

BANK ISLAM

PENYATA KEWANGAN 2011 FINANCIAL STATEMENT

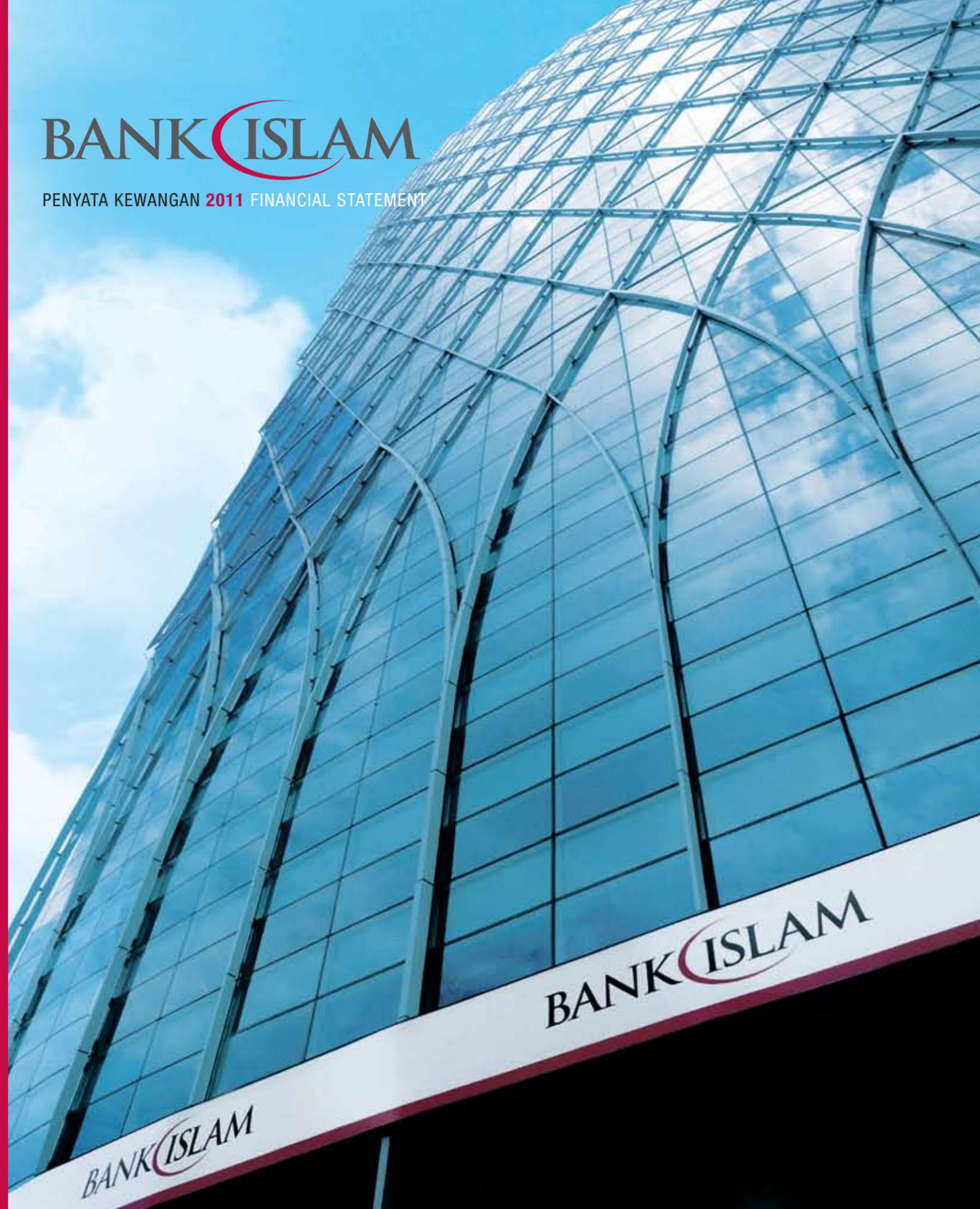
Bank Islam Malaysia Berhad (98127-X)

PENYATA KEWANGAN 2011 FINANCIAL STATEMENT

Bank Islam Malaysia Berhad
(98127-X)

11th Floor, Wisma Bank Islam
Jalan Dungun
Bukit Damansara
50490 Kuala Lumpur
Tel (6)03 2088 8000
Fax (6)03 2088 8033

www.bankislam.com.my



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Financial Statements



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Directors' Report

for the financial year ended 31 December 2011

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in Islamic banking business and the provision of related services. The principal activities of the subsidiaries are as stated in Note 13 to the financial statements.

There has been no significant change in the nature of these activities during the financial year.

RESULTS

	GROUP RM'000	BANK RM'000
Profit before zakat and tax expense	469,568	470,099
Zakat and tax expense	(111,416)	(110,940)
Profit for the year	358,152	359,159

DIVIDENDS

The amount of dividends paid by the Bank since 31 December 2010 are as follows:

	RM'000
In respect of the 18 months financial period ended 31 December 2010:	
Dividend of 4.75% per ordinary share less tax at 25%, paid on 20 May 2011	80,708
In respect of the financial year ended 31 December 2011:	
Interim dividend of 2.63% per ordinary share less tax at 25%, paid on 15 September 2011	44,687
	125,395

The Directors recommend a final dividend of 2.63% per ordinary share less tax at 25% totalling RM44,686,790 for the financial year ended 31 December 2011.

ISSUE OF SHARES

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

RESERVES AND PROVISIONS

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

IMPAIRED FINANCING

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that proper actions had been taken in relation to the writing off of bad financing and the making of impairment provisions for impaired financing, and have satisfied themselves that all known bad financing have been written off and adequate impairment provisions made for impaired financing.

At the date of this report, the Directors are not aware of any circumstances that would render the amount written off for bad financing, or amount of impairment provisions for impaired financing in the financial statements of the Group and of the Bank, inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that any current assets, other than financing, which were unlikely to be realised in the ordinary course of business at their values as shown in the accounting records of the Group and of the Bank have been written down to their estimated realisable value.

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

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing methods of valuation of assets or liabilities of the Group and of the Bank to be 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 Group or of the Bank which has arisen since the end of the financial year and which secures the liabilities of any other person, or
- (b) any contingent liability in respect of the Group or of the Bank that has arisen since the end of the financial year other than those incurred in the ordinary course of business.

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

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

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Group and of the Bank for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

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 to affect substantially the results of the operations of the Group or of the Bank for the current financial year in which this report is made.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

The significant events during the financial year are as disclosed in Note 44 to the financial statements.

SUBSEQUENT EVENTS AFTER THE FINANCIAL YEAR

There were no significant events subsequent to the financial year ended 31 December 2011.

COMPLIANCE WITH BANK NEGARA MALAYSIA'S EXPECTATIONS ON FINANCIAL REPORTING

In the preparation of the financial statements, the Directors have taken reasonable steps to ensure that Bank Negara Malaysia's expectations on financial reporting have been complied with, including those as set out in the Guidelines on Financial Reporting for Licensed Islamic Banks, Circular on the Application of FRS and Revised Financial Reporting Requirements for Islamic Banks and the Guidelines on Classification and Impairment Provision for Loans/Financing.

DIRECTORS OF THE BANK

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

Dato' Zamani Abdul Ghani (appointed 1 March 2011)

Dato' Sri Zukri Samat

Dato' Paduka Ismee Ismail

Johan Abdullah

Zahari @ Mohd Zin Idris

Zaiton Mohd Hassan

Mohamed Ridza Mohamed Abdulla

Abdullah Abdulrahman Abdullah Sharafi (appointed 1 August 2011)

Mohammed Abdul Ghaffar Ghualoom Hussain Abdulla (appointed 7 December 2011)

Marwan Hassan Ali Al-Khatib (resigned 7 December 2011)

Fadhel Abdulbaqi Abu Al-Hasan Al-Ali (resigned 1 August 2011)

None of the Directors holding office as at 31 December 2011 had any interest in the ordinary shares of the Bank and of its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in the financial statements or the fixed salary of a full time employee of the Bank) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a firm in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

IMMEDIATE AND ULTIMATE HOLDING COMPANY/BOARD

The Directors regards BIMB Holdings Berhad, a company incorporated in Malaysia and Lembaga Tabung Haji (LTH), a hajj pilgrims' funds board established in Malaysia as the immediate holding company and ultimate holding board respectively.

2012 BUSINESS PLAN AND OUTLOOK BUSINESS PLAN, STRATEGY AND FUTURE OUTLOOK

Following a stronger-than-expected growth of 5.8% year-on-year (YoY) in the 3Q2011, the Malaysian economy proved its resilience during the first three quarters of 2011, expanding by 5.0% YoY on average. The widely anticipated more modest economic performance for Malaysia in the 4Q2011, which is likely to spill over into 2012 reflects largely the impact of external headwinds in particular the deepening Euro sovereign debt crisis and Europe-style austerity measures; still sluggish US housing and labour markets despite some signs of improvement recently; cooling measures in China; stunted recovery in Japan post-Fukushima March 2011 tragedy and significant slowdown in emerging economies in Latin America, Central and Eastern Europe, Middle East and Asia-Pacific.

Malaysia is certainly not immune to global vagaries especially macroeconomic misfortunes befalling its major trading partners. Nonetheless, Malaysia is blessed with a host of factors that could somehow limit the effects of the evolving global slowdown in particular its resilient domestic demand, both public and private sectors to pick up the slack in external demand. The implementation of various projects under the 10th Malaysia Plan (10MP) and the Economic Transformation Programme (ETP) is also expected to be an important impetus to wide-ranging economic activities in Malaysia in 2012. Besides, as a full-blown global recession is not expected in 2012, the Malaysian economy and its banking industry should be able to ride the rough seas due to risks of global liquidity crunch.

After a stellar showing of 13.6% for 2011, the banking system's loans growth for 2012 is expected to ease to a high single-digit range. Bank Islam's net financing growth for 2012 is projected to be in the range of 12% to 15%, with the objective of building a high quality credit portfolio. In terms of infrastructure, Bank Islam will continue its focus on improving its customer service and increasing presence in new locations. In 2011, Bank Islam opened 10 new branches, two Customer Business Centres (CBCs), a Bureau De Change (BDC) and an Ar-Rahnu outlet while providing additional 175 Self-Service Terminals (SSTs). As at 31 December 2011, the Bank's total delivery channels comprised 122 branches, more than a thousand SSTs, seven CBCs, five strategically located BDCs and three Ar-Rahnu outlets. In 2012, Bank Islam plans to reach out to another 12 new locations, through new branch opening, an addition of 150 SSTs, establishment of 4 BDCs and 5 additional CBCs while 6 branches will be relocated and 12 refurbished.

Directors' Report
for the financial year ended 31 December 2011

RATINGS ACCORDED BY EXTERNAL RATING AGENCY

During the financial year, the Bank's rating was reaffirmed as follows:

RATING AGENCY

RAM Rating Services Berhad

DATE REAFFIRMED

21 November 2011

RATINGS

Long-term rating: A₁
Short-term rating: P1
Outlook: Stable

AUDITORS

The auditors, Messrs KPMG Desa Megat & Co., have indicated their willingness to accept re-appointment.

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



Dato' Zamani Abdul Ghani



Dato' Sri Zukri Samat

Kuala Lumpur,
Date: 24 February 2012

Statement by Directors

pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 13 to 106 are drawn up in accordance with the applicable approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board as modified by Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965 so as to give a true and fair view of state of affairs of the Group and of the Bank as at 31 December 2011 and of the results of their operations and cash flows for the year ended on that date.

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



Dato' Zamani Abdul Ghani



Dato' Sri Zukri Samat

Kuala Lumpur,
Date: 24 February 2012

Report of The Shariah Supervisory Council

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

الحمد لله رب العالمين، والعاقبة للمتقين، ولا عدوان إلا على الظالمين، والصلاة والسلام على سيدنا

محمد سيد المرسلين وإمام المتقين، وعلى آله الطيبين الأطهار وأصحابه الهادين الأبرار، ومن

تبعهم بإحسان إلى يوم الدين

السلم عليكم ورحمة الله وبركاته and “Salam Sejahtera”

To the shareholders, depositors and customers of Bank Islam Malaysia Berhad:

In carrying out the roles and responsibilities of the Bank’s Shariah Supervisory Council (“the Council”) as prescribed in the Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia, we submit the following report for the financial year ended 31 December 2011:

1. The Council and its sub-committee, Shariah Review Committee held five (5) and nine (9) meetings respectively to review various products, transactions, services and processes of the Bank.
2. The Council in the said meetings had approved several initiatives to strengthen the Shariah governance of the Bank which include establishment and implementation of Shariah Compliance Risk Management Guidelines.
3. The Bank carried out Shariah compliance audits performed by the Internal Audit Division and Shariah compliance reviews performed by Shariah Division throughout the organisation and the reports have been deliberated in the Council meetings and they are the basis for the Council to form an opinion as to whether the Bank has complied with the Shariah rules and principles and with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia as well as Shariah decisions made by the Council. The Council hereby confirms that necessary efforts have been taken to rectify the breaches, and the Bank has also implemented several mechanisms to prevent similar breaches from recurring.
4. During the financial year, training sessions, courses and briefing were organised which not only aimed at building strong understanding on Shariah application in the banking business and financial activities, but also to infuse Islamic values among staff.
5. The Council reviewed the financial statements of the Bank and confirm that the financial statements are in compliance with the Shariah rules and principles.

It is the responsibility of the Bank’s Management to ensure that it conducts its business in accordance with Shariah rules and principles and it is our responsibility to form an independent opinion based on our review on the operations of the Bank and to report to you. We had obtained all the information and explanations which we considered necessary in order to provide us with sufficient evidences to give reasonable assurance that the Bank has complied with Shariah rules and principles.

In our opinion:

1. The contracts, transactions and dealings entered into by the Bank during the year ended 31 December 2011 that we have reviewed are in compliance with the Shariah rules and principles;
2. The allocation of profit and charging of losses relating to investment account conformed to the basis that has been approved by the Council;
3. All earnings that have been realised from sources or by means prohibited by the Shariah rules and principles amounted to RM181,791.91 has been considered for contribution to charitable causes; and
4. The calculation, payment and distribution of Zakat are in compliance with Shariah rules and principles.

On that note, we, Ustaz Dr. Ahmad Shahbari @ Sobri Salamon and Professor Dr. Ahmad Hidayat Buang, being two of the members of the Shariah Supervisory Council of Bank Islam Malaysia Berhad, do hereby confirm on behalf of the members of the Council that, in our level best, the operations of the Bank for the financial year ended 31 December 2011 have been conducted in conformity with the Shariah rules and principles. Allah Knows Best.

On behalf of the Council:



Ustaz Dr. Ahmad Shahbari @ Sobri Salamon



Professor Dr. Ahmad Hidayat Buang

Kuala Lumpur,
Date: 24 February 2012

Statutory Declaration

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

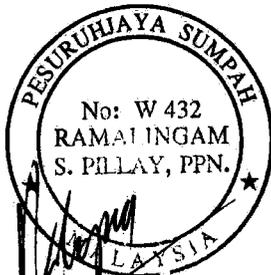
I, **Malkiat Singh @ Malkit Singh Maan a/l Delbara Singh**, the officer primarily responsible for the financial management of Bank Islam Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 13 to 106 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur on 24 February 2012.



Malkiat Singh @ Malkit Singh Maan a/l Delbara Singh

DI HADAPAN SAYA / BEFORE ME,



Lot. 1, Bazaar,
Level 1, Block-G (Selatan),
Pusat Bandar Damansara,
50490 - KUALA LUMPUR

Independent Auditors' Report

to the members of Bank Islam Malaysia Berhad

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Bank Islam Malaysia Berhad, which comprise the Statements of Financial Position as at 31 December 2011 of the Group and of the Bank, and the Income Statements, Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flow of the Group and of the Bank for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 13 to 106.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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 control relevant to the Bank's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Companies Act, 1965 and 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 Group and of the Bank as at 31 December 2011 and of their financial performance and cash flows for the financial year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

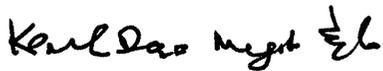
In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- (b) We are satisfied that the accounts of the subsidiary companies that have been consolidated with the Bank's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (c) The audit reports on the accounts of the subsidiary companies did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Independent Auditors' Report
to the members of Bank Islam Malaysia Berhad

OTHER MATTERS

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



KPMG Desa Megat & Co.
Firm Number: AF 0759
Chartered Accountants



Adrian Lee Lye Wang
Approval Number: 2679/11/13(J)
Chartered Accountant

Petaling Jaya
Date: 24 February 2012

Statements of Financial Position

as at 31 December 2011

			GROUP			BANK	
		31.12.2011	RESTATED	RESTATED	31.12.2011	RESTATED	RESTATED
	NOTE	RM'000	31.12.2010	30.6.2009	31.12.2011	31.12.2010	30.6.2009
			RM'000	RM'000	RM'000	RM'000	RM'000
Assets							
Cash and short-term funds	3	3,364,180	2,519,695	8,448,209	3,355,764	2,509,483	8,433,494
Deposits and placements with banks and other financial institutions	4	860,181	352,798	–	860,181	352,798	–
Financial assets held-for-trading	5	1,228,952	2,279,447	287,675	1,228,952	2,279,447	287,628
Derivative financial assets	6	15,877	80,108	26,441	15,877	80,108	26,441
Financial assets available-for-sale	7	11,005,121	12,763,020	8,465,430	11,007,132	12,765,031	8,465,430
Financial assets held-to-maturity	8	327,334	215,944	162,763	327,334	215,944	162,763
Financing, advances and others	9	14,140,970	11,860,631	9,661,864	14,139,470	11,859,140	9,661,864
Other assets	10	43,671	39,091	86,144	43,514	37,792	83,211
Statutory deposits with Bank Negara Malaysia	11	912,000	10,000	139,729	912,000	10,000	139,729
Current tax assets		42,746	39,605	15,733	42,258	38,500	14,258
Deferred tax assets	12	23,386	44,224	61,660	23,560	44,198	61,660
Investments in subsidiary companies	13	–	–	–	28,027	27,127	20,127
Investment in associate company	14	21,180	–	–	22,563	–	–
Property and equipment	15	200,853	181,489	142,146	199,005	180,380	140,886
Total assets		32,186,451	30,386,052	27,497,794	32,205,637	30,399,948	27,497,491
Liabilities and equity							
Deposits from customers	16	28,279,678	26,866,555	25,204,631	28,304,907	26,888,250	25,211,516
Deposits and placements of banks and other financial institutions	17	384,628	378,129	8,078	384,628	378,129	8,078
Derivative financial liabilities	6	23,299	66,708	28,476	23,299	66,708	28,476
Bills and acceptance payable		259,153	163,191	283,212	262,075	165,532	289,469
Other liabilities	18	430,161	364,084	311,769	428,362	362,786	310,340
Zakat and taxation	20	17,339	11,632	30,446	17,059	11,575	30,059
Subordinated financing		–	–	100,000	–	–	100,000
Total liabilities		29,394,258	27,850,299	25,966,612	29,420,330	27,872,980	25,977,938

Statements of Financial Position
as at 31 December 2011

	NOTE	31.12.2011 RM'000	GROUP RESTATE 31.12.2010 RM'000	RESTATE 30.6.2009 RM'000	31.12.2011 RM'000	BANK RESTATE 31.12.2010 RM'000	RESTATE 30.6.2009 RM'000
Equity							
Share capital	21	2,265,490	2,265,490	1,725,490	2,265,490	2,265,490	1,725,490
Reserves		526,703	269,788	(194,308)	519,817	261,478	(205,937)
Equity attributable to equity holders of the Bank							
		2,792,193	2,535,278	1,531,182	2,785,307	2,526,968	1,519,553
Non-controlling interests		–	475	–	–	–	–
Total equity		2,792,193	2,535,753	1,531,182	2,785,307	2,526,968	1,519,553
Total liabilities and equity		32,186,451	30,386,052	27,497,794	32,205,637	30,399,948	27,497,491
Off-balance sheet exposures	41(d)	9,286,104	13,081,292	7,693,378	9,286,104	13,081,292	7,693,378
Capital adequacy							
Before proposed dividend							
Tier 1 Capital Ratio		15.27%	15.75%	12.25%	15.28%	15.73%	12.16%
Risk-Weighted Capital Ratio		16.47%	16.99%	13.87%	16.31%	16.78%	13.61%
After proposed dividend							
Tier 1 Capital Ratio		15.00%	15.21%	12.25%	15.02%	15.18%	12.16%
Risk-Weighted Capital Ratio		16.21%	16.44%	13.87%	16.05%	16.23%	13.61%

The notes on pages 21 to 106 are an integral part of these financial statements.

Income Statements

for the financial year ended 31 December 2011

	NOTE	GROUP		BANK	
		12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000
Income derived from investment of depositors' funds	24	1,393,918	1,838,656	1,396,016	1,838,645
Income derived from investment of shareholders' funds	25	272,395	349,333	260,188	338,454
Allowance for impairment on financing and advances	26	(44,023)	(207,702)	(44,023)	(207,702)
Allowance for impairment on investments	27	(15,406)	(19,727)	(15,406)	(19,727)
Provision for contingent liability		(15,231)	–	(15,231)	–
Profit equalisation reserve	19	–	46,369	–	46,369
Direct expenses		(28,425)	(26,885)	(28,425)	(26,885)
Total distributable income		1,563,228	1,980,044	1,553,119	1,969,154
Income attributable to depositors	28	(477,107)	(625,252)	(477,407)	(625,564)
Total net income		1,086,121	1,354,792	1,075,712	1,343,590
Personnel expenses	29	(338,143)	(430,972)	(333,893)	(423,951)
Other overhead expenses	30	(277,027)	(422,333)	(271,720)	(416,239)
		470,951	501,487	470,099	503,400
Share of results of associate company		(1,383)	–	–	–
Profit before zakat and tax		469,568	501,487	470,099	503,400
Zakat		(8,059)	(13,832)	(7,817)	(13,398)
Tax expense	33	(103,357)	(78,943)	(103,123)	(78,224)
Profit for the year/period		358,152	408,712	359,159	411,778
Attributable to:					
Equity holders of the Bank		358,094	408,763	359,159	411,778
Non-controlling interests		58	(51)	–	–
Profit for the year/period		358,152	408,712	359,159	411,778
Earnings per share (sen)	34	15.81	21.44		

The notes on pages 21 to 106 are an integral part of these financial statements.

Statements of Comprehensive Income

for the financial year ended 31 December 2011

	GROUP		BANK	
	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000
Profit for the year/period	358,152	408,712	359,159	411,778
Other comprehensive income				
Currency translation differences in respect of foreign operations	(9,451)	41,008	(9,459)	41,312
Net gain on revaluation of financial assets available-for-sale	34,034	92,969	34,034	92,969
Other comprehensive income for the year/period, net of tax	24,583	133,977	24,575	134,281
Total comprehensive income for the year/period	382,735	542,689	383,734	546,059
Attributable to:				
Equity holders of the Bank	382,677	542,740	383,734	546,059
Non-controlling interests	58	(51)	–	–
Total comprehensive income for the year/period	382,735	542,689	383,734	546,059

The notes on pages 21 to 106 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the financial year ended 31 December 2011

GROUP	ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK				TOTAL RM'000	NON- CONTROLLING INTERESTS RM'000	TOTAL EQUITY RM'000
	SHARE CAPITAL RM'000	SHARE PREMIUM RM'000	OTHER RESERVES RM'000	ACCUMULATED LOSSES RM'000			
At 1 January 2011	2,265,490	500,020	954,900	(1,185,132)	2,535,278	475	2,535,753
Profit for the year	–	–	–	358,094	358,094	58	358,152
Other comprehensive income	–	–	24,583	–	24,583	–	24,583
Total comprehensive income for the year	–	–	24,583	358,094	382,677	58	382,735
Transfer to statutory reserve	–	–	179,581	(179,581)	–	–	–
Dividends paid on ordinary shares	–	–	–	(125,395)	(125,395)	–	(125,395)
Acquisition of non-controlling interest	–	–	–	(367)	(367)	(533)	(900)
At 31 December 2011	2,265,490	500,020	1,159,064	(1,132,381)	2,792,193	–	2,792,193
	Note 21		Note 22				
At 1 July 2009							
– as previously stated	1,725,490	500,020	615,034	(1,309,362)	1,531,182	–	1,531,182
– effect of adopting FRS 139	–	–	–	(59,529)	(59,529)	–	(59,529)
At 1 July 2009, restated	1,725,490	500,020	615,034	(1,368,891)	1,471,653	–	1,471,653
Profit for the period	–	–	–	408,763	408,763	(51)	408,712
Other comprehensive income	–	–	133,977	–	133,977	–	133,977
Total comprehensive income for the period	–	–	133,977	408,763	542,740	(51)	542,689
Transfer to statutory reserve	–	–	205,889	(205,889)	–	–	–
Convertible Redeemable Non-Cumulative Preference Shares (CRNCPS) issued and converted to ordinary shares	540,000	–	–	–	540,000	–	540,000
Dividends paid on CRNCPS	–	–	–	(19,115)	(19,115)	–	(19,115)
Non-controlling interests' subscription of shares of a subsidiary	–	–	–	–	–	526	526
At 31 December 2010	2,265,490	500,020	954,900	(1,185,132)	2,535,278	475	2,535,753
	Note 21		Note 22				

The notes on pages 21 to 106 are an integral part of these financial statements.

Statement of Changes in Equity

for the financial year ended 31 December 2011

BANK	NON-DISTRIBUTABLE		OTHER RESERVES RM'000	DISTRIBUTABLE	TOTAL EQUITY RM'000
	SHARE CAPITAL RM'000	SHARE PREMIUM RM'000		ACCUMULATED LOSSES RM'000	
At 1 January 2011	2,265,490	500,020	955,310	(1,193,852)	2,526,968
Profit for the year	–	–	–	359,159	359,159
Other comprehensive income	–	–	24,575	–	24,575
Total comprehensive income for the year	–	–	24,575	359,159	383,734
Transfer to statutory reserve	–	–	179,581	(179,581)	–
Dividends paid on ordinary shares	–	–	–	(125,395)	(125,395)
At 31 December 2011	2,265,490	500,020	1,159,466	(1,139,669)	2,785,307
	Note 21		Note 22		
At 1 July 2009					
– as previously stated	1,725,490	500,020	615,140	(1,321,097)	1,519,553
– effect of adopting FRS 139	–	–	–	(59,529)	(59,529)
At 1 July 2009, restated	1,725,490	500,020	615,140	(1,380,626)	1,460,024
Profit for the period	–	–	–	411,778	411,778
Other comprehensive income	–	–	134,281	–	134,281
Total comprehensive income for the period	–	–	134,281	411,778	546,059
Transfer to statutory reserve	–	–	205,889	(205,889)	–
Convertible Redeemable Non-Cumulative Preference Shares (CRNCPS) issued and converted to ordinary shares	540,000	–	–	–	540,000
Dividends paid on CRNCPS	–	–	–	(19,115)	(19,115)
At 31 December 2010	2,265,490	500,020	955,310	(1,193,852)	2,526,968
	Note 21		Note 22		

The notes on pages 21 to 106 are an integral part of these financial statements.

Statements of Cash Flow

for the financial year ended 31 December 2011

	GROUP		BANK	
	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000
Cash flows from operating activities				
Profit before zakat and tax	469,568	501,487	470,099	503,400
Adjustments for:				
Share of results of associate company	1,383	–	–	–
Depreciation of property and equipment	43,918	58,153	42,962	57,462
Net (gain)/loss on disposal of property and equipment	(2,429)	1,536	(2,428)	1,541
Property and equipment written off	43	–	–	–
Allowance for impairment on financing and advances	44,023	207,702	44,023	207,702
Provision for contingent liability	15,231	–	15,231	–
Impairment loss on financial assets available-for-sale	18,158	19,727	18,158	19,727
Reversal of impairment loss on financial assets held-to-maturity	(2,752)	–	(2,752)	–
Net (gain)/loss on sale of financial assets held-for-trading	(6,818)	389	(6,818)	407
Net gain on sale of financial assets available-for-sale	(36,968)	(14,921)	(36,968)	(14,921)
Fair value gain on financial assets held-for-trading	(20,873)	(35,236)	(20,873)	(35,236)
Dividends from securities	(10,483)	(9,083)	(10,483)	(9,083)
Net derivative losses	8,618	7,239	8,618	7,239
Operating profit before changes in assets and liabilities	520,619	736,993	518,769	738,238
Changes in assets and liabilities:				
Deposits and placements with banks and other financial institutions	6,499	370,051	6,499	370,051
Financing, advances and others	(2,339,593)	(2,480,514)	(2,339,584)	(2,479,023)
Statutory deposits with Bank Negara Malaysia	(902,000)	129,729	(902,000)	129,729
Bills receivables	280	189	280	189
Other receivables	56,978	21,216	55,836	19,081
Deposits from customers	1,413,123	1,661,924	1,416,657	1,676,734
Bills and acceptance payable	95,962	(120,021)	96,543	(123,937)
Other liabilities	14,050	54,191	13,549	54,322
Cash (used in)/generated from operations	(1,134,082)	373,758	(1,133,451)	385,384
Zakat paid	(11,588)	(12,649)	(11,575)	(11,859)
Tax paid	(77,489)	(90,411)	(77,000)	(89,662)
Tax refund	1,066	400	–	–
Net cash (used in)/generated from operating activities	(1,222,093)	271,098	(1,222,026)	283,863

Statements of Cash Flow
for the financial year ended 31 December 2011

	GROUP		BANK	
	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000
Cash flows from investing activities				
Additional investment in subsidiary	(900)	–	(900)	(7,000)
Investment in associate company	(22,563)	–	(22,563)	–
Purchase of property and equipment	(64,036)	(101,829)	(62,296)	(101,296)
Proceeds from disposal of property and equipment	3,143	2,805	3,138	2,795
Dividend from securities	10,483	8,234	10,483	8,234
Net proceeds from disposal/(purchase) of securities	2,782,683	(6,217,935)	2,782,683	(6,220,011)
Net cash generated from/(used in) investing activities	2,708,810	(6,308,725)	2,710,545	(6,317,278)
Cash flows from financing activities				
Proceeds from Convertible Redeemable Non-Cumulative Preference Shares (CRNCPS)	–	540,000	–	540,000
Redemption of subordinated financing	–	(100,000)	–	(100,000)
Dividend paid on ordinary shares	(125,395)	–	(125,395)	–
Dividend paid on CRNCPS	–	(19,115)	–	(19,115)
Net cash (used in)/generated from financing activities	(125,395)	420,885	(125,395)	420,885
Net increase/(decrease) in cash and cash equivalents	1,361,322	(5,616,742)	1,363,124	(5,612,530)
Cash and cash equivalents at 1 January 2011/1 July 2009	2,872,493	8,448,209	2,862,281	8,433,494
Exchange difference on translation	(9,454)	41,026	(9,460)	41,317
Cash and cash equivalents at 31 December 2011/31 December 2010	4,224,361	2,872,493	4,215,945	2,862,281
Cash and cash equivalents comprise:				
Cash and short-term funds	3,364,180	2,519,695	3,355,764	2,509,483
Deposits and placements with banks and other financial institutions	860,181	352,798	860,181	352,798
	4,224,361	2,872,493	4,215,945	2,862,281

The notes on pages 21 to 106 are an integral part of these financial statements.

Notes to the Financial Statements

for the financial year ended 31 December 2011

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

Bank Islam Malaysia Berhad is principally engaged in Islamic banking business and the provision of related financial services. The principal activities of its subsidiaries are as disclosed in Note 13 to the financial statements.

The Bank is a limited liability company, incorporated and domiciled in Malaysia. The address of its registered office and principal place of business is as follows:

11th Floor, Wisma Bank Islam
Jalan Dungun, Bukit Damansara
50490 Kuala Lumpur.

The immediate holding company of the Bank is BIMB Holdings Berhad, a public limited liability company incorporated in Malaysia and is listed on the Main Board of Bursa Malaysia Securities Berhad.

The ultimate holding board is Lembaga Tabung Haji (LTH), a hajj pilgrims' funds board established under the Tabung Haji Act 1995 (Act 535).

The consolidated financial statements comprise the Bank and its subsidiaries (together referred to as the Group).

The consolidated financial statements were approved by the Board of Directors on 2 February 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently in the preparation of these consolidated financial statements to all periods presented in these financial statements.

2.1 Basis of preparation

(a) Statement of compliance

The financial statements of the Group and of the Bank have been prepared in accordance with the applicable Financial Reporting Standards (FRS) issued by the Malaysian Accounting Standard Board (MASB) as modified by Bank Negara Malaysia (BNM) Guidelines, the provisions of the Companies Act, 1965 and Shariah requirements.

During the current reporting period, the Group and the Bank adopted the following significant standards and amendments to standards:

(i) Amendments to FRS 7, *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

This amendment enhances disclosures on fair value and liquidity risk. Financial instruments measured at fair value are disclosed on a three-level fair value hierarchy. Classification by the level is based on the observability and significance of the inputs used in measuring fair value. Additional disclosure include a reconciliation of the change in the fair value of level three instruments. These are disclosed in Note 38 of the financial statements. Additional disclosure requirements for liquidity risk are disclosed in Note 37(c) of the financial statements.

(ii) FRS 3, *Business Combinations (revised) and its subsequent amendments*

The standard now requires all acquisition related transaction costs to be expensed as incurred. In addition, contingent considerations are now measured at fair value, with subsequent changes recognised in income statement.

(iii) FRS 127, *Consolidated and Separate Financial Statements (revised)*

The standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no loss of control. Such transactions will have no impact on goodwill, nor will it give rise to a gain or loss. Where there is loss of control, any remaining interest in the entity is re-measured at fair value, and a gain or loss is recognised in income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Statement of compliance (continued)

(iv) Amendment to FRS 117, *Leases*

The adoption of Amendment to FRS 117 has resulted in a change in the accounting policy relating to the classification of leases of land.

Prior to the adoption of Amendment to FRS 117, the Group had previously classified a leasehold land that normally has an indefinite economic life and title is not expected to pass to the lessee by the end of the lease term as an operating lease. The payment made on entering into or acquiring a leasehold land was accounted for as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

On adoption of Amendment to FRS 117, leases of leasehold land which in substance is a finance lease has been reclassified to property, plant and equipment. The effects of adopting Amendment to FRS 117 have been accounted for retrospectively in accordance with transitional provisions of the standard, and comparatives have been restated as disclosed in Note 45.

The change in accounting policy does not have any material impact in the current period profit or loss.

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

- (i) FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2011
 - IC Interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*
 - Amendments to IC Interpretation 14, *Prepayment of a Minimum Funding Requirement*
- (ii) FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2012
 - FRS 124, *Related Party Disclosures (revised)*
 - Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
 - Amendments to FRS 7, *Financial Instruments: Disclosures – Transfers of Financial Assets*
 - Amendments to FRS 112, *Income Taxes – Deferred Tax: Recovery of Underlying Assets*
- (iii) FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2012
 - Amendments to FRS 101, *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Statement of compliance (continued)

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

- FRS 9, *Financial Instruments (2009)*
- FRS 9, *Financial Instruments (2010)*
- FRS 10, *Consolidated Financial Statements*
- FRS 11, *Joint Arrangements*
- FRS 12, *Disclosure of Interests in Other Entities*
- FRS 13, *Fair Value Measurement*
- FRS 119, *Employee Benefits (2011)*
- FRS 127, *Separate Financial Statements (2011)*
- FRS 128, *Investment in Associates and Joint Ventures (2011)*
- IC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*

The Group and the Bank's financial statements for annual period beginning on 1 January 2012 will be prepared in accordance with the Malaysian Financial Reporting Standards (MFRS) issued by the MASB that will also comply with International Financial Reporting Standards (IFRS). As a result, the Group and the Bank will not be adopting the above FRSs, interpretations and amendments that are effective for annual periods beginning on or after 1 January 2012.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for derivative financial instruments, financial assets held-for-trading and financial assets available-for-sale, which have been measured at fair value.

(c) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia (RM), which is the Bank's functional currency and all values are rounded to the nearest thousand (RM'000), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(d) Use of estimates and judgement

In the preparation of the financial statements, management have been required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial statements in the period in which the estimates is revised and in any future period affected.

Significant areas of estimation, uncertainty and critical judgements used in applying accounting policies that have significant effect in determining the amount recognised in the financial statements are described in the following notes:

- Note 2.5 and Note 38 – Financial instruments: Determination of fair value
- Note 2.9 – Impairment
- Note 12 – Deferred tax assets

2.2 Basis of consolidation

Subsidiary Companies

Subsidiary companies are entities that the Group has power to govern the financial and operating policies of, in order to obtain benefits from their activities. Potential voting rights are considered when assessing control. The financial results of subsidiary companies are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Prior to the amendments to FRS 3, the purchase method of accounting is used to account for the acquisition of subsidiary companies. The cost of acquisition is measured as the fair value of the assets given, liabilities incurred or assumed, and the equity instruments issued at the date of exchange plus costs directly attributable to the business combination. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. Any difference between the cost of the business combination and the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

With the adoption of the amendments to FRS 3 (Note 2.1(a) (ii)) and revised FRS 127 (Note 2.1(a) (iii)) which applies prospectively, the consideration transferred for an acquisition is measured as the acquisition date fair value of the assets transferred, the liabilities incurred and the equity interest issued. Acquisition-related costs are expensed as incurred. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the date of acquisition.

In preparing the consolidated financial statements, intra-group transactions, balances, income and expenses from intra-group transactions are eliminated. Unrealised losses resulting from intra-group transactions are also eliminated in the same way but only to the extent that there is no evidence of impairment of the assets transferred. Consistent accounting policies are applied by the subsidiary companies for transactions and events in similar circumstances.

Non-controlling interest represents the portion of the total profit or loss for the period and net assets of a subsidiary company attributable to equity interest that are not owned directly or indirectly by the Group. Non-controlling interest is presented in the consolidated statement of financial position within equity and is presented in the consolidated statement of changes in equity separately from equity attributable to equity holders of the Bank. Non-controlling interest in the results of the Group is presented in the consolidated income statement as an allocation of the total profit or loss for the period between non-controlling interest holders and equity holders of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

Subsidiary Companies (continued)

Effective 1 January 2011, the Group has applied FRS 127, Consolidated and Separate Financial Statements (revised) where losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. This change in accounting policy is applied prospectively in accordance with the transitional provisions of the standard and does not have any impact on earnings per share.

In the previous years, where losses applicable to the non-controlling interests exceed their interest in the equity of a subsidiary, the excess, and any further losses applicable to the non-controlling interests, were charged against the Group's interest except to the extent that the non-controlling interest had a binding obligation to, and was able to, make additional investment to cover the losses. If the subsidiary subsequently reported profits, the Group's interest was allocated with all such profits until the non-controlling interest's share of losses previously absorbed by the Group had been recovered.

Investments in subsidiary companies are stated in the Bank's statement of financial position at cost less impairment loss, if any. Where there is indication of impairment, the carrying amount of the investment is assessed. A write down is made if the carrying amount exceeds its recoverable amount.

Associate Company

Associate company is an entity in which the Group has significant influence but not control, generally where the Group has long term equity interest and voting rights of between 20 to 50 percent. Significant influence is the power to participate in the financial and operating policy decisions of the associate company but not the power to exercise control over the policies.

Investment in associate company is accounted for in the Group's consolidated financial statements using the equity method. The Group's investment in associated company is recognised in the consolidated statement of financial position at cost plus the Group's share of post-acquisition net results of the associate company less impairment loss, if any. The Group's share of results of the associated company is recognised in the consolidated income statement from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses in an associate company equals or exceeds its interest in the associate company, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate company. Consistent accounting policies are applied for transactions and events in similar circumstances.

In the Bank's separate financial statements, investment in associated companies is stated at cost less impairment losses, if any.

2.3 Foreign currency

(a) Functional and presentation currency

Items in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates, i.e. the functional currency. The financial statements of the Group and the Bank are presented in Ringgit Malaysia (RM), which is the Bank's functional currency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Foreign currency (continued)

(b) Foreign currency transaction and balances

In preparing the financial statements of the individual entities, transactions in foreign currencies are translated into respective entity's functional currency at the exchange rate prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the closing exchange rate ruling at the financial position date. Exchange differences arising on the settlement of monetary items or on translating monetary items at financial position date are recognised in the income statements. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate prevailing at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated at exchange rate at the date when the fair value is determined.

Any exchange component of a gain or loss on a non-monetary item is recognised directly in equity if the gain or loss on the fair value of the non-monetary item is recognised directly in equity. Any exchange component of a gain or loss on a non-monetary item is recognised directly in income statement if the gain or loss on the fair value of the non-monetary item is recognised directly in income statement.

(c) Foreign operations

The assets and liabilities of operations in functional currencies other than RM, including fair value adjustments arising on acquisition, are translated to RM at exchange rates prevailing at the financial position date. The income and expense of the foreign operations are translated to RM at average exchange rates for the period.

All resulting exchange differences are recognised in other comprehensive income in the translation reserve.

The closing rate used in the translation of foreign currency monetary assets and liabilities and the financial statements of foreign operations are as follows:

	31.12.2011	31.12.2010
1 USD	RM3.16845	RM3.08250
1 LKR	RM0.02782	RM0.02778

2.4 Cash and cash equivalents

Cash and cash equivalent include cash and short-term funds, and deposits and placements with banks and other financial institutions.

2.5 Financial instruments

Financial instruments are classified and measured using accounting policies as mentioned below.

Recognition and derecognition

Purchases and sales of financial instruments are recognised on the date that the Group commits to purchase or sell the instruments. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. A financial liability is derecognised from the balance sheet when the obligation specified in the contract is expired.

Initial measurement

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

Financial assets

The Group and Bank categorises its financial assets as follows:

(a) Financing and receivables

Financing and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market.

These financial assets are subsequently measured at amortised cost using effective profit rate method, less any impairment loss.

(b) Financial assets at fair value through profit or loss

Financial assets at fair value through profit and loss are either:

(i) Held-for-trading

Financial assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term or it is part of a portfolio that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

(ii) Designated under fair value option

Financial assets meet at least one of the following criteria upon designation:

- it eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring financial assets, or recognising gains or losses on them, using different bases; or
- the financial asset contains an embedded derivative that would otherwise need to be separately recorded

These financial assets are subsequently measured at their fair values and any gain or loss arising from a change in the fair value will be recognised in the income statement.

(c) Financial assets held-to-maturity

Financial assets held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. These financial assets are subsequently measured at amortised cost using effective profit rate method, less any impairment loss.

Any sale or reclassification of more than an insignificant amount of financial assets held-to-maturity not close to their maturity would result in the reclassification of all financial assets held-to-maturity to financial assets available-for-sale and the Bank would be prevented from classifying any financial assets as financial assets held-to-maturity for the current and following two financial years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

(d) Financial assets available-for-sale

Financial assets available-for-sale are financial assets that are either designated in this category or not classified in any other category and are measured at fair value.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less any impairment loss. Any gain or loss arising from a change in the fair value is recognised in the fair value reserve through other comprehensive income until the securities are sold, disposed off or impaired, at which time the cumulative gains or losses previously recognised in equity will be transferred to the income statement. Profit or loss from sale of the available-for-sale securities is recognised in the income statement.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment. See note 2.9 Impairment.

Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and profit rate exposures. Foreign exchange trading positions, including spot and forward contracts, are revalued at prevailing market rates at balance sheet date and the resultant gains and losses for the financial year are recognised in the income statement.

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

Financial liabilities

Financial liabilities are initially recognised at fair value, net of transaction costs incurred, and are subsequently measured at amortised cost using the effective profit rate method, except for derivatives that are liabilities, which shall be measured at fair value.

A financial liability is removed or derecognised from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

Financial guarantee contracts

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

Financial guarantee is initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, each guarantee is measured at the higher of the initial amount less amortisation calculated to recognise the initial measurement in the income statement over the period of the financial guarantee and the best estimate of the amount required to settle the guarantee.

When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

Determination of fair value

The fair values of financial instruments traded in active markets (such as over-the-counter securities and derivatives) are based on quoted market prices at the balance sheet date derived from market prices. For unquoted financial instruments, fair value is determined using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.

Reclassification of financial assets

A non-derivative financial asset held for trading may be reclassified if the financial asset is no longer held for the purpose of selling in the near term. In addition, a financial asset that meets the definition of financing and receivables may be reclassified out of held-for-trading or available-for-sale categories if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. The fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective profit rates for financial assets reclassified to financing and receivables and held-to maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective profit rate prospectively.

2.6 Property and equipment

(a) Recognition and measurement

All items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets include the cost of materials and direct labour and any other cost directly attributable to bringing the asset to working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Property and equipment retired from active use and held for disposal are stated at the carrying amount at the date when the asset is retired from active use, less impairment losses, if any.

Gains or losses on disposal of an item of asset is the difference between the net proceeds from disposal and the net carrying amount of the asset and is recognised in "other income" in the income statement.

(b) Subsequent costs

The cost of replacing part of an item of an asset is included in the carrying amount of the asset only when it is probable that the future economic benefits embodied within the part will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. The cost of the day-to-day servicing of property and equipment are recognised in the income statement as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Property and equipment (continued)

(c) Depreciation

Depreciation is provided for in the income statement on a straight-line basis over the estimated useful lives of the assets. Management Information System development costs and work-in-progress are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current period are as follows:

- Building improvement and renovations 10 years
- Fixtures and fittings 2 - 10 years
- Furniture and equipment 6 years
- Motor vehicles 5 years
- Computer equipment
 - Core Banking System 7 years
 - Other hardware/software 5 years

Depreciation methods, useful lives and residual values are reassessed at the balance sheet date.

2.7 Leased assets – Finance lease

Leasehold land with a lease term of several decades is classified as a finance lease, even though at the end of the lease term the title is not passed to the lessee, because substantially all risks and rewards are transferred to the lessee and the present value of the residual value of the leased asset is considered negligible.

Leasehold land is classified as property and equipment.

2.8 Bills and other receivables

Bills and other receivables are stated at cost less allowance for impairment, if any.

2.9 Impairment

Financial assets

The Group assesses at each balance sheet date whether there is objective evidence that financing and receivables, financial assets held-to-maturity or financial assets available-for-sale are impaired. A financial asset or a group of financial assets are 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 assets and prior to the balance sheet date (“a loss event”) and that loss event or events has an impact on the estimated future cash flow of the financial asset or the group of financial assets as that can be reliably estimated. The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as default or delinquency in profit or principal payments;
- (iii) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (iv) consecutive downgrade of two notches for external ratings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Impairment (continued)

Financial assets (continued)

Financing is classified as impaired when the principal or profit or both are past due for three months or more, or where a financing is in arrears for less than three months, the financing exhibits indications of credit weakness.

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

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective profit rate. The amount of the loss is recognised using an allowance account and recognised in the income statement.

For the purposes of a collective evaluation of impairment, financing and receivables are grouped on the basis of similar risk characteristics, taking into account the asset type, industry, geographical 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 by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows for a group of financing and receivables that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on 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 remove the effects of conditions in the historical period that do not currently exist.

When a financing is uncollectable, it is written off against the related allowance for impairment. Such financing are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequently recoveries of amounts previously written off are credited to the income statement.

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, the previously recognised impairment loss is reversed by adjusting the allowance for impairment account. The amount of reversal is recognised in the income statement.

In the case of available-for-sale equity securities, a significant or prolonged decline in their fair value of the security below its cost is also considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is removed from equity and recognised in the income statement. In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as all other financial assets. Reversals of impairment of debt instruments are recognised in the income statement. Reversals of impairment of equity shares are not recognised in income statement, increases in the fair value of equity shares after impairment are recognised directly in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Impairment (continued)

Other assets

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

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

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

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

2.10 Bills and acceptances payable

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

2.11 Profit equalisation reserve ("PER")

PER refers to the amount appropriated out of or written back to the total gross income to reduce the fluctuations in the profit rates payable to the depositors. It is in conformity with 'The Framework of the Rate of Return' or BNM/GP2-i issued by Bank Negara Malaysia. PER is reflected under other liabilities of the Bank.

2.12 Share Capital

Ordinary shares are classified as equity in the balance sheet. Cost directly attributable to the issuance of new equity shares are taken to equity as a deduction from the proceeds.

2.13 Recognition of income

Financing income

Financing income is recognised in the income statement using the effective profit rate method. The effective profit rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial instruments. When calculating the effective profit rate, the Group has considered all contractual terms of the financial instruments but does not consider future credit losses. The calculation includes all fees and transaction costs integral to the effective profit rate, as well as premium or discounts.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Recognition of income (continued)

Fee and other income recognition

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.

Dividend income from subsidiary companies and other investments are recognised when the Bank's rights to receive payment is established.

2.14 Income tax

Tax expense comprises current and deferred tax. Tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit (tax loss). Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences.

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

Additional taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

2.15 Zakat

This represents business zakat. It is an obligatory amount payable by the Group and the Bank to comply with the principles of Shariah.

2.16 Employee benefits

Short term employee benefits

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

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

The Group's contribution to the Employees Provident Fund is charged to the income statements in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

3. CASH AND SHORT-TERM FUNDS

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Cash and balances with banks and other financial institutions	871,036	833,127	862,904	823,153
Money at call and interbank placements with remaining maturity not exceeding one month	2,493,144	1,686,568	2,492,860	1,686,330
	3,364,180	2,519,695	3,355,764	2,509,483

4. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	GROUP AND BANK	
	31.12.2011 RM'000	31.12.2010 RM'000
Bank Negara Malaysia	–	250,000
Licensed Islamic banks	860,181	100,000
Other financial institutions	–	2,798
	860,181	352,798

5. FINANCIAL ASSETS HELD-FOR-TRADING

	GROUP AND BANK	
	31.12.2011 RM'000	31.12.2010 RM'000
At fair value		
Malaysian Government Investment Issues	71,804	50,573
Bank Negara Negotiable Notes	1,116,264	2,202,117
Islamic Debt Securities	31,032	26,757
Islamic Commercial Papers	9,852	–
	1,228,952	2,279,447

6. DERIVATIVE FINANCIAL ASSETS/LIABILITIES

The following tables summarise the contractual or underlying principal amounts of derivative financial instruments held at fair value through income statements and hedging purposes. The principal or contractual amount of these instruments reflects the volume of transactions outstanding at financial position date, and do not represent amounts at risk.

Trading derivative financial instruments are revalued on a gross position and the unrealised gains or losses are reflected as derivative financial assets and liabilities respectively.

GROUP AND BANK 31.12.2011	PRINCIPAL	FAIR VALUE	
	AMOUNT RM'000	ASSETS RM'000	LIABILITIES RM'000
Forward contracts	1,684,899	5,589	(4,854)
Cross currency profit rate swaps	171,740	7,549	(7,509)
Profit rate swaps	500,000	–	(8,197)
Structured deposits	137,005	2,739	(2,739)
	2,493,644	15,877	(23,299)

GROUP AND BANK 31.12.2010	PRINCIPAL	FAIR VALUE	
	AMOUNT RM'000	ASSETS RM'000	LIABILITIES RM'000
Forward contracts	5,208,060	42,284	(26,788)
Cross currency profit rate swaps	171,740	10,055	(9,964)
Profit rate swaps	500,000	–	(2,187)
Structured deposits	462,995	27,769	(27,769)
	6,342,795	80,108	(66,708)

7. FINANCIAL ASSETS AVAILABLE-FOR-SALE

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
At fair value				
Unit trust	3,229	3,229	3,229	3,229
At fair value				
Malaysian Government Investment Issues	2,583,230	4,444,171	2,583,230	4,444,171
Negotiable Islamic Debt Certificates	1,170,238	2,277,443	1,170,238	2,277,443
Islamic Debt Securities	6,779,449	4,614,882	6,781,460	4,616,893
Promissory notes	5,108	5,108	5,108	5,108
Bank Negara Negotiable Notes	–	149,364	–	149,364
Islamic Commercial Papers	208,566	872,867	208,566	872,867
Accepted Bills	243,500	384,155	243,500	384,155
	10,990,091	12,747,990	10,992,102	12,750,001
At fair value				
Islamic Development Bank Unit Trust	1,923	1,923	1,923	1,923
At cost				
Unquoted shares in Malaysia	22,448	22,061	22,448	22,061
Less: Accumulated impairment loss	(14,258)	(13,871)	(14,258)	(13,871)
	8,190	8,190	8,190	8,190
At cost				
Unquoted shares outside Malaysia	1,688	1,688	1,688	1,688
	11,005,121	12,763,020	11,007,132	12,765,031

8. FINANCIAL ASSETS HELD-TO-MATURITY

	GROUP AND BANK	
	31.12.2011	31.12.2010
	RM'000	RM'000
At amortised cost		
Quoted securities outside Malaysia:		
Bonds	63,369	61,650
Unquoted securities in Malaysia:		
Islamic Debt Securities	284,280	177,361
Less: Accumulated impairment loss	(20,315)	(23,067)
	263,965	154,294
	327,334	215,944

During the year, there was reclassification of financial assets available-for-sale to financial assets held-to-maturity as follows:

	GROUP AND BANK
	RM'000
Islamic Debt Securities*	111,088

* The reclassification of the financial assets was done at fair value.

9. FINANCING, ADVANCES AND OTHERS

(a) By type

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
At amortised cost				
Cash line	406,590	254,278	452,442	266,684
Term financing				
House financing	4,393,020	3,911,363	4,393,020	3,911,363
Syndicated financing	164,649	82,237	164,649	82,237
Leasing financing	280,403	303,884	280,403	303,884
Bridging financing	160,779	238,595	160,779	238,595
Personal financing	3,786,432	3,001,049	3,786,432	3,001,049
Other term financing	3,358,527	2,760,392	3,358,527	2,760,392
Staff financing	157,510	148,425	157,510	148,425
Credit cards	451,538	450,542	451,538	450,542
Trade bills discounted	1,309,598	1,060,217	1,309,598	1,060,217
Trust receipts	48,897	59,854	48,897	59,854
Pawn broking	47,352	13,897	–	–
Gross financing, advances and others	14,565,295	12,284,733	14,563,795	12,283,242
Allowance for impaired financing, advances and others				
– collective assessment allowance	(348,555)	(345,041)	(348,555)	(345,041)
– individual assessment allowance	(75,770)	(79,061)	(75,770)	(79,061)
Net financing, advances and others	14,140,970	11,860,631	14,139,470	11,859,140

(b) By contract

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Bai' Bithaman Ajil	7,291,742	6,209,417	7,291,742	6,209,417
Ijarah	295,881	334,106	295,881	334,106
Ijarah Muntahiah Bit-Tamleek	22,648	11,657	22,648	11,657
Mudharabah	6,000	6,000	6,000	6,000
Murabahah	1,316,853	1,120,380	1,316,853	1,120,380
At-Tawarruq	3,903,981	2,573,328	3,903,981	2,573,328
Bai Al-Inah	1,435,588	1,662,823	1,481,440	1,675,229
Istisna'	245,250	353,125	245,250	353,125
Ar-Rahn	47,352	13,897	–	–
	14,565,295	12,284,733	14,563,795	12,283,242

9. FINANCING, ADVANCES AND OTHERS (continued)

(c) By type of customer

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Domestic non-bank financial institutions	25,755	1,218	24,255	13,624
Domestic business enterprise	2,683,710	2,082,941	2,683,710	2,082,941
Small medium industries	391,947	401,119	391,947	401,119
Government & statutory	129,766	151,526	129,766	151,526
Individuals	10,989,077	9,324,459	10,989,077	9,310,562
Other domestic entities	73,239	57,741	73,239	57,741
Foreign entities	271,801	265,729	271,801	265,729
	14,565,295	12,284,733	14,563,795	12,283,242

(d) By profit rate sensitivity

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Fixed rate				
House financing	2,087,060	2,198,946	2,087,060	2,198,946
Others	8,680,517	8,005,296	8,679,017	8,003,805
Floating rate				
Others	3,797,718	2,080,491	3,797,718	2,080,491
	14,565,295	12,284,733	14,563,795	12,283,242

(e) By remaining contractual maturity

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Maturity within one year	2,672,329	2,071,456	2,624,977	2,057,559
More than one year to three years	863,680	705,542	863,680	705,542
More than three years to five years	818,561	1,385,004	864,413	1,397,410
More than five years	10,210,725	8,122,731	10,210,725	8,122,731
	14,565,295	12,284,733	14,563,795	12,283,242

9. FINANCING, ADVANCES AND OTHERS (continued)

(f) By sector

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Primary agriculture	149,182	182,111	149,182	182,111
Mining and quarrying	48,249	897	48,249	897
Manufacturing (including agro-based)	904,779	791,995	904,779	791,995
Electricity, gas and water	7,221	150,860	7,221	150,860
Wholesale & retail trade, and hotels & restaurants	558,811	479,868	558,811	479,868
Construction	756,014	508,293	756,014	508,293
Real estate	385,261	187,445	385,261	187,445
Transport, storage and communications	233,766	408,349	233,766	408,349
Finance, insurance and business activities	180,770	154,408	226,622	166,814
Education, health and others	122,204	85,375	122,204	85,375
Household sectors	11,016,473	9,321,823	10,969,121	9,307,926
Other sectors	202,565	13,309	202,565	13,309
	14,565,295	12,284,733	14,563,795	12,283,242

(g) Movement in impaired financing and advances ("impaired financing") are as follows:

	GROUP AND BANK	
	31.12.2011 RM'000	31.12.2010 RM'000
At 1 January 2011/1 July 2009	552,221	2,035,518
Classified as impaired during the year/period	549,075	315,241
Reclassified as not impaired during the year/period	(297,191)	(362,279)
Amount recovered	(238,876)	(311,447)
Amount written off	(187,141)	(1,079,122)
Exchange differences	1,702	(45,690)
At 31 December 2011/2010	379,790	552,221
Gross impaired financing as a percentage of gross financing, advances and others	2.61%	4.50%

9. FINANCING, ADVANCES AND OTHERS (continued)

(h) Impaired financing by sector

	GROUP AND BANK	
	31.12.2011 RM'000	31.12.2010 RM'000
Primary agriculture	3,511	10,947
Mining and quarrying	–	851
Manufacturing (including agro-based)	42,184	83,810
Wholesale & retail trade, and hotels & restaurants	23,606	42,729
Construction	71,680	130,925
Real estate	1,203	1,263
Transport, storage and communications	1,062	1,538
Finance, insurance and business activities	16,255	–
Education, health and others	71	6,112
Household sectors	217,371	270,847
Other sectors	2,847	3,199
	379,790	552,221

(i) Movement of allowance for impaired financing

	GROUP AND BANK	
	31.12.2011 RM'000	31.12.2010 RM'000
Collective assessment allowance		
At 1 January 2011/1 July 2009	345,041	504,927
Allowance made during the year/period	204,593	538,979
Amount recovered	(97,426)	(111,808)
Amount written off	(100,816)	(555,129)
Exchange differences	(2,837)	(31,928)
At 31 December 2011/2010	348,555	345,041
Individual assessment allowance		
At 1 January 2011/1 July 2009	79,061	859,374
Allowance made during the year/period	119,056	124,827
Amount recovered	(31,955)	(163,025)
Amount written off	(90,392)	(740,797)
Exchange differences	–	(1,318)
At 31 December 2011/2010	75,770	79,061

10. OTHER ASSETS

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Other receivables*	8,842	14,204	8,917	13,242
Deposit and prepayments	34,781	23,851	34,225	23,382
Related companies**	48	1,036	372	1,168
	43,671	39,091	43,514	37,792

* Other receivables are stated net of impairment allowances of RM96,330,000 (2010: RM96,330,000) and RM96,330,000 (2010: RM96,330,000) for the Group and Bank respectively.

** This relates to amounts due from holding and related companies that are non-trade in nature, not subject to financing charges and has no fixed term repayments.

11. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (revised 1994), the amount of which are determined as set percentages of total eligible liabilities.

12. DEFERRED TAX ASSETS

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	ASSETS		LIABILITIES		NET	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Group						
Allowance for impairment						
on financing and advances	–	41,160	–	–	–	41,160
Property and equipment	–	–	(29,430)	(27,437)	(29,430)	(27,437)
Provisions	18,584	8,919	–	–	18,584	8,919
Unabsorbed capital allowances	34,232	21,582	–	–	34,232	21,582
Tax assets/(liabilities)	52,816	71,661	(29,430)	(27,437)	23,386	44,224
Bank						
Allowance for impairment						
on financing and advances	–	41,160	–	–	–	41,160
Property and equipment	–	–	(29,256)	(27,437)	(29,256)	(27,437)
Provisions	18,584	8,893	–	–	18,584	8,893
Unabsorbed capital allowances	34,232	21,582	–	–	34,232	21,582
Tax assets/(liabilities)	52,816	71,635	(29,256)	(27,437)	23,560	44,198

12. DEFERRED TAX ASSETS (continued)

Unrecognised deferred tax assets

Deferred tax assets has not been recognised in respect of the following item:

	GROUP AND BANK	
	31.12.2011 RM'000	31.12.2010 RM'000
Unabsorbed capital allowances	30,424	43,784
	30,424	43,784

The unabsorbed capital allowances of RM30.4 million is in respect of its leasing business whereby management considered it uncertain whether the Bank is able to utilise the benefits in the future. As such, deferred tax assets have not been recognised.

13. INVESTMENTS IN SUBSIDIARY COMPANIES

	BANK	
	31.12.2011 RM'000	31.12.2010 RM'000
At cost		
Unquoted shares in Malaysia	28,847	27,947
Less: Accumulated impairment loss	(820)	(820)
	28,027	27,127

Details of the subsidiaries are as follows:

NAME OF COMPANY	PRINCIPAL ACTIVITIES	EFFECTIVE OWNERSHIP INTEREST	
		31.12.2011 %	31.12.2010 %
Al-Wakalah Nominees (Tempatan) Sdn. Bhd.	Provide nominee services	100	100
BIMB Investment Management Berhad	Managing Islamic Unit Trust Funds	100	100
Bank Islam Trust Company (Labuan) Ltd. and its subsidiary:	Provide services as a Labuan registered trust company	100	100
BIMB Offshore Company Management Services Sdn. Bhd.	Resident Corporate Secretary and Director for Offshore Companies	100	100
BIMB Foreign Currency Clearing Agency Sdn. Bhd.	Foreign currency clearing house	100	100
Farihan Corporation Sdn. Bhd.	Islamic pawn broking business	100	80

During the year, the Bank acquired the remaining 20% interest in Farihan Corporation Sdn. Bhd.

14. INVESTMENT IN ASSOCIATE COMPANY

	GROUP 31.12.2011 RM'000	BANK 31.12.2010 RM'000
At cost		
Unquoted shares	22,563	22,563
Share of results of associate company	(1,383)	–
	21,180	22,563

The summarised financial information of the associate company is not adjusted for the percentage ownership held by the Group as follows:

	GROUP 31.12.2011 RM'000
Total assets	402,133
Total liabilities	320,020
Operating revenue	6,306
Loss after tax	(6,917)

Details of the associate company, which are unquoted, is as follow:

NAME OF COMPANY	PRINCIPAL ACTIVITIES	PLACE OF INCORPORATION	EFFECTIVE INTEREST 31.12.2011 %
Amana Bank Ltd	Provide Islamic financial services	Sri Lanka	20

15. PROPERTY AND EQUIPMENT

GROUP	LONG TERM LEASEHOLD LAND RM'000	BUILDING -IN- PROGRESS RM'000	IMPROVEMENTS AND RENOVATIONS RM'000	FURNITURE, FIXTURES AND FITTINGS RM'000	OFFICE EQUIPMENT RM'000	COMPUTER EQUIPMENT RM'000	MOTOR VEHICLES RM'000	RENOVATION WORK-IN- PROGRESS RM'000	MANAGEMENT INFORMATION SYSTEM DEVELOPMENT COST RM'000	TOTAL RM'000
Cost										
At 1 July 2009										
– as previously stated	–	12,342	29,016	53,425	56,199	133,658	704	5,439	44,415	335,198
– effect of adopting amendments to FRS 117	14,784	–	–	–	–	–	–	–	–	14,784
At 1 July 2009, restated	14,784	12,342	29,016	53,425	56,199	133,658	704	5,439	44,415	349,982
Acquisition of new subsidiary	–	–	–	49	19	41	–	126	–	235
Additions	–	–	4,888	27,626	11,337	17,039	957	2,926	37,056	101,829
Reclassifications	–	–	704	3,772	759	70,333	–	(5,235)	(70,333)	–
Disposals	–	–	(4)	(1,051)	(619)	(6,953)	(564)	–	–	(9,191)
Written off	–	(12,342)	(7,345)	(10,893)	(579)	(109)	–	(579)	(475)	(32,322)
Exchange difference	–	–	(17)	(187)	(124)	(360)	(8)	–	–	(696)
At 31 December 2010/										
1 January 2011, restated	14,784	–	27,242	72,741	66,992	213,649	1,089	2,677	10,663	409,837
Additions	–	–	3,386	21,344	9,644	12,373	399	23	16,867	64,036
Reclassifications	–	–	269	1,127	137	7,544	–	(1,533)	(7,544)	–
Disposals	–	–	–	(80)	(201)	(13,034)	(4)	(1,067)	–	(14,386)
Written off	–	–	(1,766)	(1,411)	(4,583)	(6)	–	(50)	–	(7,816)
Exchange difference	–	–	3	37	25	72	2	–	–	139
At 31 December 2011	14,784	–	29,134	93,758	72,014	220,598	1,486	50	19,986	451,810

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15. PROPERTY AND EQUIPMENT (continued)

GROUP	LONG TERM LEASEHOLD LAND RM'000	BUILDING -IN- PROGRESS RM'000	IMPROVEMENTS AND RENOVATIONS RM'000	FURNITURE, FIXTURES AND FITTINGS RM'000	OFFICE EQUIPMENT RM'000	COMPUTER EQUIPMENT RM'000	MOTOR VEHICLES RM'000	RENOVATION WORK-IN- PROGRESS RM'000	MANAGEMENT INFORMATION SYSTEM DEVELOPMENT COST RM'000	TOTAL RM'000
Depreciation and Impairment Loss										
At 1 July 2009										
Accumulated depreciation	-	-	19,471	33,978	43,944	97,071	574	108	-	195,146
Accumulated impairment loss	-	12,342	-	-	-	-	-	-	-	12,342
- as previously stated	-	12,342	19,471	33,978	43,944	97,071	574	108	-	207,488
- effect of adopting amendments to FRS 117	348	-	-	-	-	-	-	-	-	348
At 1 July 2009, restated	348	12,342	19,471	33,978	43,944	97,071	574	108	-	207,836
Acquisition of new subsidiary	-	-	-	41	7	36	-	126	-	210
Depreciation for the period	260	-	4,354	11,821	6,168	34,831	255	464	-	58,153
Disposals	-	-	(4)	(886)	(591)	(6,899)	(558)	-	-	(8,938)
Written off	-	(12,342)	(6,084)	(9,267)	(536)	(5)	-	-	-	(28,234)
Exchange difference	-	-	(17)	(187)	(112)	(355)	(8)	-	-	(679)
At 31 December 2010/ 1 January 2011, restated	608	-	17,720	35,500	48,880	124,679	263	698	-	228,348
Accumulated depreciation	608	-	17,720	35,500	48,880	124,679	263	698	-	228,348
Accumulated impairment loss	-	-	-	-	-	-	-	-	-	-
Depreciation for the year	174	-	2,985	10,589	5,422	23,988	244	516	-	43,918
Reclassifications	-	-	103	-	-	-	-	(103)	-	-
Disposals	-	-	-	(68)	(186)	(12,978)	(4)	(1,067)	-	(14,303)
Written off	-	-	(1,596)	(1,217)	(4,304)	(6)	-	(19)	-	(7,142)
Exchange difference	-	-	3	37	23	71	2	-	-	136
At 31 December 2011	782	-	19,215	44,841	49,835	135,754	505	25	-	250,957
Accumulated depreciation	782	-	19,215	44,841	49,835	135,754	505	25	-	250,957
Accumulated impairment loss	-	-	-	-	-	-	-	-	-	-
Carrying Amount										
At 1 July 2009, restated	14,436	-	9,545	19,447	12,255	36,587	130	5,331	44,415	142,146
At 31 December 2010/ 1 January 2011, restated	14,176	-	9,522	37,241	18,112	88,970	826	1,979	10,663	181,489
At 31 December 2011	14,002	-	9,919	48,917	22,179	84,844	981	25	19,986	200,853

15. PROPERTY AND EQUIPMENT (continued)

BANK	LONG TERM LEASEHOLD LAND RM'000	BUILDING -IN- PROGRESS RM'000	IMPROVEMENTS AND RENOVATIONS RM'000	FURNITURE, FIXTURES AND FITTINGS RM'000	OFFICE EQUIPMENT RM'000	COMPUTER EQUIPMENT RM'000	MOTOR VEHICLES RM'000	RENOVATION WORK-IN- PROGRESS RM'000	MANAGEMENT INFORMATION SYSTEM DEVELOPMENT COST RM'000	TOTAL RM'000
Cost										
At 1 July 2009										
– as previously stated	–	12,342	29,016	53,410	55,584	133,066	704	4,416	44,415	332,953
– effect of adopting amendments to FRS 117	14,784	–	–	–	–	–	–	–	–	14,784
At 1 July 2009, restated	14,784	12,342	29,016	53,410	55,584	133,066	704	4,416	44,415	347,737
Additions	–	–	4,854	27,616	11,175	16,851	957	2,787	37,056	101,296
Reclassifications	–	–	704	3,772	759	70,333	–	(5,235)	(70,333)	–
Disposals	–	–	(4)	(1,051)	(569)	(6,950)	(564)	–	–	(9,138)
Written off	–	(12,342)	(7,345)	(10,893)	(546)	(104)	–	(579)	(475)	(32,284)
Exchange difference	–	–	(17)	(187)	(105)	(340)	(8)	–	–	(657)
At 31 December 2010/ 1 January 2011, restated	14,784	–	27,208	72,667	66,298	212,856	1,089	1,389	10,663	406,954
Additions	–	–	2,729	21,259	8,883	12,159	399	–	16,867	62,296
Reclassifications	–	–	103	1,127	134	7,544	–	(1,364)	(7,544)	–
Disposals	–	–	–	(70)	(147)	(13,034)	(4)	–	–	(13,255)
Written off	–	–	(1,766)	(1,411)	(4,556)	(5)	–	–	–	(7,738)
Exchange difference	–	–	3	37	21	67	2	–	–	130
At 31 December 2011	14,784	–	28,277	93,609	70,633	219,587	1,486	25	19,986	448,387

Notes to the Financial Statements
for the financial year ended 31 December 2011

15. PROPERTY AND EQUIPMENT (continued)

BANK	LONG TERM LEASEHOLD LAND RM'000	BUILDING -IN- PROGRESS RM'000	IMPROVEMENTS AND RENOVATIONS RM'000	FURNITURE, FIXTURES AND FITTINGS RM'000	OFFICE EQUIPMENT RM'000	COMPUTER EQUIPMENT RM'000	MOTOR VEHICLES RM'000	RENOVATION WORK-IN- PROGRESS RM'000	MANAGEMENT INFORMATION SYSTEM DEVELOPMENT COST RM'000	TOTAL RM'000
Depreciation and Impairment Loss										
At 1 July 2009										
Accumulated depreciation	-	-	19,471	33,963	43,518	96,635	574	-	-	194,161
Accumulated impairment loss	-	12,342	-	-	-	-	-	-	-	12,342
- as previously stated	-	12,342	19,471	33,963	43,518	96,635	574	-	-	206,503
- effect of adopting amendments to FRS 117	348	-	-	-	-	-	-	-	-	348
At 1 July 2009, restated	348	12,342	19,471	33,963	43,518	96,635	574	-	-	206,851
Depreciation for the period	260	-	4,354	11,817	6,085	34,691	255	-	-	57,462
Disposals	-	-	(4)	(886)	(541)	(6,897)	(558)	-	-	(8,886)
Written off	-	(12,342)	(6,084)	(9,267)	(507)	-	-	-	-	(28,200)
Exchange difference	-	-	(17)	(187)	(103)	(338)	(8)	-	-	(653)
At 31 December 2010/ 1 January 2011, restated										
Accumulated depreciation	608	-	17,720	35,440	48,452	124,091	263	-	-	226,574
Accumulated impairment loss	-	-	-	-	-	-	-	-	-	-
Depreciation for the year	174	-	2,825	10,575	5,253	23,891	244	-	-	42,962
Disposals	-	-	-	(60)	(134)	(12,978)	(4)	-	-	(13,176)
Written off	-	-	(1,596)	(1,217)	(4,289)	(5)	-	-	-	(7,107)
Exchange difference	-	-	3	37	20	67	2	-	-	129
At 31 December 2011										
Accumulated depreciation	782	-	18,952	44,775	49,302	135,066	505	-	-	249,382
Accumulated impairment loss	-	-	-	-	-	-	-	-	-	-
Carrying amounts										
At 1 July 2009, restated										
	14,436	-	9,545	19,447	12,066	36,431	130	4,416	44,415	140,886
At 31 December 2010/ 1 January 2011, restated										
	14,176	-	9,488	37,227	17,846	88,765	826	1,389	10,663	180,380
At 31 December 2011	14,002	-	9,325	48,834	21,331	84,521	981	25	19,986	199,005

16. DEPOSITS FROM CUSTOMERS

(a) By type of deposit

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Non-Mudharabah fund				
Demand deposits	8,415,669	7,098,681	8,419,942	7,099,693
Saving deposits	2,599,243	2,576,870	2,599,243	2,576,870
Negotiable Islamic Debt Securities ("NIDC")	5,622,290	5,819,875	5,622,960	5,820,515
Others	103,256	78,923	103,256	78,923
	16,740,458	15,574,349	16,745,401	15,576,001
Mudharabah fund				
Saving deposits	1,263,591	987,346	1,263,591	987,346
General investment deposits	1,851,695	2,449,607	1,851,695	2,449,607
Special investment deposits	8,423,934	7,855,253	8,444,220	7,875,296
	11,539,220	11,292,206	11,559,506	11,312,249
	28,279,678	26,866,555	28,304,907	26,888,250

Maturity structure of investment deposits and NIDCs are as follows:

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Due within six months	13,403,835	10,426,963	13,424,791	10,447,646
More than six months to one year	1,444,323	4,616,743	1,444,323	4,616,743
More than one year to three years	1,020,357	638,204	1,020,357	638,204
More than three years to five years	29,404	20,955	29,404	20,955
More than five years	–	421,870	–	421,870
	15,897,919	16,124,735	15,918,875	16,145,418

16. DEPOSITS FROM CUSTOMERS (continued)

(b) By type of customer

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Government and statutory bodies	7,769,225	6,795,607	7,769,225	6,795,607
Business enterprises	7,263,391	8,606,738	7,263,391	8,606,738
Individuals	4,750,716	4,510,064	4,750,716	4,510,064
Others	8,496,346	6,954,146	8,521,575	6,975,841
	28,279,678	26,866,555	28,304,907	26,888,250

17. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	GROUP AND BANK	
	31.12.2011 RM'000	31.12.2010 RM'000
Licensed Islamic banks	253,122	307,984
Other financial institutions	131,506	70,145
	384,628	378,129

18. OTHER LIABILITIES

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Other payable	321,451	297,824	320,584	297,291
Accruals	108,710	66,260	107,778	65,495
Profit equalisation reserve (Note 19)	–	–	–	–
	430,161	364,084	428,362	362,786

19. PROFIT EQUALISATION RESERVE

	GROUP AND BANK	
	31.12.2011 RM'000	31.12.2010 RM'000
At 1 January 2011/1 July 2009	–	46,369
Net amount recognised in the income statement	–	(46,369)
As at 31 December 2011/2010	–	–

20. ZAKAT AND TAXATION

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Zakat	8,075	11,604	7,817	11,575
Taxation	9,264	28	9,242	–
	17,339	11,632	17,059	11,575

21. SHARE CAPITAL

GROUP AND BANK	NUMBER OF SHARES		AMOUNT	
	2011 '000	2010 '000	2011 RM'000	2010 RM'000
Authorised:				
Ordinary shares of RM1.00 each				
At 1 January 2011/1 July 2009	2,540,000	2,000,000	2,540,000	2,000,000
Increased during year/period	–	540,000	–	540,000
At 31 December	2,540,000	2,540,000	2,540,000	2,540,000
Convertible Redeemable Non-Cumulative Preference Shares (CRNCPS) of RM1.00 each				
At 1 January 2011/1 July 2009	–	540,000	–	540,000
Decreased during the year/period	–	(540,000)	–	(540,000)
At 31 December	–	–	–	–
At 31 December	2,540,000	2,540,000	2,540,000	2,540,000
Issued and fully paid				
Ordinary shares of RM1.00 each				
At 1 January 2011/1 July 2009	2,265,490	1,725,490	2,265,490	1,725,490
Converted from CRNCPS of RM1.00 each	–	540,000	–	540,000
At 31 December	2,265,490	2,265,490	2,265,490	2,265,490
CRNCPS of RM1.00 each				
At 1 January 2011/1 July 2009	–	–	–	–
Issued during the year/period	–	540,000	–	540,000
Converted to ordinary shares of RM1.00 each	–	(540,000)	–	(540,000)
At 31 December	–	–	–	–
At 31 December	2,265,490	2,265,490	2,265,490	2,265,490

22. OTHER RESERVES

GROUP	STATUTORY RESERVE RM'000	FAIR VALUE RESERVE RM'000	TRANSLATION RESERVE RM'000	TOTAL RM'000
At 1 July 2009	589,124	(9,543)	35,453	615,034
Foreign exchange translation differences	–	–	41,008	41,008
Unrealised net gain on revaluation of financial assets available-for-sale	–	92,969	–	92,969
Transfer from current period profit	205,889	–	–	205,889
At 31 December 2010/1 January 2011	795,013	83,426	76,461	954,900
Foreign exchange translation differences	–	–	(9,451)	(9,451)
Unrealised net gain on revaluation of financial assets available-for-sale	–	34,034	–	34,034
Transfer from current year profit	179,581	–	–	179,581
At 31 December 2011	974,594	117,460	67,010	1,159,064

BANK	STATUTORY RESERVE RM'000	FAIR VALUE RESERVE RM'000	TRANSLATION RESERVE RM'000	TOTAL RM'000
At 1 July 2009	589,124	(9,543)	35,559	615,140
Foreign exchange translation differences	–	–	41,312	41,312
Unrealised net gain on revaluation of financial assets available-for-sale	–	92,969	–	92,969
Transfer from current period profit	205,889	–	–	205,889
At 31 December 2010/1 January 2011	795,013	83,426	76,871	955,310
Foreign exchange translation differences	–	–	(9,459)	(9,459)
Unrealised net gain on revaluation of financial assets available-for-sale	–	34,034	–	34,034
Transfer from current year profit	179,581	–	–	179,581
At 31 December 2011	974,594	117,460	67,412	1,159,466

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

The fair value reserve includes the cumulative net change in the fair value of financial assets available-for-sale, excluding impairment losses, until the financial asset is derecognised.

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the offshore banking operations in the Federal Territory of Labuan.

23. SINGLE TIER TAX SYSTEM

Prior to the year assessment 2008, company income tax was based on the full imputation system where tax on dividend was imposed at both the company's and shareholders' level. The tax at shareholders' level took into account the tax imputed at the company's level through tax credits.

Pursuant to the Finance Act, 2007, the single tier system was introduced and took effect from the year of assessment 2008. Under the single tier system, tax on a company's profit is a final tax and dividend distributed to shareholders will be exempted from tax. With the implementation of the single tier system, companies with a credit balance in the Section 108 account are allowed either to elect for an irrevocable option to switch over to the single tier system or to continue using the available credit balance as at 31 December 2007 after adjusting for any tax deductions for the purpose of dividend distribution, until 31 December 2013.

The Bank did not elect for the irrevocable option to disregard the available Section 108 balance accumulated until 31 December 2007. Therefore, the Bank is allowed to continue utilising its available Section 108 balance for the purpose of dividend distribution until the credit balances are fully utilised or upon expiry of the six year transitional period on 31 December 2013, whichever is earlier.

As at 31 December 2011, the Bank has a credit balance of RM113,959,848 (December 2010: RM155,758,139) in its Section 108 account.

Subsequent to the financial year ended 31 December 2011, the Board of Directors had proposed a cash dividend for the financial year ended 31 December 2011. The cash dividend will be sufficiently franked out from the available Section 108 credit balance.

24. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

	GROUP		BANK	
	12 MONTHS ENDED	18 MONTHS ENDED	12 MONTHS ENDED	18 MONTHS ENDED
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of:				
(i) General investment deposits	132,729	200,501	132,663	200,343
(ii) Other deposits	1,261,189	1,638,155	1,263,353	1,638,302
	1,393,918	1,838,656	1,396,016	1,838,645

24. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS (continued)

(i) **Income derived from investment of general investment deposits**

	GROUP		BANK	
	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000
Finance, income and hibah				
Financing, advances and others	86,808	129,621	86,742	129,463
Financial assets:				
– held-for-trading	381	513	381	513
– available-for-sale	32,475	48,777	32,475	48,777
– held-to-maturity	747	903	747	903
Money at call and deposits with financial institutions	6,347	15,294	6,347	15,294
	126,758	195,108	126,692	194,950
Other dealing income				
Net gain/(loss) from sale of financial assets held-for-trading	641	(34)	641	(34)
Net gain on revaluation of financial assets held-for-trading	2,015	3,846	2,015	3,846
	2,656	3,812	2,656	3,812
Other operating income				
Net gain from sale of financial assets available-for-sale	3,188	1,580	3,188	1,580
Gain on redemption of financial assets held-to-maturity	127	–	127	–
	3,315	1,580	3,315	1,580
Other income				
Gain on disposal of leased assets	–	1	–	1
	–	1	–	1
	132,729	200,501	132,663	200,343
<i>of which</i>				
<i>Financing income earned on impaired financing</i>	4,392	11,539	4,392	11,539

24. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS (continued)

(ii) Income derived from investment of other deposits

	GROUP		BANK	
	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000
Finance, income and hibah				
Financing, advances and others	823,211	1,057,458	825,375	1,057,605
Financial assets:				
– held-for-trading	3,649	4,154	3,649	4,154
– available-for-sale	306,923	398,789	306,923	398,789
– held-to-maturity	7,417	7,754	7,417	7,754
Money at call and deposits with financial institutions	59,849	125,631	59,849	125,631
	1,201,049	1,593,786	1,203,213	1,593,933
Other dealing income				
Net gain/(loss) from sale of financial assets held-for-trading	6,177	(373)	6,177	(373)
Net gain on revaluation of financial assets held-for-trading	18,858	31,390	18,858	31,390
	25,035	31,017	25,035	31,017
Other operating income				
Net gain from sale of financial assets available-for-sale	33,780	13,341	33,780	13,341
Gain on redemption of financial assets held-to-maturity	1,325	–	1,325	–
	35,105	13,341	35,105	13,341
Other income				
Gain on disposal of leased assets	–	11	–	11
	–	11	–	11
	1,261,189	1,638,155	1,263,353	1,638,302
<i>of which</i>				
<i>Financing income earned on impaired financing</i>	42,120	96,498	42,120	96,498

25. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	GROUP		BANK	
	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000
Finance, income and hibah				
Financing, advances and others	8,714	5,973	3,900	5,310
Financial assets available-for-sale	86,929	137,866	86,929	137,866
Money at call and deposits with financial institutions	6,364	9,923	6,364	9,923
	102,007	153,762	97,193	153,099
Other dealing income				
Net gain from foreign exchange transactions	31,808	24,464	31,808	24,464
Net gain from sale of financial assets held-for-trading	–	18	–	–
Net derivatives losses	(8,618)	(7,239)	(8,618)	(7,239)
	23,190	17,243	23,190	17,225
Other operating income				
Profit on sale of foreign currencies	2,335	4,776	–	–
Reversal of impairment allowance	240	360	–	–
Gross dividend income from securities				
– unquoted in Malaysia	10,426	8,880	10,426	8,880
– unit trust in Malaysia	–	73	–	73
– unit trust outside Malaysia	57	130	57	130
	13,058	14,219	10,483	9,083

25. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS (continued)

	GROUP		BANK	
	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000
Fees and commission				
ATM fees	19,717	23,230	19,717	23,230
Financing fees	19,699	17,379	19,699	17,379
Cheque issued and return, closing account and other fees	10,069	12,194	10,069	12,194
Takaful service fees and commission	9,267	14,123	9,267	14,123
Credit card fees and commission	40,416	52,527	40,416	52,527
Commitment fees	797	331	797	331
Commission on MEPS	7,053	7,195	7,053	7,195
Processing fees	1,609	1,212	1,584	1,155
Corporate advisory fees	4,185	10,630	4,185	10,630
Unit trust management fees	3,697	2,674	–	–
Ta'widh charges	1,381	3,526	1,381	3,526
Others	13,227	19,655	12,385	17,772
	131,117	164,676	126,553	160,062
Other income				
Net gain/(loss) on disposal of property and equipment	2,429	(1,536)	2,428	(1,541)
Rental income	308	2	308	(54)
Other income	286	967	33	580
	3,023	(567)	2,769	(1,015)
	272,395	349,333	260,188	338,454

26. Allowance for impairment on financing and advances

	GROUP AND BANK	
	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000
Allowance for impaired financing, advances and others:		
- collective assessment allowance	204,593	538,979
- individual assessment allowance	119,056	124,827
Impaired financing and advances recovered	(129,381)	(274,833)
Bad debts and financing recovered	(150,245)	(181,271)
	44,023	207,702

27. ALLOWANCE FOR IMPAIRMENT ON INVESTMENTS

	GROUP AND BANK	
	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000
Financial assets:		
– available-for-sale	18,158	19,727
– held-to-maturity	(2,752)	–
	15,406	19,727

28. INCOME ATTRIBUTABLE TO DEPOSITORS

	GROUP		BANK	
	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000
Deposits from customers				
– Mudharabah fund	267,687	352,400	267,954	352,652
– Non-Mudharabah fund	190,205	251,230	190,238	251,290
Deposits and placements of banks and other financial institutions				
– Mudharabah fund	19,215	21,622	19,215	21,622
	477,107	625,252	477,407	625,564

29. PERSONNEL EXPENSES

	GROUP		BANK	
	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000
Salaries and wages	171,058	232,603	168,408	227,899
Allowances and bonuses	104,237	111,479	103,602	110,668
Employees' Provident Fund	31,071	39,226	30,596	38,397
Directors' remuneration	5,296	10,423	5,233	10,334
Others	26,481	37,241	26,054	36,653
	338,143	430,972	333,893	423,951

30. OTHER OVERHEAD EXPENSES

	GROUP		BANK	
	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000
Promotion				
Advertisement and publicity	11,577	20,398	11,478	20,084
Credit card expenses	17,989	15,286	17,989	15,286
Commissions	5,708	16,412	4,946	16,008
	35,274	52,096	34,413	51,378
Establishment				
Office rental	34,840	42,725	34,168	41,912
Depreciation of property and equipment	43,918	58,153	42,962	57,462
Information technology expenses	27,632	33,267	27,632	33,267
Rental equipment	3,378	10,196	3,338	10,031
Office maintenance	5,325	15,777	5,183	15,592
Utilities	10,948	15,026	10,745	14,824
Security services	14,077	16,697	13,668	16,595
Takaful and insurance	4,752	15,167	4,433	14,972
Others	340	324	340	324
	145,210	207,332	142,469	204,979
General expenses				
Auditors' remuneration				
– statutory audit fees	576	542	483	455
– others	358	900	358	900
Professional fees	2,031	15,210	1,766	13,271
Office supplies	11,137	17,384	10,837	17,195
Travelling & transportation	8,500	13,814	8,385	13,641
Subscription fees	2,322	3,797	2,322	3,794
Property and equipment written off	43	–	–	–
Outsourcing fees	41,135	42,206	41,135	42,206
Processing charges	781	19,698	781	19,698
Others	29,660	49,354	28,771	48,722
	96,543	162,905	94,838	159,882
	277,027	422,333	271,720	416,239

31. DIRECTORS AND SHARIAH SUPERVISORY COUNCIL MEMBERS' REMUNERATION

	GROUP		BANK	
	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000
Executive Director:				
Salaries and other remuneration, including meeting allowances	3,778	8,992	3,768	8,976
Benefit-in-kind	220	305	220	305
	3,998	9,297	3,988	9,281
Non-Executive Directors:				
Fees	1,121	964	1,110	927
Allowances	397	467	355	431
Benefits-in-kind	99	69	99	69
	1,617	1,500	1,564	1,427
Total	5,615	10,797	5,552	10,708
Total (excluding benefits-in-kind) (Note 29)	5,296	10,423	5,233	10,334
Shariah Supervisory Council	305	491	296	467

32. KEY MANAGEMENT PERSONNEL

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

The compensation for key management personnel other than the Directors' remuneration is as follows:

	GROUP AND BANK	
	12 MONTHS ENDED	18 MONTHS ENDED
	31.12.2011	31.12.2010
	RM'000	RM'000
Other key management personnel:		
– Short-term employee benefits	9,836	17,703

Note: Included in the 18 months ended 31 December 2010 is bonus payout for financial year ended 30 June 2009, as well as bonus payout for the financial period 12 months ended 30 June 2010.

33. TAX EXPENSE

	GROUP		BANK	
	12 MONTHS ENDED	18 MONTHS ENDED	12 MONTHS ENDED	18 MONTHS ENDED
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	RM'000	RM'000	RM'000	RM'000
Malaysian income tax				
Current year	127,217	102,363	127,090	101,603
In respect of changes in tax treatment for collective assessment allowance	(41,160)	–	(41,160)	–
Refund of tax from Inland Revenue Board for prior years	–	(41,589)	–	(41,589)
(Over)/Under provision in prior years	(3,538)	733	(3,445)	748
	82,519	61,507	82,485	60,762
Deferred tax expense relating to origination and reversal of temporary differences arising from:				
Current year	(6,590)	37,325	(6,763)	37,351
In respect of changes in tax treatment for collective assessment allowance	41,160	–	41,160	–
(Over)/Under provision in prior years	(13,732)	(19,889)	(13,759)	(19,889)
	20,838	17,436	20,638	17,462
	103,357	78,943	103,123	78,224

33. TAX EXPENSE (continued)

The corporate tax rate is 25%. Consequently deferred tax assets and liabilities are measured using this tax rate.

A reconciliation of effective tax expense for the Group and Bank are as follows:

	GROUP		BANK	
	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000
Profit before tax expense	470,951	501,487	470,099	503,400
Income tax using Malaysian tax rate of 25%	117,738	125,372	117,524	125,850
Income not subject to tax	(2,147)	(7,832)	(2,147)	(7,832)
Non-deductible expenses	8,376	22,148	8,290	20,936
	123,967	139,688	123,667	138,954
Refund of tax from Inland Revenue Board for prior years	–	(41,589)	–	(41,589)
Utilisation of previously unrecognised unabsorbed capital allowances (Over)/Under provision in prior years	(3,340)	–	(3,340)	–
– Income tax	(3,538)	733	(3,445)	748
– Deferred tax	(13,732)	(19,889)	(13,759)	(19,889)
	103,357	78,943	103,123	78,224

34. EARNINGS PER SHARE

Basic earnings per share are calculated based on the adjusted net profit attributable to equity holders of the Bank of RM358,094,000 (2010: after adjustment for dividends paid on Convertible Redeemable Non-Cumulative Preference Shares amounting to RM19,115,000; of RM389,648,000) and the weighted average number of ordinary shares outstanding during the year of 2,265,490,000 (2010:1,816,965,410).

35. RELATED PARTY TRANSACTIONS

Identity of related parties

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

The Group has a related party relationship with its subsidiaries (see note 13) and substantial shareholders of the holding company.

35. RELATED PARTY TRANSACTIONS (continued)

(a) The significant related party transactions of the Group and the Bank, other than key management personnel compensation, are as follows:

	GROUP TRANSACTIONS AMOUNT FOR		BANK TRANSACTIONS AMOUNT FOR	
	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000	12 MONTHS ENDED 31.12.2011 RM'000	18 MONTHS ENDED 31.12.2010 RM'000
Ultimate holding corporation				
Net gain on forex transaction	133	339	133	339
Income payable attributable on deposits placed	43,087	27,117	43,087	27,117
Rental of premises payable	6,727	2,989	6,727	2,989
Others	250	23	250	23
Holding company				
Income payable attributable on deposits placed	736	892	736	892
Subsidiaries				
Fees and commission	–	–	2,849	1,226
Office rental receivable	–	–	93	17
Income payable attributable on deposits placed	–	–	300	312
Finance cost	–	–	2,164	341
Others	–	–	394	158
Related company of a substantial shareholder				
Income receivable from financing, advances and others	983	2,649	983	2,649
Other related companies				
Income receivable from financing, advances and others	2,682	4,427	2,682	4,427
Fees and commission receivable	138	72	138	72
Net gain on forex transaction	1,607	943	1,607	943
Income from Bancatakaful service fee	9,266	14,123	9,266	14,123
Income payable attributable on deposits placed	4,930	5,691	4,930	5,691
Office rental payable	3,107	4,363	3,107	4,363
Takaful fee payable	1,842	386	1,842	386
Co-operative society in which the employees have interest				
Income receivable from financing, advances and others	402	249	402	249
Rental of equipment payable	1,794	4,064	1,794	4,064

35. RELATED PARTY TRANSACTIONS (continued)

(b) The significant outstanding balances of the Group and the Bank with related party, are as follows:

	GROUP NET BALANCE OUTSTANDING AS AT		BANK NET BALANCE OUTSTANDING AS AT	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Ultimate holding corporation				
Amount due to				
Demand and investment deposits	1,295,005	1,381,422	1,295,005	1,381,422
Profit payable to investment deposit	199	–	199	–
Others	9,922	–	9,922	–
Holding company				
Amount due to				
Demand and investment deposits	5,404	221	5,404	221
Subsidiaries				
Amount due from				
Financing, advances and others	–	–	45,852	12,406
Redeemable non-cumulative preference shares	–	–	2,011	2,011
Others	–	–	873	127
Amount due to				
Demand and investment deposits	–	–	25,229	21,695
Others	–	–	2,972	2,341
Related company of a substantial shareholder				
Amount due from				
Financing, advances and others	15,270	52,693	15,270	52,693
Allowance on impairment	(12,880)	–	(12,880)	–
Financing after impairment*	2,390	52,693	2,390	52,693
Other related companies				
Amount due from				
Financing, advances and others	93,456	69,090	93,456	69,090
Commitment and contingencies	8,422	6,484	8,422	6,484
Others	14	1,020	14	1,020
Amount due to				
Demand and investment deposits	418,700	252,297	418,700	252,297
Co-operative society in which the employees have interest				
Amount due from				
Financing, advances and others	5,974	5,016	5,974	5,016
Amount due to				
Demand and investment deposits	1,060	988	1,060	988

35. RELATED PARTY TRANSACTIONS (continued)

(b) The significant outstanding balances of the Group and the Bank with related party, are as follows: (continued)

* The unsecured financing of RM53.4 million to a related company of a substantial shareholder had defaulted during the financial year. A resolution on an amicable settlement of seventy-six percent of the amount outstanding was approved by the Board of Directors during the financial year and ninety-four percent of the agreed sum has been settled.

36. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	GROUP AND BANK	
	31.12.2011	31.12.2010
	RM'000	RM'000
Outstanding credit exposures with connected parties	590,143	392,135
% of outstanding credit exposures to connected parties as a proportion of total credit exposures	4.05%	3.18%
% of outstanding credit exposures with connected parties which is non-performing or in default	0.002%	0.002%

The above disclosure on Credit Transaction and Exposures with Connected Parties is presented in accordance with Para 9.1 of Bank Negara Malaysia's Revised Guidelines on Credit Transaction and Exposures with Connected Parties.

37. FINANCIAL RISK MANAGEMENT POLICIES

Overview of Risk Management

The Bank's mission with respect to risk management is to advance its risk management capabilities, culture and practices so as to be in line with internationally accepted standards and practices.

In that regard, the objectives of managing risk are to:

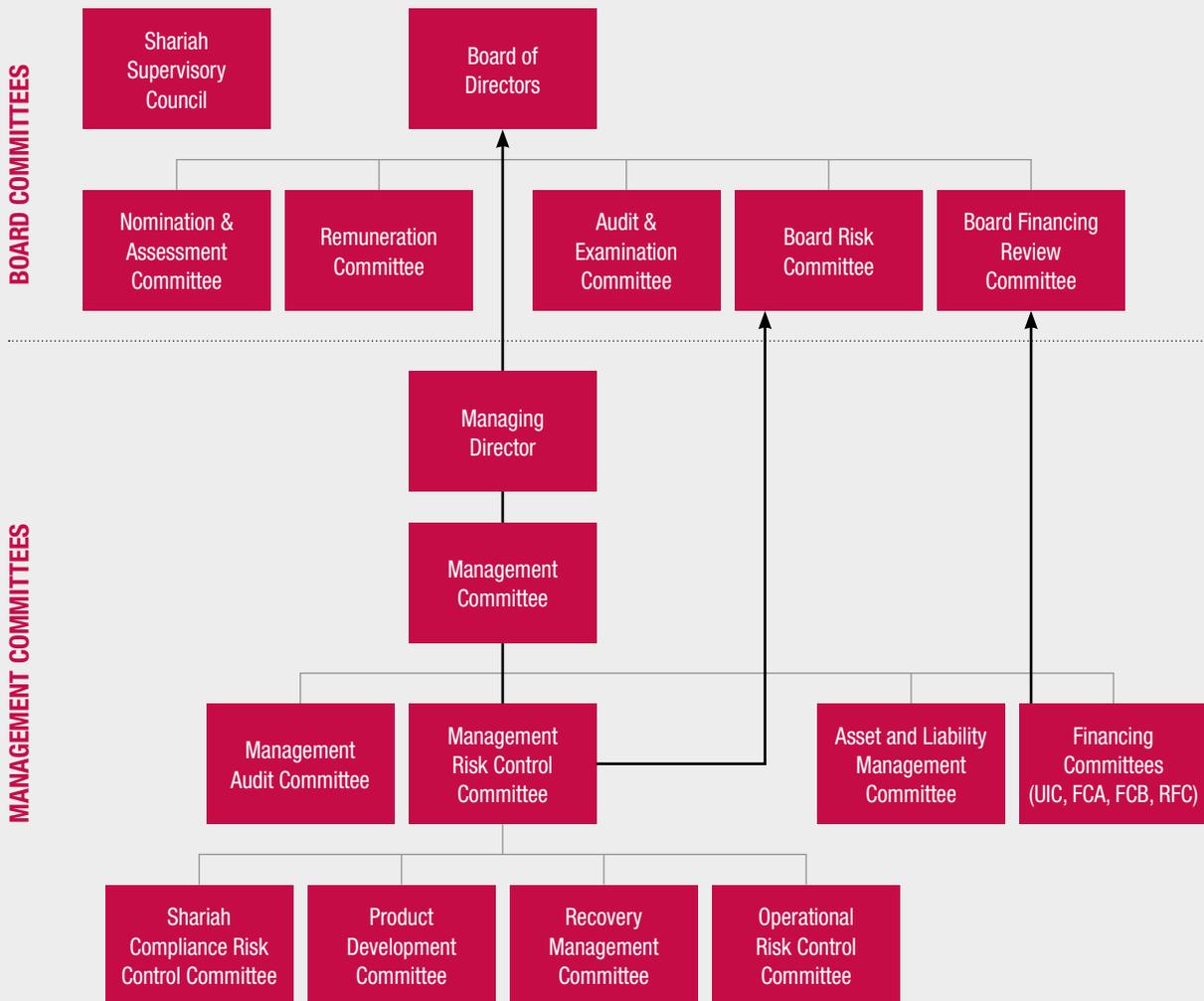
- Inculcate a risk-awareness culture throughout the Bank;
- Establish a standard approach and methodology in managing credit, market, liquidity, operational and business risks across the Bank;
- Balance risk appetite and tolerance;
- Clarify functional structures including objectives, roles and responsibilities;
- Implement a risk management information system that meets international standards on confidentiality, integrity and its availability;
- Develop and use tools, such as economic capital, value at risk, scoring models and stress testing to support the measurement of risks and enhance risk-based decisions;
- Ensure that risk policies and overall risk appetite are in line with business targets;
- Ensure that the Bank's capital can support current and planned business needs in terms of risk exposures.

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

Risk Management Functional and Governance Structure

The Bank has realigned its risk organisational responsibilities with the objective of ensuring a common view of risks across the Bank. As a matter of good business practice and prudence, the Bank's core risk management functions, which report to the Board Risk Committee ("BRC"), are independent and clearly segregated from the business divisions and centralized at head office.

The following illustrates the Bank's governance structure and the alignment of the individual risk management committees to this structure:



37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

The Bank recognises the fact that the essence of banking and financial services is centered on risk taking. The Bank therefore:

- Recognises that it has to manage risks to effectively do its business;
- Reach an optimum level of risk-return in order to maximise stakeholders' value; and
- Ensure effective and integrated risk management processes that commensurate with the size and complexity of the current and future operations of the Bank within its risk appetite and tolerance.

The Bank has established a Risk Appetite Framework that is an integral part of the Bank's strategy and business plans. Risk appetite is an expression of the maximum level of risk that the Bank is prepared to accept in support of a stated strategy, impacting all business from a credit, market and operational risk viewpoint.

In order to assure that the Bank has sufficient capital to support all its business and risk taking activities, the Bank has implemented sound capital management processes in its management systems and processes. A comprehensive capital management, also known as Internal Capital Adequacy Assessment Process ("ICAAP"), will be adopted by the Bank in 2012 as a key enabler for a value creation and the long term sustainability of the Bank. This comprehensive capital management includes thorough risk assessment and risk management that are embedded as part of risk governance of the Bank.

(a) Credit risk

Overview

Credit risk arises from all transactions that could lead to actual, contingent or potential claims against any party, borrower or obligor. The Bank recognises four kinds of credit risk in its portfolio: Default Risk, Settlement Risk, Country Risk and Contingent Financing Risk.

Credit risk governance

The management of credit risk is principally carried out by using sets of policies and guidelines approved by the BRC, guided by the Risk Appetite Statement approved by the Board of Directors.

The Management Risk Control Committee ("MRCC") is responsible under the authority delegated by the BRC for managing credit risk at strategic level. The MRCC reviews the Bank's credit risk frameworks and guidelines, aligns credit risk management with business strategies and planning, reviews credit profile of the credit portfolios and recommends necessary actions to ensure that the credit risk remains within established risk tolerance level.

The Bank's credit risk management includes the establishment of comprehensive credit risk policies, guidelines and procedures which documents the Bank's financing standards, discretionary powers for financing approval, credit risk ratings methodologies and models, acceptable collaterals and valuation, and the review, rehabilitation and restructuring of problematic and delinquent financing.

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(a) Credit risk (continued)

Management of Credit Risk

The management of credit risk is being performed by two distinct departments within the Risk Management Department (“RMD”), Credit Analysis and Credit Risk Management and three departments outside of the RMD domain, namely, Credit Administration, Credit Recovery and Credit Monitoring Unit of Internal Audit. The combined objectives are, amongst others:

- To build a high quality credit portfolio in line with the Bank’s overall strategy and risk appetite;
- To ensure that the Bank is compensated for the risk taken, balancing/optimizing the risk /return relationship;
- To develop an increasing ability to recognise, measure and avoid or mitigate potential credit risk problem areas;
- To conform with statutory, regulatory and internal credit requirements.

The Bank monitors its credit exposures either on a portfolio basis or individual basis by annual reviews. Credit risk is proactively monitored through a set of early warning signals that could trigger immediate reviews of (certain part of) the portfolio. The affected portfolio or financing is placed on a watch list to enforce close monitoring and prevent financing from turning non-performing and to increase chances of full recovery.

A comprehensive limit structure is in place to ensure that risks taken are within the risk appetite as set by the Board and to avoid credit risk contagion to a single customer, sector, product, Shariah contract, etc.

Credit risk arising from dealing and investing activities are managed by the establishment of limits which includes counter parties limits and permissible acquisition of private entities’ instruments, subject to specified minimum rating threshold. Furthermore, the dealing and investing activities are monitored by an independent middle office unit.

Maximum exposure to credit risk

The following table presents the Group’s and Bank’s maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For on-balance sheet assets, the exposure to credit risk equals their carrying amount. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Group and Bank would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(a) Credit risk (continued)

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Cash and short-term funds	3,364,180	2,519,695	3,355,764	2,509,483
Deposits and placements with banks and other financial institution	860,181	352,798	860,181	352,798
Financial assets held-for-trading	1,228,952	2,279,447	1,228,952	2,279,447
Derivative financial assets	15,877	80,108	15,877	80,108
Financial assets available-for-sale	11,005,121	12,763,020	11,007,132	12,765,031
Financial assets held-to-maturity	327,334	215,944	327,334	215,944
Financing, advances and others	14,140,970	11,860,631	14,139,470	11,859,140
Sub-total	30,942,615	30,071,643	30,934,710	30,061,951
Credit related obligation:				
Credit commitments	6,929,465	7,126,492	6,929,465	7,126,492
Other Treasury related exposures	-	75,000	-	75,000
Sub-total	6,929,465	7,201,492	6,929,465	7,201,492
Total credit exposures	37,872,080	37,273,135	37,864,175	37,263,443

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(a) Credit risk (continued)

(i) Concentration of credit risk for Group and Bank

GROUP AS AT 31 DECEMBER 2011	CASH AND SHORT-TERM FUNDS AND DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS	FINANCIAL ASSETS HELD-FOR- TRADING	DERIVATIVE ASSETS	FINANCIAL ASSETS AVAILABLE- FOR-SALE	FINANCIAL ASSETS HELD-TO- MATURITY	FINANCING, ADVANCES AND OTHERS [#]	ON-BALANCE SHEETS TOTAL	COMMITMENTS AND CONTINGENCIES [@]
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Primary agriculture	–	–	–	94,216	–	149,182	243,398	227,525
Mining and quarrying	–	–	–	–	–	48,249	48,249	428,773
Manufacturing (including agro-based)	–	–	–	7,456	–	904,779	912,235	987,798
Electricity, gas and water	–	20,999	–	3,441,440	–	7,221	3,469,660	402,393
Wholesale & retail trade, and hotels & restaurants	–	–	–	40,433	–	558,811	599,244	497,495
Construction	–	10,032	–	748,456	111,369	756,014	1,625,871	1,180,678
Real estate	–	–	–	105,411	–	385,261	490,672	188,562
Transport, storage and communications	–	–	–	952,849	–	233,766	1,186,615	483,200
Finance, insurance and business activities	860,181	1,197,921	15,877	5,614,860	215,965	180,770	8,085,574	540,917
Education, health and others	–	–	–	–	–	122,204	122,204	795,619
Household sectors	–	–	–	–	–	11,016,473	11,016,473	241,665
Other sectors	3,364,180	–	–	–	–	202,565	3,566,745	954,840
	4,224,361	1,228,952	15,877	11,005,121	327,334	14,565,295	31,366,940	6,929,465

GROUP AS AT 31 DECEMBER 2010	CASH AND SHORT-TERM FUNDS AND DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS	FINANCIAL ASSETS HELD-FOR- TRADING	DERIVATIVE ASSETS	FINANCIAL ASSETS AVAILABLE- FOR-SALE	FINANCIAL ASSETS HELD-TO- MATURITY	FINANCING, ADVANCES AND OTHERS [#]	ON-BALANCE SHEETS TOTAL	COMMITMENTS AND CONTINGENCIES [@]
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Primary agriculture	–	–	–	96,410	–	182,111	278,521	146,548
Mining and quarrying	–	–	–	–	–	897	897	9,786
Manufacturing (including agro-based)	–	–	–	70,535	–	791,995	862,530	1,126,126
Electricity, gas and water	–	–	–	1,122,257	–	150,860	1,273,117	453,231
Wholesale & retail trade, and hotels & restaurants	–	–	–	131,754	–	479,868	611,622	656,031
Construction	–	–	–	356,803	–	508,293	865,096	–
Real estate	–	–	–	109,593	–	187,445	297,038	1,310,717
Transport, storage and communications	–	16,306	–	1,539,352	–	408,349	1,964,007	547,321
Finance, insurance and business activities	352,798	2,263,141	80,108	9,333,087	215,944	154,408	12,399,486	614,481
Education, health and others	–	–	–	–	–	85,375	85,375	775,606
Household sectors	–	–	–	–	–	9,321,823	9,321,823	183,514
Other sectors	2,519,695	–	–	3,229	–	13,309	2,536,233	1,378,131
	2,872,493	2,279,447	80,108	12,763,020	215,944	12,284,733	30,495,745	7,201,492

[#] Gross financing, advances and others

[@] Commitment and contingencies excluding derivative assets

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(a) Credit risk (continued)

(i) Concentration of credit risk for Group and Bank (continued)

BANK AS AT 31 DECEMBER 2011	CASH AND SHORT-TERM FUNDS AND DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS RM'000	FINANCIAL ASSETS HELD-FOR- TRADING RM'000	DERIVATIVE ASSETS RM'000	FINANCIAL ASSETS AVAILABLE- FOR-SALE RM'000	FINANCIAL ASSETS HELD-TO- MATURITY RM'000	FINANCING, ADVANCES AND OTHERS* RM'000	ON-BALANCE SHEETS TOTAL RM'000	COMMITMENTS AND CONTINGENCIES* RM'000
Primary agriculture	–	–	–	94,216	–	149,182	243,398	227,525
Mining and quarrying	–	–	–	–	–	48,249	48,249	428,773
Manufacturing (including agro-based)	–	–	–	7,456	–	904,779	912,235	987,798
Electricity, gas and water	–	20,999	–	3,441,440	–	7,221	3,469,660	402,393
Wholesale & retail trade, and hotels & restaurants	–	–	–	40,433	–	558,811	599,244	497,495
Construction	–	10,032	–	748,456	111,369	756,014	1,625,871	1,180,678
Real estate	–	–	–	105,411	–	385,261	490,672	188,562
Transport, storage and communications	–	–	–	952,849	–	233,766	1,186,615	483,200
Finance, insurance and business activities	860,181	1,197,921	15,877	5,616,871	215,965	226,622	8,133,437	540,917
Education, health and others	–	–	–	–	–	122,204	122,204	795,619
Household sectors	–	–	–	–	–	10,969,121	10,969,121	241,665
Other sectors	3,355,764	–	–	–	–	202,565	3,558,329	954,840
	4,215,945	1,228,952	15,877	11,007,132	327,334	14,563,795	31,359,035	6,929,465

BANK AS AT 31 DECEMBER 2010	CASH AND SHORT-TERM FUNDS AND DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS RM'000	FINANCIAL ASSETS HELD-FOR- TRADING RM'000	DERIVATIVE ASSETS RM'000	FINANCIAL ASSETS AVAILABLE- FOR-SALE RM'000	FINANCIAL ASSETS HELD-TO- MATURITY RM'000	FINANCING, ADVANCES AND OTHERS* RM'000	ON-BALANCE SHEETS TOTAL RM'000	COMMITMENTS AND CONTINGENCIES* RM'000
Primary agriculture	–	–	–	96,410	–	182,111	278,521	146,548
Mining and quarrying	–	–	–	–	–	897	897	9,786
Manufacturing (including agro-based)	–	–	–	70,535	–	791,995	862,530	1,126,126
Electricity, gas and water	–	–	–	1,122,257	–	150,860	1,273,117	453,231
Wholesale & retail trade, and hotels & restaurants	–	–	–	131,754	–	479,868	611,622	656,031
Construction	–	–	–	356,803	–	508,293	865,096	–
Real estate	–	–	–	109,593	–	187,445	297,038	1,310,717
Transport, storage and communications	–	16,306	–	1,539,352	–	408,349	1,964,007	547,321
Finance, insurance and business activities	352,798	2,263,141	80,108	9,335,098	215,944	166,814	12,413,903	614,481
Education, health and others	–	–	–	–	–	85,375	85,375	775,606
Household sectors	–	–	–	–	–	9,307,926	9,307,926	183,514
Other sectors	2,509,483	–	–	3,229	–	13,309	2,526,021	1,378,131
	2,862,281	2,279,447	80,108	12,765,031	215,944	12,283,242	30,486,053	7,201,492

Gross financing, advances and others

@ Commitment and contingencies excluding derivative assets

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(a) Credit risk (continued)

(ii) Collateral

The main type of collateral obtained by the Group and the Bank to mitigate the credit risk are as follows:

- For residential mortgages – charges over residential properties
- For commercial property financing – charges over the properties being financed
- For vehicle financing – ownership claims over the vehicles financed
- For other financing and advances – charges over business assets such as premises, inventories, trade receivables or deposits

(iii) Credit quality of gross financing and advances

Gross financing and advances are classified as follows:

- Neither past due nor impaired financing

Financing which the borrower has not missed a contractual payment (profit or principal) when contractually due and is not impaired as there is no objective evidence of impairment

- Past due but not impaired financing

Those financing which its contractual profit or principal payments are past due, but the Group and the Bank believe that impairment is not appropriate on the basis of the level of collateral available and/or the stage of collection amounts owed to the Group and the Bank

- Impaired financing

Financing is classified as impaired when the principal or profit or both are past due for three months or more, or where a financing is in arrears for less than three months, but the financing exhibits indications of significant credit weakness.

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(a) Credit risk (continued)

(iii) Credit quality of gross financing and advances (continued)

The table below summarises the credit quality of the Group's and the Bank's gross financing according to the above classifications.

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Neither past due nor impaired	13,866,046	11,336,180	13,864,546	11,334,689
Past due but not impaired	319,459	396,332	319,459	396,332
Impaired	379,790	552,221	379,790	552,221
	14,565,295	12,284,733	14,563,795	12,283,242
Allowance for impaired financing, advances and others				
– collective assessment allowance	(348,555)	(345,041)	(348,555)	(345,041)
– individual assessment allowance	(75,770)	(79,061)	(75,770)	(79,061)
	14,140,970	11,860,631	14,139,470	11,859,140

Neither past due nor impaired financing

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Excellent to good	10,409,626	6,052,669	10,408,126	6,051,178
Satisfactory	2,945,123	3,657,993	2,945,123	3,657,993
Fair	511,297	1,625,518	511,297	1,625,518
	13,866,046	11,336,180	13,864,546	11,334,689

Internal rating definition:

Excellent to Good: Sound financial position with no difficulty in meeting its obligations.

Satisfactory: Adequate safety of meeting its obligations but more time is required to meet its obligation in full.

Fair: High risks on payment obligations. Financial performance may continue to deteriorate.

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(a) Credit risk (continued)

(iii) Credit quality of gross financing and advances (continued)

Past due but not impaired financing

	GROUP AND BANK	
	31.12.2011 RM'000	31.12.2010 RM'000
By ageing		
Month-in-arrears 1	210,518	255,656
Month-in-arrears 2	108,941	140,676
	319,459	396,332

Impaired financing

	GROUP AND BANK	
	31.12.2011 RM'000	31.12.2010 RM'000
Individually assessed	133,864	242,748
of which:		
Month-in-arrears 0	54,325	116,645
Month-in-arrears 1	–	5,784
Month-in-arrears 2	6,193	1,141
Month-in-arrears 3 and above	73,346	119,178
Collectively assessed	245,926	309,473
	379,790	552,221

Impaired financing of which rescheduled and restructured financing

	GROUP AND BANK	
	31.12.2011 RM'000	31.12.2010 RM'000
Consumer	63,412	65,759
Business	43,110	86,139
	106,522	151,898

Rescheduled and restructured financing are financing that have been rescheduled or restructured due to deterioration in borrowers' financial position and when the Bank has made concessions that it would not otherwise consider. Once the financing is rescheduled or restructured, its satisfactory performance is monitored for a period of six months before it is reclassified to performing.

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(a) Credit risk (continued)

(iii) Credit quality of gross financing and advances (continued)

Financing, advances and others by line of business assessed by reference to internal rating system:

BANK	CONSUMER	BUSINESS	TOTAL
AS AT 31 DECEMBER 2011	RM'000	RM'000	RM'000
Excellent to good	7,692,450	2,715,676	10,408,126
Satisfactory	2,448,780	496,343	2,945,123
Fair	334,710	176,587	511,297
Past due but not impaired	305,351	14,108	319,459
Impaired	218,856	160,934	379,790
Total	11,000,147	3,563,648	14,563,795

BANK	CONSUMER	BUSINESS	TOTAL
AS AT 31 DECEMBER 2010	RM'000	RM'000	RM'000
Excellent to good	4,719,327	1,331,851	6,051,178
Satisfactory	2,710,591	947,402	3,657,993
Fair	1,255,461	370,057	1,625,518
Past due but not impaired	369,777	26,555	396,332
Impaired	268,768	283,453	552,221
Total	9,323,924	2,959,318	12,283,242

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(a) Credit risk (continued)

(iv) Credit quality of other financial assets (excluding equity securities)

Credit quality of other financial assets (excluding equity securities) by external party is as follows:

BANK AS AT 31 DECEMBER 2011	FINANCIAL ASSETS HELD-FOR- TRADING RM'000	DERIVATIVE FINANCIAL ASSETS RM'000	FINANCIAL ASSETS AVAILABLE -FOR-SALE RM'000	FINANCIAL ASSETS HELD-TO- MATURITY RM'000	TOTAL RM'000
Government bonds and treasury bills	1,188,069	–	3,996,969	–	5,185,038
Islamic debts securities					
Rated AAA	24,947	–	2,741,783	–	2,766,730
Rated AA1 to AA3	15,936	–	1,004,681	24,758	1,045,375
Rated A1 to A3	–	–	–	149,980	149,980
Lower than A	–	–	18,396	–	18,396
Unrated – Government guaranteed bonds	–	–	3,138,686	–	3,138,686
Unrated – Quasi-government	–	–	84,468	–	84,468
Unrated – Others	–	–	22,149	152,596	174,745
Derivative financial assets					
Bank and financial institution counterparties	–	15,877	–	–	15,877
	1,228,952	15,877	11,007,132	327,334	12,579,295
BANK AS AT 31 DECEMBER 2010	FINANCIAL ASSETS HELD-FOR- TRADING RM'000	DERIVATIVE FINANCIAL ASSETS RM'000	FINANCIAL ASSETS AVAILABLE -FOR-SALE RM'000	FINANCIAL ASSETS HELD-TO- MATURITY RM'000	TOTAL RM'000
Government bonds and treasury bills	2,252,690	–	7,255,134	–	9,507,824
Islamic debts securities					
Rated AAA	10,450	–	3,251,765	–	3,262,215
Rated AA1 to AA3	–	–	1,134,759	–	1,134,759
Rated A1 to A3	–	–	60,624	61,650	122,274
Lower than A	–	–	10,084	–	10,084
Unrated – Government guaranteed bonds	16,307	–	950,233	–	966,540
Unrated – Quasi-government	–	–	80,283	–	80,283
Unrated – Others	–	–	22,149	154,294	176,443
Derivative financial assets					
Bank and financial institution counterparties	–	80,108	–	–	80,108
	2,279,447	80,108	12,765,031	215,944	15,340,530

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(b) Market risk

Overview

All the Bank's businesses are subject to the risk that market prices and rates will move, resulting in profit or losses to the Bank. Furthermore, significant or sudden movements in rates could affect the Bank's liquidity/funding position. The Bank is exposed to the following main market/liquidity risk factors:

- **Rate of Return or Profit Rate Risk:** the potential impact on the Bank's profitability caused by changes in the market rate of return, either due to general market movements or due to issuer / borrower specific causes;
- **Foreign Exchange Risk:** the impact of exchange rate movements on the Bank's currency positions;
- **Equity Investment Risk:** the profitability impact on the Bank's equity positions or investments caused by changes in equity prices or values;
- **Commodity Inventory Risk:** the risk of loss due to movements in commodity prices;
- **Displaced Commercial Risk:** the risk arising from assets managed by the Bank on behalf of depositors / investors as the Bank follows the practice of potentially foregoing part or all of its Mudarib share of profit on these assets;
- **Liquidity Risk:** the potential inability of the Bank to meet its funding requirements at a reasonable cost (funding liquidity risk) or its inability to liquidate positions quickly at a reasonable price (market liquidity risk).

The objective of the Bank's market risk management is to manage and control market risk exposures in order to optimize return on risk while maintaining a market risk profile consistent with the Bank's approved risk appetite.

The Bank separates exposures to market risk into either trading or non-trading portfolios. Trading portfolios include those positions arising from market making, proprietary position taking and other marked-to-market positions so designated as per the approved Trading Book Policy Statements. Non-trading portfolios primarily arise from the re-pricing mismatches of the Bank's customer driven assets and liabilities and from the Bank's investment of its surplus funds.

Market risk governance

The management of market risk is principally carried out by using risk limits approved by the BRC, guided by the Risk Appetite Statement approved by the Board of Directors.

The Asset and Liability Management Committee ("ALCO") is responsible under the authority delegated by the BRC for managing market risk at strategic level.

Management of market risk

All market risk exposures are managed by Treasury. The aim is to ensure that all market risks are consolidated at Treasury, which has the necessary skills, tools, management and governance to manage such risks professionally. Limits are set for portfolios, products and risk types, with market liquidity and credit quality being the principal factors in determining the level of limits set.

Market Risk Management Department ("MRMD") is the independent risk control function and is responsible for ensuring efficient implementation of market risk management policies. MRMD is also responsible for developing the Bank's market risk management guidelines, measurement techniques, behavioural assumptions and limit setting methodologies. Any excesses against the prescribed limits are reported immediately to the Senior Management. Strict escalation procedures are well documented and approved by the BRC. In addition, the market risk exposures and limits are regularly reported to the ALCO and BRC.

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(b) Market risk (continued)

Management of market risk (continued)

Other controls to ensure market risk exposures remain within tolerable levels include stress testing, rigorous new product approval procedures and a list of permissible instruments that can be traded. Stress test results are produced monthly to determine the impact of changes in profit rates, foreign exchange rates and other risk factors on the Bank's profitability, capital adequacy and liquidity. The stress test provides the Management and the BRC with an assessment of the financial impact of identified extreme events on the market risk exposures of the Bank.

(i) Profit rate risk

The table below summarises the Group's and Bank's exposure to profit rate risk. The table indicates average profit rates at the reporting date and the periods in which the financial instruments reprice or mature, whichever is earlier.

GROUP AS AT 31 DECEMBER 2011	NON TRADING BOOK						TRADING BOOK RM'000	TOTAL RM'000	EFFECTIVE PROFIT RATE %
	UP TO 1 MONTH RM'000	>1-3 MONTHS RM'000	>3-12 MONTHS RM'000	1-5 YEARS RM'000	OVER 5 YEARS RM'000	NON PROFIT SENSITIVE RM'000			
Assets									
Cash, balances and placements with banks	2,593,040	425,000	335,000	–	–	871,321	–	4,224,361	2.63
Financial assets held-for-trading	–	–	–	–	–	–	1,228,952	1,228,952	3.62
Derivative financial assets	–	–	–	–	–	–	15,877	15,877	0.64
Financial assets available-for-sale	497,432	1,252,541	1,514,284	5,382,883	2,342,995	14,986	–	11,005,121	4.19
Financial assets held-to-maturity	23,287	9,000	153,461	35,000	106,586	–	–	327,334	3.61
Financing, advances and others									
– non-impaired	4,174,586	110,680	3,361,000	4,130,242	2,361,645	47,352	–	14,185,505	7.11
– impaired net of allowances *	–	–	–	–	–	(44,535)	–	(44,535)	–
Other assets	–	–	–	–	–	1,243,836	–	1,243,836	–
Total assets	7,288,345	1,797,221	5,363,745	9,548,125	4,811,226	2,132,960	1,244,829	32,186,451	

* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired financing.

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(b) Market risk (continued)

(i) Profit rate risk (continued)

GROUP AS AT 31 DECEMBER 2011	NON TRADING BOOK					NON PROFIT SENSITIVE RM'000	TRADING BOOK RM'000	TOTAL RM'000	EFFECTIVE PROFIT RATE %
	UP TO 1 MONTH RM'000	>1-3 MONTHS RM'000	>3-12 MONTHS RM'000	1-5 YEARS RM'000	OVER 5 YEARS RM'000				
Liabilities									
Deposits from customers	13,720,453	1,832,130	236,327	104,736	-	12,386,032	-	28,279,678	1.83
Deposits and placements of banks and other financial institutions	377,930	-	6,698	-	-	-	-	384,628	1.92
Derivative financial liabilities	-	-	-	-	-	-	23,299	23,299	0.93
Bills and acceptance payable	-	-	-	-	-	259,153	-	259,153	3.09
Other liabilities	-	-	-	-	-	447,500	-	447,500	-
Total liabilities	14,098,383	1,832,130	243,025	104,736	-	13,092,685	23,299	29,394,258	
Equity									
Equity attributable to equity holders of the Bank	-	-	-	-	-	2,792,193	-	2,792,193	
Total equity	-	-	-	-	-	2,792,193	-	2,792,193	
Total liabilities and shareholders' equity	14,098,383	1,832,130	243,025	104,736	-	15,884,878	23,299	32,186,451	
On-balance sheet profit sensitivity gap	(6,810,038)	(34,909)	5,120,720	9,443,389	4,811,226	(13,751,918)	1,221,530	-	
Off-balance sheet profit sensitivity gap (profit rate swaps)	100,000	400,000	-	(500,000)	-	-	-	-	
Total profit sensitivity gap	(6,710,038)	365,091	5,120,720	8,943,389	4,811,226	(13,751,918)	1,221,530	-	

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(b) Market risk (continued)

(i) Profit rate risk (continued)

GROUP AS AT 31 DECEMBER 2010	NON TRADING BOOK						TRADING BOOK	TOTAL	EFFECTIVE PROFIT RATE %
	UP TO 1 MONTH	>1-3 MONTHS	>3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	NON PROFIT SENSITIVE			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Assets									
Cash, balances and placements with banks	1,949,340	–	100,000	–	–	823,153	–	2,872,493	2.18
Financial assets held-for-trading	–	–	–	–	–	–	2,279,447	2,279,447	2.54
Derivative financial assets	–	–	–	–	–	–	80,108	80,108	1.26
Financial assets available-for-sale	1,251,770	1,941,514	1,479,525	5,985,931	2,089,294	14,986	–	12,763,020	3.66
Financial assets held-to-maturity	–	–	–	146,742	69,202	–	–	215,944	3.43
Financing, advances and others	–	–	–	–	–	–	–	–	–
– non-impaired	1,102,446	773,502	626,960	2,740,830	6,488,775	–	–	11,732,513	7.39
– impaired net of allowances*	–	–	–	–	–	128,118	–	128,118	–
Other assets	–	–	–	–	–	314,409	–	314,409	–
Total assets	4,303,556	2,715,016	2,206,485	8,873,503	8,647,271	1,280,666	2,359,555	30,386,052	

* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired financing.

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(b) Market risk (continued)

(i) Profit rate risk (continued)

GROUP AS AT 31 DECEMBER 2010	NON TRADING BOOK					NON PROFIT SENSITIVE RM'000	TRADING BOOK RM'000	TOTAL RM'000	EFFECTIVE PROFIT RATE %
	UP TO 1 MONTH RM'000	>1-3 MONTHS RM'000	>3-12 MONTHS RM'000	1-5 YEARS RM'000	OVER 5 YEARS RM'000				
Liabilities									
Deposits from customers	13,743,929	1,031,074	1,210,525	138,195	–	10,742,832	–	26,866,555	1.87
Deposits and placements of banks and other financial institutions	371,431	–	–	6,698	–	–	–	378,129	3.24
Derivative financial liabilities	–	–	–	–	–	–	66,708	66,708	1.05
Bills and acceptance payable	163,191	–	–	–	–	–	–	163,191	2.23
Other liabilities	–	–	–	–	–	375,716	–	375,716	–
Total liabilities	14,278,551	1,031,074	1,210,525	144,893	–	11,118,548	66,708	27,850,299	
Equity									
Equity attributable to equity holders of the Bank	–	–	–	–	–	2,535,278	–	2,535,278	
Non-controlling interest	–	–	–	–	–	475	–	475	
Total equity	–	–	–	–	–	2,535,753	–	2,535,753	
Total liabilities and shareholders' equity	14,278,551	1,031,074	1,210,525	144,893	–	13,654,301	66,708	30,386,052	
On-balance sheet profit sensitivity gap	(9,974,995)	1,683,942	995,960	8,728,610	8,647,271	(12,373,635)	2,292,847	–	
Off-balance sheet profit sensitivity gap (profit rate swaps)	100,000	400,000	–	(500,000)	–	–	–	–	
Total profit sensitivity gap	(9,874,995)	2,083,942	995,960	8,228,610	8,647,271	(12,373,635)	2,292,847	–	

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(b) Market risk (continued)

(i) Profit rate risk (continued)

BANK AS AT 31 DECEMBER 2011	NON TRADING BOOK						TRADING BOOK	TOTAL	EFFECTIVE PROFIT RATE %
	UP TO 1 MONTH	>1-3 MONTHS	>3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	NON PROFIT SENSITIVE			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Assets									
Cash, balances and placements with banks	2,593,041	425,000	335,000	-	-	862,904	-	4,215,945	2.57
Financial assets held-for-trading	-	-	-	-	-	-	1,228,952	1,228,952	3.62
Derivative financial assets	-	-	-	-	-	-	15,877	15,877	0.64
Financial assets available-for-sale	497,432	1,252,541	1,514,284	5,382,883	2,342,995	16,997	-	11,007,132	4.19
Financial assets held-to-maturity	23,287	9,000	153,461	35,000	106,586	-	-	327,334	3.61
Financing, advances and others									
- non-impaired	4,174,586	110,680	3,381,852	4,155,242	2,361,645	-	-	14,184,005	7.09
- impaired net of allowances*	-	-	-	-	-	(44,535)	-	(44,535)	-
Other assets	-	-	-	-	-	1,270,927	-	1,270,927	-
Total assets	7,288,346	1,797,221	5,384,597	9,573,125	4,811,226	2,106,293	1,244,829	32,205,637	

* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired financing.

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(b) Market risk (continued)

(i) Profit rate risk (continued)

BANK AS AT 31 DECEMBER 2011	NON TRADING BOOK					NON PROFIT SENSITIVE RM'000	TRADING BOOK RM'000	TOTAL RM'000	EFFECTIVE PROFIT RATE %
	UP TO 1 MONTH RM'000	>1-3 MONTHS RM'000	>3-12 MONTHS RM'000	1-5 YEARS RM'000	OVER 5 YEARS RM'000				
Liabilities									
Deposits from customers	13,738,328	1,839,154	236,657	104,736	-	12,386,032	-	28,304,907	1.83
Deposits and placements of banks and other financial institutions	377,930	-	6,698	-	-	-	-	384,628	1.92
Derivative financial liabilities	-	-	-	-	-	-	23,299	23,299	0.93
Bills and acceptance payable	2,922	-	-	-	-	259,153	-	262,075	3.09
Other liabilities	-	-	-	-	-	445,421	-	445,421	-
Total liabilities	14,119,180	1,839,154	243,355	104,736	-	13,090,606	23,299	29,420,330	
Equity									
Equity attributable to equity holders of the Bank	-	-	-	-	-	2,785,307	-	2,785,307	
Total equity	-	-	-	-	-	2,785,307	-	2,785,307	
Total liabilities and shareholders' equity	14,119,180	1,839,154	243,355	104,736	-	15,875,913	23,299	32,205,637	
On-balance sheet profit sensitivity gap	(6,830,834)	(41,933)	5,141,242	9,468,389	4,811,226	(13,769,620)	1,221,530	-	
Off-balance sheet profit sensitivity gap (profit rate swaps)	100,000	400,000	-	(500,000)	-	-	-	-	
Total profit sensitivity gap	(6,730,834)	358,067	5,141,242	8,968,389	4,811,226	(13,769,620)	1,221,530	-	

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(b) Market risk (continued)

(i) Profit rate risk (continued)

BANK AS AT 31 DECEMBER 2010	NON TRADING BOOK						TRADING BOOK	TOTAL	EFFECTIVE PROFIT RATE %
	UP TO 1 MONTH	>1-3 MONTHS	>3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	NON PROFIT SENSITIVE			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Assets									
Cash, balances and placements with banks	1,939,128	–	100,000	–	–	823,153	–	2,862,281	2.11
Financial assets									
held-for-trading	–	–	–	–	–	–	2,279,447	2,279,447	2.54
Derivative financial assets	–	–	–	–	–	–	80,108	80,108	1.26
Financial assets									
available-for-sale	1,251,770	1,941,514	1,479,525	5,985,931	2,089,294	16,997	–	12,765,031	3.66
Financial assets									
held-to-maturity	–	–	–	146,742	69,202	–	–	215,944	3.43
Financing, advances and others									
– non-impaired	1,102,446	773,502	613,063	2,753,236	6,488,775	–	–	11,731,022	7.41
– impaired net of allowances*	–	–	–	–	–	128,118	–	128,118	–
Other assets	–	–	–	–	–	337,997	–	337,997	–
Total assets	4,293,344	2,715,016	2,192,588	8,885,909	8,647,271	1,306,265	2,359,555	30,399,948	

* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired financing.

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(b) Market risk (continued)

(i) Profit rate risk (continued)

BANK AS AT 31 DECEMBER 2010	NON TRADING BOOK						TRADING BOOK	TOTAL	EFFECTIVE PROFIT RATE %
	UP TO 1 MONTH	>1-3 MONTHS	>3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	NON PROFIT SENSITIVE			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Liabilities									
Deposits from customers	13,763,135	1,033,563	1,210,525	138,195	–	10,742,832	–	26,888,250	1.87
Deposits and placements of banks and other financial institutions	371,431	–	–	6,698	–	–	–	378,129	3.24
Derivative financial liabilities	–	–	–	–	–	–	66,708	66,708	1.05
Bills and acceptance payable	165,532	–	–	–	–	–	–	165,532	2.23
Other liabilities	–	–	–	–	–	374,361	–	374,361	–
Total liabilities	14,300,098	1,033,563	1,210,525	144,893	–	11,117,193	66,708	27,872,980	
Equity									
Equity attributable to equity holders of the Bank	–	–	–	–	–	2,526,968	–	2,526,968	
Total equity	–	–	–	–	–	2,526,968	–	2,526,968	
Total liabilities and shareholders' equity	14,300,098	1,033,563	1,210,525	144,893	–	13,644,161	66,708	30,399,948	
On-balance sheet profit sensitivity gap	(10,006,754)	1,681,453	982,063	8,741,016	8,647,271	(12,337,896)	2,292,847	–	
Off-balance sheet profit sensitivity gap (profit rate swaps)	100,000	400,000	–	(500,000)	–	–	–	–	
Total profit sensitivity gap	(9,906,754)	2,081,453	982,063	8,241,016	8,647,271	(12,337,896)	2,292,847	–	

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(b) Market risk (continued)

(ii) Profit rate risk in the non-trading portfolio

Profit rate risk in the non-trading portfolio is managed and controlled using measurement known as economic value of equity (“EVE”) and earnings-at-risk (“EaR”). EVE and EaR limits are approved by the BRC and independently monitored monthly by MRMD. Exposures and limits are regularly discussed and reported to ALCO and BRC.

The table below shows the projected Group’s and Bank’s sensitivity to a 100 basis points parallel shift to profit rates across all maturities applied on the Group’s and Bank’s profit rate sensitivity gap as at reporting date.

	31.12.2011		31.12.2010	
	-100bps	+100bps	-100bps	+100bps
	INCREASE/(DECREASE)			
	RM MILLION	RM MILLION	RM MILLION	RM MILLION
Bank				
Impact on EaR	58.08	(58.08)	97.62	(97.62)
Impact on EVE	155.16	(155.16)	150.93	(150.93)

Profit rate risk in the banking book is defined as the exposure of the non-trading products of the Group and the Bank to profit rates. Non-trading portfolios are subject to prospective profit rate movements which could reduce future earnings. Profit rate risk arises principally from mismatches between future yields on assets and their funding costs.

The Bank manages market risk in non-trading portfolios by monitoring the sensitivity of projected EaR and EVE under varying profit rate scenarios (simulation modeling). For simulation modeling, a combination of standard scenarios and non-standard scenarios relevant to the local market are used. The standard scenarios monitored monthly include a 100 and 200 basis points parallel fall or rise in profit rates and historical simulation of past events. The scenarios assume no management action. Hence, they do not incorporate actions that would be taken by Treasury to mitigate the impact of the profit rate risk. In reality, depending on the view on future market movements, Treasury would proactively seek to change the profit rate exposure profile to minimize losses and to optimize net revenues. The nature of the hedging and risk mitigation strategies corresponds to the market instruments available. These strategies range from the use of traditional market instruments, such as profit rate swaps, to more intricate hedging strategies to address inordinate profit rate risk exposures.

Other controls to contain profit rate risk in the non-trading portfolio include stress testing and applying sensitivity limits to the available for sale financial assets. Sensitivity is measured by the present value of a 1 basis point change (“PV01”) and is independently monitored by MRMD on a weekly basis against limits approved by the BRC. PV01 exposures and limits are regularly discussed and reported to ALCO and BRC.

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(b) Market risk (continued)

(iii) Market risk in the Trading Portfolio

Market risk in the trading portfolio is monitored and controlled using Value-at-Risk ("VaR"). VaR limit is approved by the BRC and independently monitored daily by MRMD. Exposures and limits are regularly discussed and reported to ALCO and BRC.

A summary of the VaR position of the Bank's trading portfolios at the reporting date is as follows:

BANK	AS AT	AVERAGE	MAXIMUM	MINIMUM
	31.12.2011			
	RM'000	RM'000	RM'000	RM'000
Profit rate risk	911,201	834,260	2,293,646	89,945
Foreign exchange risk	45,507	176,106	659,742	14,026
Overall	956,708	1,010,366	2,953,388	103,971

Value-at-risk

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The VaR models used by the Bank are based on historical simulation. These models derive plausible future scenarios from past series of recorded market rates and prices, taking into account inter-relationships between different markets and rates such as profit rates and foreign exchange rates. The historical simulation models used by the Bank incorporate the following features:

- potential market movements are calculated with reference to data from the past four years;
- historical market rates and prices are calculated with reference to foreign exchange rates and profit rates; and
- VaR is calculated to a 99 per cent confidence level and for a one-day holding period. The nature of the VaR models means that an increase in observed market volatility will lead to an increase in VaR without any changes in the underlying positions.

Statistically, the Bank would expect to see losses in excess of VaR only 1 per cent of the time over a one-year period. The actual number of excesses over this period can therefore be used to gauge how well the models are performing.

Although a valuable guide to risk, VaR should always be viewed in the context of its limitations. For example:

- The use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- The use of a 1-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a 1-day holding period may be insufficient to liquidate or hedge all positions fully;
- The use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence;
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures; and
- VaR is unlikely to reflect the loss potential on exposures that might arise under significant market movements.

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(b) Market risk (continued)

(iii) Market risk in the Trading Portfolio (continued)

Value-at-risk (continued)

The Bank recognises these limitations by augmenting the VaR limits with other limits such as maximum loss limits, position limits and PV01 limits structures. These limits are approved by the BRC and independently monitored daily by MRMD. Exposures and limits are regularly discussed and reported to ALCO and BRC.

Other controls to contain market risk at an acceptable level are through stress testing, rigorous new product approval processes and a list of permissible instruments to be traded. Stress tests are produced monthly to determine the impact of changes in profit rates, foreign exchange rates and other main economic indicators on the Group and the Bank's profitability, capital adequacy and liquidity. The stress-testing provides the Management and the BRC with an assessment of the financial impact of identified extreme events on the market risk exposures of the Bank.

(iv) Foreign exchange risk

Trading positions

In addition to VaR and stress testing, the Bank controls the foreign exchange risk within the trading portfolio by limiting the open exposure to individual currencies, and on an aggregate basis.

Overall (trading and non-trading positions)

The Bank controls the overall foreign exchange risk by limiting the open exposure to non-Ringggit positions on an aggregate basis.

Foreign exchange limits are approved by the BRC and independently monitored daily by MRMD. Exposures and limits are regularly discussed and reported to ALCO and BRC.

Sensitivity Analysis

Considering that other risk variables remain constant, the foreign currency revaluation sensitivity for the Group and Bank as at reporting date is summarised as follows:

	31.12.2011		31.12.2010	
	-1%	+1%	-1%	+1%
	DEPRECIATION	APPRECIATION	DEPRECIATION	APPRECIATION
	RM'000	RM'000	RM'000	RM'000
Group				
US Dollar	(2,214)	2,214	8,139	(8,139)
Euro	1,069	(1,069)	(20)	20
Others	(112,728)	112,728	(310,276)	310,276
Bank				
US Dollar	11,574	(11,574)	8,232	(8,232)
Euro	(254)	254	(14)	14
Others	(93,420)	93,420	(24,163)	24,163

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(c) Liquidity risk

Overview

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations when they fall due, or might have to fund these obligations at excessive cost. This risk can arise from mismatches in the timing of cash flows. Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms when required.

The Bank maintains a diversified and stable funding base comprising core retail, commercial, corporate customer deposits and institutional balances. This is augmented by wholesale funding and portfolios of highly liquid assets.

The objective of the Bank's liquidity and funding management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due and that wholesale market access remains accessible and cost effective.

Current accounts and savings deposits payable on demand or at short notice form a significant part of the Bank's funding, and the Bank places considerable importance on maintaining their stability. For deposits, stability depends upon preserving depositor confidence in the Bank and the Bank's capital strength and liquidity, and on competitive and transparent pricing.

The management of liquidity and funding is primarily carried out in accordance with the Bank Negara Malaysia Liquidity Framework and practices and limits and triggers approved by the BRC and ALCO. These limits and triggers vary to take account of the depth and liquidity of the local market in which the Bank operates. The Bank maintains a strong liquidity position and manages the liquidity profile of its assets, liabilities and commitments to ensure that cash flows are appropriately balanced and all obligations are met when due.

The Bank's liquidity and funding management process includes:

- Daily projection of cash flows and ensuring that the Bank has sufficient liquidity surplus and reserves to sustain a sudden liquidity shock;
- Projecting cash flows and considering the level of liquid assets necessary in relation thereto;
- Maintain liabilities of appropriate term relative to the asset base;
- Maintain a diverse range of funding sources with adequate back-up facilities;
- Monitor depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- Manage the maturities and diversify funding liabilities across products and counterparties.

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(c) Liquidity risk (continued)

Liquidity and funding risk governance

The management of liquidity and funding risk is principally undertaken using risk limit mandates approved by the BRC and management action triggers assigned by the ALCO.

ALCO is responsible under the authority delegated by the BRC for managing liquidity and funding risk at strategic level.

Management of liquidity and funding risk

All liquidity risk exposures are managed by Treasury. The aim is to ensure that liquidity and funding risk are consolidated at Treasury, which has the necessary skills, tools, management and governance to manage such risks professionally. Limits and triggers are set to meet the following objectives:

- Sufficient liquidity surplus and reserves to sustain a sudden liquidity shock;
- Cash flows are relatively diversified across all maturities;
- Deposit base is not overly concentrated to a relatively small number of depositors;
- Sufficient borrowing capacity in the Interbank market and highly liquid financial assets to back it up; and
- Not over-extending financing activities relative to the deposit base.

MRMD is the independent risk control function and is responsible for ensuring efficient implementation of liquidity and funding risk management policies. MRMD is also responsible for developing the Bank's liquidity and funding risk management guidelines, measurement techniques, behavioural assumptions and limit setting methodologies. Any excess against the prescribed limits and triggers are reported immediately to the Senior Management. Strict escalation procedures are well documented and approved by the BRC, with proper authorities to ratify or approve the excess in place. In addition, the market risk exposures and limits are regularly reported to the ALCO and BRC.

Another control to ensure that liquidity and funding risk exposures remain within tolerable levels includes stress testing. Stress testing and scenario analysis are important tools in the Bank's liquidity management framework. This will also include an assessment of asset liquidity under various stress scenarios. Stress test results are produced monthly to determine the impact of a sudden liquidity shock. The stress-testing provides the Management and the BRC with an assessment of the financial impact of identified extreme events on the liquidity and funding risk exposures of the Bank.

Another key control feature of the Bank's liquidity and funding risk management are the approved and documented liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimising adverse long-term implications to the Bank.

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(c) Liquidity risk (continued)

(i) Maturity analysis

The table below summarises the Group's and Bank's undiscounted cash flows by remaining contractual maturities.

GROUP AS AT 31 DECEMBER 2011	ON DEMAND RM'000	UP TO 1 MONTH RM'000	>1 TO 3 MONTHS RM'000	>3 TO 6 MONTHS RM'000	>6 TO 12 MONTHS RM'000	OVER 1 YEAR RM'000	TOTAL RM'000
Assets							
Cash, balances and placements with banks	3,364,180	100,181	425,000	285,000	50,000	–	4,224,361
Securities portfolio	–	820,251	1,335,998	1,967,349	452,523	7,985,286	12,561,407
Derivative financial assets	–	5,346	1,320	169	8,301	741	15,877
Financing and advances	–	4,174,586	110,680	1,730,274	1,678,078	6,447,352	14,140,970
Other assets	–	–	–	–	–	1,243,836	1,243,836
Total assets	3,364,180	5,100,364	1,872,998	3,982,792	2,188,902	15,677,215	32,186,451
Liabilities							
Deposits from customers	12,368,826	9,260,314	4,330,227	439,604	1,708,758	171,949	28,279,678
Deposits and placements of banks and other financial institutions	–	377,930	–	–	6,698	–	384,628
Derivative financial liabilities	–	5,555	644	263	8,130	8,707	23,299
Other liabilities	–	–	–	–	–	706,653	706,653
Total liabilities	12,368,826	9,643,799	4,330,871	439,867	1,723,586	887,309	29,394,258
Equity							
Equity attributable to equity holders of the Bank	–	–	–	–	–	2,792,193	2,792,193
On Balance Sheet							
Net liquidity gap	(9,004,646)	(4,543,435)	(2,457,873)	3,542,925	465,316	11,997,713	–
Commitments and contingencies	822,145	1,438,399	1,242,637	643,234	1,856,794	3,282,895	9,286,104
Net liquidity gap	(9,826,791)	(5,981,834)	(3,700,510)	2,899,691	(1,391,478)	8,714,818	(9,286,104)

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(c) Liquidity risk (continued)

(i) Maturity analysis (continued)

GROUP AS AT 31 DECEMBER 2010	ON DEMAND RM'000	UP TO 1 MONTH RM'000	>1 TO 3 MONTHS RM'000	>3 TO 6 MONTHS RM'000	>6 TO 12 MONTHS RM'000	OVER 1 YEAR RM'000	TOTAL RM'000
Assets							
Cash, balances and placements with banks	2,519,695	252,798	–	100,000	–	–	2,872,493
Securities portfolio	–	2,512,603	2,890,112	466,054	1,018,443	8,371,199	15,258,411
Derivative financial assets	–	24,952	9,192	8,106	27,804	10,054	80,108
Financing, advances and others	–	3,097,357	773,502	314,415	312,545	7,362,812	11,860,631
Other assets	–	–	–	–	–	314,409	314,409
Total assets	2,519,695	5,887,710	3,672,806	888,575	1,358,792	16,058,474	30,386,052
Liabilities							
Deposits from customers	10,742,832	9,100,751	4,327,025	624,120	1,887,361	184,466	26,866,555
Deposits and placements of banks and other financial institutions	–	371,430	–	–	–	6,699	378,129
Derivative financial liabilities	–	12,162	3,151	10,240	29,005	12,150	66,708
Other liabilities	–	–	–	–	–	538,907	538,907
Total liabilities	10,742,832	9,484,343	4,330,176	634,360	1,916,366	742,222	27,850,299
Equity							
Equity attributable to equity holders of the Bank	–	–	–	–	–	2,535,278	2,535,278
Minority interest	–	–	–	–	–	475	475
On Balance Sheet							
Net liquidity gap	(8,223,137)	(3,596,633)	(657,370)	254,215	(557,574)	12,780,499	–
Commitments and contingencies	1,359,102	2,435,647	1,931,970	2,181,283	1,576,951	3,596,339	13,081,292
Net liquidity gap	(9,582,239)	(6,032,280)	(2,589,340)	(1,927,068)	(2,134,525)	9,184,160	(13,081,292)

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(c) Liquidity risk (continued)

(i) Maturity analysis (continued)

BANK AS AT 31 DECEMBER 2011	ON DEMAND RM'000	UP TO 1 MONTH RM'000	>1 TO 3 MONTHS RM'000	>3 TO 6 MONTHS RM'000	>6 TO 12 MONTHS RM'000	OVER 1 YEAR RM'000	TOTAL RM'000
Assets							
Cash, balances and placements with banks	3,355,764	100,181	425,000	285,000	50,000	–	4,215,945
Securities portfolio	–	820,251	1,335,998	1,967,349	452,523	7,987,297	12,563,418
Derivative financial assets	–	5,346	1,320	169	8,301	741	15,877
Financing and advances	–	4,174,586	110,680	1,730,274	1,651,578	6,472,352	14,139,470
Other assets	–	–	–	–	–	1,270,927	1,270,927
Total assets	3,355,764	5,100,364	1,872,998	3,982,792	2,162,402	15,731,317	32,205,637
Liabilities							
Deposits from customers	12,386,031	9,268,008	4,330,557	439,604	1,708,758	171,949	28,304,907
Deposits and placements of banks and other financial institutions	–	377,930	–	–	6,698	–	384,628
Derivative financial liabilities	–	5,555	644	263	8,130	8,707	23,299
Other liabilities	–	2,133	789	–	–	704,574	707,496
Total liabilities	12,386,031	9,653,626	4,331,990	439,867	1,723,586	885,230	29,420,330
Equity							
Equity attributable to equity holders of the Bank	–	–	–	–	–	2,785,307	2,785,307
On Balance Sheet							
Net liquidity gap	(9,030,267)	(4,553,262)	(2,458,992)	3,542,925	438,816	12,060,780	–
Commitments and contingencies	822,145	1,438,399	1,242,637	643,234	1,856,794	3,282,895	9,286,104
Net liquidity gap	(9,852,412)	(5,991,661)	(3,701,629)	2,899,691	(1,417,978)	8,777,885	(9,286,104)

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(c) Liquidity risk (continued)

(i) Maturity analysis (continued)

BANK AS AT 31 DECEMBER 2010	ON DEMAND RM'000	UP TO 1 MONTH RM'000	>1 TO 3 MONTHS RM'000	>3 TO 6 MONTHS RM'000	>6 TO 12 MONTHS RM'000	OVER 1 YEAR RM'000	TOTAL RM'000
Assets							
Cash, balances and placements with banks	2,509,483	252,798	–	100,000	–	–	2,862,281
Securities portfolio	–	2,512,603	2,890,112	466,054	1,018,443	8,373,210	15,260,422
Derivative financial assets	–	24,952	9,192	8,106	27,804	10,054	80,108
Financing, advances and others	–	3,109,763	773,502	300,518	312,545	7,362,812	11,859,140
Other assets	–	–	–	–	–	337,997	337,997
Total assets	2,509,483	5,900,116	3,672,806	874,678	1,358,792	16,084,073	30,399,948
Liabilities							
Deposits from customers	10,742,832	9,122,446	4,327,025	624,120	1,887,361	184,466	26,888,250
Deposits and placements of banks and other financial institutions	–	371,430	–	–	–	6,699	378,129
Derivative financial liabilities	–	12,162	3,151	10,240	29,005	12,150	66,708
Other liabilities	–	–	–	–	–	539,893	539,893
Total liabilities	10,742,832	9,506,038	4,330,176	634,360	1,916,366	743,208	27,872,980
Equity							
Equity attributable to equity holders of the Bank	–	–	–	–	–	2,526,968	2,526,968
On Balance Sheet							
Net liquidity gap	(8,233,349)	(3,605,922)	(657,370)	240,318	(557,574)	12,813,897	–
Commitments and contingencies	1,359,102	2,435,647	1,931,970	2,181,283	1,576,951	3,596,339	13,081,292
Net liquidity gap	(9,592,451)	(6,041,569)	(2,589,340)	(1,940,965)	(2,134,525)	9,217,558	(13,081,292)

37. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(d) Operational risk

This risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems and external events, which includes legal risk and Shariah non compliance risk but excludes strategic and reputational risk.

In managing this risk, Bank Islam has adopted 3 lines of defence approach as follows:

- 1st line of defence – the risk owner or risk taking unit i.e. Business or Support Unit (BU/SU) is accountable for putting a robust control environment in their respective units. They are responsible for day to day management of operational risk. To reinforce accountability and ownership of risk and control, Designation Operational Risk Control for each risk owner are appointed to assist in driving the risk and control programme for the Bank.
- 2nd line of defence – Operational Risk Management Department (“ORMD”) is responsible for establishing and maintaining the ORM framework, developing various ORM tools to facilitate the management of operational risk, monitoring the effectiveness of ORM, assessing operational risk issues from risk owner and escalating OR issues to relevant governance level with recommendations on appropriate risk mitigation strategies. In creating the strong risk culture, ORMD is also responsible to promote risk awareness bank wide i.e. Operational Risk Awareness.
- 3rd line of defence – Internal Audit provides independent assurance to Board and senior management on the effectiveness of ORM process.

38. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Financial instruments comprise financial assets, financial liabilities and off-balance sheet instruments. Fair value is the amount at which the financial assets could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the estimates of fair values as at the financial position date.

Quoted and observable market prices, where available, are used as the measure of fair values of the financial instruments. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors.

Fair value information for non-financial assets and liabilities are excluded as they do not fall within the scope of FRS 132, “Financial Instruments: Disclosure and Presentation” which requires the fair value information to be disclosed. These include investment in subsidiary companies and property and equipment.

38. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

The following summarises the carrying and the estimated fair values of the financial assets and liabilities on the financial position:

GROUP	CARRYING VALUE		FAIR VALUE	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Financial assets				
Cash and short-term funds	3,364,180	2,519,695	3,364,180	2,519,695
Deposits and placements with banks and other financial institutions	860,181	352,798	860,181	352,798
Financial assets held-for-trading	1,228,952	2,279,447	1,228,952	2,279,447
Derivative financial assets	15,877	80,108	15,877	80,108
Financial assets available-for-sale	11,005,121	12,763,020	11,005,121	12,763,020
Financial assets held-to-maturity	327,334	215,944	330,061	217,528
Financing, advances and others	14,140,970	11,860,631	14,200,236	12,050,982
Financial liabilities				
Deposits from customers	28,279,678	26,866,555	28,279,678	26,866,334
Deposits and placements of banks and other financial institutions	384,628	378,129	384,628	378,129
Derivative financial liabilities	23,299	66,708	23,299	66,708
Bills and acceptance payable	259,153	163,191	259,153	163,191
BANK	CARRYING VALUE		FAIR VALUE	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Financial assets				
Cash and short-term funds	3,355,764	2,509,483	3,355,764	2,509,483
Deposits and placements with banks and other financial institutions	860,181	352,798	860,181	352,798
Financial assets held-for-trading	1,228,952	2,279,447	1,228,952	2,279,447
Derivative financial assets	15,877	80,108	15,877	80,108
Financial assets available-for-sale	11,007,132	12,765,031	11,007,132	12,765,031
Financial assets held-to-maturity	327,334	215,944	330,061	217,528
Financing, advances and others	14,139,470	11,859,140	14,198,737	12,049,491
Financial liabilities				
Deposits from customers	28,304,907	26,888,250	28,304,907	26,888,029
Deposits and placements of banks and other financial institutions	384,628	378,129	384,628	378,129
Derivative financial liabilities	23,299	66,708	23,299	66,708
Bills and acceptance payable	262,075	165,532	262,075	165,532

The fair value of the Group's and of the Bank's financial instruments which include cash and short-term funds, deposits and placements with banks and other financial institutions and short-term borrowings are not materially sensitive to shifts in market profit rate because of the limited term to maturity of these instruments.

As such, the carrying value of these financial assets and liabilities at financial position date approximate their fair values.

38. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

The fair values are based on the following methodologies and assumptions:

Deposits and placements with banks and other financial institutions

For deposits and placements with financial instruments with maturities of less than six months, the carrying value is a reasonable estimate of fair values. For deposits and placements with maturities six months and above, the estimated fair values are based on discounted cash flows using prevailing money market profit rates at which similar deposits and placements would be made with financial instruments of similar credit risk and remaining period to maturity.

Financial assets held-for-trading, available-for-sale and held-to-maturity

The estimated fair values are generally based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been estimated by reference to market indicative yields or net tangible asset backing of the investee.

Financing, advances and others

Their fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of financing with similar credit risks and maturities. The fair values are represented by their carrying value, net of impairment loss, being the recoverable amount.

Deposits from customers

The fair values of deposits are deemed to approximate their carrying amounts as rate of returns are determined at the end of their holding periods based on the profit generated from the assets invested.

Deposits and placements of banks and other financial institutions

The estimated fair values of deposits and placements of banks and other financial institutions with maturities of less than six months approximate the carrying values. For deposits and placements with maturities of six months or more, the fair values are estimated based on discounted cash flows using prevailing money market profit rates for deposits and placements with similar remaining period to maturities.

Bills and acceptance payable

The estimated fair values of bills and acceptance payables with maturity of less than six months approximate their carrying values. For bills and acceptance payable with maturities of six months or more, the fair values are estimated based on discounted cash flows using prevailing market rates for borrowings with similar risks profile.

Fair value hierarchy

FRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources and unobservable inputs reflect the Group's market assumptions. The fair value hierarchy is as follows:

- Level 1 – Quoted price (unadjusted) in active markets for the identical assets or liabilities. This level includes listed equity securities and debt instruments.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes profit rates swap and structured debt. The sources of input parameters include Bank Negara Malaysia (BNM) indicative yields or counterparty credit risk.
- Level 3 – Inputs for asset or liability that are not based on observable market data (unobservable inputs). This level includes equity instruments and debt instruments with significant unobservable components.

38. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value hierarchy (continued)

The levels of fair value hierarchy into which fair value measurements are categorised in their entirety based are as follows:

31 DECEMBER 2011	LEVEL 1 RM'000	LEVEL 2 RM'000	LEVEL 3 RM'000	TOTAL RM'000
Securities held-for-trading	–	1,228,952	–	1,228,952
Securities available-for-sale*	–	10,971,740	18,396	10,990,136
Derivative financial assets	–	15,877	–	15,877
Derivative financial liabilities	–	23,299	–	23,299

* excludes those unquoted securities stated at cost

The following table presents the changes in Level 3 instruments for the financial year ended 31 December 2011 for Group and Bank:

RM'000	AT 1.1.2011	GAIN/ (LOSSES)	SETTLEMENT	TRANSFER IN/(OUT)	AT 31.12.2011
Securities available-for-sale	80,065	(17,345)	(94,820)	50,496	18,396

39. LEASE COMMITMENTS

The Group and the Bank have lease commitments in respect of equipment on hire and rental of premises, all of which are classified as operating leases. A summary of the non-cancellable long term commitments are as follows:

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Within one year	27,976	3,154	27,972	3,143
Between one and five years	95,043	48,087	95,021	48,079
More than five years	605,842	–	605,842	–
	728,861	51,241	728,835	51,222

Included in the above are lease rentals with the ultimate holding corporation amounting to RM609,236,000 (2010: Nil).

40. CAPITAL COMMITMENTS

	GROUP AND BANK	
	31.12.2011 RM'000	31.12.2010 RM'000
Property and equipment		
Contracted but not provided for in the financial statements	56,640	52,333
Approved but not contracted for and provided for in the financial statements	24,376	36,633
	81,016	88,966

41. CAPITAL ADEQUACY

Capital Management

The Group's objective when managing capital is to maintain a strong capital position to support business growth, and to maintain investor, depositor, customer and market confidence. In line with this, the Group manages its capital actively and ensure the capital adequacy ratios which takes into account the risk profile of the Group are comfortably above the regulatory minimum.

Capital Adequacy Ratios

The Bank is required to comply with the core capital ratio and risk-weighted capital adequacy ratio prescribed by BNM. The Bank was in compliance with all prescribed capital ratios throughout the period.

The Bank's capital adequacy ratios remained strong. The table below shows the composition of the regulatory capital and capital adequacy ratios as of 31 December 2011 determined according to the requirements of the Capital Adequacy Framework for Islamic Banks (CAFIB) as required under the Islamic Banking Act (IBA) 1983.

The Risk Weighted Capital Ratio (RWCR) of the Group and Bank are set out below:

(a) The capital adequacy ratios of the Group and of the Bank:

	GROUP		BANK	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Before proposed dividend				
Tier 1 Capital Ratio	15.27%	15.75%	15.28%	15.73%
Risk-Weighted Capital Ratio	16.47%	16.99%	16.31%	16.78%
After proposed dividend				
Tier 1 Capital Ratio	15.00%	15.21%	15.02%	15.18%
Risk-Weighted Capital Ratio	16.21%	16.44%	16.05%	16.23%

(b) Tier I and Tier II capital components of the Group and of the Bank:

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Tier I capital				
Paid-up share capital	2,265,490	2,265,490	2,265,490	2,265,490
Share premium	500,020	500,020	500,020	500,020
Accumulated losses	(1,132,381)	(1,185,132)	(1,139,669)	(1,193,852)
Other reserves	974,594	795,013	974,594	795,013
Less: Deferred tax assets	(23,386)	(44,224)	(23,560)	(44,198)
Total Tier I capital	2,584,337	2,331,167	2,576,875	2,322,473

41. CAPITAL ADEQUACY (continued)

(b) Tier I and Tier II capital components of the Group and of the Bank (continued):

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Tier II capital				
Collective assessment allowance [#]	224,776	182,452	224,776	182,452
Total Tier II capital	224,776	182,452	224,776	182,452
Total capital	2,809,113	2,513,619	2,801,651	2,504,925
Less: investment in subsidiaries	–	–	(28,027)	(27,127)
Less: investment in associate company	(21,180)	–	(22,563)	–
Capital base	2,787,933	2,513,619	2,751,061	2,477,798

[#] Excludes portion of collective assessment allowance restricted from Tier II capital by BNM amounting to RM123,779,000 (2010: RM162,590,000).

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

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Credit risk	14,495,066	12,507,496	14,444,198	12,489,781
Market risk	501,309	572,562	503,621	576,707
Operational risk	1,929,294	1,718,698	1,914,767	1,700,522
	16,925,669	14,798,756	16,862,586	14,767,010

41. CAPITAL ADEQUACY (continued)

(d) The off-Balance Sheet and counterparties credit risk for the Group and Bank are as follows:

31 DECEMBER 2011

NATURE OF ITEM	PRINCIPAL AMOUNT RM'000	POSITIVE FAIR VALUE OF DERIVATIVE CONTRACTS RM'000	CREDIT EQUIVALENT AMOUNT RM'000	RISK WEIGHTED ASSET RM'000
Credit related exposures				
Direct credit substitutes	452,553		452,553	444,839
Assets sold with recourse	2		2	2
Transaction related contingent items	884,095		442,048	435,825
Short term self-liquidating trade related contingencies	288,665		57,733	57,221
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– not exceeding one year	1		–	–
– exceeding one year	589,414		294,707	274,384
Unutilised credit card lines	817,113		163,423	122,567
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	3,897,622		–	–
	6,929,465		1,410,466	1,334,838
Derivative Financial Instruments				
Foreign exchange related contracts				
– less than one year	1,644,655	5,589	14,344	8,409
– one year to less than five years	40,244	–	2,754	1,944
Profit rate related contracts				
– less than one year	171,740	7,549	5,582	1,116
– one year to less than five years	500,000	–	12,000	2,400
	2,356,639	13,138	34,680	13,869
Other Treasury related exposures				
Obligations under an on-going underwriting agreement	–		–	–
	–		–	–
Total	9,286,104	13,138	1,445,146	1,348,707

41. CAPITAL ADEQUACY (continued)

(d) The off-Balance Sheet and counterparties credit risk for the Group and Bank are as follows (continued):

31 DECEMBER 2010

NATURE OF ITEM	PRINCIPAL AMOUNT RM'000	POSITIVE FAIR VALUE OF DERIVATIVE CONTRACTS RM'000	CREDIT EQUIVALENT AMOUNT RM'000	RISK WEIGHTED ASSET RM'000
Credit related exposures				
Direct credit substitutes	459,840		459,840	439,315
Assets sold with recourse	242		242	242
Transaction related contingent items	846,719		423,360	396,877
Short term self-liquidating trade related contingencies	312,745		62,549	61,078
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– not exceeding one year	1,003		201	224
– exceeding one year	618,138		309,068	251,715
Unutilised credit card lines	768,840		153,768	115,326
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	4,118,965		–	–
	7,126,492		1,409,028	1,264,777
Derivative Financial Instruments				
Foreign exchange related contracts				
– less than one year	5,208,060	42,284	93,866	26,161
Profit rate related contracts				
– one year to less than five years	671,740	10,055	27,304	7,007
	5,879,800	52,339	121,170	33,168
Other Treasury related exposures				
Obligations under an on-going underwriting agreement	75,000		37,500	37,500
	75,000		37,500	37,500
Total	13,081,292	52,339	1,567,698	1,335,445

42. CONTINGENT LIABILITY

On 20 April, 2010, Bank Islam has referred a dispute in connection with a Services Agreement and Software Agreement (Agreements) with a vendor for arbitration. The Bank claims rescission of the Agreements and a refund of the sum paid (to-date of RM19.03 million) and/or damages, compensation/cost of funds on all sums found to be due to it and an appropriate order as to costs. The vendor has subsequently also filed a counterclaim. The arbitration is expected to commence on 15 February 2012. Based on the legal opinion obtained, the Directors are of the view that the vendor's counterclaim can be successfully resisted and therefore no provision has been recognised in respect of this matter.

43. OPERATING SEGMENTS

The Group's reportable segments, as described below, can be classified into four segments. Each segments offer different products and services. The following summary describes the operations in each of the segments:

- Consumer Banking Includes loans, deposits and other transactions and balances with retail customers
- Corporate and Commercial Banking Includes the Group's corporate finance activities, loans, deposits and other transactions and balances with corporate customers, commercial customers and small & medium enterprises
- Treasury Division Undertakes the Group's funding activities through borrowings and investing in liquid assets such as short-term placements and corporate and government debt securities
- Shareholders unit Operates the Group's funds management activities

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before allocation of overheads and income tax.

	CONSUMER BANKING RM'000	CORPORATE AND COMMERCIAL BANKING RM'000	TREASURY RM'000	SHAREHOLDERS UNIT RM'000	ELIMINATION RM'000	TOTAL RM'000
12 MONTHS ENDED 31 DECEMBER 2011						
Total Revenue	840,720	200,563	490,354	140,410	(5,734)	1,666,313
Net fund based income	552,115	236,199	16,904	149,642	(2,164)	952,696
Non-fund based income	97,211	29,287	87,499	25,783	(3,270)	236,510
Net income	649,326	265,486	104,403	175,425	(5,434)	1,189,206
Allowances for impairment	(56,769)	(2,485)	(15,406)	-	-	(74,660)
Profit before overheads, zakat & taxation	592,557	263,001	88,997	175,425	(5,434)	1,114,546
Operating expenses						(643,595)
						470,951
Share of results of associate company						(1,383)
Profit before zakat & taxation						469,568

43. OPERATING SEGMENTS (continued)

18 MONTHS ENDED 31 DECEMBER 2010	CONSUMER BANKING RM'000	CORPORATE AND COMMERCIAL BANKING RM'000	TREASURY RM'000	SHAREHOLDERS UNIT RM'000	ELIMINATION RM'000	TOTAL RM'000
Total Revenue	1,078,020	269,985	692,317	149,968	(2,301)	2,187,989
Net fund based income	726,995	277,974	48,587	309,232	–	1,362,788
Non-fund based income	118,873	40,602	68,208	20,553	(1,918)	246,318
Net income	845,868	318,576	116,795	329,785	(1,918)	1,609,106
Allowances for impairment	(63,047)	(144,655)	(19,493)	(234)	–	(227,429)
Profit before overheads, zakat & taxation	782,821	173,921	97,302	329,551	(1,918)	1,381,677
Operating expenses						(880,190)
Profit before zakat & taxation						501,487

44. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

(a) Investment in Associate Company

On 7 February 2011, the Bank completed the share subscription exercise for the 20% stake in Sri Lanka based Amana Bank Ltd. The 20% stake is acquired via the subscription of Amana Bank's new shares for a total consideration of about RM21.3 million and a share swap of Bank Islam's existing shareholdings in Amana Investment Ltd for Amana Bank's shares. The total cost of investment is RM22.6 million.

(b) Acquisition of remaining 20% stake in Farihan Corporation Sdn Bhd

On 11 August 2011, the Bank acquired the remaining 20% stake in Farihan Corporation Sdn Bhd, thus making it a 100% wholly owned subsidiary of Bank Islam. The remaining stake was purchased for a total consideration of RM0.9 million and was satisfied by internal funding.

45. COMPARATIVE FIGURES

Following the adoption of Amendments to FRS 117 and presentation of derivatives on a gross basis, certain comparative figures of the Group and the Bank have been reclassified to ensure consistency with the current year's presentation.

	GROUP		BANK	
	AS RESTATED RM'000	AS PREVIOUSLY STATED RM'000	AS RESTATED RM'000	AS PREVIOUSLY STATED RM'000
AS AT 31 DECEMBER 2010				
Statement of Financial Position				
Property and equipment	181,489	167,313	180,380	166,204
Prepaid lease payments	–	14,176	–	14,176
Derivative financial assets	80,108	44,326	80,108	44,326
Derivative financial liabilities	66,708	30,926	66,708	30,926
Other overheads expenses				
Establishment expenses				
Depreciation of property and equipment	58,153	57,893	57,462	57,202
Amortisation of prepaid lease payment	–	260	–	260
AS AT 30 JUNE 2009				
Statement of Financial Position				
Property and equipment	142,146	127,710	140,886	126,450
Prepaid lease payments	–	14,436	–	14,436
Derivative financial assets	26,441	19,776	26,441	19,776
Derivative financial liabilities	28,476	21,811	28,476	21,811
Other overheads expenses				
Establishment expenses				
Depreciation of property and equipment	32,986	32,812	32,717	32,543
Amortisation of prepaid lease payment	–	174	–	174

Pillar 3 Disclosure

as at 31 December 2011

OVERVIEW

The Pillar 3 Disclosure for financial reporting beginning 1 January 2010 is introduced under the Bank Negara Malaysia (“BNM”)’s Capital Adequacy Framework for Islamic Bank (“CAFIB”), which is the equivalent to Basel II issued by the Basel Committee on Banking Supervision and the Islamic Financial Services Board.

CAFIB consists of 3 Pillars:

- (a) Pillar 1 sets minimum regulatory capital to cover credit, market and operational risk
- (b) Pillar 2 aims to ensure that Islamic banking institutions have adequate capital to support their operations at all times
- (c) Pillar 3 aims to enhance transparency by setting the minimum requirements for market disclosures of information on the risk management practices and capital adequacy of Islamic banks

The Bank Islam Group (“the Group”) has adopted the Standardised Approach in determining the capital requirements for credit and market risk and applied the Basic Indicator Approach for operational risk of the Pillar 1 since January 2008. Under the Standardised Approach, standard risk weights are used to assess the capital requirements for exposures in credit and market risk whilst the capital required for operational risk under the Basic Indicator Approach is computed based on a fixed percentage over the Group’s average gross income for a fixed number of quarterly periods.

The Group is also developing an Internal Capital Adequacy Assessment Process (“ICAAP”) framework which closely integrates the risk and capital assessment processes, and ensures that adequate levels of capital are maintained to support the Group’s current and projected demand for capital under expected and stressed conditions. The ICAAP will be fully implemented during the year 2012.

The Group’s Pillar 3 Disclosure is governed by the BNM’s CAFIB – Disclosure Requirements (Pillar 3) which sets out the minimum disclosure standards, the approach in determining the appropriateness of information disclosed and the internal controls over the disclosure process which cover the verification and review of the accuracy of information disclosed.

The Group’s main activity is Islamic banking business which focuses on retail banking and financing operations. The following tables show the minimum regulatory capital requirement to support the Group’s and the Bank’s risk weighted assets.

	31.12.2011		31.12.2010	
	RISK-WEIGHTED ASSETS RM’000	MINIMUM CAPITAL REQUIREMENT AT 8% RM’000	RISK-WEIGHTED ASSETS RM’000	MINIMUM CAPITAL REQUIREMENT AT 8% RM’000
Group				
Credit risk	14,495,066	1,159,605	12,507,496	1,000,600
Market risk	501,309	40,105	572,562	45,805
Operational risk	1,929,294	154,344	1,718,698	137,496
Total	16,925,669	1,354,054	14,798,756	1,183,901
Bank				
Credit risk	14,444,198	1,155,536	12,489,781	999,182
Market risk	503,621	40,290	576,707	46,137
Operational risk	1,914,767	153,181	1,700,522	136,042
Total	16,862,586	1,349,007	14,767,010	1,181,361

The Group does not have any capital requirement for Large Exposure Risk as there is no amount in excess of the lowest threshold arising from equity holdings as specified in the BNM’s CAFIB.

1. SCOPE OF APPLICATION

The Pillar 3 Disclosure is prepared on a consolidated basis and comprises information on the Bank (including the offshore banking operations in the Federal Territory of Labuan) and its' subsidiaries.

There are no significant restrictions or impediments on the transfer of funds or regulatory capital within the Group. There were no capital deficiencies in any of the subsidiary companies of the Group as at the financial year end.

2. CAPITAL ADEQUACY

Capital Management

The Group's primary objective when managing capital is to maintain a strong capital position to support business growth, and to maintain investor, depositor, customer and market confidence. In line with this, the Group manages its capital actively and ensures that the capital adequacy ratios which take into account the risk profile of the Group are comfortably above the regulatory minimum.

To ensure that the Group has sufficient capital to support all its business and risk taking activities, the Group has implemented sound capital management processes in its management systems and processes. A comprehensive capital management framework has been adopted by the Group as a key enabler for value creation which is important to the long term survival of the Group. This comprehensive capital management includes thorough risk assessment and risk management techniques that are embedded as part of risk governance within the Group.

The assessment is based on the approved business plan, its estimation of current risks inherent in the group, and the impact of capital stress tests on the group's capital plan. The Group aims to achieve the following capital management objectives:

- Ensure that the Group is adequately capitalised beyond the minimum regulatory capital requirements under Pillar 1 at all times;
- Maintaining an optimal capital structure that takes into consideration both regulatory and shareholder interests;
- Promote efficient use of capital, through the internal allocation methodology across the Group; and
- Linking and achieving alignment of the business strategy, risk appetite, risk, capital and return dimensions.

Capital Adequacy Ratios

The Bank is required to comply with the core capital ratio and risk-weighted capital adequacy ratio prescribed by BNM. The Bank was in compliance with all prescribed capital ratios throughout the period.

The Bank's capital adequacy ratios remained strong. The table below shows the composition of the regulatory capital and capital adequacy ratios as of 31 December 2011 determined according to the requirements of the CAFIB as required under the Islamic Banking Act ("IBA") 1983.

2. CAPITAL ADEQUACY (continued)

Capital Adequacy Ratios (continued)

The Risk Weighted Capital Ratio ("RWCR") of the Group and Bank are set out below:

(a) The capital adequacy ratios of the Group and of the Bank:

	GROUP		BANK	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Before proposed dividend				
Tier 1 Capital Ratio	15.27%	15.75%	15.28%	15.73%
Risk-Weighted Capital Ratio	16.47%	16.99%	16.31%	16.78%
After proposed dividend				
Tier 1 Capital Ratio	15.00%	15.21%	15.02%	15.18%
Risk-Weighted Capital Ratio	16.21%	16.44%	16.05%	16.23%

(b) Tier I and Tier II capital components of the Group and of the Bank:

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Tier I capital				
Paid-up share capital	2,265,490	2,265,490	2,265,490	2,265,490
Share premium	500,020	500,020	500,020	500,020
Accumulated losses	(1,132,381)	(1,185,132)	(1,139,669)	(1,193,852)
Other reserves	974,594	795,013	974,594	795,013
Less: Deferred tax assets	(23,386)	(44,224)	(23,560)	(44,198)
Total Tier I capital	2,584,337	2,331,167	2,576,875	2,322,473
Tier II capital				
Collective assessment allowance [#]	224,776	182,452	224,776	182,452
Total Tier II capital	224,776	182,452	224,776	182,452
Total capital	2,809,113	2,513,619	2,801,651	2,504,925
Less: investment in subsidiaries	–	–	(28,027)	(27,127)
Less: investment in associate company	(21,180)	–	(22,563)	–
Capital base	2,787,933	2,513,619	2,751,061	2,477,798

[#] Excludes portion of collective assessment allowance restricted from Tier II capital by BNM amounting to RM 123,779,000 (2010: RM162,590,000).

2. CAPITAL ADEQUACY (continued)

Capital Adequacy Ratios (continued)

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

(i) Group

31 DECEMBER 2011 EXPOSURE CLASS	GROSS EXPOSURES RM'000	NET EXPOSURES RM'000	RISK- WEIGHTED ASSETS RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	5,076,787	5,076,787	-	-
Public Sector Entities	260,365	260,365	98,926	7,914
Banks, Developments Financial Institutions (“DFIs”) and Multilateral Development Banks (“MDBs”)	2,772,684	2,772,684	567,248	45,380
Corporate	10,124,425	10,045,100	3,999,673	319,974
Regulatory Retail	6,540,918	6,524,006	5,118,164	409,453
Residential Mortgages	4,177,840	4,177,257	2,375,853	190,068
Higher Risk Assets	25,590	25,590	38,385	3,071
Other Assets	1,917,564	1,917,176	380,971	30,477
Defaulted Exposures	411,237	405,599	567,139	45,371
Total for On-Balance Sheet Exposures	31,307,410	31,204,564	13,146,359	1,051,708
Off-Balance Sheet Exposures				
Credit-related Exposures	1,400,138	1,400,138	1,312,121	104,970
Derivative Financial Instruments	29,098	29,098	12,753	1,020
Defaulted Exposures	15,910	15,910	23,833	1,907
Total for Off-Balance Sheet Exposures	1,445,146	1,445,146	1,348,707	107,897
Total On and Off-Balance Sheet Exposures	32,752,556	32,649,710	14,495,066	1,159,605
	Long position	Short Position		
Market Risk				
Benchmark Rate Risk	1,685	(1,685)	-	100,946
Foreign Exchange Risk	66,323	(372,585)	(306,262)	372,585
Inventory Risk	-	-	27,778	2,222
Total Market Risk	68,008	(374,270)	(278,484)	501,309
Operational Risk			1,929,294	154,344
Total RWA and Capital Requirements			16,925,669	1,354,054

Note: As at 31 December 2011, the Group did not have any credit risk weighted assets absorbed by Profit Sharing Investment Account (“PSIA”), and exposures under securitisation.

2. CAPITAL ADEQUACY (continued)

Capital Adequacy Ratios (continued)

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

(i) Group (continued)

31 DECEMBER 2010 EXPOSURE CLASS	GROSS EXPOSURES RM'000	NET EXPOSURES RM'000	RISK- WEIGHTED ASSETS RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	6,211,397	6,211,397	–	–
Public Sector Entities	373,947	373,947	194,830	15,586
Banks, DFIs and MDBs	3,063,214	3,063,214	616,943	49,356
Corporate	7,667,290	7,621,689	3,270,903	261,672
Regulatory Retail	7,151,194	7,149,263	5,289,319	423,146
Residential Mortgages	1,903,832	1,903,752	755,297	60,424
Higher Risk Assets	25,066	25,066	37,600	3,008
Other Assets	988,497	988,497	376,376	30,110
Defaulted Exposures	634,755	478,430	630,783	50,463
Total for On-Balance Sheet Exposures	28,019,192	27,815,255	11,172,051	893,765
Off-Balance Sheet Exposures				
Credit-related Exposures	1,363,578	1,363,578	1,196,690	95,735
Derivative Financial Instruments	121,170	121,170	33,168	2,653
Other Treasury-related exposures	37,500	37,500	37,500	3,000
Defaulted Exposures	45,450	45,450	68,087	5,447
Total for Off-Balance Sheet Exposures	1,567,698	1,567,698	1,335,445	106,835
Total On and Off-Balance Sheet Exposures	29,586,890	29,382,953	12,507,496	1,000,600
Market Risk				
	Long position	Short Position		
Benchmark Rate Risk	8,106,786	(5,879,692)	2,227,094	18,012
Foreign Exchange Risk	15,967	(268,501)	(252,534)	21,480
Inventory Risk	–	–	78,916	6,313
Total Market Risk	8,122,753	(6,148,193)	2,053,476	45,805
Operational Risk			1,718,698	137,496
Total RWA and Capital Requirements			14,798,756	1,183,901

Note: As at 31 December 2010, the Group did not have any credit risk weighted assets absorbed by Profit Sharing Investment Account ("PSIA"), and exposures under securitisation.

2. CAPITAL ADEQUACY (continued)

Capital Adequacy Ratios (continued)

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

(ii) Bank

31 DECEMBER 2011 EXPOSURE CLASS	GROSS EXPOSURES RM'000	NET EXPOSURES RM'000	RISK- WEIGHTED ASSETS RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	5,076,787	5,076,787	–	–
Public Sector Entities	260,365	260,365	98,926	7,914
Banks, DFIs and MDBs	2,772,316	2,772,316	567,174	45,374
Corporate	10,124,425	10,045,100	3,999,673	319,974
Regulatory Retail	6,540,918	6,524,006	5,118,164	409,453
Residential Mortgages	4,177,840	4,177,257	2,375,853	190,068
Higher Risk Assets	25,590	25,590	38,385	3,071
Other Assets	1,858,720	1,858,332	330,177	26,414
Defaulted Exposures	411,237	405,599	567,139	45,371
Total for On-Balance Sheet Exposures	31,248,198	31,145,352	13,095,491	1,047,639
Off-Balance Sheet Exposures				
Credit-related Exposures	1,400,138	1,400,138	1,312,121	104,970
Derivative Financial Instruments	29,098	29,098	12,753	1,020
Defaulted Exposures	15,910	15,910	23,833	1,907
Total for Off-Balance Sheet Exposures	1,445,146	1,445,146	1,348,707	107,897
Total On and Off-Balance Sheet Exposures	32,693,344	32,590,498	14,444,198	1,155,536
	Long position	Short Position		
Market Risk				
Benchmark Rate Risk	1,685	(1,685)	–	100,946
Foreign Exchange Risk	62,073	(374,898)	(312,195)	29,992
Inventory Risk	–	–	27,778	2,222
Total Market Risk	63,758	(376,583)	(285,047)	40,290
Operational Risk			1,914,767	153,181
Total RWA and Capital Requirements			16,862,586	1,349,007

Note: As at 31 December 2011, the Bank did not have any credit risk weighted assets absorbed by Profit Sharing Investment Account (“PSIA”), and exposures under securitisation.

2. CAPITAL ADEQUACY (continued)

Capital Adequacy Ratios (continued)

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

(ii) Bank (continued)

31 DECEMBER 2010 EXPOSURE CLASS	GROSS EXPOSURES RM'000	NET EXPOSURES RM'000	RISK- WEIGHTED ASSETS RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	6,211,397	6,211,397	–	–
Public Sector Entities	373,947	373,947	194,830	15,586
Banks, DFIs and MDBs	3,062,855	3,062,855	616,943	49,356
Corporate	7,667,290	7,621,689	3,270,831	261,666
Regulatory Retail	7,151,194	7,149,263	5,289,319	423,146
Residential Mortgages	1,903,832	1,903,752	755,297	60,424
Higher Risk Assets	25,066	25,066	37,600	3,008
Other Assets	961,002	961,002	358,733	28,698
Defaulted Exposures	634,755	478,430	630,783	50,463
Total for On-Balance Sheet Exposures	27,991,338	27,787,401	11,154,336	892,347
Off-Balance Sheet Exposures				
Credit-related Exposures	1,363,578	1,363,578	1,196,690	95,735
Derivative Financial Instruments	121,170	121,170	33,168	2,653
Other Treasury-related exposures	37,500	37,500	37,500	3,000
Defaulted Exposures	45,450	45,450	68,087	5,447
Total for Off-Balance Sheet Exposures	1,567,698	1,567,698	1,335,445	106,835
Total On and Off-Balance Sheet Exposures	29,559,036	29,355,099	12,489,781	999,182
	Long position	Short Position		
Market Risk				
Benchmark Rate Risk	8,106,786	(5,879,692)	2,227,094	225,145
Foreign Exchange Risk	11,022	(272,646)	(261,624)	21,812
Inventory Risk	–	–	78,916	6,313
Total Market Risk	8,117,808	(6,152,338)	2,044,386	576,707
Operational Risk			1,700,522	136,042
Total RWA and Capital Requirements			14,767,010	1,181,361

Note: As at 31 December 2010, the Bank did not have any credit risk weighted assets absorbed by Profit Sharing Investment Account ("PSIA"), and exposures under securitisation.

3. CREDIT RISK

3.1 Credit Quality of Gross Financing and Advances

The table below present the Group's and the Bank's gross financing and advances analysed by credit quality:

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Neither past due nor impaired	13,866,046	11,336,180	13,864,546	11,334,689
Past due but not impaired	319,459	396,332	319,459	396,332
Impaired	379,790	552,221	379,790	552,221
	14,565,295	12,284,733	14,563,795	12,283,242
Gross impaired financing as a percentage of gross financing and advances	2.61%	4.50%	2.61%	4.50%

(a) Neither Past Due Nor Impaired

These are financing which the borrower has not missed a contractual payment (profit or principal) when contractually due and is not impaired as there is no objective evidence of impairment on the financing.

The credit quality of gross financing and advances which are neither past due nor impaired is as follows:

	GROUP		BANK	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Excellent to good	10,409,626	6,052,669	10,408,126	6,051,178
Satisfactory	2,945,123	3,657,993	2,945,123	3,657,993
Fair	511,297	1,625,518	511,297	1,625,518
	13,866,046	11,336,180	13,864,546	11,334,689

Internal rating definition:

Excellent to Good: Sound financial position with no difficulty in meeting its obligations.

Satisfactory: Adequate safety of meeting its obligations but more time is required to meet its obligation in full.

Fair: High risks on payment obligations. Financial performance may continue to deteriorate.

3. CREDIT RISK (continued)

3.1 Credit Quality of Gross Financing and Advances (continued)

(b) Past Due But Not Impaired

Those financing which its contractual profit or principal payments are past due, but the Group and the Bank believe that impairment is not appropriate on the basis of the level of collateral available and/or the stage of collection amounts owed to the Group and the Bank.

Analysis of the past due but not impaired financing and advances by aging analysis:

	GROUP AND BANK	
	31.12.2011 RM'000	31.12.2010 RM'000
By ageing		
Month-in-arrears 1	210,518	255,656
Month-in-arrears 2	108,941	140,676
	319,459	396,332

Analysis of the past due but not impaired financing and advances by sector:

	GROUP AND BANK	
	31.12.2011 RM'000	31.12.2010 RM'000
Primary agriculture	145	225
Mining and quarrying	–	–
Manufacturing (including agro-based)	2,295	7,901
Electricity, gas and water	126	–
Wholesale & retail trade, and hotels & restaurants	3,002	5,061
Construction	5,127	3,087
Real estate	132	1,196
Transport, storage and communications	48	5,853
Finance, insurance and business activities	3,376	2,644
Education, health and others	76	139
Household sectors	305,103	370,195
Other sectors	29	31
	319,459	396,332

3. CREDIT RISK (continued)

3.1 Credit Quality of Gross Financing and Advances (continued)

(c) Impaired financing and advances

Financing is classified as impaired when the principal or profit or both are past due for three months or more, or where a financing is in arrears for less than three months, but the financing exhibits indications of significant credit weakness.

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 financing (a '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.

The Group and the Bank first assess individually whether the 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 exist for an individually assessed financing, the financing is included in a group of financing with similar credit risk characteristic and collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the 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 the income statement.

The Group and the Bank have adopted the transitional provisions under the Amendment to FRS 139 and the collective assessment impairment allowance of the Group and the Bank have been determined based on the transitional arrangement as prescribed in BNM's guidelines on Classification and Impairment Provisions for Loans/Financing issued on 8 January 2010, whereby banking institutions are required to maintain a collective assessment impairment allowance of at least 1.5% of total financing, net of individual impairment allowance.

Impaired financing by assessment type:

	GROUP AND BANK	
	31.12.2011	31.12.2010
	RM'000	RM'000
Individually assessed	133,864	242,748
<i>of which:</i>		
<i>Month-in-arrears 0</i>	54,325	116,645
<i>Month-in-arrears 1</i>	–	5,784
<i>Month-in-arrears 2</i>	6,193	1,141
<i>Month-in-arrears 3 and above</i>	73,346	119,178
Collectively assessed	245,926	309,473
	379,790	552,221

3. CREDIT RISK (continued)

3.1 Credit Quality of Gross Financing and Advances (continued)

(c) Impaired financing and advances (continued)

31 DECEMBER 2011 RM'000	IMPAIRED FINANCING AT 31.12.2011	AS AT 1.01.2011	INDIVIDUAL ASSESSMENT ALLOWANCE		AS AT 31.12.2011	COLLECTIVE ASSESSMENT ALLOWANCE AT 31.12.2011	TOTAL IMPAIRMENT ALLOWANCES FOR FINANCING AT 31.12.2011
			NET CHARGE FOR THE FINANCIAL YEAR	AMOUNTS WRITTEN OFF/OTHER MOVEMENTS			
Primary Agriculture	3,511	-	5,885	(5,885)	-	3,222	3,222
Mining and quarrying	-	-	-	-	-	-	-
Manufacturing (including agro-based)	42,184	37,561	21,956	(39,829)	19,688	23,715	43,403
Electricity, gas and water	-	-	-	-	-	-	-
Wholesale & retail trade and restaurants & hotels	23,606	21,212	10,402	(22,816)	8,798	21,664	30,462
Construction	71,680	18,313	34,990	(21,862)	31,441	65,785	97,226
Real estate	1,203	122	1,203	-	1,325	1,104	2,429
Transport, storage and communication	1,062	-	-	-	-	975	975
Finance, insurance and business services	16,255	-	12,780	-	12,780	14,918	27,698
Education, health and others	71	-	-	-	-	65	65
Household sectors	217,371	1,853	(115)	-	1,738	214,494	216,232
Other Sectors	2,847	-	-	-	-	2,613	2,613
Total	379,790	79,061	87,101	(90,392)	75,770	348,555	424,325

31 DECEMBER 2010 RM'000	IMPAIRED FINANCING AT 31.12.2010	AS AT 1.07.2009	INDIVIDUAL ASSESSMENT ALLOWANCE		AS AT 31.12.2010	COLLECTIVE ASSESSMENT ALLOWANCE AT 31.12.2010	TOTAL IMPAIRMENT ALLOWANCES FOR FINANCING AT 31.12.2010
			NET CHARGE FOR THE FINANCIAL PERIOD	AMOUNTS WRITTEN OFF/OTHER MOVEMENTS			
Primary Agriculture	10,947	29,463	(12,076)	(17,387)	-	3,264	3,264
Mining and quarrying	851	-	-	-	-	485	485
Manufacturing (including agro-based)	83,810	273,665	19,099	(255,203)	37,561	8,802	46,363
Electricity, gas and water	-	104,022	(103,558)	(464)	-	2,979	2,979
Wholesale & retail trade and restaurants & hotels	42,729	134,467	3,265	(116,520)	21,212	12,220	33,432
Construction	130,925	219,307	66,619	(267,613)	18,313	12,978	31,291
Real estate	1,263	-	122	-	122	2,927	3,049
Transport, storage and communication	1,538	9,388	(529)	(8,859)	-	18,453	18,453
Finance, insurance and business services	-	9,560	(7,876)	(1,684)	-	2,799	2,799
Education, health and others	6,112	12,097	587	(12,684)	-	2,270	2,270
Household sectors	270,847	17,877	(2,466)	(13,558)	1,853	270,751	272,604
Other Sectors	3,199	49,528	(1,385)	(48,143)	-	7,113	7,113
Total	552,221	859,374	(38,198)	(742,115)	79,061	345,041	424,102

3. CREDIT RISK (continued)

3.1 Credit Quality of Gross Financing and Advances (continued)

(d) Gross financing and advances – Exposures by Geographical Areas

31 DECEMBER 2011 RM'000	GROSS FINANCING	OF WHICH:			
		PAST DUE BUT NOT IMPAIRED FINANCING	IMPAIRED FINANCING	INDIVIDUAL ALLOWANCES	COLLECTIVE ALLOWANCES
Central Region	6,081,541	147,523	155,544	38,307	195,789
Eastern Region	2,596,305	42,178	45,950	3,186	42,170
Northern Region	2,321,457	63,128	58,028	4,949	45,593
Southern Region	2,334,693	45,172	44,940	5,890	38,804
East Malaysia Region	1,229,799	21,458	75,328	23,438	26,199
Grand Total	14,563,795	319,459	379,790	75,770	348,555

31 DECEMBER 2010 RM'000	GROSS FINANCING	OF WHICH:			
		PAST DUE BUT NOT IMPAIRED FINANCING	IMPAIRED FINANCING	INDIVIDUAL ALLOWANCES	COLLECTIVE ALLOWANCES
Central Region	5,328,778	173,221	202,422	55,670	263,663
Eastern Region	2,075,098	63,807	64,264	650	34,949
Northern Region	1,968,232	72,418	99,382	1,377	20,749
Southern Region	1,830,864	65,296	80,780	3,259	15,994
East Malaysia Region	1,080,270	21,590	105,373	18,105	9,686
Grand Total	12,283,242	396,332	552,221	79,061	345,041

3. CREDIT RISK (continued)

3.2 Gross Credit Exposures

(a) Geographic distribution of credit exposures

(i) Group

31-DEC-2011 EXPOSURE CLASS	CENTRAL REGION RM'000	EASTERN REGION RM'000	NORTHERN REGION RM'000	SOUTHERN REGION RM'000	EAST MALAYSIA REGION RM'000	TOTAL RM'000
Credit Risk						
On-Balance Sheet Exposures						
Sovereign/Central Banks	5,076,787	-	-	-	-	5,076,787
Public Sector Entities	187,103	240	22,663	23,034	27,325	260,365
Banks, Developments Financial Institutions and Multilateral Development Banks	2,651,667	120,984	-	30	-	2,772,682
Corporate	8,654,853	439,636	289,281	180,133	601,979	10,165,881
Regulatory Retail	2,494,256	568,376	1,505,281	1,117,746	985,637	6,671,294
Residential Mortgages	1,658,907	279,971	765,586	992,485	716,500	4,413,449
Higher Risk Assets	17,674	262	7,624	2,440	1,387	29,387
Other Assets	1,917,024	540	-	-	-	1,917,564
Total for On-Balance Sheet Exposures	22,658,270	1,410,009	2,590,435	2,315,868	2,332,828	31,307,410
Off-Balance Sheet Exposures						
Credit-related Exposures	1,410,466	-	-	-	-	1,410,466
Derivative Financial Instruments	34,679	-	-	-	-	34,679
Total for Off-Balance Sheet Exposures	1,445,146	-	-	-	-	1,445,146
Total On and Off-Balance Sheet Exposures	24,103,416	1,410,009	2,590,435	2,315,868	2,332,828	32,752,556

3. CREDIT RISK (continued)

3.2 Gross Credit Exposures (continued)

(a) Geographic distribution of credit exposures (continued)

(i) Group (continued)

31-DEC-2010 EXPOSURE CLASS	CENTRAL REGION RM'000	EASTERN REGION RM'000	NORTHERN REGION RM'000	SOUTHERN REGION RM'000	EAST MALAYSIA REGION RM'000	TOTAL RM'000
Credit Risk						
On-Balance Sheet Exposures						
Sovereign/Central Banks	6,211,397	-	-	-	-	6,211,397
Public Sector Entities	262,380	48,070	15,075	48,132	363	374,020
Banks, Developments Financial Institutions and Multilateral Development Banks	2,963,606	-	34	-	99,574	3,063,214
Corporate	6,913,404	92,724	88,103	361,888	428,715	7,884,834
Regulatory Retail	2,846,571	1,597,808	1,424,677	1,126,936	564,480	7,560,472
Residential Mortgages	755,270	310,976	420,168	280,916	139,654	1,906,984
Higher Risk Assets	17,843	7,916	2,529	1,405	81	29,775
Other Assets	987,362	-	-	-	1,135	988,497
Total for On-Balance Sheet Exposures	20,957,834	2,057,494	1,950,586	1,819,278	1,234,002	28,019,192
Off-Balance Sheet Exposures						
Credit-related Exposures	1,409,028	-	-	-	-	1,409,028
Derivative Financial Instruments	158,671	-	-	-	-	158,671
Total for Off-Balance Sheet Exposures	1,567,699	-	-	-	-	1,567,698
Total On and Off-Balance Sheet Exposures	22,525,532	3,625,193	1,950,586	1,819,278	1,234,002	29,586,890

3. CREDIT RISK (continued)

3.2 Gross Credit Exposures (continued)

(a) Geographic distribution of credit exposures (continued)

(ii) Bank

31-DEC-2011 EXPOSURE CLASS	CENTRAL REGION RM'000	EASTERN REGION RM'000	NORTHERN REGION RM'000	SOUTHERN REGION RM'000	EAST MALAYSIA REGION RM'000	TOTAL RM'000
Credit Risk						
On-Balance Sheet Exposures						
Sovereign/Central Banks	5,076,787	-	-	-	-	5,076,787
Public Sector Entities	187,103	240	22,663	23,034	27,325	260,365
Banks, Developments Financial Institutions and Multilateral Development Banks	2,651,301	120,984	-	30	-	2,772,316
Corporate	8,654,853	439,636	289,281	180,133	601,979	10,165,881
Regulatory Retail	2,494,256	568,376	1,505,281	1,117,746	985,637	6,671,294
Residential Mortgages	1,658,907	279,971	765,586	992,485	716,500	4,413,449
Higher Risk Assets	17,674	262	7,624	2,440	1,387	29,387
Other Assets	1,858,180	540	-	-	-	1,858,720
Total for On-Balance Sheet Exposures	22,599,060	1,410,009	2,590,435	2,315,868	2,332,828	31,248,198
Off-Balance Sheet Exposures						
Credit-related Exposures	1,410,466	-	-	-	-	1,410,466
Derivative Financial Instruments	34,679	-	-	-	-	34,679
Total for Off-Balance Sheet Exposures	1,445,146	-	-	-	-	1,445,146
Total On and Off-Balance Sheet Exposures	24,044,206	1,410,009	2,590,435	2,315,868	2,332,828	32,693,344

3. CREDIT RISK (continued)

3.2 Gross Credit Exposures (continued)

(a) Geographic distribution of credit exposures (continued)

(ii) Bank (continued)

31-DEC-2010 EXPOSURE CLASS	CENTRAL REGION RM'000	EASTERN REGION RM'000	NORTHERN REGION RM'000	SOUTHERN REGION RM'000	EAST MALAYSIA REGION RM'000	TOTAL RM'000
Credit Risk						
On-Balance Sheet Exposures						
Sovereign/Central Banks	6,211,397	-	-	-	-	6,211,397
Public Sector Entities	262,380	48,070	15,075	48,132	363	374,020
Banks, Developments Financial Institutions and Multilateral Development Banks	2,963,247	-	34	-	99,574	3,062,855
Corporate	6,913,404	92,724	88,103	361,888	428,715	7,884,834
Regulatory Retail	2,846,571	1,597,808	1,424,677	1,126,936	564,480	7,560,472
Residential Mortgages	755,270	310,976	420,168	280,916	139,654	1,906,984
Higher Risk Assets	17,843	7,916	2,529	1,405	81	29,775
Other Assets	959,867	-	-	-	1,135	961,002
Total for On-Balance Sheet Exposures	20,929,980	2,057,494	1,950,586	1,819,278	1,234,002	27,991,338
Off-Balance Sheet Exposures						
Credit-related Exposures	1,409,028	-	-	-	-	1,409,028
Derivative Financial Instruments	158,670	-	-	-	-	158,670
Total for Off-Balance Sheet Exposures	1,567,698	-	-	-	-	1,567,698
Total On and Off-Balance Sheet Exposures	22,497,678	3,625,193	1,950,586	1,819,278	1,234,002	29,559,036

3. CREDIT RISK (continued)

3.2 Gross Credit Exposures (continued)

(b) Distribution of credit exposures by sector

(i) Group

31-DEC-2011 EXPOSURE CLASS	SECTOR										TOTAL RM'000		
	PRIMARY AGRICUL- TURE RM'000	MINING AND QUARRYING RM'000	MANU- FACTURING RM'000	ELECTRICITY, GAS AND WATER RM'000	WHOLESALE & RETAIL TRADE AND RES- TAURANT & HOTELS RM'000	CON- STRUCTION RM'000	REAL ESTATE RM'000	TRANSPORT, STORAGE & COMMUNI- CATION RM'000	FINANCE, INSURANCE AND BUSINESS SERVICES RM'000	HEALTH AND OTHERS RM'000		HOUSE- HOLD SECTOR RM'000	
Credit Risk													
On-Balance Sheet Exposures													
Sovereign/Central Banks	-	-	-	-	-	-	-	-	-	-	-	-	
Public Sector Entities	6,265	-	-	-	-	22,639	93,008	5,076,787	53,662	323	84,468	5,076,787	
Banks, Developments Financial Institutions and Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-	-	-	
Corporate	241,611	115,939	929,517	2,503,713	442,384	1,037,366	494,889	1,041,220	1,114,435	51,233	56,655	2,136,920	
Regulatory Retail	15,938	38	47,825	1,373	56,682	55,009	22,775	8,244	25,449	70,247	5,970,882	397,033	
Residential Mortgages	232	-	41	-	-	-	-	111	75	114,268	4,295,421	3,301	
Higher Risk Assets	-	-	-	-	-	-	-	-	-	7,333	22,054	-	
Other Assets	-	-	-	-	-	-	-	-	-	-	-	29,387	
Total for On-Balance Sheet Exposures	264,047	115,977	977,383	2,505,086	499,066	1,092,375	540,303	1,142,582	8,651,147	353,297	10,345,165	4,820,984	31,307,410
Off-Balance Sheet Exposures													
Credit-related Exposures	35,985	154,275	114,523	119,931	26,268	284,518	80,147	193,754	55,655	68,734	109,650	167,025	1,410,465
Derivative Financial Instruments	4,302	-	1,264	-	2,772	-	-	-	26,087	254	-	-	34,679
Total for Off-Balance Sheet Exposures	40,287	154,275	115,787	119,931	29,041	284,518	80,147	193,754	81,741	68,989	109,650	167,025	1,445,146
Total On and Off-Balance Sheet Exposures	304,334	270,252	1,093,170	2,625,017	528,106	1,376,893	620,450	1,336,336	8,732,888	422,286	10,454,815	4,988,009	32,752,556

3. CREDIT RISK (continued)

3.2 Gross Credit Exposures (continued)

(b) Distribution of credit exposures by sector

(i) Group

31-DEC-2010 EXPOSURE CLASS	PRIMARY		MINING AND QUARRYING		MANU- FACTURING		ELECTRICITY, GAS AND WATER		WHOLESALE & RETAIL TRADE AND RES- TAURANT & HOTELS		CON- STRUCTION		REAL ESTATE		TRANSPORT, STORAGE & COMMUNI- CATION		FINANCE, INSURANCE BUSINESS SERVICES		EDUCATION, HEALTH AND OTHERS		HOUSE- HOLD SECTOR		OTHER SECTORS		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	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Credit Risk																											
On-Balance Sheet Exposures																											
Sovereign/Central Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,211,397
Public Sector Entities	76,729	-	-	-	-	-	-	-	-	-	-	-	-	44,915	87,083	-	6,211,397	-	84,627	-	-	382	-	-	80,283	374,020	
Banks, Developments Financial Institutions and Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate	176,109	-	795,317	1,156,320	452,502	1,021,311	188,048	1,396,115	1,419,353	38,484	53,618	1,187,656	7,884,834	6,727,335	477,944	7,560,472	6,727,335	99,971	6,727,335	477,944	7,560,472	221	1,906,984	221	1,906,984	29,775	
Regulatory Retail	17,678	412	55,477	1,006	75,677	69,332	7,197	10,876	17,566	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	988,497
Total for On-Balance Sheet Exposures	270,516	412	850,794	1,157,327	528,180	1,090,643	240,160	1,494,074	10,125,240	757,996	8,632,325	2,871,525	28,019,192	240,160	1,494,074	10,125,240	757,996	8,632,325	2,871,525	28,019,192	240,160	1,494,074	10,125,240	757,996	8,632,325	2,871,525	
Off-Balance Sheet Exposures																											
Credit-related Exposures	23,245	25	178,288	99,447	17,796	349,567	42,697	218,481	60,627	79,053	88,524	251,276	1,409,028	42,697	218,481	60,627	79,053	88,524	251,276	1,409,028	42,697	218,481	60,627	79,053	88,524	251,276	
Derivative Financial Instruments	645	-	2,903	104	1,751	-	-	-	58	3,837	1,463	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total for Off-Balance Sheet Exposures	23,891	25	181,191	99,551	19,547	349,567	42,697	218,539	64,464	80,516	88,524	251,276	1,409,028	42,697	218,539	64,464	80,516	88,524	251,276	1,409,028	42,697	218,539	64,464	80,516	88,524	251,276	
Total On and Off-Balance Sheet Exposures	294,406	437	1,031,985	1,256,878	547,727	1,440,210	282,857	1,712,613	10,189,705	838,512	8,720,849	3,270,712	29,866,890	282,857	1,712,613	10,189,705	838,512	8,720,849	3,270,712	29,866,890	282,857	1,712,613	10,189,705	838,512	8,720,849	3,270,712	

3. CREDIT RISK (continued)

3.2 Gross Credit Exposures (continued)

(b) Distribution of credit exposures by sector

(ii) Bank

31-DEC-2011 EXPOSURE CLASS	PRIMARY AGRICUL- TURE RM'000	MINING AND QUARRYING RM'000	MANU- FACTURING RM'000	ELECTRICITY, GAS AND WATER RM'000	WHOLESALE & RETAIL TRADE AND RES- TAURANT & HOTELS RM'000	CON- STRUCTION RM'000	REAL ESTATE RM'000	TRANSPORT, STORAGE & COMMUNI- CATION RM'000	FINANCE, INSURANCE & BUSINESS SERVICES RM'000	EDUCATION, HEALTH AND OTHERS RM'000	HOUSE- HOLD SECTOR RM'000	OTHER SECTORS RM'000	TOTAL RM'000
Credit Risk													
On-Balance Sheet													
Exposures													
Sovereign/Central Banks	-	-	-	-	-	-	-	-	5,076,787	-	-	-	5,076,787
Public Sector Entities	6,265	-	-	-	-	-	22,639	93,008	-	53,662	323	84,468	260,365
Banks, Developments Financial Institutions and Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate	241,611	115,939	929,517	2,503,713	442,384	1,037,366	494,889	1,041,220	2,434,402	56,553	30	281,330	2,772,316
Regulatory Retail	15,938	38	47,825	1,373	56,682	55,009	22,775	8,244	25,449	70,247	56,655	2,136,920	10,165,881
Residential Mortgages	232	-	41	-	-	-	-	111	75	114,268	4,295,421	3,301	4,413,449
Higher Risk Assets	-	-	-	-	-	-	-	-	-	7,333	22,054	-	29,387
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	1,858,720
Total for On-Balance Sheet Exposures	264,047	115,977	977,383	2,505,086	499,066	1,092,375	540,303	1,142,582	8,651,147	353,297	10,345,165	4,761,772	31,248,198
Off-Balance Sheet													
Exposures													
Credit-related Exposures	35,985	154,275	114,523	119,931	26,268	284,518	80,147	193,754	55,655	68,734	109,650	167,025	1,410,465
Derivative Financial Instruments	4,302	-	1,264	-	2,772	-	-	-	26,087	254	-	-	34,679
Total for Off- Balance Sheet Exposures	40,287	154,275	115,787	119,931	29,041	284,518	80,147	193,754	81,741	68,989	109,650	167,025	1,445,146
Total On and Off-Balance Sheet Exposures	304,334	270,252	1,093,170	2,625,017	528,106	1,376,893	620,450	1,336,336	8,732,888	422,286	10,454,815	4,928,798	32,693,344

3. CREDIT RISK (continued)

3.2 Gross Credit Exposures (continued)

(b) Distribution of credit exposures by sector

(ii) Bank

	PRIMARY AGRICUL- TURE CLASS	MINING AND QUARRYING	MANU- FACTURING	ELECTRICITY, GAS AND WATER	WHOLESALE & RETAIL TRADE AND RES- TAURANT & HOTELS	CON- STRUCTION	REAL ESTATE	TRANSPORT, STORAGE & COMMUNI- CATION	FINANCE, INSURANCE BUSINESS SERVICES	EDUCATION, HEALTH AND OTHERS	HOUSE- HOLD SECTOR	OTHER SECTORS	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	RM'000
Credit Risk													
On-Balance Sheet Exposures													
Sovereign/Central Banks	-	-	-	-	-	-	-	-	6,211,397	-	-	-	6,211,397
Public Sector Entities	76,729	-	-	-	-	-	44,915	87,083	-	84,627	382	80,283	374,020
Banks, Developments Financial Institutions and Multilateral Development Banks	-	-	-	-	-	-	-	-	2,476,925	449,332	34	136,564	3,062,855
Corporate	176,109	-	795,317	1,156,320	452,502	1,021,311	188,048	1,396,115	1,419,353	38,484	53,618	1,187,656	7,884,834
Regulatory Retail	17,678	412	55,477	1,006	75,677	69,332	7,197	10,876	17,566	99,971	6,727,335	477,944	7,560,472
Residential Mortgages	-	-	-	-	-	-	-	-	-	78,064	1,828,699	221	1,906,984
Higher Risk Assets	-	-	-	-	-	-	-	-	-	7,518	22,257	-	29,775
Other Assets	-	-	-	-	-	-	-	-	-	-	-	961,002	961,002
Total for On-Balance Sheet Exposures	270,516	412	850,794	1,157,327	528,180	1,090,643	240,160	1,494,074	10,125,240	757,996	8,632,325	2,843,671	27,991,338
Off-Balance Sheet Exposures													
Credit-related Exposures	23,245	25	178,288	99,447	17,796	349,567	42,697	218,481	60,627	79,053	88,524	251,276	1,409,028
Derivative Financial Instruments	645	-	2,903	104	1,751	-	-	58	3,837	1,463	-	147,910	158,671
Total for Off-Balance Sheet Exposures	23,891	25	181,190	99,551	19,547	349,567	42,697	218,539	64,464	80,516	88,524	399,186	1,567,699
Total On and Off-Balance Sheet Exposures	294,406	437	1,031,985	1,256,878	547,727	1,440,210	282,857	1,712,613	10,189,705	838,512	8,720,849	3,242,858	29,559,036

3. CREDIT RISK (continued)

3.2 Gross Credit Exposures (continued)

(c) Residual contractual maturity breakdown

(i) Group

31-DEC-2011 EXPOSURE CLASS	UP TO 1 YEAR RM'000	> 1 – 5 YEARS RM'000	OVER 5 YEARS RM'000	TOTAL RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	3,248,951	1,745,340	82,495	5,076,787
Public Sector Entities	33,293	123,360	103,712	260,365
Banks, Developments Financial Institutions and Multilateral Development Banks	2,609,110	163,550	24	2,772,684
Corporate	2,724,671	4,204,493	3,236,717	10,165,881
Regulatory Retail	40,503	1,615,942	5,014,849	6,671,294
Residential Mortgages	4,977	60,579	4,347,893	4,413,449
Higher Risk Assets	169	152	29,066	29,387
Other Assets	1,535,513	-	382,051	1,917,564
Total for On-Balance Sheet Exposures	10,197,187	7,913,416	13,196,808	31,307,410
Off-Balance Sheet Exposures				
Credit-related Exposures	564,551	615,001	230,913	1,410,465
Derivative Financial Instruments	19,926	14,754	-	34,679
Total for Off-Balance Sheet Exposures	584,477	629,754	230,913	1,445,145
Total On and Off-Balance Sheet Exposures	10,781,664	8,543,171	13,427,721	32,752,556

3. CREDIT RISK (continued)

3.2 Gross Credit Exposures (continued)

(c) Residual contractual maturity breakdown (continued)

(i) Group (continued)

31-DEC-2010 EXPOSURE CLASS	UP TO 1 YEAR RM'000	> 1 – 5 YEARS RM'000	OVER 5 YEARS RM'000	TOTAL RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	2,148,691	3,436,521	626,185	6,211,397
Public Sector Entities	130,188	47,882	195,949	374,020
Banks, Developments Financial Institutions and Multilateral Development Banks	2,891,792	149,591	21,831	3,063,214
Corporate	2,837,671	3,134,391	1,912,772	7,884,834
Regulatory Retail	170,739	1,761,957	5,627,776	7,560,472
Residential Mortgages	1,367	40,074	1,865,543	1,906,984
Higher Risk Assets	71	215	29,489	29,775
Other Assets	600,509	-	387,988	988,497
Total for On-Balance Sheet Exposures	8,781,029	8,570,631	10,667,533	28,019,192
Off-Balance Sheet Exposures				
Credit-related Exposures	550,825	572,894	285,309	1,409,028
Derivative Financial Instruments	93,866	27,304	37,500	158,671
Total for Off-Balance Sheet Exposures	644,691	600,198	322,809	1,567,698
Total On and Off-Balance Sheet Exposures	9,425,720	9,170,829	10,990,342	29,586,890

3. CREDIT RISK (continued)

3.2 Gross Credit Exposures (continued)

(c) Residual contractual maturity breakdown (continued)

(ii) Bank

31-DEC-2011 EXPOSURE CLASS	UP TO 1 YEAR RM'000	> 1 – 5 YEARS RM'000	OVER 5 YEARS RM'000	TOTAL RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	3,248,951	1,745,340	82,495	5,076,787
Public Sector Entities	33,293	123,360	103,712	260,365
Banks, Developments Financial Institutions and Multilateral Development Banks	2,608,742	163,550	24	2,772,316
Corporate	2,724,671	4,204,493	3,236,717	10,165,881
Regulatory Retail	40,503	1,615,942	5,014,849	6,671,294
Residential Mortgages	4,977	60,579	4,347,893	4,413,449
Higher Risk Assets	169	152	29,066	29,387
Other Assets	1,476,669	-	382,051	1,858,720
Total for On-Balance Sheet Exposures	10,137,975	7,913,416	13,196,808	31,248,198
Off-Balance Sheet Exposures				
Credit-related Exposures	564,551	615,001	230,913	1,410,465
Derivative Financial Instruments	19,926	14,754	-	34,679
Total for Off-Balance Sheet Exposures	584,477	629,754	230,913	1,445,145
Total On and Off-Balance Sheet Exposures	10,722,452	8,543,171	13,427,721	32,693,344

3. CREDIT RISK (continued)

3.2 Gross Credit Exposures (continued)

(c) Residual contractual maturity breakdown (continued)

(ii) Bank (continued)

31-DEC-2010 EXPOSURE CLASS	UP TO 1 YEAR RM'000	> 1 – 5 YEARS RM'000	OVER 5 YEARS RM'000	TOTAL RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	2,148,691	3,436,521	626,185	6,211,397
Public Sector Entities	130,188	47,882	195,949	374,020
Banks, Developments Financial Institutions and Multilateral Development Banks	2,891,433	149,591	21,831	3,062,855
Corporate	2,837,671	3,134,391	1,912,772	7,884,834
Regulatory Retail	170,739	1,761,957	5,627,776	7,560,472
Residential Mortgages	1,367	40,074	1,865,543	1,906,984
Higher Risk Assets	71	215	29,489	29,775
Other Assets	573,014	-	387,988	961,002
Total for On-Balance Sheet Exposures	8,753,175	8,570,631	10,667,533	27,991,338
Off-Balance Sheet Exposures				
Credit-related Exposures	550,825	572,894	285,309	1,409,028
Derivative Financial Instruments	93,866	27,304	37,500	158,671
Total for Off-Balance Sheet Exposures	644,691	600,198	322,809	1,567,699
Total On and Off-Balance Sheet Exposures	9,397,866	9,170,829	10,990,342	29,559,036

3. CREDIT RISK (continued)

3.3 Assignment of Risk Weights for Portfolios Under the Standardised Approach

Under the Standardised Approach, the Group makes use of credit ratings assigned by credit rating agencies in its calculation of credit risk-weighted assets. The following are the rating agencies or Eligible Credit Assessment Institutions (“ECAI”) ratings used by the Group and are recognised by BNM in the CAFIB:

- (a) Standard & Poor’s (“S&P”)
- (b) Moody’s Investors Services (“Moody’s”)
- (c) Fitch Ratings (“Fitch”)
- (d) Rating Agency Malaysia Berhad (“RAM”)
- (e) Malaysian Rating Corporation Berhad (“MARC”)

The ECAI ratings accorded to the following counterparty exposure classes are used in the calculation of risk-weighted assets for capital adequacy purposes:

- (a) Sovereigns and central banks
- (b) Banking institutions
- (c) Corporate

Unrated and Rated Counterparties

As a general rule, the rating specific to the credit exposure is used, i.e. the issue rating. Where no specific rating exists, the credit rating assigned to the issuer or counterparty of that particular credit exposure is used. In cases where an exposure has neither an issue or issuer rating, it is deemed as unrated or the rating of another rated obligation of the same counterparty may be used if the exposure is ranked at least paripassu with the obligation that is rated, as stipulated in the CAFIB.

Where a counterparty or an exposure is rated by more than one ECAI, the second highest rating is then used to determine the risk weight. In cases where the credit exposures are secured by guarantees issued by eligible or rated guarantors, the risk weights similar to that of the guarantor are assigned.

The below table summaries risk-weight assigned to Corporate based on either the issue or issuer ratings assigned:

RISK-WEIGHT RATING AGENCY	20%	50%	100%	150%	100%
	RATINGS				
S & P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Moody’s	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
RAM	AAA to AA	A+ to A-	BBB to BB	B to D	Unrated
MARC	AAA to AA	A+ to A-	BBB+ to BB-	B to D	Unrated

3. CREDIT RISK (continued)

3.3 Assignment of Risk Weights for Portfolios Under the Standardised Approach (continued)

The following present the credit exposures by risk weights and after credit risk mitigation of the Group:

(i) As at 31 December 2011

RISK WEIGHTS	EXPOSURES AFTER NETTING & CREDIT RISK MITIGATION								TOTAL EXPOSURES	TOTAL RISK
	SOVEREIGNS/ CENTRAL BANKS RM'000	PUBLIC SECTOR ENTITIES RM'000	BANKS, DFIs & MDBs RM'000	CORPORATE RM'000	REGULATORY RETAIL RM'000	RESIDENTIAL MORTGAGES RM'000	HIGHER RISK ASSETS RM'000	OTHER ASSETS RM'000	NETTING & CRM RM'000	WEIGHTED ASSET RM'000
0%	5,076,875	93,008	141,801	2,913,884	21,219	–	–	1,536,399	9,783,186	–
20%	–	84,468	2,520,135	3,709,365	9,752	16,917	–	–	6,340,637	1,268,127
35%	–	–	–	–	–	1,443,290	–	–	1,443,290	505,152
50%	–	1,714	138,599	307,307	233,671	823,387	–	–	1,504,678	752,339
75%	–	–	–	138,924	5,295,816	1,852,134	–	–	7,286,874	5,465,155
100%	–	114,442	5,918	4,027,611	1,187,351	148,061	–	381,167	5,864,550	5,864,550
150%	–	–	–	81,133	80,533	223,537	41,292	–	426,495	639,743
Total Exposures	5,076,875	293,632	2,806,453	11,178,224	6,828,342	4,507,326	41,292	1,917,566	32,649,710	14,495,066
RWA by Exposures	–	132,192	579,245	5,149,030	5,398,798	2,792,696	61,938	381,167	14,495,066	
Average Risk Weight	0.0%	45.0%	20.6%	46.1%	79.1%	62.0%	150.0%	19.9%	44.4%	
Deduction from Capital Base										

(ii) As at 31 December 2010

RISK WEIGHTS	EXPOSURES AFTER NETTING & CREDIT RISK MITIGATION								TOTAL EXPOSURES	TOTAL RISK
	SOVEREIGNS/ CENTRAL BANKS RM'000	PUBLIC SECTOR ENTITIES RM'000	BANKS, DFIs & MDBs RM'000	CORPORATE RM'000	REGULATORY RETAIL RM'000	RESIDENTIAL MORTGAGES RM'000	HIGHER RISK ASSETS RM'000	OTHER ASSETS RM'000	NETTING & CRM RM'000	WEIGHTED ASSET RM'000
0%	6,211,419	–	141,950	864,757	48,878	4,774	–	612,215	7,883,993	–
20%	–	223,897	2,916,487	4,344,124	3,103	–	–	–	7,487,611	1,497,522
35%	–	–	–	–	–	1,294,614	–	–	1,294,614	453,115
50%	–	–	118,840	263,518	192,994	604,589	–	–	1,179,941	589,971
75%	–	–	–	32,948	7,181,272	–	–	–	7,214,220	5,410,665
100%	–	190,534	5,437	3,260,648	6,103	2,928	–	389,625	3,855,275	3,855,275
150%	–	35	–	116,421	306,770	–	44,073	–	467,299	700,948
Total Exposures	6,211,419	414,466	3,182,714	8,882,416	7,739,120	1,906,905	44,073	1,001,840	29,382,953	12,507,496
RWA by Exposures	–	235,366	648,154	4,460,575	5,949,329	758,337	66,110	389,625	12,507,496	
Average Risk Weight	0.0%	56.8%	20.4%	50.2%	76.9%	39.8%	150.0%	38.9%	42.6%	
Deduction from Capital Base										

3. CREDIT RISK (continued)

3.3 Assignment of Risk Weights for Portfolios Under the Standardised Approach (continued)

The following present the credit exposures by risk weights and after credit risk mitigation of the Bank:

(i) As at 31 December 2011

RISK WEIGHTS	EXPOSURES AFTER NETTING & CREDIT RISK MITIGATION								TOTAL EXPOSURES	TOTAL RISK
	SOVEREIGNS/ CENTRAL BANKS RM'000	PUBLIC SECTOR ENTITIES RM'000	BANKS, DFIs & MDBs RM'000	CORPORATE RM'000	REGULATORY RETAIL RM'000	RESIDENTIAL MORTGAGES RM'000	HIGHER RISK ASSETS RM'000	OTHER ASSETS RM'000	NETTING & CRM RM'000	WEIGHTED ASSET RM'000
0%	5,076,875	93,008	141,801	2,913,884	21,219	–	–	1,528,350	9,775,137	–
20%	–	84,468	2,519,767	3,709,365	9,752	16,917	–	–	6,340,269	1,268,054
35%	–	–	–	–	–	1,443,290	–	–	1,443,290	505,152
50%	–	1,714	138,599	307,307	233,671	823,387	–	–	1,504,678	752,339
75%	–	–	–	138,924	5,295,816	1,852,134	–	–	7,286,874	5,465,155
100%	–	114,442	5,918	4,027,611	1,187,351	148,061	–	330,372	5,813,755	5,813,755
150%	–	–	–	81,133	80,533	223,537	41,292	–	426,495	639,743
Total Exposures	5,076,875	293,632	2,806,085	11,178,224	6,828,342	4,507,326	41,292	1,858,722	32,590,498	14,444,198
RWA by Exposures	–	132,192	579,172	5,149,030	5,398,798	2,792,696	61,938	330,372	14,444,198	
Average Risk Weight	0.0%	45.0%	20.6%	46.1%	79.1%	62.0%	150.0%	17.8%	44.3%	
Deduction from Capital Base										

(ii) As at 31 December 2010

RISK WEIGHTS	EXPOSURES AFTER NETTING & CREDIT RISK MITIGATION								TOTAL EXPOSURES	TOTAL RISK
	SOVEREIGNS/ CENTRAL BANKS RM'000	PUBLIC SECTOR ENTITIES RM'000	BANKS, DFIs & MDBs RM'000	CORPORATE RM'000	REGULATORY RETAIL RM'000	RESIDENTIAL MORTGAGES RM'000	HIGHER RISK ASSETS RM'000	OTHER ASSETS RM'000	NETTING & CRM RM'000	WEIGHTED ASSET RM'000
0%	6,211,419	–	141,950	864,757	48,878	4,774	–	602,363	7,874,141	–
20%	–	223,897	2,916,128	4,344,124	3,103	–	–	–	7,487,252	1,497,450
35%	–	–	–	–	–	1,294,614	–	–	1,294,614	453,115
50%	–	–	118,840	263,518	192,994	604,589	–	–	1,179,941	589,971
75%	–	–	–	32,948	7,181,272	–	–	–	7,214,220	5,410,665
100%	–	190,534	5,437	3,260,648	6,103	2,928	–	371,982	3,837,632	3,837,632
150%	–	35	–	116,421	306,770	–	44,073	–	467,299	700,948
Total Exposures	6,211,419	414,466	3,182,355	8,882,416	7,739,120	1,906,905	44,073	974,345	29,355,099	12,489,781
RWA by Exposures	–	235,366	648,082	4,460,575	5,949,329	758,337	66,110	371,982	12,489,781	
Average Risk Weight	0.0%	56.8%	20.4%	50.2%	76.9%	39.8%	150.0%	38.2%	42.5%	
Deduction from Capital Base										

4. CREDIT RISK MITIGATION (“CRM”)

As a first way out, the assessment of credit when granting a financing facility is based on a particular customer’s cash flows as the main source of payment and not on the collateral offered. However the acceptance of tangible security as collateral would offer a second way out in the event of business failure thereby improving recovery rates.

The type of collaterals accepted by the Bank has an impact on the calculation of the Bank’s capital adequacy as the quality and type of collateral determines whether the Bank is able to obtain capital relief and the extent of such relief.

The main types of collateral obtained by the Group to mitigate credit risk are as follows:

- (a) Cash on lien
- (b) Landed property
- (c) Shariah compliant quoted shares and unit trusts
- (d) Malaysian Federal Government Securities
- (e) Rate/Unrated Islamic Securities/Sukuk
- (f) Guarantee

Currently, there is no material concentration of CRM held. The reliance that can be placed on CRM is carefully assessed in light of issues such as compliant with Shariah rules, legal enforceability, market value and counterparty credit risk of the guarantor. Policies and procedures are in place to govern the protection of the Group’s position from the onset of a customer relationship, for instance in requiring standard terms and conditions or specifically agreed upon documentation to ensure the legal enforceability of the credit risk mitigants.

4. CREDIT RISK MITIGATION (“CRM”) (continued)

Disclosure of Credit Risk Mitigation (“CRM”):

31 DECEMBER 2011 EXPOSURE CLASS	EXPOSURES BEFORE CRM RM’000	EXPOSURES COVERED BY GUARANTEES RM’000	EXPOSURES COVERED BY ELIGIBLE FINANCIAL AND NON-FINANCIAL COLLATERAL RM’000
On-Balance Sheet Exposures			
Sovereign/Central Banks	5,076,787	–	–
Public Sector Entities	260,365	–	–
Banks, DFIs and MDBs	2,772,684	–	–
Corporates	10,124,425	173,633	134,292
Regulatory Retail	6,540,918	28,936	24,750
Residential Mortgages	4,177,840	15,328	9,064
Higher Risk Assets	25,590	–	–
Other Assets	1,917,564	–	–
Defaulted Exposures	411,237	30,090	9,369
Total for On-Balance Sheet Exposures	31,307,410	247,987	177,475
Off-Balance Sheet Exposures			
Credit-related Exposures	1,400,138	280	961
Derivative Financial Instruments	29,098	–	–
Defaulted Exposures	15,910	–	–
Total for Off-Balance Sheet Exposures	1,445,146	280	961
Total On and Off-Balance Sheet Exposures	32,752,556	248,267	178,436

4. CREDIT RISK MITIGATION (“CRM”) (continued)

Disclosure of Credit Risk Mitigation (“CRM”) (continued):

31 DECEMBER 2010 EXPOSURE CLASS	EXPOSURES BEFORE CRM RM'000	EXPOSURES COVERED BY GUARANTEES RM'000	EXPOSURES COVERED BY ELIGIBLE FINANCIAL AND NON-FINANCIAL COLLATERAL RM'000
On-Balance Sheet Exposures			
Sovereign/Central Banks	6,211,397	–	–
Public Sector Entities	373,947	–	–
Banks, DFIs and MDBs	3,063,214	–	–
Corporates	7,667,290	77,517	119,574
Regulatory Retail	7,151,194	46,447	10,034
Residential Mortgages	1,903,832	4,774	930
Higher Risk Assets	25,066	–	–
Other Assets	988,497	–	–
Defaulted Exposures	634,755	–	–
Total for On-Balance Sheet Exposures	28,019,192	128,738	130,538
Off-Balance Sheet Exposures			
Credit-related Exposures	1,363,578	–	–
Derivative Financial Instruments	121,170	–	–
Other Treasury-related exposures	37,500	–	–
Defaulted Exposures	45,450	17,710	10,018
Total for Off-Balance Sheet Exposures	1,567,698	17,710	10,018
Total On and Off-Balance Sheet Exposures	29,586,890	146,448	140,556

5. THE OFF-BALANCE SHEET AND COUNTERPARTIES CREDIT RISK FOR THE GROUP AND THE BANK

(i) As at 31 December 2011

NATURE OF ITEM	PRINCIPAL AMOUNT RM'000	POSITIVE FAIR VALUE OF DERIVATIVE CONTRACTS RM'000	CREDIT EQUIVALENT AMOUNT RM'000	RISK WEIGHTED ASSET RM'000
Credit related exposures				
Direct credit substitutes	452,553		452,553	444,839
Assets sold with recourse	2		2	2
Transaction related contingent items	884,095		442,048	435,825
Short term self-liquidating trade related contingencies	288,665		57,733	57,221
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– not exceeding one year	1		–	–
– exceeding one year	589,414		294,707	274,384
Unutilised credit card lines	817,113		163,423	122,567
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	3,897,622		–	–
	6,929,465		1,410,466	1,334,838
Derivative Financial Instruments				
Foreign exchange related contracts				
– less than one year	1,644,655	5,589	14,344	8,409
– one year to less than five years	40,244	–	2,754	1,944
Profit rate related contracts				
– less than one year	171,740	7,549	5,582	1,116
– one year to less than five years	500,000	–	12,000	2,400
	2,356,639	13,138	34,680	13,869
Other Treasury related exposures				
Obligations under an on-going underwriting agreement	–		–	–
	–		–	–
Total	9,286,104	13,138	1,445,146	1,348,707

5. THE OFF-BALANCE SHEET AND COUNTERPARTIES CREDIT RISK FOR THE GROUP AND THE BANK (continued)

(ii) As at 31 December 2010

NATURE OF ITEM	PRINCIPAL AMOUNT RM'000	POSITIVE FAIR VALUE OF DERIVATIVE CONTRACTS RM'000	CREDIT EQUIVALENT AMOUNT RM'000	RISK WEIGHTED ASSET RM'000
Credit related exposures				
Direct credit substitutes	459,840		459,840	439,315
Assets sold with recourse	242		242	242
Transaction related contingent items	846,719		423,360	396,877
Short term self-liquidating trade related contingencies	312,745		62,549	61,078
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– not exceeding one year	1,003		201	224
– exceeding one year	618,138		309,068	251,715
Unutilised credit card lines	768,840		153,768	115,326
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	4,118,965		–	–
	7,126,492		1,409,028	1,264,777
Derivative Financial Instruments				
Foreign exchange related contracts				
– less than one year	5,208,060	42,284	93,866	26,161
Profit rate related contracts				
– one year to less than five years	671,740	10,055	27,304	7,007
	5,879,800	52,339	121,170	33,168
Other Treasury related exposures				
Obligations under an on-going underwriting agreement	75,000		37,500	37,500
	75,000		37,500	37,500
Total	13,081,292	52,339	1,567,698	1,335,445

6. PROFIT RATE RISK IN THE BANKING BOOK

Profit rate risk in the Banking Book is managed and controlled using measurement known as economic value of equity (“EVE”) and earnings-at-risk (“EaR”). EVE and EaR limits are approved by the Board Risk Committee (“BRC”) and independently monitored monthly by Market Risk Management department. Exposures and limits are regularly discussed and reported to Asset Liability and Management Committee (“ALCO”) and also BRC.

The table below shows the projected Group’s and Bank’s sensitivity to a 100 basis points parallel shift to profit rates across all maturities applied on the Group’s and Bank’s profit rate sensitivity gap as at reporting date.

	2011		2010	
	-100BPS	+100BPS	-100BPS	+100BPS
	INCREASE/(DECREASE)			
	RM MILLION	RM MILLION	RM MILLION	RM MILLION
Bank				
Impact on EaR	58.08	(58.08)	97.62	(97.62)
Impact on EVE	155.16	(155.16)	150.93	(150.93)

MANAGING DIRECTOR ATTESTATION

In accordance with Bank Negara Malaysia’s Capital Adequacy Framework for Islamic Bank (“CAFIB”) Disclosure Requirements (Pillar 3), I hereby attest that to the best of my knowledge, the disclosures contained in Bank Islam Berhad’s Pillar 3 Disclosures report for the financial year ended 31 December 2011 are consistent with the manner in which the Group and the Bank assesses and manages its risk, and are not misleading in any particular way.



Dato' Sri Zukri Samat
Managing Director