, which are regularly reviewed by the chief operating decision-maker in order to allocate resources to a segment and to assess its performance.

The Bank comprises the following main business segments:

(a) Retail Banking

Retail banking focuses on providing products and services to individual customers and small and medium enterprises. The products and services offered to the customers include credit facilities such as auto financing, mortgages and other consumer financing, credit cards, asset financing and small business, personal financing, retail distribution and deposits.

(b) Business Banking

The business banking operations consist of provision of trade services, cash management and transactional banking services.

(c) Corporate and Institutional Banking

The corporate and institutional banking focuses on deepening and expanding corporate and institutional banking relationships with the Bank's corporate clients, as well as offering of a wider spectrum of the Bank's commercial and investment banking products through the overseas business operations and providing real estate management services.

(d) Treasury and Markets

The treasury and markets operations focus on activities and services which include foreign exchange, money market, derivatives and trading of capital market instruments.

(e) Group Functions and Others

Group functions and others comprise activities which complement and support the operations of the main business units and non-core operations of the Bank.

36. BUSINESS SEGMENT ANALYSIS (CONTD.)

Measurement of Segment Performance

The segment performance is measured on income, expenses and profit basis. These are shown after allocation of certain centralised costs, funding income and expenses and expenses directly associated with each segment. Transactions between segments are recorded within the segment as if they are third party transactions and are eliminated on aggregation.

Operating Revenue

Operating revenue of the Bank comprises all type of revenue derived from the business segments.

Major Customers

No revenue from one single customer amounted to greater than 10% of the Bank's revenue for the current and previous financial year.

36. BUSINESS SEGMENT ANALYSIS (CONTD.)

2011	Retail Banking RM'000	Business Banking RM'000	Corporate and Institutional Banking RM'000	Treasury and Markets RM'000	Group Functions and Others RM'000	Total RM'000
Operating revenue	551,245	106,167	236,389	27,036	258,769	1,179,606
Income	456,297	70,146	28,471	23,980	118,498	697,392
Expenses	(189,358)	(25,602)	(1,938)	(3,325)	(60,632)	(280,855)
Profit before provision	266,939	44,544	26,533	20,655	57,866	416,537
Provision	(141,651)	(30,056)	(6,321)	3,876	(33,260)	(207,412)
Profit before zakat and taxation	125,288	14,488	20,212	24,531	24,606	209,125
Zakat and taxation	(31,322)	(3,622)	(5,053)	(6,132)	(6,407)	(52,536)
Profit for the year	93,966	10,866	15,159	18,399	18,199	156,589

Other information

Cost to income ratio	41.5%	36.5%	6.8%	13.9%	51.2%	40.3%
Net financing and advances	10,294,986	3,285,711	1,514,746	-	(1,848,367)	13,247,076
Impaired financing and advances	274,835	42,821	-	-	2,762	320,418
Deposits	4,763,557	1,671,876	9,073,612	111,262	1,096,904	16,717,211

The financial information by geographical segment is not presented as the Bank's activities are principally conducted in Malaysia.

36. BUSINESS SEGMENT ANALYSIS (CONTD.)

2010	Retail Banking RM'000	Business Banking RM'000	Corporate and Institutional Banking RM'000	Treasury and Markets RM'000	Group Functions and Others RM'000	Total RM'000
Operating revenue	610,837	76,474	135,111	17,761	192,816	1,032,999
Income	490,514	52,535	6,263	15,677	120,038	685,027
Expenses	(181,056)	(18,875)	(545)	(4,308)	(54,466)	(259,250)
Profit before provision	309,458	33,660	5,718	11,369	65,572	425,777
Provision	(73,729)	(14,644)	(3,488)	8,777	13,917	(69,167)
Profit before zakat and taxation	235,729	19,016	2,230	20,146	79,489	356,610
Zakat and taxation	(58,932)	(4,754)	(558)	(5,036)	(25,985)	(95,265)
Profit for the year	176,797	14,262	1,672	15,110	53,504	261,345
Other information						
Cost to income ratio	36.9%	35.9%	8.7%	27.5%	45.4%	37.8%
Net financing and advances	9,122,603	2,229,519	716,467	-	(309,911)	11,758,678
Impaired financing and advances	165,850	10,679	-	-	5,703	182,232
Deposits	5,957,708	1,605,730	6,175,004	78,670	1,066,678	14,883,790

The financial information by geographical segment is not presented as the Bank's activities are principally conducted in Malaysia.

37. CAPITAL COMMITMENTS

As at the reporting date, the Bank has no capital commitments.

38. LEASE COMMITMENTS

The Bank has lease commitments in respect of rented premises and equipment on hire, all of which are classified as operating leases. A summary of the non-cancellable long-term commitments, net of sub-leases is as follows:

	2011 RM'000	2010 RM'000
Within one year	1,387	1,216
Between one and five years	1,538	2,547
More than five years	655	756
	3,580	4,519

The lease commitments represent minimum rentals not adjusted for operating expenses which the Bank is obligated to pay. These amounts are insignificant in relation to the minimum lease obligations. In the normal course of business, leases that expire will be renewed or replaced by leases on other properties, thus it is anticipated that future annual minimum lease commitments will not be less than rental expenses for the financial year.

39. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	Less than 12 months RM'000	Over 12 months RM'000	Total RM'000
2011			
ASSETS			
Cash and short-term funds	4,738,758	-	4,738,758
Deposits and placements with banks and other financial institutions	250,000	-	250,000
Derivative financial assets	-	3,258	3,258
Financial assets held-for-trading	991,136	-	991,136
Financial investments available-for-sale	358,470	357,467	715,937
Financing and advances	2,957,727	10,289,349	13,247,076
Other assets	72,386	52,271	124,657
Deferred tax asset	-	118,406	118,406
Property and equipment	-	654	654
Intangible assets	-	278	278
TOTAL ASSETS	9,368,477	10,821,683	20,190,160
LIABILITIES			
Deposits and placements of banks and other financial institutions	682,471	785,085	1,467,556
Derivative financial liabilities	-	3,254	3,254
Deposits from customers	14,845,536	404,119	15,249,655
Term funding	-	550,000	550,000
Bills and acceptances payable	879,522	-	879,522
Subordinated Sukuk Musyarakah	-	400,000	400,000
Other liabilities	217,206	24,795	242,001
Provision for zakat	559	-	559
TOTAL LIABILITIES	16,625,294	2,167,253	18,792,547

39. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTD.)

2010	Less than 12 months RM'000	Over 12 months RM'000	Total RM'000
ASSETS			
Cash and short-term funds	3,886,453	-	3,886,453
Deposits and placements with banks and other financial institutions	150,000	-	150,000
Derivative financial assets	-	3,461	3,461
Financial assets held-for-trading	350,934	-	350,934
Financial investments available-for-sale	595,440	312,490	907,930
Financing and advances	1,933,218	9,825,460	11,758,678
Other assets	34,463	47,163	81,626
Statutory deposit with Bank Negara Malaysia	-	32,079	32,079
Deferred tax asset	-	41,500	41,500
Property and equipment	-	317	317
Intangible assets	-	449	449
TOTAL ASSETS	6,950,508	10,262,919	17,213,427
LIABILITIES			
Deposits and placements of banks and other financial institutions	1,198,982	286,768	1,485,750
Derivative financial liabilities	-	3,458	3,458
Deposits from customers	13,102,741	295,299	13,398,040
Bills and acceptances payable	394,986	-	394,986
Subordinated Sukuk Musyarakah	-	400,000	400,000
Other liabilities	142,523	49,297	191,820
Provision for zakat	1,226	-	1,226
TOTAL LIABILITIES	14,840,458	1,034,822	15,875,280

40. RISK MANAGEMENT

40.1 GENERAL RISK MANAGEMENT

Risk Management Framework

The Risk Management Framework takes its lead from the Board of Directors' Approved Risk Appetite Framework which provides the catalyst to setting the risk/reward profile required by the Board of Directors, together with the related business strategies, limit framework and policies required to enable successful execution.

The Risk Appetite Framework is approved annually by the Board of Directors taking into account the Bank's desired external rating and targeted profitability/return on equity ("ROE") and is reviewed periodically throughout the financial year by both the executive management and the Board of Directors to consider any fine tuning/amendments taking into account prevailing or expected changes to the operational environment.

The Risk Appetite Framework provides portfolio parameters for Credit Risk, Traded Market Risk, Non-Traded Market Risk and Operational Risk incorporating, inter alia, limit structures for countries, industries, single counterparty, value at risk, capital at risk, earnings at risk, stop loss, stable funding ratio and liquidity. Each business unit has asset writing strategies which tie into the overall Risk Appetite Framework providing detailed strategies of how the business units will execute their business plans in compliance with the Risk Appetite Framework.

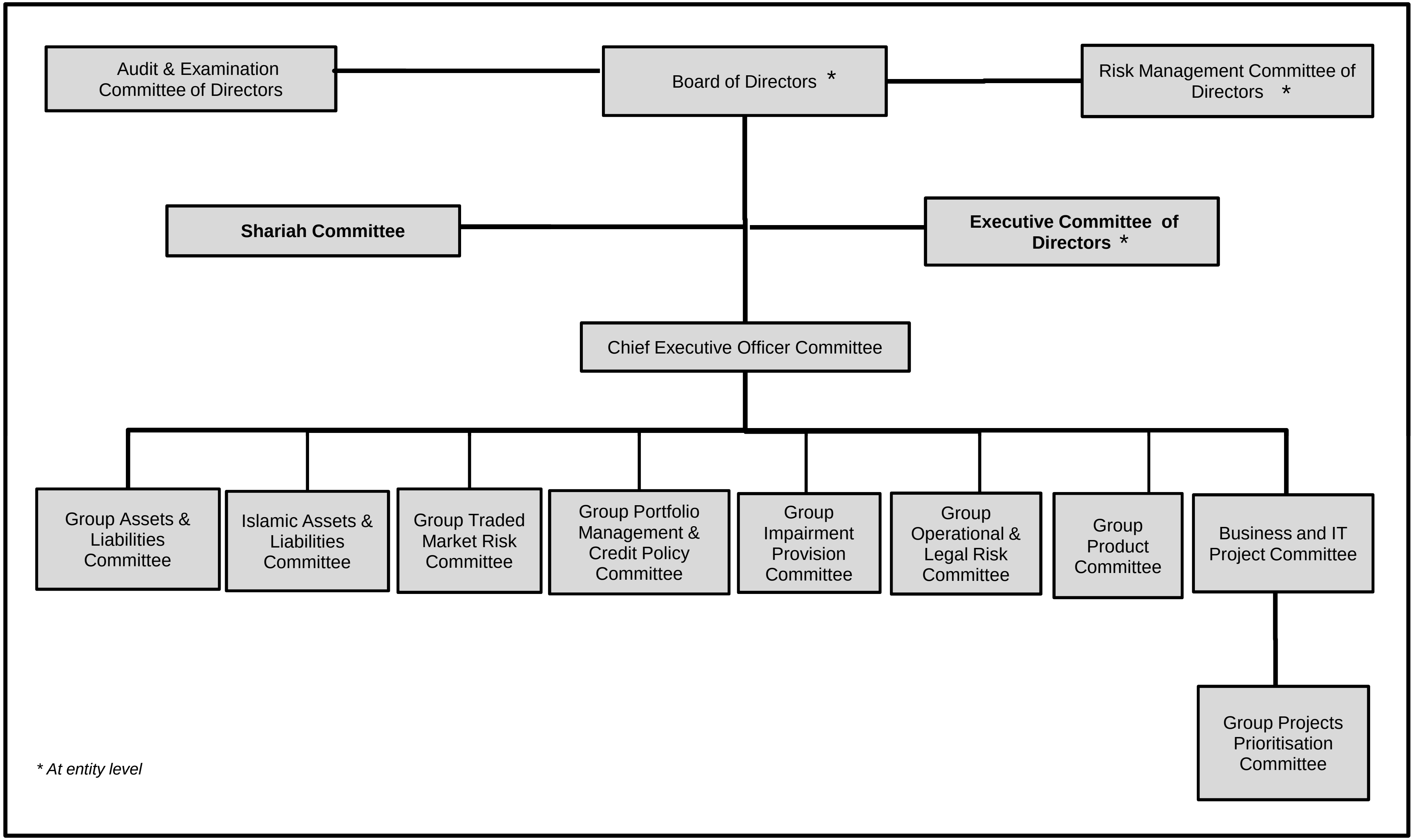
Risk Management Governance

The Board of Directors is ultimately responsible for the management of risks within the Bank. The Risk Management Committee of Directors is formed to assist the Board of Directors in discharging its duties in overseeing the overall management of all risks covering market risk management, liquidity risk management, credit risk management and operational risk management.

The Board of Directors has also established various management committees to assist it in managing the risks and businesses of the Bank. The following chart sets out the organisational structure of the risk management committees and an overview of the respective committee's roles and responsibilities:

40. RISK MANAGEMENT (CONTD.)

40.1 GENERAL RISK MANAGEMENT (CONTD.)



40. RISK MANAGEMENT (CONTD.)

40.1 GENERAL RISK MANAGEMENT (CONTD.)

Committee	Roles and Responsibilities
Risk Management Committee of Directors (“RMCD”)	- Oversee senior management activities in managing risk (covering credit, market, funding, operational, legal, regulatory capital and strategic risk) and to ensure that the risk management process is in place and functioning. - Report and advise the Board of Directors on risk issues.
Audit & Examination Committee of Directors (“AEC”)	- Provide assistance to the Board in relation to fulfilling fiduciary responsibilities and monitoring of the accounting and financial reporting practices of the Bank. - Provide assistance to Board of Directors in ensuring the Islamic Banking operations of the Bank are Shariah compliant.
Shariah Committee	- Responsible and accountable on matters related to Shariah, which includes advising Board of Directors and management on Shariah matters and endorsing and validating products and services and the relevant documentations in relation to Islamic Banking operations.
Executive Committee of Directors (“EXCO”)	- Responsible to consider and approve credit facilities and commitments that are not in accordance with the policies approved by the Board for which EXCO has been granted powers to exempt. - Review credit facilities and commitments that exceeds certain thresholds.
Chief Executive Officer Committee (“CEO Committee”)	- Responsible for overall day-to-day operations of the Bank such as oversee management’s activities in managing risk, review high level risk exposures, portfolio composition and risk strategies; and evaluate the existence and effectiveness of the control and risk management infrastructure. - Report and advise the Board of Directors on risk issues.
Group Assets and Liabilities Committee (Conventional and Islamic) (“GALCO”)	- Responsible for the development of capital and balance sheet management policy, approve and oversee non-traded interest/profit rate risk exposures, liquidity and funding framework and hedging and management of structural foreign exposure. Ensure fund transfer pricing are effective and fair and capital is managed.
Islamic Assets and Liabilities Committee	- Responsible for the development of Islamic capital and balance sheet management policy, approve and oversee rate of return risk exposures, liquidity and funding framework and hedging and management of structural foreign exposure. Ensure fund transfer pricing are effective and fair and capital is managed.

40. RISK MANAGEMENT (CONTD.)

40.1 GENERAL RISK MANAGEMENT (CONTD.)

Committee	Roles and Responsibilities
Group Traded Market Risk Committee ("GTMRC")	- Responsible for the development of traded market risk policy framework, oversee the trading book portfolio, approve new trading products and ensure the compliance with the internal and regulatory requirements throughout the Bank.
Group Portfolio Management and Credit Policy Committee ("GPMCP")	- Responsible for the development of credit policy framework, oversee credit portfolio, endorse asset writing strategies, review credit provisioning policies and process and ensure the compliance with the internal and regulatory requirements throughout the Bank.
Group Impairment Provision Committee	- Responsible for the development of key policies relating to impairment provisions, ensure provision are assessed and made in accordance with Board approved policies and FRS 139 and 137 standards and establish adequate management governance for the determination of provisions.
Group Operational and Legal Risk Committee ("GOLRC")	- Responsible for endorsing operational risk, legal risk and regulatory compliance framework, oversee operational risk and legal risk management and reviews regulatory actions or any incidences that may give rise to operational and legal risk along with the actions taken to mitigate such risks.
Group Product Committee ("GPC")	- Responsible for ensuring adequate infrastructure and resources are in place for product management, endorse proposal for new products and product launching strategies, approve proposals for product variation and reactivation of dormant products, and review post implementation activities and product performance.
Business and IT Project Committee ("BITPC")	- Responsible to review and approve (or where required recommend for approval) requests relating to the Bank's major Business and Information Technology ("IT") investments. - To ensure all projects are aligned to the Business and IT plans, appropriate prioritisation of Business and IT projects, and the allocation of resources.
Group Projects Prioritisation Committee	- Responsible to optimise the allocation of shared resources and change capacity to programmes, projects and initiatives across the Bank.

40. RISK MANAGEMENT (CONTD.)

40.2 CREDIT RISK MANAGEMENT

Identification	• Accurate identification/recognition of credit risk on transactions and/or positions • Selection of asset and portfolio mix
Assessment/ Measurement	• Internal credit rating system • Probability-of-default ("PD") • Loss-given-default ("LGD") • Exposure-at-default ("EAD")
Control/ Mitigation	• Portfolio Limits, Counterparty Limits, Benchmark Returns • Collateral and tailored facility structures
Monitoring/ Review	• Monitoring of portfolio and reporting • Watch-list review • Post-mortem review

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its payment obligations. Exposure to credit risk arises from financing, securities and derivative exposures. The identification of credit risk is done by assessing the potential impact of internal and external factors on the Bank's transactions and/or positions.

The primary objective of credit risk management is to maintain accurate risk recognition - identification and measurement, to ensure that credit risk exposure is in line with the Bank's Risk Appetite Framework and related credit policies.

For non-retail credits, risk recognition begins with an assessment of the financial standing of the customer or counterparty using an internally developed credit rating model. The model consists of quantitative and qualitative scores that are then translated into a rating grade, ranging from "AAA" (representing the lowest risk grade) to "C" (that is, the highest risk grade). The assigned credit rating grade forms a crucial part of the credit analysis undertaken for each of the Bank's credit exposures.

To support credit risk management's observation of disciplines governed by the Basel II Framework and Financial Reporting Standards ("FRS"), our rating models pertaining to credit risk (obligor's probability-of-default ("PD"), loss-given-default ("LGD") and exposure-at-default ("EAD")) are in the process of being upgraded. These new models are scheduled to be operational during 2012 and will:

- improve the accuracy of individual obligor risk ratings and calculation of expected loss;

40. RISK MANAGEMENT (CONTD.)

40.2 CREDIT RISK MANAGEMENT (CONTD.)

- enhance pricing models;
- facilitate financing loss provision calculation;
- automate stress testing; and
- enhance portfolio management.

For retail credits, third generation credit-scoring systems to better differentiate the quality of customers are being used to complement the credit assessment and approval processes. New LGD and EAD models have also been recently developed which will also become operational during 2012.

Financing activities are guided by internal credit policies and Risk Appetite Framework that are approved by the Board of Directors. The Bank’s Risk Appetite Framework is refreshed at least annually and with regard to credit risk, provides direction as to portfolio management strategies and objectives designed to deliver the Bank’s optimal portfolio mix. Credit Risk portfolio management strategies include, amongst others:

- Concentration limits:
  - single counterparty credit;
  - industry sector;
  - country; and
  - portfolio composition (by risk grade)
- Asset writing strategies for industry sectors and individual customers;
- Setting financing to value limits for asset backed financing (i.e. property exposures and other collateral);
- Watchlist processes for identifying, monitoring and managing customers exhibiting signs of weakness and higher risk customers; and
- Setting Benchmark Returns which serve as a guide to the minimum returns the Bank requires for the risk undertaken, taking into account operating expenses and cost of capital.

Individual credit risk exposure is reported to Credit and Commitment Committee (“CACC”). In the event such exposure exceeds CACC authority, it will be reported to EXCO. Portfolio credit risk is reported to the relevant management and board committees.

The GPMCP regularly meets to review the quality and diversification of the Bank’s financing portfolio, approve new and amended credit risk policy, review watchlist reports and post-mortem review of financing (to extract lessons learned for facilitating credit training and refinement of credit policies or guidelines, towards enhancing risk identification and control).

40. RISK MANAGEMENT (CONTD.)

40.2 CREDIT RISK MANAGEMENT (CONTD.)

Group Risk prepares monthly Risk Reports which detail important portfolio composition and trend analysis incorporating asset growth, asset quality, impairments, flow rates of financing delinquency buckets and exposures by industry sectors are reported monthly by Group Risk to executive management and to all meetings of the Board.

The Bank applies the Standardised Approach to determine the regulatory capital charge related to credit risk exposure.

The Bank determines a list of all types of applicable and approved Shariah transactions and financing. The approved list includes formal exclusions from any engagement by the Bank in certain prohibited industries, such as pork meat, alcohol and gambling. The approved list is kept up-to-date and communicated to the relevant personnel within the Bank.

The Bank had engaged appropriate experts, including a Shariah advisor to review and ensure that new financing proposals that have not been proposed before or amendments to existing contracts are Shariah-compliant at all times.

Credit Risk Exposure and Concentration

The Bank's concentrations of risk are managed by industry sector, risk grade asset quality and single customer limit. The Bank applies single customer limits ("SCL") to monitor the large exposures to single counterparty risk.

For financial assets recognised on the statement of financial position, the maximum exposure to credit risk before taking account of any collateral held or other credit enhancements equals the carrying amount. For contingent exposures, the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the instrument is called upon. For committed facilities which are undrawn, the maximum exposure to credit risk is the full amount of the committed facilities.

The following table shows the maximum exposure to credit risk for the components of the statement of financial position and commitments and contingent liabilities, including derivatives, by industry and by geography, before taking account of any collateral held or other credit enhancements.

40. RISK MANAGEMENT (CONTD.)

40.2 CREDIT RISK MANAGEMENT (CONTD.)

(i) Industry Analysis

2011	Primary Agriculture	Mining and Quarrying	Manufacturing	Electricity, Gas and Water	Construction	Wholesale, Retail Trade, Restaurant and Hotel	Transport, Storage and Communication	Finance, Insurance, Real Estate and Business Activities *	Education and Health	Household	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	-	-	-	-	-	-	-	4,738,758	-	-	-	4,738,758
Deposit and placements with banks and other financial institutions	-	-	-	-	-	-	-	250,000	-	-	-	250,000
Derivative financial assets	-	-	-	-	-	-	-	3,258	-	-	-	3,258
Financial assets held-for-trading												
- Money market securities	-	-	-	-	-	-	-	748,835	-	-	-	748,835
- Unquoted private debt securities	25,402	5,183	-	26,533	15,323	30,096	-	84,231	10,132	-	45,401	242,301
	25,402	5,183	-	26,533	15,323	30,096	-	833,066	10,132	-	45,401	991,136
Financial investments available-for-sale												
- Money market securities	-	-	-	-	-	-	-	538,611	-	-	-	538,611
- Unquoted private debt securities	-	47,409	-	34,496	32,208	-	-	31,896	-	-	21,317	167,326
	-	47,409	-	34,496	32,208	-	-	570,507	-	-	21,317	705,937
Gross financing and advances (before deduction of Islamic financing sold to Cagamas) **												
- Hire purchase receivables	14,969	1,916	16,250	1,447	54,198	68,674	121,953	42,249	14,017	6,622,416	651	6,958,740
- House financing	-	-	43,888	-	933	-	-	634	682	507,883	-	554,020
- Card receivables	-	-	-	-	-	-	-	-	-	303,753	-	303,753
- Other financing	59,950	13,728	91,892	5,436	105,511	50,880	37,109	69,072	116,162	2,212,662	695	2,763,097
- Corporate financing	61,405	4,379	1,304,907	209,441	762,199	378,097	605,058	1,056,688	284,614	118,968	86,201	4,871,957
	136,324	20,023	1,456,937	216,324	922,841	497,651	764,120	1,168,643	415,475	9,765,682	87,547	15,451,567
Total financial assets	161,726	72,615	1,456,937	277,353	970,372	527,747	764,120	7,564,232	425,607	9,765,682	154,265	22,140,656
Contingent liabilities	1,502	2,356	243,895	10,523	307,888	32,008	61,503	266,411	1,004	-	90,241	1,017,331
Commitments	130,078	23,644	509,595	99,257	1,478,631	236,448	62,222	1,248,792	15,054	575,943	386,671	4,766,335
Total commitments and contingent liabilities	131,580	26,000	753,490	109,780	1,786,519	268,456	123,725	1,515,203	16,058	575,943	476,912	5,783,666

* Including government, government related agencies and Bank Negara Malaysia.

** The amounts presented for financing and advances are gross of impairment allowances.

40. RISK MANAGEMENT (CONTD.)

40.2 CREDIT RISK MANAGEMENT (CONTD.)

(ii) Geographical Analysis

2011	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Cash and short-term funds	4,738,758	-	4,738,758
Deposit and placements with banks and other financial institutions	250,000	-	250,000
Derivative financial assets	3,258	-	3,258
Gross financing and advances (before deduction of Islamic financing sold to Cagamas) *			
- Hire purchase receivables	6,958,740	-	6,958,740
- House financing	554,020	-	554,020
- Card receivables	303,753	-	303,753
- Other financing	2,763,097	-	2,763,097
- Corporate financing	4,871,957	-	4,871,957
	15,451,567	-	15,451,567
Total financial assets	20,443,583	-	20,443,583
Contingent liabilities	1,017,331	-	1,017,331
Commitments	4,766,335	-	4,766,335
Total commitments and contingent liabilities	5,783,666	-	5,783,666

* The amounts presented are gross of impairment allowances.

40. RISK MANAGEMENT (CONTD.)

40.2 CREDIT RISK MANAGEMENT (CONTD.)

Main Types of Collateral Taken by The Bank

Collateral is generally taken as security for credit exposures as a secondary source of payment in case the counterparty cannot meet its contractual payment obligations from cash flow generation. Types of collateral typically taken by the Bank include:

- Cash and term deposits
- Exchange traded shares, sukuk and marketable securities
- Non-exchange traded debt securities/sukuk
- Unit trusts (including Amanah Saham Nasional, Amanah Saham Bumiputera and mutual funds)
- Non-exchange traded shares
- Residential and non-residential property
- Plantation land, mining land, quarry land and vacant land
- Passenger vehicle, commercial vehicle, construction vehicle and vessel
- Plant and machineries

The Bank can only accept Shariah-approved assets as collateral.

Where the customer risk profile is considered very sound (or by nature of the product, for instance small limit products such as credit cards), a transaction may be provided on an “unsecured” basis, that is, not be supported by collateral.

In addition to rating the customer’s probability-of-default via an internal risk rating system, the Bank uses Security Indicators (“SIs”) in its non-retail portfolio to assess the strength of collateral supporting its exposures. Thus both the PD and LGD estimates are used in assessing and monitoring exposures.

Processes for Collateral Management

To support the development of processes around collateral valuation and management, the concept of legal enforceability and certainty are central to collateral management. In order to achieve legal enforceability and certainty, the Bank has standard collateral instruments, and where applicable, security interest are registered.

40. RISK MANAGEMENT (CONTD.)

40.2 CREDIT RISK MANAGEMENT (CONTD.)

Guarantee Support

Guarantee support for financing proposals are an integral component in transaction structuring for the Bank. The guarantee of a financially strong party can help improve the probability-of-default of a transaction through its explicit support of the customer, where the customer's risk grade will be replaced with the guarantor's risk grade.

Guarantees that are recognised for risk grading purposes may be provided by parties that include associated entities, banks or sovereigns. Credit policies provide threshold parameters to determine acceptable counterparties in achieving risk grade enhancement of the transaction. Guarantee by a counterparty with lower rating than the customer is not recognised as part of the risk grade enhancement.

Use of Credit Derivatives and Netting for Risk Mitigation

Currently, the Bank does not use credit derivatives and netting for risk mitigation.

Transaction Structuring to Mitigate Credit Risk

Besides tangible security and guarantee support described above, credit risk mitigation techniques are used in structuring transactions. These include duration limits managing the number of years the financing is extended, amortisation schedules and financing covenants. These assist in managing credit risk and in providing early warning signals, whereby should financing covenants be breached, the Bank and the customer can work together to address the underlying causes and as appropriate, restructure facilities.

Concentrations of Credit Risk Mitigation

The main types of collateral undertaken by the Bank are properties, motor vehicles and exchange traded shares.

40. RISK MANAGEMENT (CONTD.)

40.2 CREDIT RISK MANAGEMENT (CONTD.)

Credit Quality

The credit quality of financial assets are analysed based on broad categories. Internal credit rating grades assigned to corporate and retail lending businesses are mapped to the following categories based on the definitions appended below.

Definition of the Categories

Committee	Roles and Responsibilities
Strong	Strong capacity to meet financial commitments, minimal sensitivity to long-term adverse external events or market conditions.
Satisfactory	Adequate capacity to meet financial commitments. While it exhibits adequate protection, adverse economic conditions or changing environments are more likely to lead to a weakened capacity.
Sub-standard but not impaired	Exposures that have a higher default risk. Capacity to meet financial commitments remains marginally acceptable but more susceptible to changes in external market conditions.
Unrated	Exposures that are not rated.
Past due but not impaired	Exposures considered past due when any payment (whether principal and/or profit/rate of return) due under the contractual terms are received late or missed one or more days after the contractual due date.

The table below provides the External Credit Assessment Institutions (ECAIs) rating that broadly corresponds to the broad internal credit quality categories.

Credit Quality Classification	Moody's	S&P	Fitch IBCA	RAM and MARC
Strong	Aaa to Ba2	AAA to BB+	AAA to BB	AAA to A
Satisfactory	Ba3 to B2	BB to B+	BB- to B-	BBB to B
Sub-standard	B3 to C	B to C	CCC to C	CCC to C

40. RISK MANAGEMENT (CONTD.)

40.2 CREDIT RISK MANAGEMENT (CONTD.)

Impairment

Definition of Past Due and Impaired Financing

All financing and advances are categorised as either:

- Neither past due nor impaired;
- Past due but not impaired; or
- Impaired

An asset is considered past due when any payment (whether principal and/or profit) due under the contractual terms are received late or missed.

A financing is classified as impaired under the following circumstances:

(a) where the principal or profit or both[1] is past due or the amount outstanding is in excess of approved limit (for revolving facilities), each for more than 90 days or 3 months; or

(b) the financing exhibits weaknesses that render a classification appropriate to the Bank's Credit Risk Rating Framework, which requires it to fall under the "unlikeliness to repay" category under the Bank's Watch-list Policy.

(c) for financing with repayment schedules on a quarterly basis or longer intervals to be classified as impaired as soon as default[2] occurs, unless it does not exhibit any weakness that would render it to be classified according to the Bank's Credit Risk Rating Framework. Notwithstanding that, these financing shall be classified as impaired when the principal or profit or both is past due for more than 90 days or 3 months.

(d) for distressed rescheduled and restructured ("R/R") facilities, these financing are categorised as "unlikeliness to repay" and classified as impaired. Non-performing R/R facilities remain impaired until re-aged.

[1] For credit card facilities, an account is "past due" when the cardmember fails to settle the minimum monthly repayment due before the next billing date.

[2] "Default" is defined for financing with repayment schedules on a quarterly basis or longer as 1 day past due + 30 days

40. RISK MANAGEMENT (CONTD.)

40.2 CREDIT RISK MANAGEMENT (CONTD.)

Credit Quality By Class of Financial Assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system.

	Neither past due nor impaired				Past due			Gross amount		Fair value of collateral for past due and/or
	Strong credit profile	Satisfactory risk	Sub-standard	Unrated	but not impaired	Impaired	Total	individually impaired	Individual allowance	impaired accounts
2011	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**		**RM'000**	**RM'000**
Derivative financial assets	3,258	-	-	-	-	-	3,258	-	-	-
Financial assets held-for-trading										
- Money market securities	748,835	-	-	-	-	-	748,835	-	-	-
- Unquoted private debt securities	242,301	-	-	-	-	-	242,301	-	-	-
	991,136	-	-	-	-	-	991,136	-	-	-
Financial investments available-for-sale										
- Money market securities	439,071	-	-	99,540	-	-	538,611	-	-	-
- Unquoted private debt securities	167,326	-	-	-	-	-	167,326	-	-	-
	606,397	-	-	99,540	-	-	705,937	-	-	-
Gross financing and advances (before deduction of Islamic financing sold to Cagamas) *										
- Hire purchase receivables	2,087,797	1,645,149	471,138	-	2,649,199	105,457	6,958,740	-	-	2,921,352
- House financing	86,778	221,707	94,848	-	127,647	23,040	554,020	-	-	258,607
- Card receivables	92,297	45,501	93,203	-	61,848	10,904	303,753	-	-	112
- Other financing	1,436,044	390,629	58,289	71,662	671,040	135,433	2,763,097	-	-	160,984
- Corporate financing	2,237,822	2,374,764	112,373	94,951	6,463	45,584	4,871,957	33,737	25,447	14,922
	5,940,738	4,677,750	829,851	166,613	3,516,197	320,418	15,451,567	33,737	25,447	3,355,977
Total financial assets	7,541,529	4,677,750	829,851	266,153	3,516,197	320,418	17,151,898	33,737	25,447	3,355,977
Contingent liabilities	283,063	518,805	213,615	1,848	-	-	1,017,331	-	-	-
Commitments	3,071,974	1,481,871	160,561	51,929	-	-	4,766,335	-	-	-
Total commitments and contingent liabilities	3,355,037	2,000,676	374,176	53,777	-	-	5,783,666	-	-	-

* The amounts presented for financing and advances are gross of impairment allowances.

40. RISK MANAGEMENT (CONTD.)

40.2 CREDIT RISK MANAGEMENT (CONTD.)

Aging Analysis of Past Due But Not Impaired Financial Assets

	Up to 1 month RM'000	>1 to 3 months RM'000	Total RM'000
Gross financing and advances (before deduction of Islamic financing sold to Cagamas)			
- Hire purchase receivables	1,528,022	1,121,177	2,649,199
- House financing	83,109	44,538	127,647
- Card receivables	41,325	20,523	61,848
- Other financing	424,340	246,700	671,040
- Corporate financing	6,463	-	6,463
	2,083,259	1,432,938	3,516,197

40. RISK MANAGEMENT (CONTD.)

40.2 CREDIT RISK MANAGEMENT (CONTD.)

Carrying Amount by Class of Financial Assets Whose Terms Have Been Renegotiated

The Bank has policies and processes in place for restructured and rescheduled credit facilities. Restructured/rescheduled financing is to assist the counterparty to overcome its shorter term financial difficulties particularly where the longer term prospect of the business or project is deemed to be viable.

2011	Rescheduled Financial Assets RM'000	Restructured Financial Assets RM'000	Total RM'000
Gross financing and advances	193,500	55,447	248,947

Collateral Repossessed

There was no collateral taken into possession during the year and held as at the end of the year.

40. RISK MANAGEMENT (CONTD.)

40.2 CREDIT RISK MANAGEMENT (CONTD.)

Methodology for Determination of Individual and Collective Allowances

An assessment is performed to determine whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant or not individually impaired.

Individual Assessment

Individual assessment is divided into 2 main processes – detection of an event(s) and an assessment of impairment:

(a) Trigger management

In trigger management, financial assets which are above the pre-set individual assessment threshold are assessed using the relevant impairment triggers for objective evidence of impairment.

(b) Valuation of assets

Financial assets which are triggered by the impairment triggers will be measured for evidence of high likelihood of impairment, that is, estimated recoveries (based on the discounted cash flow projection method and taking into account economic conditions) is less than carrying value or fair value is less than the carrying value.

Collective Assessment

All financial assets below the significant threshold and those not assessed to be individually impaired will be subject to collective assessment and a collective allowance will be computed accordingly.

As a transitional arrangement up to 2012, BNM has given banking institutions the choice of applying either one of the following approaches in computing the required collective assessment:

(a) Transitional approach – where, banking institutions may maintain an allowance of at least 1.5% of total outstanding financing net of individual impairment allowance; or

(b) Full FRS 139 compliance approach – where collective allowances are computed using models based on the banking institutions' historical experience.

The Bank has opted for the transitional approach and has modified it to reflect its historical loss experience.

40. RISK MANAGEMENT (CONTD.)

40.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is the risk that the organisation either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or can only access these financial resources at an unreasonable cost. Liquidity risk exposure arises mainly from the deposit taking and borrowing activities, and to a lesser extent, significant drawdown of funds from previously contracted financing and purchase commitments.

The primary objective of the Bank's liquidity risk management is to ensure the availability of sufficient funds at a reasonable cost to honour all financial commitments when they fall due. The secondary objective is to ensure an optimal funding structure and to balance the key liquidity risk management objectives, which includes diversification of funding sources, customer base and maturity period.

The Group Asset & Liability Committee ("GALCO") is the responsible governing body that approves the Group's liquidity management and strategies policies and is responsible for setting liquidity limits, proposing liquidity risk policies and contingency funding plan and practices to be in compliance with local regulatory requirements and monitoring liquidity on an ongoing basis. The Capital and Balance Sheet Management division and Group Risk functions propose and oversee the implementation of policies and other controls relating to the above risks.

In the event of actual liquidity crisis occurring, a contingency funding plan provides a formal process to identify a liquidity crisis and details responsibilities among the relevant departments to ensure orderly execution of procedures to restore the liquidity position and confidence in the organisation.

Stress testing is undertaken to assess and plan for the impact for various scenarios which may put the Bank's liquidity at risk. The stress testing output contributes to the development of the liquidity risk limits and the Bank's contingency funding plan.

The Bank stresses the importance of customer deposit accounts as a source of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares financing and advances to customers as a percentage of customer deposit accounts, together with term funding with a remaining term to maturity in excess of one year.

40. RISK MANAGEMENT (CONTD.)

40.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTD.)

Liquidity Metrics

The Bank monitors key liquidity metrics on a regular basis. The main key metric is:

Adjusted Customer Financing to Deposits Ratio ("FDR")

This is defined as the ratio of total outstanding financing and advances to customers (before deduction of Islamic financing sold to Cagamas), net of allowance for impairment on financing and advances, relative to total customer deposits (inclusive of financing sold to Cagamas Berhad and term funding with original maturity of 3 years and above). This ratio reflects the percentage of customer financing and advances that are funded by customer deposits. A ratio below 100% indicates that our financing portfolio is completely funded by deposits. A low FDR demonstrates that customer deposits exceed customer financing resulting from emphasis placed on generating a high level of stable funding from customers.

	2011
Year-end	85.4%
Maximum	96.5%
Minimum	85.4%
Average	92.1%

40. RISK MANAGEMENT (CONTD.)

40.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTD.)

Analysis of Financial Assets and Liabilities By Remaining Contractual Maturities

The table below summarises the maturity profile of the Bank's financial assets and liabilities as at 31 March. All derivatives used for hedging purposes are shown by maturity, based on their contractual undiscounted repayment obligations.

Repayment which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

2011	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 to 5 years RM'000	Over 5 years RM'000	Non Specific Maturity RM'000	Total RM'000
Financial Assets								
Cash and short-term funds	4,748,895	-	-	-	-	-	7,718	4,756,613
Securities purchased under resale agreements								
Deposit and placements with banks and other financial institutions	-	253,140	-	-	-	-	-	253,140
Derivative financial assets	-	-	-	-	3,258	-	-	3,258
Financial assets held-for-trading	1,012	75,508	147,561	43,078	699,471	113,914	-	1,080,544
Financial investments available-for-sale	10,183	354,831	8,097	8,097	240,256	170,255	-	791,719
Financial investments held-to-maturity								
Financing and advances	2,773,992	319,991	322,337	588,188	7,036,371	10,802,082	-	21,842,961
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	-	-
Total Undiscounted Financial Assets	7,534,082	1,003,470	477,995	639,363	7,979,356	11,086,251	7,718	28,728,235
Financial Liabilities								
Deposits and placements of banks and other financial institutions	393,070	145,420	48,469	108,821	877,346	-	-	1,573,126
Securities lent under repurchase agreements								
Derivative financial liabilities	-	-	-	-	3,254	-	-	3,254
Deposits from customers	7,982,706	5,190,850	1,192,472	734,515	440,523	-	-	15,541,066
Term funding	-	-	-	-	-	668,250	-	668,250
Bills and acceptances payable	294,769	413,922	177,537	-	-	-	-	886,228
Subordinated Sukuk Musyarakah	-	-	-	-	496,000	-	-	496,000
Total Undiscounted Financial Liabilities	8,670,545	5,750,192	1,418,478	843,336	1,817,123	668,250	-	19,167,924
Net Undiscounted Financial Assets/(Liabilities)	(1,136,463)	(4,746,722)	(940,483)	(203,973)	6,162,233	10,418,001	7,718	9,560,311

40. RISK MANAGEMENT (CONTD.)

40.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTD.)

The table below shows the contractual expiry by maturity of the Bank's commitments and contingent liabilities. Each undrawn financing commitment is included in the time band containing the earliest date it can be drawn down. It should be noted that this is not how the Bank manages its liquidity risk for commitments and contingencies.

2011	**Up to 1 month**	**>1 to 3 months**	**>3 to 6 months**	**>6 to 12 months**	**>1 to 5 years**	**Over 5 years**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Contingent Liabilities							
Direct credit substitutes	48,180	21,874	55,087	72,730	49,925	-	247,796
Certain transaction-related contingent items	12,004	37,220	19,294	233,936	111,007	-	413,461
Short-term self liquidating trade-related contingencies	76,298	65,579	5,612	1,281	-	-	148,770
Obligations under underwriting agreements	-	-	-	30,000	162,500	-	192,500
Others	12,312	2,492	-	-	-	-	14,804
Commitments							
Irrevocable commitments to extend credit	486,126	459,403	233,737	1,456,824	1,301,555	219,302	4,156,947
Unutilised credit card lines	464,251	-	-	-	-	-	464,251
Forward asset purchase	145,137	-	-	-	-	-	145,137
Total Commitments and Contingent Liabilities	1,244,308	586,568	313,730	1,794,771	1,624,987	219,302	5,783,666

40. RISK MANAGEMENT (CONTD.)

40.4 MARKET RISK MANAGEMENT

Market risk is the risk of losses due to adverse changes in the level or volatility of market rates or prices, such as profit rates, credit spreads, equity prices and foreign exchange rates. The Bank differentiates between two types of market risk: Traded Market Risk (“TMR”) and Rate of Return Risk in the Banking Book (“RORBB”). Assessing, controlling and monitoring of these risks are the responsibilities of the Market Risk Unit (“MRU”).

Traded Market Risk ("TMR")

The Traded Market Risk ("TMR") management process is depicted in the table below.

Identification	• Identify market risks within existing and new products. • Review market-related information such as market trend and economic data.
Assessment/ Measurement	• Recommend / validate methodologies to calculate: o Value-at-Risk (“VaR”) o Profit-at-Risk (“PaR”) o Capital-at-Risk (“CaR”)
Controls/ Mitigation	• Recommend: - VaR limits - PaR limits - CaR limits - Annual and Monthly Loss limits - Greeks (Delta/Gamma/Vega/Theta) limits - Dollar Value of One Basis Point (“DV01”) - Position Size - Maximum Tenor - Maximum Holding Period - Stealth Concentration
Monitoring/ Review	• Monitor limits • Periodical review and reporting

TMR arises from transactions in which the Bank acts as principal with clients or the market. It involves taking positions in fixed income, equity or foreign exchange. The objectives of TMR management are to understand, to accurately measure and to work with the business to ensure exposures are managed within Board and Executive Management approved limit structures. This is done via robust measurement, setting of limits, limit monitoring and collaboration and agreement with business units on business strategies.

40. RISK MANAGEMENT (CONTD.)

40.4 MARKET RISK MANAGEMENT (CONTD.)

Traded Market Risk (Contd.)

Value-at-Risk (“VaR”), Profit-at-Risk (”PaR”), Capital-at-Risk (“CaR”) and sensitivity analysis are used to measure, monitor and control TMR exposures. VaR is a quantitative measure which applies recent historic market conditions to estimate potential losses in market value, at a certain confidence level and over a specified holding period. Profit-at-Risk (“PaR”) comprises Value-at-Risk (“VaR”) and a loss limit threshold. Loss limit thresholds are intended to trigger management discussion on appropriate mitigation measures to be taken, once certain loss levels are reached.

To complement VaR, CaR is used as a measure of the potential impact on portfolio values of more extreme, albeit plausible, market movements. In addition, CaR is used to gauge and ensure that the Bank is able to absorb extreme, unanticipated market movements.

Apart from VaR, PaR and CaR, additional sensitivity analysis limits (that is Greeks/DV01) and indicators are used to monitor changes in portfolio value under potential market conditions such as shifts in currency rates, equity prices and rate of return.

MRU monitors and reports risk exposures against limits on a daily basis. Portfolio market risk positions are also reported to GTMRC, RMCD and the Board of Directors (the “Board”). Furthermore, policies and procedures are in place to ensure prompt action is taken in the event of limit breaches. Business units exposed to traded market risk are required to maintain risk exposures within their respective thresholds. When risk limits are exceeded, business units are required to reduce their exposures immediately to a level below the thresholds unless senior management is consulted and approve alternative strategies to minimise potential losses.

The Bank adopts the Standardised Approach for market risk capital charge computation. This serves as a financial buffer to withstand adverse market movements.

MRU is committed to ongoing improvements in market risk processes and systems, and allocates substantial resources to this endeavour.

40. RISK MANAGEMENT (CONTD.)

40.4 MARKET RISK MANAGEMENT (CONTD.)

Non-Traded Market Risk

Rate of Return Risk in the Banking Book ("RORBB")

The RORBB risk management process is depicted in the table below:

Identification	• Identify rate of return risks within existing and new products. • Review market-related information e.g. market trend, economic data, etc.
Assessment/ Measurement	• Non-Traded Value-at-Risk ("VaR") • Earning-at-Risk ("EaR")
Control/ Mitigation	• Establish non-traded VaR limit and EaR limits.
Monitoring/ Review	• Monitoring of limits • Periodical review and reporting

RORBB arises from changes in market rates of return that impact core net profit income, future cash flows or fair values of financial instruments. This risk arises from mismatches between repricing dates of assets and liabilities, changes in yield curves, volatilities in profit margin and implied volatilities on rate of return options. The provision of retail and wholesale banking products and services (primarily financing and deposit-taking activities) creates rate of return sensitive positions in the Bank's statement of financial position.

The principal objectives of balance sheet risk management are to manage net fund income sensitivity while maintaining acceptable levels of rate of return risk and funding risk, and to manage the market value of the Bank's capital.

The Board's oversight of RORBB is supported by the Group Asset & Liability Committee ("GALCO"). GALCO is responsible for the alignment of the Group-wide risk appetite and funding needs, taking into consideration the Group-wide business strategies. GALCO consistently manages the Group's gapping positions, asset growth and liability mix against the rate of return outlook. It also reviews strategies to ensure a comfortable level of rate of return risk is maintained. The Bank has successfully engaged long-term funding to reduce longer tenor rate of return risk, and maintained a comfortable gapping profile as a result. In accordance with AmBank Group's policy, positions are monitored on a monthly basis and hedging strategies are used to ensure risk exposures are maintained within Board-established limits.

40. RISK MANAGEMENT (CONTD.)

40.4 MARKET RISK MANAGEMENT (CONTD.)

Non-Traded Market Risk (Contd.)

Rate of Return Risk in the Banking Book ("RORBB") (Contd.)

The Bank measures the risk of losses arising from potential adverse movements in market rate of return and volatilities using VaR. VaR is a quantitative measure of rates of return risk which applies recent historic market conditions to estimate the potential loss in market value, at a certain confidence level and over a specified holding period.

The Bank complements VaR by stress testing rate of return risk exposures to highlight potential risk that may arise from extreme market events that are rare but plausible.

Key assumptions in the gap and sensitivity analysis relate to the behaviour of rates of return and spreads, changes in financing and deposit product balances due to behavioural characteristics under different rate of return environments. Material assumptions include the repricing characteristics and the stickiness of indeterminate or non-maturity deposits.

The rate scenarios may include rapid ramping of rates of return, gradual ramping of rate of return, and narrowing or widening of spreads. Usually each analysis incorporates what management deems the most appropriate assumptions about customer behaviour in a rate of return scenario. However, in certain cases, assumptions are deliberately changed to test the Bank's exposure to a specified event.

The Bank's strategy seeks to optimise exposure to rate of return risk within Board-approved limits. This is achieved through the ability to reposition the rate of return exposure of the statement of financial position using dynamic product and funding strategies, supported by FRS 139-compliant rate of return hedging activities using profit rate swaps and other derivatives. These approaches are governed by the Bank's policies in the areas of product and liquidity management as well as the banking book policy statements and hedging policies.

RORBB is calculated monthly and reported to GALCO.

The following table demonstrates the sensitivity of the Bank's profit before taxation and equity to a reasonable possible change in rate of return with all other variables remain constant.

40. RISK MANAGEMENT (CONTD.)

40.4 MARKET RISK MANAGEMENT (CONTD.)

(i) Rate of Return Risk

Rate of Return Sensitivity Analysis

<u>Traded Market Risk:</u>

	2011	
	Rate of Return + 100 bps (RM'000)	**Rate of Return - 100 bps (RM'000)**
Impact on profit before taxation	(27,724)	28,298
Impact on equity	-	-

<u>Non-Traded Market Risk:</u>

	2011	
	Rate of Return + 100 bps (RM'000)	**Rate of Return - 100 bps (RM'000)**
Impact on profit before taxation	(29,091)	29,091
Impact on equity	(217,817)	233,984

The sensitivity above for non-traded market risk excluded non profit sensitive items. The Bank manages rate of return risk in the banking book by including all asset and liabilities, adjusted by internal fund transfer pricing practices.

(ii) Currency Risk

Foreign currency exchange risk arises from changes in exchange rates to exposure on the Bank's financial instruments denominated in currencies other than the functional currency of the transacting entity. Position limits are imposed to prevent the Bank from exposure to excessive foreign currency exchange risk.

The Bank does not have any outstanding exposure to foreign currency as at end of the financial year.

(iii) Equity Price Risk

Equity price risk arises from the adverse movements in the price of equities. Equity price risk is controlled via position size, loss limits and VaR limits.

The following table demonstrates the sensitivity of the Bank's profit before taxation and equity to a reasonable possible change in equity prices with all other variables remain constant.

40. RISK MANAGEMENT (CONTD.)

40.4 MARKET RISK MANAGEMENT (CONTD.)

(iii) Equity Price Risk (Contd.)

	2011	
	Equity Price + 10 % (RM'000)	Equity Price - 10 % (RM'000)
Impact on profit before taxation	-	-
Impact on equity	1,000	(1,000)

40.5 OPERATIONAL RISK MANAGEMENT

Operational risk is the potential loss from a breakdown in internal process, systems, deficiencies in people and management or operational failure arising from external events. It is increasingly recognised that operational risk is the single most widespread risk facing financial institutions today.

Operational risk management is the discipline of systematically identifying the critical potential risk and causes of failure, assess the relevant controls to minimise the impact of such risk through the initiation of risk mitigating measures and policies.

The Bank minimises operational risk by putting in place appropriate policies, internal controls and procedures as well as maintaining back-up procedures for key activities and undertaking business continuity planning. These are supported by independent reviews by the Group’s Internal Audit team.

40.6 LEGAL AND REGULATORY RISK

The Bank manages legal and regulatory risks to its business. Legal risk arises from the potential that breaches of applicable laws and regulatory requirements, unenforceability of contracts, lawsuits, or adverse judgement, may lead to the incurrence of losses, disruption or otherwise resulting in financial and reputational risk.

Legal risk is managed by internal legal counsel and where necessary, in consultation with external legal counsel to ensure that legal risk is minimised.

Regulatory risk is managed through the implementation of measures and procedures within the organisation to facilitate compliance with regulations. These include a compliance monitoring and reporting process that requires identification of risk areas, prescription of controls to minimise these risks, staff training and assessments, provision of advice and dissemination of information.

41. COMMITMENTS AND CONTINGENCIES

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

	2011 RM'000	2010 RM'000
Contingent Liabilities		
Direct credit substitutes	247,796	184,794
Certain transaction-related contingent items	413,461	130,228
Short-term self liquidating trade-related contingencies	148,770	90,357
Islamic financing sold to Cagamas Berhad with recourse	1,589,790	335,852
Obligations under underwriting agreements	192,500	391,000
Others	14,804	8,424
	2,607,121	1,140,655
Commitments		
Irrevocable commitments to extend credit maturing :		
- less than one year	2,636,090	1,987,102
- more than one year	1,520,857	160,507
Unutilised credit card lines	464,251	447,639
Forward asset purchase	145,137	-
Sell and buy back agreements	-	306,538
	4,766,335	2,901,786
Derivative Financial Instruments		
Equity and commodity related contracts:		
- over one year to five years	222,526	75,500
Total	7,595,982	4,117,941

42. CAPITAL MANAGEMENT

The capital and risk management of the banking subsidiaries of AMMB Holdings Berhad are managed collectively at group level. The Group's capital management approach is driven by its desire to maintain a strong capital base to support the development of its businesses, to meet regulatory capital requirements at all times and to maintain good credit ratings.

Strategic, business and capital plans are drawn up annually covering a 5 year horizon and approved by the Board of Directors. The capital plan ensures that adequate levels of capital and an optimum mix of the different components of capital are maintained by the Bank to support its strategy.

The capital plan takes the following into account:

(a) Regulatory capital requirements:
- forecast demand for capital to support the credit ratings; and
- increases in demand for capital due to business growth and market shocks.

(b) Or stresses:
- available supply of capital and capital raising options; and
- internal controls and governance for managing the Bank’s risk, performance and capital.

The Bank uses internal models and other quantitative techniques in its internal risk and capital assessment. The models help to estimate potential future losses arising from credit, market and other risks, and using regulatory formulae the amount of capital required to support them. In addition, the models enable the Bank to gain a deeper understanding of its risk profile, for example, by identifying potential concentrations, assessing the impact of portfolio management actions and performing what-if analysis.

Stress testing and scenario analysis are used to ensure that the Bank’s internal capital assessment considers the impact of extreme but plausible scenarios on its risk profile and capital position. They provide an insight into the potential impact of significant adverse events on the Bank and how these events could be mitigated. The Bank’s target capital levels are set taking into account its risk appetite and its risk profile under future expected and stressed economic scenarios.

The Bank’s assessment of risk appetite is closely integrated with its strategy, business planning and capital assessment processes, and is used to inform senior management’s views on the level of capital required to support the Bank’s business activities.

The Bank uses a capital model to assess the capital demand for material risks, and support its internal capital adequacy assessment. Each material risk is assessed, relevant mitigants considered, and appropriate levels of capital determined. The capital modelling process is a key part of the Bank’s management disciplines.

42. CAPITAL MANAGEMENT (CONTD.)

The capital that the Bank is required to hold is determined by its statement of financial position, commitments and contingencies, counterparty and other risk exposures after applying collateral and other mitigants, based on the Bank's risk rating methodologies and systems. We discuss these outcomes with BNM on a regular basis as part of our normal regulatory liaison activities. BNM has the right to impose further capital requirements on Malaysian Financial Institutions via its Financial Market Supervision remit.

The Bank operates processes and controls to monitor and manage capital adequacy across the organisation. Where we operate in other jurisdictions, capital is maintained on the basis of the local regulator's requirements. It is overseen by the Group Asset and Liability Committee ("GALCO"), which is responsible for managing the Bank's statement of financial position, capital and liquidity.

A strong governance and process framework is embedded in the capital planning and assessment methodology. Overall responsibility for the effective management of risk rests with the Board of Directors. The Risk Management Committee of Directors ("RMCD") is specifically delegated the task of reviewing all risk management issues including oversight of the Bank's capital position and any actions impacting the capital levels. The Audit and Examination Committee ("AEC") reviews specific risk areas and the issues discussed at the key capital management committees.

GALCO proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. These ranges are 7.5% to 8.5% for the Tier 1 capital ratio and 11.5% to 12.5% for the total capital ratio. The Bank has been (knowingly) operating in excess of these ranges for the last 3 years as the Group was conservatively positioned for any repercussions from the global financial crisis.

A dedicated team, the Capital and Balance Sheet Management Department, is responsible for the ongoing assessment of the demand for capital and the updating of the Bank's capital plan.

In light of the uncertain economic environment and evolving regulatory debate on banking institutions' capital structures, we believe it is appropriate to remain strongly capitalised above our target ranges.

Appropriate policies are also in place governing the transfer of capital within the Group. These ensure that capital is remitted as appropriate, subject to complying with regulatory requirements and statutory and contractual restrictions.

There are no current material, practical or legal impediments to the prompt transfer of capital resources in excess of those required for regulatory purposes or repayment of liabilities between AMMB Holdings Berhad and its group entities when due.

43. CAPITAL ADEQUACY RATIO

(a) The capital adequacy ratios of the Bank as at 31 March are as follows:

	2011	2010
Core capital ratio	8.0%	10.5%
Risk-weighted capital ratio	12.5%	15.3%

The capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks (CAFIB), which are based on the Basel II capital accord. The Bank has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk. The minimum regulatory capital adequacy requirement is 8.0% (2010: 8.0%) for the risk-weighted capital ratio.

The detailed disclosures on the risk exposures, as set out in Bank Negara Malaysia's CAFIB Disclosure Requirements (Pillar 3), are presented in the Pillar 3 disclosures section annexed to the financial statements.

(b) The components of Tier 1 and Tier 2 Capital of the Bank are as follows:

	2011 RM'000	2010 RM'000
Tier 1 capital		
Paid-up ordinary share capital	403,038	403,038
Share premium	534,068	534,068
Statutory reserve	304,316	265,169
Retained earnings	162,515	133,719
	1,403,937	1,335,994
Less: Deferred tax asset	(116,298)	(42,218)
Total Tier 1 capital	1,287,639	1,293,776
Tier 2 capital		
Subordinated Sukuk Musyarakah	400,000	400,000
Collective/general allowance *	324,004	184,803
Total Tier 2 capital	724,004	584,803
Capital base	2,011,643	1,878,579

* Excludes collective allowance on impaired financing restricted from Tier 2 capital of the Bank of RM155,006,000 as at 31 March 2011.

43. CAPITAL ADEQUACY RATIO (CONTD.)

The breakdown of the risk-weighted assets in various categories of risk are as follows:

	31 March 2011 RM'000	31 March 2010 RM'000
Credit risk	14,379,718	10,740,202
Market risk	459,864	456,330
Operational risk	1,209,490	1,090,009
Total risk-weighted assets	16,049,072	12,286,541

44. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments are contracts that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than a forced or liquidated sale. The information presented herein represents best estimates of fair values of financial instruments at the reporting date.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a number of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the assumptions could materially affect these estimates and the corresponding fair values.

In addition, fair value information for non-financial assets and liabilities such as deferred taxation are excluded, as they do not fall within the scope of FRS 7 Financial Instruments: Disclosure, which requires the fair value information to be disclosed.

The estimated fair values of the Bank's financial instruments are as follows:

	2011		2010	
	Carrying Value RM'000	**Fair Value RM'000**	**Carrying Value RM'000**	**Fair Value RM'000**
Financial Assets				
Cash and short-term funds	4,738,758	4,738,758	3,886,453	3,886,453
Deposits and placements with banks and other financial institutions	250,000	250,000	150,000	150,000
Derivative financial assets	3,258	3,258	3,461	3,461
Financial assets held-for-trading	991,136	991,136	350,934	350,934
Financial investments available-for-sale	715,937	715,937	907,930	907,930
Financing and advances	13,247,076	13,248,159	11,758,678	11,990,225

44. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTD.)

	2011		2010	
	Carrying Value RM'000	Fair Value RM'000	Carrying Value RM'000	Fair Value RM'000
Financial Liabilities				
Deposits and placements of banks and other financial institutions	1,467,556	1,365,103	1,485,750	1,496,564
Derivative financial liabilities	3,254	3,254	3,458	3,458
Deposits from customers	15,249,655	15,264,689	13,398,040	13,385,662
Term funding	550,000	558,085	-	-
Bills and acceptances payable	879,522	879,522	394,986	394,986
Subordinated Sukuk Musyarakah	400,000	403,960	400,000	402,880

The fair value of contingent liabilities and undrawn credit facilities are not readily ascertainable. These financial instruments are presently not sold or traded. They generate fees that are in line with market prices for similar arrangements. The estimated fair value may be represented by the present value of the fees expected to be received, less associated costs and potential loss that may arise should these commitments crystallise. The Bank assesses that their respective fair values are unlikely to be significant given that the overall level of fees involved is not significant and no allowance is necessary to be made.

The following methods and assumptions were used to estimate the fair value of assets and liabilities as at 31 March 2011 and 31 March 2010:

(a) Cash and Short-Term Funds

The carrying values are a reasonable estimate of the fair values because of negligible credit risk, short-term nature or frequent repricing.

(b) Financial Assets Held-For-Trading and Financial Investments Available-For-Sale

The estimated fair value is based on quoted or observable market prices at the reporting date. Where such quoted or observable market prices are not available, the fair value is estimated using net tangible assets techniques. Where discounted cash flow techniques are used, the estimated future cash flows are discounted using market indicative rates of similar instruments at the reporting date.

44. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTD.)

(c) Financing and Advances

The fair value of variable rate financing and advances are estimated to approximate their carrying values. For fixed rate financing, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at prevailing indicative rates adjusted for credit risk. In respect of impaired financing and advances, the fair values are deemed to approximate the carrying values, net of individual allowance for bad and doubtful financing.

(d) Derivative Financial Instruments

The fair values of the derivative financial instruments are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques, including discounted cash flow models and option pricing models, as appropriate.

(e) Deposits from Customers, Deposits Of Banks and Other Financial Institutions

The fair value of deposits liabilities payable on demand ("current and savings deposits") or with remaining maturities of less than six months are estimated to approximate their carrying values at statement of financial position date. The fair values of term deposits, negotiable instrument of deposits with remaining maturities of more than six months are estimated based on discounted cash flows using KLIBOR rates.

(f) Bills and Acceptances Payable

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

(g) Subordinated Sukuk Musyarakah and Term Funding

The fair values of financing are based on quoted prices at reporting date.

As assumptions were made regarding risk characteristics of the various financial instruments, discount rates, future expected loss experience and other factors, changes in the uncertainties and assumptions could materially affect these estimates and the resulting value estimates.

45. CREDIT EXPOSURES ARISING FROM CREDIT TRANSACTIONS WITH CONNECTED PARTIES

	2011	2010
Outstanding credit exposures with connected parties (RM'000)	44,243	30,541
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures (%)	0.3%	0.2%
Percentage of outstanding credit exposures with connected parties which is non-performing or in default (%)	0.6%	0.1%

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 for the financial year 2009. Under the guidelines, a connected party refers to:

(a) directors of the Bank and their close relatives;

(b) controlling shareholder and his close relatives;

(c) executive officer and his close relatives; executive officer refers to member of management having authority and responsibility for planning, directing and/or controlling the activities of the Bank;

(d) officer and his close relatives; officer refers to those 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;

(e) firms, partnerships, companies or any legal entities which control, or are controlled by, any person (including close relatives in the case of individuals) listed in (a) to (d) above, or in which they have interest as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;

(f) any person for whom the persons listed in (a) to (d) above is a guarantor;

(g) subsidiary of, or an entity controlled by the Bank and its connected parties.

Credit transactions and exposures to connected parties disclosed includes the extension of credit facility and/or off-balance sheet transactions that give rise to credit/counterparty risk, the underwriting and acquisition of equities and private debt securities.

45. CREDIT EXPOSURES ARISING FROM CREDIT TRANSACTIONS WITH CONNECTED PARTIES (CONTD.)

Credit transactions entered into with connected parties are on arm's length basis whereby:

(i) the creditworthiness of the connected party is not less than what is normally required of other persons;

(ii) the terms and conditions of credit transactions with connected parties are not more favourable than those entered into with other counterparties with similar circumstances and creditworthiness; and

(iii) the credit transactions are in the interest of the Bank and approved by the Board of Directors with not less than three quarters of all board members present.