AFFIN ISLAMIC
AFFIN ISLAMIC BANK BERHAD (709506-V)

# Flourishing on a Firm Foundation

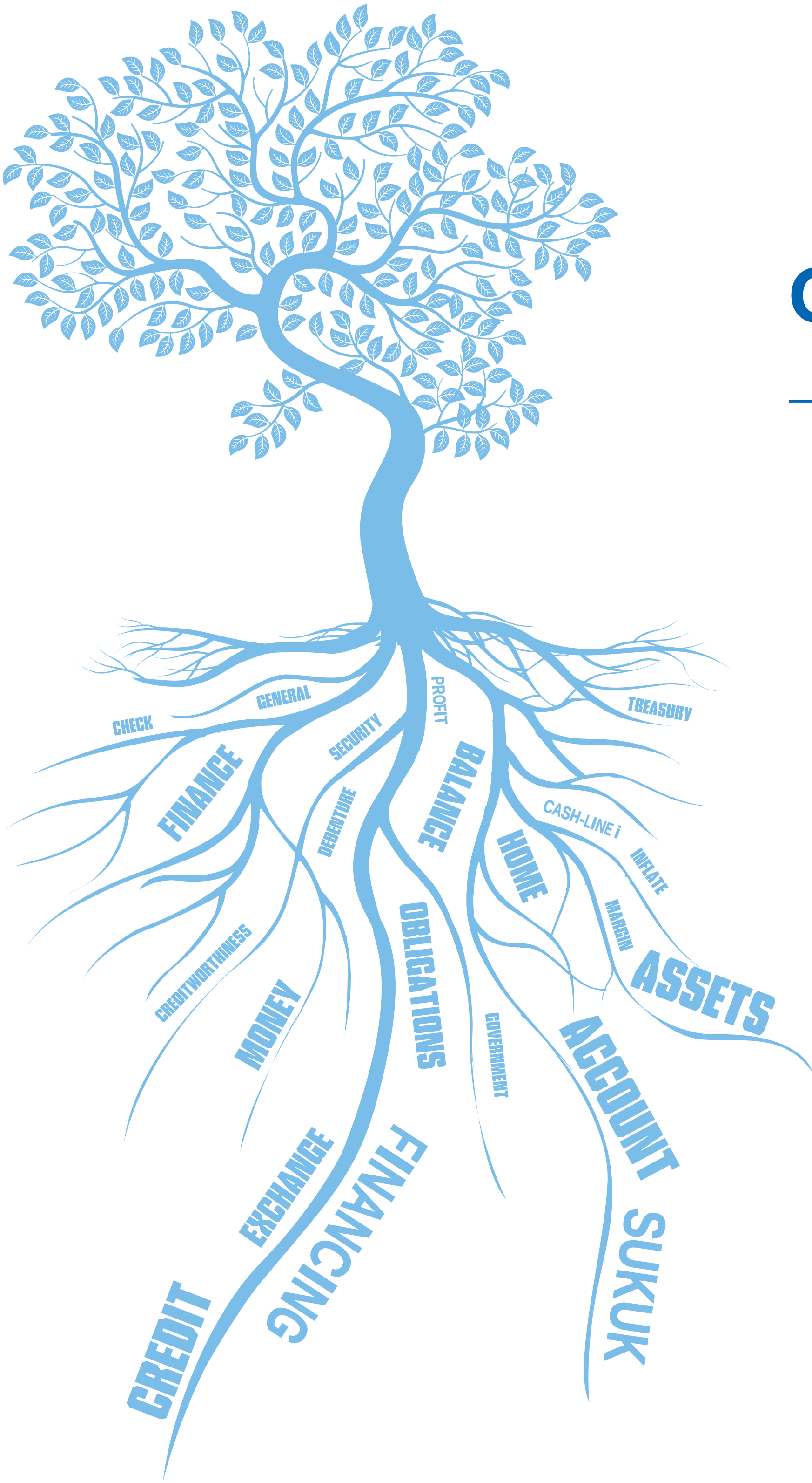
Annual Report 2011 / Abridged Version

# OUR **VISION**

AFFIN ISLAMIC to play a significant role in the ever expanding Islamic banking world by providing innovative Shariah Compliant financial solutions and services, which will establish itself as a "PREMIER LOCAL AND INTERNATIONAL ISLAMIC FINANCIAL INSTITUTION".

## COVER **RATIONALE**

The cover design features the theme--Flourishing On A Firm Foundation--to emphasize the stability of our organization. The graphic illustration of a fast-growing tree appears on the cover, and it is firmly anchored by roots that reach deep down into the ground. Similarly, our expansion is based on an extremely solid foundation. The white expanse on the cover symbolizes our integrity, while the blue portion represents the bright future that lies ahead of us.

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# CORPORATE **STRUCTURE**

**Shareholders of Affin Holdings Berhad**

- LEMBAGA TABUNG ANGKATAN TENTERA — Lembaga Tabung Angkatan Tentera — 35.33%
- Boustead Holdings Berhad — Boustead Holdings Berhad — 20.69%
- BEA 東亞銀行 — Bank of East Asia Limited* — 23.52%
- **OTHERS** — 20.46%

**AFFIN HOLDINGS** — Affin Holdings Berhad

- **Affin-ACF Holdings Sdn. Bhd.** 100%
  - **Affin-ACF Capital Sdn. Bhd.** 100%
- **AXA Affin Life Insurance Berhad** 51%
- **AXA Affin General Insurance Berhad** *** 33.6%
- **AFFIN BANK** — Affin Bank Berhad 100%
  - ABB Trustee Berhad ** 100%
  - ABB Nominee (Tempatan) Sdn. Bhd. 100%
  - PAB Properties Sdn Bhd 100%
  - Affin Recoveries Berhad 100%
  - Affin Factors Sdn Bhd #
  - ABB Nominee (Asing) Sdn Bhd # 100%
  - ABB IT & Services Sdn Bhd. # 100%
  - Affin Futures Sdn. Bhd. # 100%
  - BSNCB Nominees (Tempatan) Sdn. Bhd. # 100%
  - AFFIN-ACF Nominees (Tempatan) Sdn. Bhd. # 100%
  - AFFIN ISLAMIC — Affin Islamic Bank Berhad 100%
    - AFFIN-i Nadayu Sdn. Bhd. ## (formerly known as AFFIN-i Goodyear Sdn Bhd) 50%
  - ABB Venture Capital Sdn Bhd. #1 100%
  - ABB Asset Management (M) Berhad #1 100%
  - BSNC Nominees (Tempatan) Sdn. Bhd. #1 100%
  - PAB Property Development Sdn. Bhd. #1 100%
  - PAB Property Management Services Sdn. Bhd. #1 100%
  - BSN Merchant Nominees (Asing) Sdn. Bhd. #1 100%
  - BSN Merchant Nominees (Tempatan) Sdn. Bhd. 100% (strike-off w.e.f. 6.9.2012)
  - UBB Trustee (Malaysia) Berhad *** 20%
- **Affin Capital Sdn. Bhd.** 100%
- **Affin-ADB Sdn. Bhd.** 100%
- **Affin Money Brokers Sdn. Bhd.** 100%
- **Affin Investment Bank Berhad** 100%
  - Affin Fund Management Berhad 100%
  - Affin Nominees (Tempatan) Sdn. Bhd. 100%
  - Affin Nominees (Asing) Sdn. Bhd. 100%
  - Classic Precision Sdn. Bhd. 67%
  - Merchant Nominees (Asing) Sdn. Bhd.1 100%
  - Merchant Nominees (Tempatan) Sdn. Bhd.1 100%

\# Dormant
\## AFFIN-i Nadayu Sdn Bhd is jointly owned by Affin Islamic Bank Berhad and Jurus Positif Sdn Bhd with a 50-50 ownership
** 80% held by Directors of Affin Bank Berhad in trust for Affin Bank Berhad
*** Associates
1. In members' voluntary winding-up

# CORPORATE **INFORMATION**

## BOARD OF DIRECTORS

**Chairman**

YBhg. Jen Tan Sri Dato' Seri Ismail bin Hj. Omar (Bersara)
*(Non-Independent Non-Executive Director)*

**Directors**

Encik Kamarul Ariffin bin Mohd Jamil
*(Non-Independent Executive Director)*
*(Resigned as Director w.e.f. 1.11.2011)*

YBhg. Dato' Zulkiflee Abbas bin Abdul Hamid
*(Non-Independent Executive Director)*
*(Resigned as Director w.e.f. 1.11.2011)*

YBhg. Tan Sri Dato' Lodin bin Wok Kamaruddin
*(Non-Independent Non-Executive Director)*

YBhg. Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara)
*(Non-Independent Non-Executive Director)*

YBhg. Tan Sri Dato' Seri Mohamed Jawhar bin Hassan
*(Independent Non-Executive Director)*

Encik Mohd Suffian bin Haji Haron
*(Independent Non-Executive Director)*

Associate Professor Dr. Asyraf Wajdi bin Dato' Dusuki
*(Independent Non-Executive Director)*
*(Appointed as Director w.e.f. 9.5.2011)*

YBhg. Dato' Sri Abdul Aziz bin Abdul Rahman
*(Independent Non-Executive Director)*
*(Appointed as Director w.e.f. 1.11.2011)*

**Chief Executive Officer**

Encik Kamarul Ariffin bin Mohd Jamil

## NAME

Affin Islamic Bank Berhad (Co. No.: 709506-V )

## DATE OF INCORPORATION

13 September  2005

## PRINCIPAL ACTIVITIES

Affin Islamic Bank Berhad is principally involved in the carrying out of Islamic banking and finance related services.

## SECRETARIES

Nimma Safira binti Khalid
Azizah Binti Shukor
*(Resigned as Joint Company Secretary w.e.f. 12.1.2012)*

## REGISTERED OFFICE

17th Floor, Menara AFFIN,
80, Jalan Raja Chulan
50200 Kuala Lumpur.
Tel.: 03-2055 9000
Fax.: 03-2026 1415

## AUTHORISED SHARE CAPITAL

| | |
|---|---|
| No. of shares | 1,000,000,000 |
| Par value | RM1.00 |
| Total | RM1,000,000,000 |

## ISSUED AND PAID-UP SHARE CAPITAL

| | |
|---|---|
| No. of shares | 260,000,002 |
| Par value | RM1.00 |
| Total | RM260,000,002 |

## SUBSTANTIAL SHAREHOLDER

| | |
|---|---|
| | No. of shares |
| Affin Bank Berhad | 260,000,002 |

## EXTERNAL AUDITORS

PricewaterhouseCoopers (AF 1146)

# BOARD OF **DIRECTORS**

*from left to right:*

1. **EN. KAMARUL ARIFFIN BIN MOHD JAMIL**
   Chief Executive Officer

2. **YBHG. JEN . TAN SRI DATO' SERI ISMAIL BIN HJ. OMAR (BERSARA)**
   Chairman
   Non-Independent Non-Executive Director

3. **YBHG. DATO' ZULKIFLEE ABBAS BIN ABDUL HAMID**
   Non-Independent Non-Executive Director

4. **YBHG. TAN SRI DATO' LODIN BIN WOK KAMARUDDIN**
   Non-Independent Non-Executive Director

*from left to right:*

5. **YBHG. TAN SRI DATO' SERI MOHAMED JAWHAR BIN HASSAN**
   Independent Non-Executive Director

6. **EN. MOHD SUFFIAN BIN HAJI HARON**
   Independent Non-Executive Director

7. **YBHG. DATO' SRI ABDUL AZIZ BIN ABDUL RAHMAN**
   Independent Non-Executive Director

8. **ASSOCIATE PROFESSOR DR. ASYRAF WAJDI BIN DATO' DUSUKI**
   Independent Non-Executive Director

9. **YBHG. LAKSAMANA MADYA TAN SRI DATO' SERI AHMAD RAMLI BIN MOHD NOR (BERSARA)**
   Non-Independent Non-Executive Director

# PROFILE OF **DIRECTORS**

**YBHG. JEN. TAN SRI DATO' SERI ISMAIL BIN HJ. OMAR (BERSARA)**
Chairman/ Non-Independent Non-Executive Director

Jen. Tan Sri Dato' Seri Ismail bin Hj. Omar (Bersara), aged 71, was appointed as a Director and Chairman of AFFIN ISLAMIC on 1 April 2006.

He was formerly Chief Defence Forces (CDF) Malaysia from 1995 until his retirement in 1998, after 38 years of military service. He graduated from Royal Military Academy, Sandhurst, United Kingdom in 1961 and subsequently attended professional and management development courses at several institutions including The Land Forces Command and Staff College, Canada; the United Nation International Peace Academy, Vienna; the National Defence College, India and INTAN Malaysia.

His military service saw Key Command and Staff appointments at all levels of the Armed Forces. As CDF, his responsibilities included key roles in Malaysia's Regional and International Defence Relations.

Tan Sri was Chairman of Affin Holdings Berhad and Affin-ACF Finance from 1999 prior to joining AFFINBANK. He currently holds directorships in AFFINBANK, ABB Trustee, EP Engineering Sdn Bhd and Global Medical Alliance Sdn Bhd.

Tan Sri Ismail displays strong board chair leadership as he sets the Board's tone, direction and culture. Tan Sri Ismail creates the appropriate environment to allow for full engagement by all members of the Board for effective Board discussion and decision making. Tan Sri Ismail possesses a high level of leadership experience to lead effective Board oversight function.

Jen. Tan Sri Ismail bin Hj Omar attended all 12 Board Meetings held during the financial year ended 31 December 2011.

**EN. KAMARUL ARIFFIN BIN MOHD JAMIL**
Chief Executive Officer

Encik Kamarul Ariffin bin Mohd Jamil aged 43, was appointed as a Director and Chief Executive Officer of AFFIN ISLAMIC on 1 April 2006 and 3 January 2007 respectively. He resigned as Director with effect from 1 November 2011.

He graduated from the University of Cambridge in 1992 with a Bachelor of Arts (Economics).

He joined AFFINBANK and AFFIN ISLAMIC in 2003 as Head, Corporate Strategy Division. In 2005 he was appointed as Head, Islamic Banking Division.

Prior to AFFIN ISLAMIC and AFFINBANK, he held various positions at Pengurusan Danaharta Nasional Berhad namely Head of Managing Director's Office and Special Assistant to Managing Director between 1999 and 2003. Encik Kamarul also did a stint in Trenergy Malaysia Berhad and Shell Malaysia Trading Sdn Bhd in various capacities including business development, planning and Special Assistant to the Managing Director of Trenergy Malaysia Berhad.

He brings a broad range of business management expertise to the Board.

Encik Kamarul Ariffin bin Mohd Jamil attended all 12 Board Meetings held during the financial year ended 31 December 2011.

**YBHG. DATO' ZULKIFLEE ABBAS BIN ABDUL HAMID**
Non-Independent Non-Executive Director

Dato' Zulkiflee Abbas bin Abdul Hamid aged 55, was appointed as a Director of AFFIN ISLAMIC on 1 April 2006.

Prior to joining AFFINBANK, Dato' Zulkiflee Abbas was the Chief Credit Officer in one of Malaysia's leading banks where he also served in various positions in the bank's subsidiaries including as a board member. He graduated with a Master in Business Administration from the Southern Illinois University, United States of America. Dato' Zulkiflee Abbas joined AFFINBANK in March 2005 as Director, Enterprise Banking. He was later made the Director of Business in 2007 and subsequently the Executive Director, Banking in 2008 before assuming his current position as Managing Director/Chief Executive Officer AFFINBANK.

Dato' Zulkiflee Abbas is a Practising Member of the Association of Chartered Islamic Finance Professionals (acifp) since November 2008. As a practicing Member of acifp, Dato' Zulkiflee Abbas engages himself in continuous professional development to enhance technical competency relating to Islamic finance.

Dato' Zulkiflee Abbas bin Abdul Hamid attended all 12 Board Meetings held during the financial year ended 31 December 2011.

**YBHG. TAN SRI DATO' LODIN BIN WOK KAMARUDDIN**
Non-Independent Non-Executive Director

Tan Sri Dato' Lodin bin Wok Kamaruddin, aged 63, was re-appointed to the Board of Directors of AFFIN ISLAMIC on 4 October 2010. He was appointed as the Managing Director of Affin Holdings Berhad in February 1991 and redesignated as Deputy Chairman on 1 July 2008.

Tan Sri Dato' Lodin has vast business and management experience pursuant to his various positions held in Lembaga Tabung Angkatan Tentera ("LTAT") Group of Companies. He is the Chief Executive of LTAT and the Deputy Chairman / Group Managing Director of Boustead Holdings Berhad. Prior to joining LTAT, he was the General Manager of Perbadanan Kemajuan Bukit Fraser for 9 years. Tan Sri Lodin is also the Chairman of Boustead Heavy Industries Corporation Berhad, Boustead Naval Shipyard Sdn Bhd, Boustead Petroleum Marketing Sdn Bhd, Boustead REIT Managers Sdn Bhd, Johan Ceramics Berhad and 1Malaysia Development Berhad and also sits on the Boards of UAC Berhad, The University of Nottingham in Malaysia Sdn Bhd, Minority Shareholder Watchdog Group, Atlas Hall Sdn Bhd, AFFINBANK, Affin Investment Bank Berhad and AXA Affin Life Insurance Berhad.

He graduated from the University of Toledo, Ohio, USA with a Bachelor of Business Administration and a Master of Business Administration Degree.

Tan Sri Dato' Lodin attended all 12 Board Meetings held during the financial year ended 31 December 2011.

**YBHG. DATO' SRI ABDUL AZIZ BIN ABDUL RAHMAN**
Independent Non-Executive Director

Dato' Sri Abdul Aziz bin Abdul Rahman, aged 66, was appointed to the Board of Directors of AFFIN ISLAMIC on 1 November 2011.

Dato' Sri Abdul Aziz graduated with a Bachelor of Commerce from University of New South Wales, Sydney, Australia. He is member of the Malaysian Institute of Certified Public Accountants (MICPA) and the Malaysian Institute of Accountants (MIA).

He has served as Chairman and board member of several government institutions, agencies and public listed companies, both in Australia and Malaysia.

At the corporate level he was with Price Waterhouse & Co. Sydney, Malaysia Airlines and Managing Director of Bank Rakyat Bhd before venturing into politics and public service as the Pahang State Assemblyman, State Executive Councillor and Deputy Chief Minister of Pahang. He was a Senator of Malaysian Parliament for a maximum period of two (2) terms.

Presently he is a Board member of AFFINBANK, the International Islamic University Malaysia, University Malaysia Pahang and their associated holding companies.

Dato' Sri Abdul Aziz's expertise and knowledge carries across a broad spectrum relating to finance and accounting. His standing in the community contributes effectively to his role as an Independent Director particularly in meeting various stakeholders expectation.

Dato' Sri Abdul Aziz bin Abdul Rahman during his tenure attended the Board Meeting held for the period November to December 2011.

**YBHG. TAN SRI DATO' SERI MOHAMED JAWHAR BIN HASSAN**
Independent Non-Executive Director

Tan Sri Dato' Seri Mohamed Jawhar, aged 68, was appointed as a Director of AFFIN ISLAMIC on 1 July 2006.

His other positions include: Independent Non-Executive Director, AFFINBANK; Chairman ISIS Malaysia; Non-Executive Chairman, New Straits Times Press (Malaysia) Berhad; Member of Securities Commission Malaysia; Member, Advisory Board, Malaysian Anti-Corruption Commission; Distinguished Fellow, Institute of Diplomacy and Foreign Relations (IDFR); Board Member, Institute of Advanced Islamic Studies (IAIS); Chairman, Malaysian National Committee of the Council for Security Cooperation in the Asia Pacific (CSCAP); and Member, International Advisory Board, East West Center, USA. He is also Expert and Eminent Person for the ASEAN Regional Forum (ARF).

He was also Co-Chair, Network of East Asia Think-tanks (NEAT) 2005-2006; Chairman, Malaysian National Committee, Pacific Economic Cooperation Council (PECC) 2006-2010; and Co-Chair, Council for Security Cooperation in the Asia Pacific (CSCSP) 2007-2009.

He served with the government before he joined ISIS Malaysia as Deputy Director-General in 1990, Director-General in March 1997 and was subsequently appointed Chairman and CEO in 2006. He was appointed Chairman ISIS Malaysia on 9 January 2010.

His positions in government included Director-General, Department of National Unity; Under-Secretary, Ministry of Home Affairs; Director (Analysis) Research Division, Prime Minister's Department; and Principal Assistant Secretary, National Security Council. He also served as Counselor in the Malaysian Embassies in Indonesia and Thailand.

His appropriate leadership skills and vast experience are useful to the Board to gain a wider and forward looking perspective on decision making.

Tan Sri Dato' Seri Jawhar attended 11 out of the 12 Board Meetings held during the financial year ended 31 December 2011.

**YBHG. LAKSAMANA MADYA TAN SRI DATO' SERI AHMAD RAMLI BIN MOHD NOR (BERSARA)**
Non-Independent Non-Executive Director

Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor, aged 68, was appointed to the Board of Directors of AFFIN ISLAMIC on 1 July 2006. He retired as Chief of Royal Malaysian Navy in 1999.

He graduated from the Brittania Royal Naval College Dartmouth, United Kingdom in 1976, the Indonesia Naval Staff College in 1976, the United States Naval War College and Naval Post-Graduate School Monterey in 1981. He also holds a Masters Degree in Public Administration from the Harvard University, United States of America.

He currently holds directorships in Muhibbah Engineering (M) Berhad and Favelle Favco Berhad.

Tan Sri Dato' Seri Ahmad Ramli is presently the Executive Deputy Chairman/ Managing Director of Boustead Heavy Industries Corporation Berhad.

Tan Sri Dato' Seri Ahmad Ramli's appropriate leadership with strategically critical skills and experience has added value to the Board's performance. Tan Sri Dato' Seri Ahmad Ramli contributes to the mix of skills and experience of the Board through his relevant expertise in business, management and strategic planning on both short term and long term strategic issues.

Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor attended 11 out of the 12 Board Meetings held during the financial year ended 31 December 2011.

**EN. MOHD SUFFIAN BIN HAJI HARON**
Independent Non-Executive Director

Encik Mohd Suffian bin Haji Haron aged 66, was appointed to the Board of Directors of AFFIN ISLAMIC on 1 July 2006.

He graduated with a Bachelor of Economics from University of Malaya (1970) and holds a Master of Business Administration from University of Oregon in the United States (1976).

His current directorships in public companies include, AFFINBANK, L.K. & Associates Sdn Bhd, Idaman Pharma Manufacturing Sdn Bhd and Pharmaniaga Bhd.

Encik Mohd Suffian brings a diverse professional experience to the Board. His background provides the necessary independence to the Board and add value by drawing on his experience and contributing to the Board's decision-making process.

Encik Mohd Suffian attended all 12 Board Meetings held in the financial year ended 31 December 2011.

**ASSOCIATE PROFESSOR**
**DR. ASYRAF WAJDI BIN DATO' DUSUKI**
Independent Non-Executive Director

Associate Professor Dr. Asyraf Wajdi Bin Dato' Dusuki, a Malaysian aged 36, was appointed as a Director of AFFIN ISLAMIC on 9 May 2011.

He is currently the Head of Research Affairs, International Shariah Research Academy for Islamic Finance (ISRA). Prior to joining ISRA he was an Assistant Professor of Islamic Banking at the Kulliyyah of Economics and Management Sciences, International Islamic University Malaysia (IIUM).

Apart from serving ISRA, he also serves as a Chairman of AFFIN Group Shariah Committee and Shariah consultant and advisor to several financial institutions and advisory firms including London-based Mortgage Company Chain Mender Limited, US-based Islamic Financial Institution United Chartered Bank (UCB), Singapore-based IFIS Business Advisory Pte Ltd and AFTAAS Shariah Advisory Sdn Bhd.

He holds Master of Science degree in Islamic Economics, Banking and Finance and PhD in Islamic Banking and Finance from Loughborough University, United Kingdom. He has been published in numerous international and local referred academic journals. One of his articles entitled 'Banking for the Poor: Role of Islamic Banking in Microfinance Initiatives" has been awarded at the 2009 Outstanding Paper Award by the well-known International Referred Journal Article Publisher Emerald Literati Network.

Apart from that he has presented papers at both local and international conferences including London, Bahrain, Berlin, Dubai, Tehran, Jakarta, Singapore and Brunei. He also conducts training in Islamic banking and finance related areas to officers of Central Bank of Malaysia, banking practitioners, government officials and public.

Dr. Asyraf Wajdi during his tenure attended all 7 Board Meetings held for the period May to December 2011.

# MANAGEMENT **TEAM**

**Pn. Puziah binti Abu Bakar**
Head, Zakat & Promotion Management

**Pn. Radziah binti Ahmad**
Head, HP-i, Bancatakaful & Islamic Branches

**En. Ferdaus Toh bin Abdullah**
Head, Consumer Banking and Strategic Services

**En. Hazlan bin Hasan**
Head, Business Banking

**En. Kamarul Ariffin bin Mohd. Jamil**
Chief Executive Officer

**En. Lokman bin Shamsuddin**
Head, Business Banking Support

**En. Saiful Anuar bin Hambali**
Head, Shariah Supervisory

**En. Muhizan bin Yahaya**
Head, Institution / GLC

**En. Mohd Fizar bin Mohidin**
Manager, Islamic Treasury

**Pn. Zabedah binti Abu Bakar**
Head, Consumer Financing (Non HP-i)

# SHARIAH COMMITTEE **MEMBERS**

**ASSOCIATE PROFESSOR
DR. ASYRAF WAJDI BIN DATO' DUSUKI**

Associate Professor Dr Asyraf Wajdi Dusuki is currently the Head of Research Affairs, International Shariah Research Academy for Islamic Finance (ISRA). Prior to joining ISRA he was an Assistant Professor of Islamic Banking at the Kulliyyah of Economics and Management Sciences, International Islamic University Malaysia (IIUM). Apart from serving ISRA, he also serves as a Chairman of Affin Group Shariah Committee and Shariah consultant and advisor to several financial institutions and advisory firms including London-based Mortgage Company Chain Mender Limited, US-Based Islamic Financial Institution United Chartered Bank (UCB), Singapore-based IFIS Business Advisory Pte Ltd and AFTAAS Shariah Advisory Sdn. Bhd. He holds Master of Science degree in Islamic Economics, Banking and Finance and PhD in Islamic Banking and Finance from Loughborough University, United Kingdom. He has published in numerous international and local refereed academic journals. One of his article entitled "Banking for the Poor: The Role of Islamic Banking in Microfinance Initiatives" has been awarded as the 2009 Outstanding Paper Award by the well-known International Referred Journal Article Publisher Emerald Literati Network. Apart from that he has presented papers at both local and international conferences including London, Bahrain, Berlin, Dubai, Tehran, Jakarta, Singapore and Brunei. He also conducts training in Islamic banking and finance related areas to officers of Central Bank of Malaysia, banking practitioners, government officials and public.

ASSOCIATE PROFESSOR
DR. ASYRAF WAJDI BIN DATO' DUSUKI

ASSOCIATE PROFESSOR
DR BOUHERAOUA SAID

ASSISTANT PROF.
DR. AHMAD AZAM OTHMAN

DR. ZULKIFLI HASAN

DR. YASMIN HANANI MOHD SAFIAN

### ASSOCIATE PROFESSOR DR BOUHERAOUA SAID

Associate Prof. Dr. Bouheraoua Said obtained Bachelor in Fiqh and Usul Fiqh from National Higher Institute of Religion Foundations (University of Algiers) in 1991, Master of Quran and Sunnah in 1998 and PhD in Fiqh/Usul Fiqh (Shariah) from International Islamic University Malaysia (IIUM) in 2002 and he was an Associate Professor at Department of Islamic Law, Ahmad Ibrahim Kulliyyah of Law, at the university and Coordinator of Ahmad Ibrahim Kulliyyah of Laws Arabic Unit. He is an expert in research area of Usul Fiqh/Shariah in terms of providing Shariah ruling based on Islamic legal sources which particularly may contribute to the authentic innovation in Islamic Banking and Finance. He currently is an appointed referee for Journal of Islam in Asia, Member of Editorial Board of At-Tajdid International Refereed Journal and Consultant Editor in Al-Risalah Refereed Journal IIUM. He was also the Winner of the Lamya al-Faruqi award for academic excellence year 1999, organized by International Institute of Islamic Thought & IIUM.

### ASSISTANT PROF. DR. AHMAD AZAM OTHMAN

Assistant Prof. Dr. Ahmad Azam Othman is currently the Director of Harun M. Hashim Law Centre at Ahmad Ibrahim Kulliyyah of Laws (AIKOL), International Islamic University of Malaysia (IIUM). Prior to that, he was the Head of Islamic Law Department, AIKOL, IIUM. His specialized areas are in Islamic law of property, transactions, bankruptcy, banking and Takaful as well as comparative laws. He has vast experience in teaching for postgraduate as well as undergraduate courses, he is also an internal examiner and supervisor to numbers of PhD Thesis and Master Dissertation in various areas including Islamic Banking, Islamic Microfinance, Islamic Capital Market, Takaful and Waqf. Dr. Ahmad Azam Othman holds a PhD from University of Wales, UK. In addition, he holds Master of Comparative Laws from IIUM where he also obtained his LLB (Bachelor of Laws) and LLB.S (Bachelor of Shariah) as his first degree.

### DR. ZULKIFLI HASAN

Dr. Zulkifli Hasan is a senior lecturer at Faculty of Shariah and Law, Islamic Science University of Malaysia (USIM). He is also a Shariah panel for the Institute of Fatwa Management and Research, USIM. Besides, he is also involved as editor and reviewer for various journals such as the Malaysian Journal of Shariah and Law, the International Journal of Business and Finance Research, Shariah Law Reports and the Global Islamic Finance Magazine.

His industry experience was as in-house advocate and solicitor for Bank Muamalat Malaysia Berhad, member of Rules and Regulations Working Committee for Association of Islamic Banking Institutions Malaysia and member of corporate governance working committee for Awqaf South Africa. He also underwent internship at Hawkamah, the Institute for Corporate Governance, Dubai International Financial Centre whereby he was involved in developing corporate governance guidelines for Islamic Financial Institutions in the Middle East and North Africa (MENA) as well as in the Task Force on Environmental, Social and Governance (ESG) which led towards development of the S&P/Hawkamah Pan Arab ESG Index.

He has also published numerous articles in various academic journals and presented many papers in various conferences both local and abroad. His research interest include corporate and Shariah governance and regulation in Islamic finance.

Dr. Zulkifli Hasan holds a PhD in Islamic Finance from Durham University, UK. Besides, he holds Master of Comparative Laws from International Islamic University of Malaysia where he also obtained his LLB (Bachelor of Laws) and LLB.S (Bachelor of Shariah) as his first degree.

### DR. YASMIN HANANI MOHD SAFIAN

Dr. Yasmin Hanani Mohd Safian is a Senior Lecturer at Universiti Sains Islam Malaysia (USIM) cum Deputy Dean of USIM Center of Graduate Studies. Dr. Yasmin holds a bachelor degree in Shariah Islamiyyah from Al-Azhar University, Masters in Islamic Studies from Birmingham University and a PhD in Islamic Studies from Exeter University. She has been involved in series of research and academic writing including A Study on The Small and Medium Sized Enterprises (SMEs), Perception Towards Islamic Banking Product and Services, Legal Evidences in Utilizing Fiat Money-Usul Fiqh Perspectives, Masalih Mursalah and its Application in Islamic Banking Finance-A Case Study on BBA, Variable Rate Financing in Malaysian Islamic Banking: An Analysis and Sistem ekonomi kerajaan Turki Uthmaniyyah. Dr. Yasmin has also actively participated in paper presentation in many seminars and conferences including in Pennyslvania USA, United Kingdom, Italy, Egypt and Brunei.


# CHAIRMAN'S **STATEMENT**

**On behalf of the Board of Directors, I am pleased to present the Annual Report and Financial Statements of Affin Islamic Bank Berhad (AFFIN ISLAMIC) for the financial year ended 31 December 2011.**


In 2011, the Malaysian Islamic banking system continued to remain resilient underpinned by strong economic fundamentals and further expansion in consumption and investment, although global economic conditions remain fragile.

Initiatives to support the development of the Islamic finance sector continued to be an important agenda for Bank Negara Malaysia, focusing in particular on capacity building, infrastructure and talent development.

Against this backdrop, I am pleased to report that AFFIN ISLAMIC performed well, recording the highest profit before zakat and taxation since inception at RM74.9 million, an increase of 60.9% from RM46.5 million in 2010.

The good performance was a result of strong financing growth by 22.7% to RM4.5 billion, while total customer deposits grew 34.7% to RM7.5 billion. AFFIN ISLAMIC's client base also grew 10% to about 200,000 customers coming from both retail and business enterprise sectors.

AFFIN ISLAMIC has been growing and developing progressively for the past five years as a wholly-owned subsidiary under Affin Bank Berhad (AFFINBANK) since 2006. Prior to that, the Bank had roots as an Islamic banking unit within its parent company.

Throughout 2011, the Bank continued with its four-pronged approach of its business model as it uphold to enhance and strengthen its position in the market and further develop its brand value. The business model includes growing its Islamic banking business further that will provide and create sustainable long term revenue for the Bank and developing new and innovative Shariah-based products that are acceptable to Muslim and non-Muslim customers in Malaysia and in the region.

**+60.9%**

Profit Before Zakat and Taxation

**+22.7%**

Financing Growth

**+34.7%**
Customer Deposits Growth

AFFIN ISLAMIC continued to invest in ensuring that its products are widely accepted globally based on Shariah concepts such as Istisna', Murabahah, Ijarah and Musharakah Mutanaqisah. In 2012, AFFIN ISLAMIC will look into further developing the deposits business sector, especially the retail segment, and increasing its fee-based income segment to increase and improve its business further.

The Bank will also continue to improve its asset quality and make its Islamic branches shine. AFFIN ISLAMIC now has seven branches in the country, complementing AFFINBANK's 90 existing conventional branches.

The Bank is constantly reviewing the geographical reach of its branches to better serve its customers. Towards this end, the Bank is on constant look-out for more strategic locations for the existing branches and to relocate if deemed appropriate.

Based on the population of the Muslim community within the country and the Asean region, the Bank is clear and certain of the opportunities and prospect of the Islamic banking industry which has been growing twice as fast as conventional banking.

Leveraging on the government's agenda, as well as the growing popularity of Islamic banking business, AFFIN ISLAMIC will also create additional wealth, that is, by venturing into new markets and launching new products.

While there are synergistic and tangible benefits from the sharing of resources, branches as well as people, the unity that is demonstrated by close collaboration will ensure that AFFIN ISLAMIC will have the opportunity to be a meaningful contributor to the Group as the growth of Islamic banking in Malaysia is on the rise.

Furthermore, the strength and capabilities of the Bank in promoting its Islamic banking products and services will place the bank in good standing not only in Malaysia but in the region.

This is on the back of an international Islamic banking industry that is estimated to be worth US$1 trillion and growing by an average 20% annually. According to Ernst & Young, Islamic banking assets with commercial banks globally would reach US$1.1 trillion in 2012, a jump of 33% from the 2010 level of US$826 billion.


In Malaysia, a comprehensive Islamic financial system has been established since 1983 which operates in parallel with the conventional financial system. Currently, Malaysia's Islamic banking assets stand at US$100 billion with an average growth rate of 18-20% annually.

According to Bank Negara Malaysia, while Malaysia has made significant inroads in becoming an international Islamic financial centre, efforts will continue to be undertaken to enhance the Islamic financial ecosystem. This will entail developing a more conducive environment for the mobilisation of higher volumes of international Islamic financial flows from a diverse range of players to be channelled through innovative Islamic financial instruments.

Finally, on behalf of the Board, I would like to extend my sincere thanks to all of AFFIN ISLAMIC's employees and executive team. I thank them for their loyalty, hard work and dedication which stand behind the successes and achievements of the Bank. By continuing to successfully combine traditional Islamic values with the technology and innovation that characterise the best of modern banking, AFFIN ISLAMIC is well placed to achieve sustained growth in the coming years.

**Jen Tan Sri Dato' Seri Ismail bin Hj. Omar (Bersara)**
Chairman

# PERFORMANCE **REVIEW**

**The Malaysian Islamic banking system continued to remain resilient throughout 2011, supported by high capitalisation, improved asset quality and sustained profitability in an environment of ample liquidity.**

The financial statements of the Bank for the financial year ended 31 December 2011 showed that the continued expansion in business reflected positively on income, with AFFIN ISLAMIC achieving a total net income of RM166.9 million, an increase of 21.6% from RM137.3 million in 2010. Despite the challenging economic conditions, the Bank registered a satisfactory profit before zakat and taxation of RM74.9 million compared with RM46.5 million posted in the previous financial year.

Profit after zakat and taxation grew to RM49.8 million in 2011 compared with RM26.0 million the year before. Similarly, earnings per share increased to 19.2 sen from 10.0 sen the previous year.

The bank's customer base continued to expand in 2011, with customer deposits growing 34.7% to RM7.5 billion.

Total gross financing, advances and other financing increased by 22.7% to RM4.5 billion from RM3.6 billion in 2010, while total net financing, advances and other financing grew 23.0% to RM4.4 billion from RM3.6 billion.

The household sector was the dominant components of financing assets showed in 2011, constituting 55.7% of gross financing, advances and other financing. This was followed by the real estate and finance, insurance and business services sector, which added 10.0% each to the total financing of the Bank.


## AFFIN ISLAMIC balance sheet continued to strengthen over the years. The Bank's total assets rose 39.3% to RM10.5 billion, from RM7.6 billion a year ago.

AFFIN ISLAMIC balance sheet continued to strengthen over the years. The Bank's total assets rose 39.3% to RM10.5 billion, from RM7.6 billion a year ago.

AFFIN ISLAMIC's capitalisation and asset quality indicators remained strong in the year under review. The Bank's capital adequacy levels were adequately strong in 2011 with a risk-weighted capital ratio of 12.10% and a core capital ratio of 11.08%, well above the current regulatory minimum levels as well as the higher requirements under Basel III. AFFIN ISLAMIC recorded an encouraging total income derived from investment of general investment deposits growth of 29.2% to RM225.9 million from RM174.9 million in 2010.

Total income derived from investment of shareholders' funds also has a growth of 15.5%, rising to RM20.9 million in 2011 from RM18.1 million in 2010.

AFFIN ISLAMIC, in line with its continuing efforts to mark its presence in the developing global Islamic financial markets, has active plans to strategically expand its operations domestically. AFFIN ISLAMIC with seven existing full-fledged branches together with AFFINBANK's network of 90 branches, is committed to strengthening its presence in the local market, in order to improve its customer outreach across Malaysia.

As it progresses into the year 2012, the Bank will look at market segments with investments overseas. Fee based income will remain as one of its major focuses besides deposits and financing growth. One of the areas of interest would be to introduce its Ar-Rahnu business, which will be made available in its Jitra branch soon.

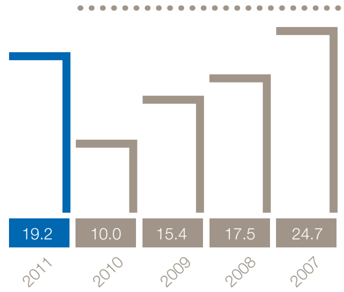
The Bank is confident that it is able to produce another set of good results in 2012 despite the uncertainties.

**+39.3%**

Total Assets Growth

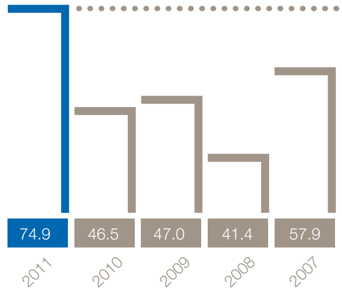
# FINANCIAL
# HIGHLIGHTS

### EARNINGS PER SHARE (EPS)
(Sen)



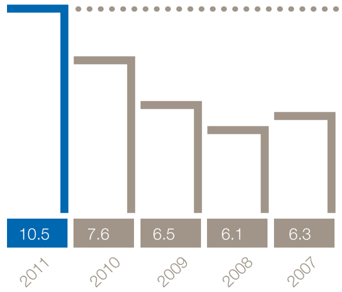

The Bank's EPS for the financial year ended 31 December 2011 stood at 19.2 sen, compared to 10.0 sen the year before.

### PROFIT BEFORE ZAKAT AND TAXATION
(RM'million)



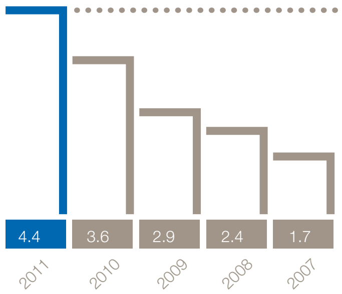

The Bank achieved profit before zakat and taxation of RM74.9 million, a commendable 60.9% rise for the year ended 31 December 2011, compared to RM46.5 million in 2010. The Bank's profit after zakat and taxation also rose by 91.4% to RM49.8 million for the year ended 31 December 2011.

### TOTAL ASSETS
(RM'billion)



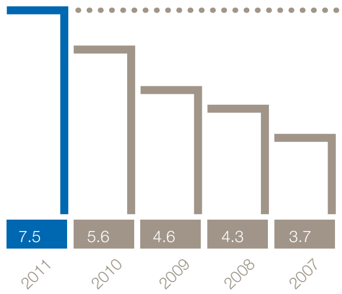

The Bank's financial position as at 31 December 2011 continued to remain strong with total assets of RM10.5 billion, an increase of 38.2% compared with RM7.6 billion as at 31 December 2010.

### NET FINANCING, ADVANCES AND OTHER FINANCING
(RM'billion)



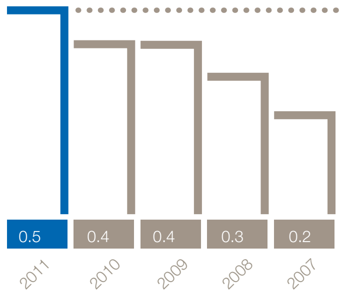

The Bank's net financings, advances and other financing grew by 23.0% to RM4.4 billion compared with RM3.6 billion in 2010, as economic activities and demand for credit gathered momentum during the year under review.

### DEPOSITS FROM CUSTOMERS
(RM'billion)




Total deposits increased by 34.7% year-on-year to RM7.5 billion as at 31 December 2011, in correspondence to the Bank's financing growth.

### SHAREHOLDERS' EQUITY
(RM'billion)




Total shareholders' equity of the Bank increased by 11.0% to RM0.5 billion from RM0.4 billion the year before.

# CORPORATE **DIARY**

**IIUM Endownment Fund Contributrion**

AFFIN ISLAMIC contributes RM100,000 as part of its responsibility in aiding the Muslim students at International Islamic University Malaysia Endowment Fund (IIUM), in hopes of creating further opportunities for deserving students.

18 November 2011

**Kolej Insaniah Endownment Fund Contributrion**

AFFIN ISLAMIC continues to prioritise the allocation of zakat towards education purposes and contributes RM100,000 to Kolej Universiti Insaniah (KUIN).

22 September 2012

**Launch of "Let's Talk MM" - Affin Home & Business Invest-i.**

AFFIN ISLAMIC launches its most innovative and flexible home and business property financing product, Affin Home Invest-i and Affin Business Premises Invest-i which is based on the Musharakah Mutanaqisah (MM) concept.

6 May


**Contribution to the Poor and Needy through PERKIM**

AFFIN ISLAMIC gives RM16,800 to Muslim underprivileged Muslim converts such as orphans and single mothers during PERKIM's 'Majlis Berbuka Puasa dan Penyampaian Sumbangan', to help lighten their burden.

20 August 2011

**Tabung Zakat ATM Contribution**

AFFIN ISLAMIC donates RM500,000 to Tabung Zakat Angkatan Tentera Malaysia (TZ ATM) to enhance the well being of the armed forces.

9 August 2011


# NETWORK OF BRANCHES

## WILAYAH PERSEKUTUAN

1. **Fraser**
   20-G & 20-1
   Jalan Metro Pudu
   Fraser Business Park
   55100 Kuala Lumpur
   Tel : 03-9222 8877
   Fax : 03-9222 9877

## SELANGOR

1. **MSU Shah Alam**
   Management & Science University
   2nd Floor, University Drive
   Persiaran Olahraga, Section 13
   40100 Shah Alam
   Selangor
   Tel : 03-5510 0425
   Fax : 03-5510 0563

2. **SS2**
   161-163
   Jalan SS2/24
   47300 Petaling Jaya
   Selangor
   Tel : 03-7874 3513
   Fax : 03-7874 3480

3. **Bangi**
   No.175 & 177 Ground Floor
   Jalan 8/1, Seksyen 8
   43650 Bandar Baru Bangi
   Selangor
   Tel : 03-8925 7333
   Fax : 03-8927 4815

## JOHOR

1. **Taman Molek**
   No. 23, 23-01, 23-02
   Jalan Molek 1/29
   Taman Molek
   81100 Johor Bahru, Johor
   Tel : 07-351 9522
   Fax : 07-357 9522

## PULAU PINANG

1. **Juru Auto-City**
   No. 1813A
   Jalan Perusahaan, Auto-City
   North-South Highway
   Juru Interchange
   13600 Prai, Pulau Pinang
   Tel : 04-507 7422
   Fax : 04-507 6522

## KEDAH

1. **Jitra**
   No 17, Jalan Tengku Maheran 2
   Taman Tengku Maheran, Fasa 4
   06000 Jitra, Kedah
   Tel : 04-919 0888
   Fax : 04-919 0380

## TERENGGANU

1. **Kuala Terengganu**
   63 & 63-A
   Jalan Sultan Ismail
   20200 Kuala Terengganu
   Terengganu
   Tel : 09-622 3725
   Fax : 09-623 6496

# NOTICE OF ANNUAL GENERAL MEETING

## NOTICE IS HEREBY GIVEN THAT THE 6TH ANNUAL GENERAL MEETING OF AFFIN ISLAMIC BANK BERHAD WILL BE HELD AT THE BOARD ROOM, 19TH FLOOR, MENARA AFFIN, 80, JALAN RAJA CHULAN, 50200 KUALA LUMPUR ON WEDNESDAY, 21 MARCH 2012 AT 5.00 P.M. FOR THE TRANSACTION OF THE FOLLOWING BUSINESS:-

**Agenda:**

1. To receive the Statutory Statements of Accounts for the year ended 31 December 2011 together with the Directors' and Auditors' Reports thereon.

2. To re-elect the following Directors who retire pursuant to Article 68 of the Articles of the Association and who, being eligible offer themselves for re-election :-

   (a) YBhg. Tan Sri Dato' Seri Mohamed Jawhar bin Hassan
   (b) Encik Mohd Suffian bin Haji Haron

3. To re-elect the following Directors who retire pursuant to Article 73 of the Articles of the Association and who, being eligible offer themselves for re-election :-

   (a) Associate Professor Dr. Asyraf Wajdi bin Dato' Dusuki
   (b) YBhg. Dato' Sri Abdul Aziz bin Abdul Rahman

4. To consider and if thought fit, to pass the following resolutions in accordance with Section 129(6) of the Companies Act, 1965:-

   (a) "That pursuant to Section 129(6) of the Companies Act, 1965, YBhg. Jen Tan Sri Dato' Seri Ismail bin Haji Omar (Bersara) be and is hereby re-appointed as Director of the Company to hold office until the next Annual General Meeting".

5. To approve Directors' fees for 2011.

6. To appoint Messrs. PricewaterhouseCoopers as Auditors for the financial year ending 31 December 2012 and to authorise the Directors to fix their remuneration.

7. To transact any other business for which due notice shall been received.

**BY ORDER OF THE BOARD**

**NIMMA SAFIRA BINTI KHALID**
Secretary

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**NOTE:**

A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of him and the proxy need not be a member of the Company.

The instrument appointing a proxy shall be in writing under the hand of the appointor of his attorney duly authorised in writing or, if the appointor is a corporation, either under the seal or in some other manner approved by Directors.

The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority shall be deposited at the Company's registered office at the 17th Floor, Menara Affin, 80, Jalan Raja Chulan, 50200 Kuala Lumpur, at least forty-eight (48) hours before the time appointed for holding the Meeting or adjourned Meeting as the case may be otherwise the person so named shall not be entitled to vote in respect thereof.


# FINANCIAL **STATEMENTS**

# DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

The Directors hereby submit their report together with the audited financial statements of the Bank for the financial year ended 31 December 2011.

## PRINCIPAL ACTIVITIES

The principal activities of the Bank are Islamic banking business and the provision of related financial services. There were no significant changes in these activities during the financial year.

## FINANCIAL RESULTS

| | Economic Entity RM'000 | The Bank RM'000 |
|---|---|---|
| Profit before zakat and taxation | 74,884 | 75,094 |
| Zakat and taxation | (25,074) | (25,074) |
| Net profit after zakat and taxation | 49,810 | 50,020 |

## DIVIDENDS

No dividends have been paid by the Bank in respect of the financial period ended 31 December 2010 and 2011.

The Directors do not recommend the payment of any dividend in respect of the current financial year.

## RESERVES AND PROVISIONS

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

## BAD AND DOUBTFUL FINANCING

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

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

## CURRENT ASSETS

Before the financial statements 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, their values as shown in the accounting records 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 which would render the values attributed to the current assets in the financial statements of the Bank misleading.

## VALUATION METHODS

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

### CONTINGENT AND OTHER LIABILITIES

At the date of this report there does not exist:

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

(b) any contingent liability in respect of the Bank that has arisen since the end of the financial year.

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

### CHANGE OF CIRCUMSTANCES

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

### ITEMS OF AN UNUSUAL NATURE

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

### SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

There is no significant event during the financial year.

### SUBSEQUENT EVENTS

There were no material events subsequent to the reporting date that require disclosure or adjustments to the financial statements.

### DIRECTORS

The Directors of the Bank who have held office during the period since the date of the last report are:

Jen Tan Sri Dato' Seri Ismail bin Haji Omar (Bersara)
*Chairman / Non-Independent Non-Executive Director*

En. Kamarul Ariffin bin Mohd Jamil
Chief Executive Officer
*Non-Independent Executive Director*
*(Resigned as Director w.e.f 1 November 2011)*

Dato' Zulkiflee Abbas bin Abdul Hamid
*Non-Independent Non-Executive Director*
*(Resigned as Director w.e.f 1 November 2011)*

Tan Sri Dato' Lodin bin Wok Kamaruddin
*Non-Independent Non-Executive Director*

**DIRECTORS (continued)**

Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara)
*Non-Independent Non-Executive Director*

Tan Sri Dato' Seri Mohamed Jawhar
*Independent Non-Executive Director*

En. Mohd Suffian bin Haji Haron
*Independent Non-Executive Director*

Associate Professor Dr. Asyraf Wajdi bin Dato' Dusuki
*Independent Non-Executive Director*
*(Appointed as Director w.e.f 9 May 2011)*

Dato' Sri Abdul Aziz bin Abdul Rahman
*Independent Non-Executive Director*
*(Appointed as Director w.e.f 1 November 2011)*

**RESPONSIBILITY STATEMENT BY BOARD OF DIRECTORS**

In the course of preparing the annual financial statements of the Bank, the directors are collectively responsible in ensuring that these financial statements are drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965.

It is the responsibility of the directors to ensure that the financial reporting of the Bank present a true and fair view of the state of affairs of the Bank as at 31 December 2011 and of the financial results and cash flows of the Bank for the financial year then ended.

The financial statements are prepared on the going concern basis and the directors have ensured that proper accounting records are kept, applied the appropriate accounting policies on a consistent basis and made accounting estimates that are reasonable and fair so as to enable the preparation of the financial statements of the Bank with reasonable accuracy.

The directors have also taken the necessary steps to ensure that appropriate systems are in place for the assets of the Bank to be properly safeguarded for the prevention and detection of fraud and other irregularities. The systems, by their nature, can only provide reasonable and not absolute assurance against material misstatements, whether due to fraud or error.

The Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is set out on page 112 of the financial statements.

## DIRECTORS' INTERESTS

According to the register of Directors' shareholdings, the interest of Directors in office at end of the financial year in shares, warrants and options of related corporations are as follows:

| | Ordinary shares of RM1 each | | | |
|---|---|---|---|---|
| | As at 1.1.2011 | Bought | Sold | As at 31.12.2011 |
| **AFFIN Holdings Berhad** | | | | |
| Tan Sri Dato' Lodin bin Wok Kamaruddin | *808,714 | - | - | 808,714 |
| **Boustead Heavy Industries Corporation Berhad** | | | | |
| Tan Sri Dato' Lodin bin Wok Kamaruddin | 2,000,000 | - | - | 2,000,000 |
| **Boustead Petroleum Sdn Bhd** | | | | |
| Tan Sri Dato' Lodin bin Wok Kamaruddin | 5,916,465 | - | - | 5,916,465 |
| **Al-Hadharah Boustead REIT** | | | | |
| Tan Sri Dato' Lodin bin Wok Kamaruddin | 250,000 | - | - | 250,000 |
| **Pharmaniaga Berhad** | | | | |
| Tan Sri Dato' Lodin bin Wok Kamaruddin | - | 3,184,538 ^ | - | 3,184,538 |

* Shares held in trust by nominee company

^ Acquisition of shares arising from Boustead Holdings Berhad ('BHB') Dividend in Specie of RM452,273 and subscription of entitlement of Restricted Offer of RM1,083,814 on 28 October 2011 and 28 December 2011 respectively. On 29 December 2011, shares acquired under BHB Divestment 2 of RM1,648,351.

| | Ordinary shares of RM10 each; RM5 uncalled | | | |
|---|---|---|---|---|
| | As at 1.1.2011 | Bought | Transfer | As at 31.12.2011 |
| **ABB Trustee Berhad ***** | | | | |
| Jen Tan Sri Dato' Seri Ismail bin Haji Omar (Bersara) | 20,000 | - | - | 20,000 |
| Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara) | 20,000 | - | - | 20,000 |

*** Shares held in trust for the Bank

| | Ordinary shares of 50 sen each | | | |
|---|---|---|---|---|
| | As at 1.1.2011 | Bought | Sold | As at 31.12.2011 |
| **Boustead Holdings Berhad** | | | | |
| Tan Sri Dato' Lodin bin Wok Kamaruddin | 26,122,599 | - | 111,000 | 26,011,599 |

**DIRECTORS' INTERESTS (continued)**

| | Redeemable preference shares of RM1 each | | | |
|---|---|---|---|---|
| | **As at 1.1.2011** | **Bought** | **Sold** | **As at 31.12.2011** |
| **Boustead Petroleum Sdn Berhad** | | | | |
| Tan Sri Dato' Lodin bin Wok Kamaruddin | 50 | - | - | 50 |

Other than the above, the Directors in office at the end of the financial year did not have any other interest in shares, warrants and options over shares in the Bank or its related corporations during the financial year.

**DIRECTORS' BENEFITS**

Neither at the end of the financial period, nor at any time during the financial year, did there subsist any arrangement to which the Bank is a party with the object or objects of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debenture of, the Bank or any other body corporate.

Since the date of incorporation, no Director of the Bank has received or become entitled to receive a benefit (other than the fees and other emoluments shown in Note 24 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which he is a member or with a company in which he has a substantial financial interest.

**CORPORATE GOVERNANCE**

The Board of Directors is committed to ensure the highest standards of corporate governance throughout the organisation with the objectives of safeguarding the interests of all stakeholders and enhancing the shareholders' value and financial performance of the Bank. The Board considers that it has applied the Best Practices as set out in the Malaysian Code of Corporate Governance throughout the financial year. The Bank is also required to comply with BNM's Guidelines on Directorship in the Islamic Banks ('BNM/GP1-i').

**(i) Board of Directors Responsibility and Oversight**

**The Board of Directors**

The direction and control of the Bank rest firmly with the Board as it effectively assumes the overall responsibility for corporate governance, strategic direction, formulation of policies and overseeing the investments and operations of the Bank. The Board exercises independent oversight on the management and bears the overall accountability for the performance of the Bank and compliance with the principle of good governance.

There is a clear division of responsibility between the Chairman and the Chief Executive Officer to ensure that there is a balance of power and authority. The Board is responsible for reviewing and approving the longer-term strategic plans of the Bank as well as the business strategies. It is also responsible for identifying the principal risks and implementation of appropriate systems to manage those risks as well as reviewing the adequacy and integrity of the Bank's internal control systems, management information systems, including systems for compliance with applicable laws, regulations and guidelines.

Whilst the Management Committee, headed by the Chief Executive Officer, is responsible for the implementation of the strategies and internal control as well as monitoring performance, the Committee is also a forum to deliberate issues pertaining to the Bank's business, strategic initiatives, risk management, manpower development, supporting technology platform and business processes.

**The Board Meetings**

Throughout the financial year, 12 Board meetings were held. All Directors have complied with the minimum number of attendances for Board meetings as stipulated by Bank Negara Malaysia. All Directors review Board papers or reports providing updates on operational, financial and corporate developments prior to the Board meetings. These papers and reports are circulated prior to the meeting to enable the Directors to obtain further explanations and having sufficient time to deliberate on the issues and make decisions during the meeting.

**CORPORATE GOVERNANCE (continued)**

**(i) Board of Directors Responsibility and Oversight (continued)**

**Board Balance**

Currently the Board has seven members, comprising three Non-Independent Non-Executive Directors (including the Chairman), four Independent Non-Executive Directors. The Board of Directors Meetings are presided by Non-Independent Non-Executive Chairman whose role is clearly separated from the role of Chief Executive Officer. The composition of the Board and the number of meetings attended by each Director are as follows:

| Directors | Total Meetings Attended |
|---|---|
| Jen Tan Sri Dato' Seri Ismail bin Haji Omar (Bersara)<br>*Chairman/Non-Independent Non-Executive Director* | 12 / 12 |
| En. Kamarul Ariffin bin Mohd Jamil<br>Chief Executive Officer<br>*Non-Independent Executive Director*<br>*(Resigned as Director w.e.f 1 November 2011)* | 11 / 11 |
| Dato' Zulkiflee Abbas bin Abdul Hamid<br>*Non-Independent Non-Executive Director*<br>*(Resigned as Director w.e.f 1 November 2011)* | 11 / 11 |
| Tan Sri Dato' Lodin bin Wok Kamaruddin<br>*Non-Independent Non-Executive Director* | 12 / 12 |
| Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara)<br>*Non-Independent Non-Executive Director* | 11 / 12 |
| Tan Sri Dato' Seri Mohamed Jawhar<br>*Independent Non-Executive Director*<br>*(* Attended AFFIN Bank 's Special Board Meeting by invitation on 12 May 2011)* | 11 / 13* |
| En. Mohd Suffian bin Haji Haron<br>*Independent Non-Executive Director* | 12 / 12 |
| Associate Professor Dr. Asyraf Wajdi bin Dato' Dusuki<br>*Independent Non-Executive Director*<br>*(Appointed as Director w.e.f 9 May 2011)* | 7 / 7 |
| Dato' Sri Abdul Aziz bin Abdul Rahman<br>*Independent Non-Executive Director*<br>*(Appointed as Director w.e.f 1 November 2011)* | 1 / 1 |

**Board Committees**

The Board is assisted by four committees with specific terms of reference. This enables the committees to focus on areas or issues of critical importance to the operations of Bank. Compositions, functions and terms of reference of these committees are highlighted below:

**CORPORATE GOVERNANCE (continued)**

**(i) Board of Directors Responsibility and Oversight (continued)**

**Board Committees (continued)**

***Nomination Committee***

The Nomination Committee was established to provide a formal and transparent procedure for the appointment of Directors and Chief Executive Officer. The Committee also assesses the effectiveness of the Board as a whole, contribution of each director, contribution of the board's various committees and the performance of Chief Executive Officer and key senior management officers.

There were 3 meetings held during the financial year ended 31 December 2011. The Nomination Committee comprises the following members:

| Members | Total Meetings Attended |
|---|---|
| En. Mohd Suffian bin Haji Haron<br>*Chairman/Independent Non-Executive Director* | 3 / 3 |
| Dato' Zulkiflee Abbas bin Abdul Hamid<br>*Member/Non-Independent Non-Executive Director*<br>*(Resigned as Director w.e.f 1 November 2011)* | 3 / 3 |
| Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara)<br>*Member/Non-Independent Non-Executive Director* | 2 / 3 |
| Tan Sri Dato' Seri Mohamed Jawhar<br>*Member/Independent Non-Executive Director* | 3 / 3 |

***Remuneration Committee***

The Remuneration Committee was established to evaluate and recommend to the Board the framework of remuneration and the remuneration package for Directors, Chief Executive Officer and key senior management officers. The Board is ultimately responsible for the approval of the remuneration package. The Committee is guided by the need to 'attract and retain' and at the same time link the rewards to clearly articulate corporate and individual performance parameters.

There were 2 meetings held during the financial year ended 31 December 2011. The Remuneration Committee comprises the following members:

| Members | Total Meetings Attended |
|---|---|
| Tan Sri Dato' Seri Mohamed Jawhar<br>*Chairman/Independent Non-Executive Director*<br>*(* Attended the AFFIN Bank's Special Board Remuneration meeting on 22 April 2011)* | 3 / 3 * |
| Dato' Zulkiflee Abbas bin Abdul Hamid<br>*Member/Non-Independent Non-Executive Director*<br>*(Resigned as Director w.e.f 1 November 2011)* | 2 / 2 |
| Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara)<br>*Member/Non-Independent Non-Executive Director* | 2 / 2 |

**CORPORATE GOVERNANCE (continued)**

**(i) Board of Directors Responsibility and Oversight (continued)**

**Board Committees (continued)**

***Shariah Committee***

The Bank's business activities are subject to Shariah compliance and conformation by the Shariah Committee. The Shariah Committee is formed as legislated under Section 3(5)(b) of the Islamic Banking Act, 1983 and as per Shariah Governance Framework for Islamic Financial Institutions.

The duties and responsibility of the Shariah Committee are as follows:

- To advise the Board on Shariah matters in order to ensure that the business operations of the Bank comply with the Shariah principles at all times;
- To endorse and validate relevant documentations of the Bank's products to ensure that the products comply with Shariah principles; and
- To advise the Bank on matters to be referred to the Shariah Advisory Council.

During the financial year ended 31 December 2011, a total of 8 meetings were held. The Shariah Committee comprises the following members and the details of attendance of each member at the Shariah Committee meetings held during the financial year are as follows:

| **Members** | **Total Meetings Attended** |
|---|---|
| Associate Professor Dr. Asyraf Wajdi bin Dato' Dusuki<br>*Chairman* | 8 / 8 |
| Associate Professor Dr. Said Bouheraoua<br>*Member* | 8 / 8 |
| Associate Professor Dr. Md Khalil bin Ruslan<br>*Member*<br>*(Resigned as member w.e.f 1 October 2011)* | 6 / 6 |
| Assistant Professor Dr. Ahmad Azam bin Othman<br>*Member*<br>*(Appointed as member w.e.f 1 October 2011)* | 2 / 2 |
| Dr. Yasmin Hanani binti Mohd Safian<br>*Member*<br>*(Appointed as member w.e.f 1 October 2011)* | 1 / 2 |
| Dr. Zulkifli bin Hasan<br>*Member*<br>*(Appointed as member w.e.f 1 October 2011)* | 2 / 2 |

**(ii) Risk Management**

The Risk Management function, operating in an independent capacity, is part of the Bank's senior management structure which works closely as a team in managing risks to enhance stakeholders' value.

The Risk Management function provides support to the Board Risk Management Committee ('BRMC'). Committees namely Board Loan Recovery Committee ('BLRC'), Management Loan Committee ('MLC'), Asset and Liability Management Committee ('ALCO') and Operational Risk Management Committee assist the BRMC in managing credit, liquidity and operational risk respectively.

Responsibilities of these committees include:

- risk identification
- risk assessment and measurement
- risk control and migration
- risk monitoring

**CORPORATE GOVERNANCE (continued)**

**(ii) Risk Management (continued)**

***Board Risk Management Committee ('BRMC')***

The main function of Board Risk Management Committee is to assist the Board in its supervisory role in the management of risk in the Bank. It has responsibility for approving and reviewing the credit risk strategy, credit risk framework and credit policies of the Bank.

BRMC was established to provide oversight and management of all risks in the Bank. The Committee also ensures that the procedures and framework in relation to identifying, measuring, monitoring and controlling risk are operating effectively. The Bank's risk management framework is set out in Note 29 to the the financial statements.

The BRMC meeting for the Bank were jointly held with AFFIN Bank Berhad and the following Director of the Bank sits in the meeting:

| | **Total Meetings Attended** |
|---|---|
| En. Mohd Suffian bin Haji Haron<br>*Member/Independent Non-Executive Director* | 3 / 4 |

***Board Loan Review and Recovery Committee ('BLRC')***

Board Loan Review Committee critically reviews financing and other credit facilities with higher risk implications, after due process of checking, analysis, review and recommendation by the Credit Risk Management function, and if found necessary, exercise the power to veto financing applications that have been accepted by the Management Loan Committee. The Committee is also responsible to review on the impaired financing presented by Management.

The BLRC meeting for the Bank were jointly held with AFFIN Bank Berhad and the Directors of the Bank sit in the meeting:

| | **Total Meetings Attended** |
|---|---|
| En. Mohd Suffian bin Haji Haron<br>*Member/Independent Non-Executive Director*<br>(Represent the Bank w.e.f 1 January 2011 to 8 September 2011) | 11 /11 |
| Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara)<br>*Non-Independent Non-Executive Director*<br>*(Represent the Bank w.e.f 6 October 2011)* | 3 / 3 |

***Management Loan Committee ('MLC')***

Management Loan Committee approves complex and larger financing and workout/recovery proposals beyond the delegated authority of the concerned individual senior management personnel of the Bank.

***Individual Approvers***

For the delegated authority, a dual sign-off approval system is in place, independent of business imperatives.

**CORPORATE GOVERNANCE (continued)**

**(ii) Risk Management (continued)**

***Asset and Liability Management Committee ('ALCO')***

ALCO's responsibilities include:

- Managing the asset and liability of the Bank through coordination of the Bank's overall planning process including strategic planning, budgeting and asset and liability management process;
- Directing the Bank's overall acquisition and allocation of funds;
- Prudently managing the Bank's profit rate exposure;
- Determine the overall Balance Sheet strategy and ensuring policy compliance;
- Determine the type and scope of derivative activities, approve individual derivative transactions as well as control over the level of exposure in derivatives;
- Reviewing market risks in the Bank's trading portfolios;
- Managing the effective usage of economic and regulatory capital throughout the organisation;
- Reviewing and recommending the capital plan for approval;
- Approving capital management standards and policies, capital raising and repayment transactions;
- Reviewing quarterly capital adequacy monitoring reports; and
- Reviewing and approving key assumptions inherent in economic capital modelling and stress/scenario tests.

***Operational Risk Management Committee***

Responsibilities of these committees include:

- To evaluate operational risks issues on escalating importance/strategic risk exposure;
- To review and recommend on broad operational risks management policies best practices for adoption by the Bank's operating units;
- To review the effectiveness of broad internal controls and making recommendation on changes if necessary;
- To review/approve recommendation on operational risk management groups section up to address specific issue;
- To take the lead in inculcating an operational risks awareness culture;
- To approve operational risk management methodologies/measurements tools; and
- To review and approve the strategic operational risk management initiatives/plans and to endorse for BRMC's approval if necessary.

**(iii) Internal Audit and Internal Control Activities**

***Relationship with the Auditors***

The Bank has established appropriate relationship with both internal and external auditors in conducting the audit function of the Bank.

***Internal Controls***

The Board acknowledges its overall responsibility for maintaining a sound system of internal control to safeguard shareholders' investments, Bank's assets, and the need to review the adequacy and integrity of those systems regularly.

In accordance with BNM's Guidelines on Minimum Audit Standards for Internal Auditors of Financial Institutions ('BNM/GP10'), the Group Internal Audit Division ('GIA') conducts continuous reviews on auditable areas within the Bank. The continuous reviews by GIA are focused on areas of significant risks and effectiveness of internal control in accordance to the audit plan approved by the Audit and Examination Committee ('AEC'). The risk highlighted on the respective auditable areas as well as recommendation made by the GIA are addressed at AEC and Management meetings on bi-monthly basis. The AEC also conduct annual reviews on the adequacy of internal audit function, scope of work, resources and budget of GIA.

At present, GIA consists of Operational Audit, IS Audit, Credit Review, Investigation and Compliance. Audit activities include these key components:

- Conduct audit on all auditable entities (Head Office, branches and subsidiaries) processes, services, products, system and provide an independent assessment to the Board of Directors, AEC and Management that appropriate control environment is maintained with clear authority and responsibility with sufficient staff and resources to carry out control responsibilities.

- Perform risk assessments to identify control risk and evaluate actions taken to provide reasonable assurance that procedures and controls exist to contain those risks.

**CORPORATE GOVERNANCE (continued)**

**(iii) Internal Audit and Internal Control Activities (continued)**

***Internal Controls (continued)***

- Maintain strong control activities including documented processes and system incorporating adequate controls to produce accurate financial data and provide for the safeguarding of assets, and a documented review of reported results.

- Ensure effective information flows and communication, including:
  - training and the dissemination of standards and requirements;
  - an information system to produce and convey complete, accurate and timely data including financial data; and
  - the upward communication of trends, developments and emerging issues.

- Monitor controls, including procedures to verify that controls are in place and functioning, follow up on corrective action on control findings till its full resolution. Based on GIA's review, identification and assessment of risk, testing and evaluation of controls, GIA will provide an opinion on the effectiveness of internal controls maintained by each entity.

The AEC comprises members of the Bank's Board of Directors whose primary function is to assist the Board in its supervision over:

- The reliability and integrity of accounting policies and financial reporting and disclosure practise,

- The provision of advice to the Board with regards to the financial statements and business risks to enable the Board to fulfill its fiduciary duties and obligations, and

- The establishment and maintenance of processes to ensure that they:
  - are in compliance with all applicable laws, regulations and company policies; and
  - have adequately addressed the risk relating to internal controls and system, management of inherent and business risks, and ensuring that the assets are properly managed and safeguarded.

The AEC meetings for the Bank were jointly held with AFFIN Bank Berhad during the financial year ended 31 December 2011 and the following Independent Non-Executive Director of the Bank sits in the meeting:

| | **Total Meetings Attended** |
|---|---|
| Tan Sri Dato' Seri Mohamed Jawhar<br>*Member/Independent Non-Executive Director* | 10 / 10 |

**(iv) Management Reports**

Before each Board meeting, Directors are provided with a complete set of Board papers itemised in the agenda for Board's review/approval and/or notation.

The Board monitors the Bank's performance by reviewing the monthly Management Report, which provides a comprehensive review and analysis of the Bank's operations and financial issues. In addition, the minutes of the Board Committees and Management Committees meetings and other issues are also tabled and considered by the Board.

Procedures are in place for Directors to seek both independent professional advice at the Bank's expense and the advice and services of the Company Secretary in order to fulfil their duties and specific responsibilities.

**BUSINESS PLAN AND STRATEGY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 AND FUTURE OUTLOOK**

AFFIN Islamic has been growing and developing progressively for the past five years as a wholly-owned subsidiary under AFFIN Bank since 2006. Prior to that, the bank had roots as an Islamic banking unit within its parent company.

Based on the population of the Muslim community within the country and the ASEAN region, the Bank is clear and certain of the opportunities and prospect of the Islamic banking industry.

Throughout 2011, the Bank continued with its four-pronged approach of its business model as it uphold to enhance and strengthen its position in the market and further develop its brand value. The business model is as stated:

- To grow the Islamic banking business further that will provide and create sustainable long term revenues for the Bank.
- To develop new and innovative Shariah-based products that are acceptable to Muslim and non-Muslim customers in Malaysia and the region.
- To introduce a wide-range of globally-accepted Islamic products and advisory services whose intrinsic values have comparable measured worth, and
- To internationalise AFFIN Islamic business into new markets and products where it will be readily accepted.

Despite the challenging operating environment in year 2011, AFFIN Islamic performed well recording the highest profit before tax since inception at RM74.9 million. The good performance was a result of strong financing growth by 22.7% to RM4.5 billion while total customer deposits (excluding treasury deposits) grew 33% to RM6.5 billion. AFFIN Islamic client base also grew 10% to about 200,000 customers coming from both retail and business enterprise sectors.

AFFIN Islamic continued to invest in ensuring that its products are widely accepted globally based on Shariah concepts such as Istisna', Murabahah, Ijarah and Musharakah Mutanaqisah. The Bank wants to be the market leader of innovative Shariah based products and move away from those questionable products using Bai Inah, Bai al Dayn and Bai Bithaman Ajil Shariah concepts.

While ascertaining its business growth, the Bank knows that the community is also one of the main drivers of the industry. For year 2011, the Bank has been proactive in its zakat distribution activities as follows:

- Constructed 46 houses for the hard-core poor in Kelantan, Perak, Penang, Kedah and Pahang.
- Upgraded and repaired 16 houses for the hard-core poor in Pasir Putih, Tumpat, Balik Pulau and Seberang Perai.
- RM2 million financial aid to several Religious Bodies.
- RM700,000 sponsorship to needy students of Higher Education Institutions (IPT).
- RM600,000 financial aid to other needy people, bodies and organisations.

In 2012, AFFIN Islamic will look into the following areas to increase and improve its business further:

- Further develop the deposits business sector especially the retail segment.
- Increase fee-based income segment.
- Continue to improve the Bank's asset quality.
- Making our Islamic branches shine.
- Strategic Partnership with Bank of East Asia (BEA) on Islamic Banking.
- Creation of new wealth, i.e. new markets, new products, etc.

**BUSINESS PLAN AND STRATEGY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 AND FUTURE OUTLOOK (continued)**

AFFIN Islamic is confident that the business climate will be favorable in the coming year. Eventhough, the Bank is still relatively new and small, it is an advantage as it is able to move agilely and change accordingly to the needs of the market.

Being a wholly-owned subsidiary of AFFIN Bank, AFFIN Islamic believes that it will act as a catalyst to increase market share and create new business opportunities.

While there are synergistic and tangible benefits from the sharing of resources, branches as well as people, the unity that is demonstrated by close collaboration will ensure that AFFIN Islamic will have the opportunity to be a meaningful contributor to the Group as the growth of Islamic banking in Malaysia is on the rise.

Furthermore, the strength and capabilities of the Bank in promoting its Islamic banking products and services will place the bank in good standing not only in Malaysia but in the region.

AFFIN Islamic anticipates that 2012 will provide growth opportunities in various business segments especially within the ASEAN region as it moved into the Indonesian market. The Bank will seek to leverage on these opportunities and will play a catalytic role to ensure that it remains a significant and relevant entity to the growth of Islamic banking throughout.

**RATING BY EXTERNAL RATING AGENCIES**

The Bank was not rated by any external rating agencies during the financial year.

**ZAKAT OBLIGATIONS**

The Bank did not pay zakat on behalf of its depositors or shareholders. The Bank only pays zakat on its business.

**HOLDING COMPANY, PENULTIMATE AND ULTIMATE HOLDING CORPORATE BODY**

The holding company of the Bank is AFFIN Bank Berhad. The penultimate holding company is AFFIN Holdings Berhad and ultimate holding corporate body is Lembaga Tabung Angkatan Tentera, a statutory body incorporated under the Tabung Angkatan Tentera Act, 1973.

**AUDITORS**

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 28 February 2012.

**JEN TAN SRI DATO' SERI ISMAIL BIN HAJI OMAR (BERSARA)**
*Chairman*

**EN. MOHD SUFFIAN BIN HAJI HARON**
*Director*

# STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

| | | Economic Entity | | The Bank | |
|---|---|---|---|---|---|
| | | **2011** | 2010 | **2011** | 2010 |
| | **Note** | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **ASSETS** | | | | | |
| Cash and short-term funds | 2 | **4,455,700** | 2,639,972 | **4,455,700** | 2,639,972 |
| Financial investments available-for-sale | 3 | **1,480,275** | 1,345,236 | **1,480,275** | 1,345,236 |
| Financing, advances and other financing | 4 | **4,374,205** | 3,555,596 | **4,374,205** | 3,555,596 |
| Other assets | 6 | **48,002** | 1,534 | **48,002** | 1,534 |
| Tax recoverable | | **3,422** | 3,816 | **3,422** | 3,816 |
| Statutory deposits with Bank Negara Malaysia | 7 | **160,000** | - | **160,000** | - |
| Investment in jointly controlled entity | 8 | **290** | 500 | **500** | 500 |
| Amount due from jointly controlled entity | | **2,745** | 2,745 | **2,745** | 2,745 |
| Property and equipment | 9 | **3,017** | 2,123 | **3,017** | 2,123 |
| Intangible assets | 10 | **3,255** | 1,462 | **3,255** | 1,462 |
| Deferred tax assets | 11 | - | 4,291 | - | 4,291 |
| **TOTAL ASSETS** | | **10,530,911** | 7,557,275 | **10,531,121** | 7,557,275 |
| **LIABILITIES AND EQUITY** | | | | | |
| Deposits from customers | 12 | **7,477,239** | 5,552,432 | **7,477,239** | 5,552,432 |
| Deposits and placements of banks and other financial institutions | 13 | **2,199,144** | 1,351,094 | **2,199,144** | 1,351,094 |
| Other liabilities | 14 | **16,798** | 36,704 | **16,798** | 36,704 |
| Amount due to holding company | 15 | **355,535** | 183,541 | **355,535** | 183,541 |
| Deferred tax liabilities | | **907** | - | **907** | - |
| **TOTAL LIABILITIES** | | **10,049,623** | 7,123,771 | **10,049,623** | 7,123,771 |
| Share capital | 16 | **260,000** | 260,000 | **260,000** | 260,000 |
| Reserves | 17 | **221,288** | 173,504 | **221,498** | 173,504 |
| **TOTAL EQUITY** | | **481,288** | 433,504 | **481,498** | 433,504 |
| **TOTAL LIABILITIES AND EQUITY** | | **10,530,911** | 7,557,275 | **10,531,121** | 7,557,275 |
| **COMMITMENTS AND CONTINGENCIES** | 28 | **1,889,674** | 2,022,889 | **1,889,674** | 2,022,889 |

The accounting policies on pages 44 to 55 and the notes on pages 56 to 111 form an integral part of these financial statements.

# INCOME STATEMENTS
## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

| | | Economic Entity | | The Bank | |
|---|---|---|---|---|---|
| | | **2011** | 2010 | **2011** | 2010 |
| | **Note** | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Income derived from investment of depositors' funds and others | 18 | **368,911** | 287,402 | **368,911** | 287,402 |
| Income derived from investment of shareholders' funds | 19 | **20,852** | 18,052 | **20,852** | 18,052 |
| Allowances for losses on financing | 20 | **(10,773)** | (28,654) | **(10,773)** | (28,654) |
| **Total distributable income** | | **378,990** | 276,800 | **378,990** | 276,800 |
| Income attributable to the depositors | 21 | **(212,092)** | (139,545) | **(212,092)** | (139,545) |
| Transfer from profit equalisation reserve | 14(a) | **-** | - | **-** | - |
| **Total net income** | | **166,898** | 137,255 | **166,898** | 137,255 |
| Personnel expenses | 22 | **(55,199)** | (54,467) | **(55,199)** | (54,467) |
| Other overheads and expenditures | 23 | **(36,605)** | (36,247) | **(36,605)** | (36,247) |
| | | **75,094** | 46,541 | **75,094** | 46,541 |
| Share of joint venture's results | | **(210)** | - | **-** | - |
| **Profit before zakat and taxation** | | **74,884** | 46,541 | **75,094** | 46,541 |
| Zakat | | **(5,492)** | (4,626) | **(5,492)** | (4,626) |
| Taxation | 25 | **(19,582)** | (15,889) | **(19,582)** | (15,889) |
| **Net profit after zakat and taxation** | | **49,810** | 26,026 | **50,020** | 26,026 |
| **Attributable to:** | | | | | |
| Equity holders of the Bank | | **49,810** | 26,026 | **50,020** | 26,026 |
| **Earnings per share (sen)** | | | | | |
| - Basic/fully diluted | 26 | **19.2** | 10.0 | **19.2** | 10.0 |

The accounting policies on pages 44 to 55 and the notes on pages 56 to 111 form an integral part of these financial statements.

# STATEMENTS OF COMPREHENSIVE INCOME
## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

| | Economic Entity | | The Bank | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Profit after zakat and taxation** | **49,810** | 26,026 | **50,020** | 26,026 |
| Other comprehensive income: | | | | |
| Net fair value change in financial investments available-for-sale | **(2,701)** | 5,127 | **(2,701)** | 5,127 |
| Deferred tax on financial investments available-for-sale | **675** | (1,282) | **675** | (1,282) |
| Other comprehensive income for the financial year, net of tax | **(2,026)** | 3,845 | **(2,026)** | 3,845 |
| **Total comprehensive income for the year** | **47,784** | 29,871 | **47,994** | 29,871 |
| **Attributable to equity holders of the Bank** | | | | |
| - Total comprehensive income | **47,784** | 29,871 | **47,994** | 29,871 |

The accounting policies on pages 44 to 55 and the notes on pages 56 to 111 form an integral part of these financial statements.

# STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

| | Attributable to Equity Holders of the Bank | | | | |
|---|---|---|---|---|---|
| **Economic Entity** | **Share capital RM'000** | **Statutory reserves RM'000** | **AFS revaluation reserves RM'000** | **Retained profits RM'000** | **Total RM'000** |
| **At 1 January 2011** | **260,000** | **81,410** | **4,745** | **87,349** | **433,504** |
| Comprehensive income: | | | | | |
| Net profit for the financial year | **-** | **-** | **-** | **49,810** | **49,810** |
| Other comprehensive income | **-** | **-** | **(2,026)** | **-** | **(2,026)** |
| Total comprehensive income | **-** | **-** | **(2,026)** | **49,810** | **47,784** |
| Transfer to statutory reserves | **-** | **25,010** | **-** | **(25,010)** | **-** |
| **At 31 December 2011** | **260,000** | **106,420** | **2,719** | **112,149** | **481,288** |

| | | Non-Distributable | | Distributable | |
|---|---|---|---|---|---|
| **The Bank** | **Share capital RM'000** | **Statutory reserves RM'000** | **AFS revaluation reserves RM'000** | **Retained profits RM'000** | **Total RM'000** |
| **At 1 January 2011** | **260,000** | **81,410** | **4,745** | **87,349** | **433,504** |
| Comprehensive income: | | | | | |
| Net profit for the financial year | **-** | **-** | **-** | **50,020** | **50,020** |
| Other comprehensive income | **-** | **-** | **(2,026)** | **-** | **(2,026)** |
| Total comprehensive income | **-** | **-** | **(2,026)** | **50,020** | **47,994** |
| Transfer to statutory reserves | **-** | **25,010** | **-** | **(25,010)** | **-** |
| **At 31 December 2011** | **260,000** | **106,420** | **2,719** | **112,359** | **481,498** |

| Economic Entity/The Bank | Share capital RM'000 | Statutory reserves RM'000 | AFS revaluation reserves RM'000 | Retained profits RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| At 1 January 2010 | 260,000 | 68,397 | 900 | 74,336 | 403,633 |
| Comprehensive income: | | | | | |
| Net profit for the financial year | - | - | - | 26,026 | 26,026 |
| Other comprehensive income | - | - | 3,845 | - | 3,845 |
| Total comprehensive income | - | - | 3,845 | 26,026 | 29,871 |
| Transfer to statutory reserves | - | 13,013 | - | (13,013) | - |
| At 31 December 2010 | 260,000 | 81,410 | 4,745 | 87,349 | 433,504 |

The accounting policies on pages 44 to 55 and the notes on pages 56 to 111 form an integral part of these financial statements.

# STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

| | Economic Entity | | The Bank | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| **Profit before zakat and taxation** | **74,884** | 46,541 | **75,094** | 46,541 |
| Adjustments for items not involving the movement of cash and cash equivalents: | | | | |
| Finance income and hibah from: | | | | |
| - financial assets held-for-trading | **-** | (9) | **-** | (9) |
| - financial investments available-for-sale | **(46,726)** | (35,909) | **(46,726)** | (35,909) |
| Amortisation of premium less accretion of discount | | | | |
| - financial investments available-for-sale | **(3,181)** | (9,022) | **(3,181)** | (9,022) |
| Gain on sale from: | | | | |
| - financial assets held-for-trading | **(117)** | (149) | **(117)** | (149) |
| - financial investments available-for-sale | **(6,333)** | (2,860) | **(6,333)** | (2,860) |
| Depreciation of property and equipment | **959** | 713 | **959** | 713 |
| Property and equipment written-off | **8** | 2 | **8** | 2 |
| Foreclosed properties - diminution in value | **-** | 19 | **-** | 19 |
| Amortisation of intangible asset | **532** | 815 | **532** | 815 |
| Net individual impairment | **3,657** | 15,416 | **3,657** | 15,416 |
| Net collective impairment | **7,874** | 13,365 | **7,874** | 13,365 |
| Bad debt on financing written-off | **165** | 183 | **165** | 183 |
| Share of joint venture's results | **210** | - | **-** | - |
| **Operating profit before changes in working capital** | **31,932** | 29,105 | **31,932** | 29,105 |
| ***(Increase)/decrease in operating assets:*** | | | | |
| Financial assets held-for-trading | **117** | 158 | **117** | 158 |
| Foreign exchange transaction | **(835)** | 409 | **(835)** | 409 |
| Financing, advances and other financing | **(830,305)** | (698,263) | **(830,305)** | (698,263) |
| Other assets | **(46,469)** | 25,255 | **(46,469)** | 25,255 |
| Amount due from holding company | **-** | (45,823) | **-** | (45,823) |
| Statutory deposits with Bank Negara Malaysia | **(160,000)** | - | **(160,000)** | - |
| Amount due from jointly controlled entity | **-** | (1,688) | **-** | (1,688) |
| ***Increase/(decrease) in operating liabilities:*** | | | | |
| Deposits from customers | **1,924,807** | 915,315 | **1,924,807** | 915,315 |
| Deposits and placements of banks and other financial institutions | **848,050** | 109,008 | **848,050** | 109,008 |
| Amount due to holding company | **171,994** | - | **171,994** | - |
| Other liabilities | **(20,195)** | 18,033 | **(20,195)** | 18,033 |
| Cash generated from operations | **1,919,096** | 351,509 | **1,919,096** | 351,509 |
| Tax paid | **(13,315)** | (20,295) | **(13,315)** | (20,295) |
| Zakat paid | **(5,203)** | (3,493) | **(5,203)** | (3,493) |
| **Net cash generated from operating activities** | **1,900,578** | 327,721 | **1,900,578** | 327,721 |

# STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

| | Economic Entity | | The Bank | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Finance income and hibah received from: | | | | |
| - financial investments available-for-sale | **46,726** | 35,909 | **46,726** | 35,909 |
| Net (purchase)/sale of financial investments available-for-sale | **(128,226)** | 64,012 | **(128,226)** | 64,012 |
| Purchase of property and equipment | **(4,065)** | (125) | **(4,065)** | (125) |
| Purchase of intangible assets | **(120)** | - | **(120)** | - |
| **Net cash (used in)/generated from investing activities** | **(85,685)** | 99,796 | **(85,685)** | 99,796 |
| Net increase in cash and cash equivalents | **1,814,893** | 427,517 | **1,814,893** | 427,517 |
| Net increase/(decrease) in foreign exchange | **835** | (409) | **835** | (409) |
| Cash and cash equivalents at beginning of the financial year | **2,639,972** | 2,212,864 | **2,639,972** | 2,212,864 |
| **CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR (Note 2)** | **4,455,700** | 2,639,972 | **4,455,700** | 2,639,972 |

The accounting policies on pages 44 to 55 and the notes on pages 56 to 111 form an integral part of these financial statements.

## (A) BASIS OF PREPARATION

The financial statements of the Bank have been prepared in accordance with Malaysian Accounting Standards Board ('MASB') Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, Bank Negara Malaysia ('BNM') Guidelines and the provisions of the Companies Act, 1965.

The financial statements of the Bank have been prepared under the historical cost convention, unless otherwise indicated in this summary of significant accounting policies.

The preparation of financial statements in conformity with MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and BNM Guidelines requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. It also requires Directors to exercise judgement in the process of applying the Bank's accounting policies. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 32.

**Standards, amendments to published standards and interpretations that are applicable to the Bank and are effective**

The new accounting standards, amendments and improvements to published standards and interpretations that are effective for the Bank's financial year beginning on or after 1 January 2011 are as follows:

- Revised FRS 1 "First-time adoption of financial reporting standards"
- Revised FRS 3 "Business combinations"
- Revised FRS 127 "Consolidated and separate financial statements"
- Amendment to FRS 7 "Financial instruments: Disclosures - improving disclosures about financial instruments"
- Amendments to FRS 1 "First-time adoption of financial reporting standards"
- Amendment to FRS 132 "Financial instruments: Presentation – Classification of rights issues"
- IC Interpretation 4 "Determining whether an arrangement contains a lease"
- IC Interpretation 17 "Distribution of non-cash assets to owners"
- Improvements to FRSs (2010)

The adoption of the above revised accounting standards, amendments and improvements to the published standards and interpretation did not have any significant impact to the results of the Bank.

**Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective**

The Bank will apply the new standards, amendments to standards and interpretations in the following period:

(i) Financial year beginning on/after 1 January 2012

In the next financial year, the Bank will be adopting the new IFRS-compliant framework, Malaysian Financial Reporting Standards ('MFRS'). MFRS 1 "First-time adoption of MFRS" provides for certain optional exemptions and certain mandatory exceptions for first-time MFRS adopters.

- MFRS 139 "Financial instruments: recognition and measurement" -Bank Negara Malaysia has removed the transitional provision for banking institutions on loan impairment assessment and provisioning to comply with the MFRS 139 requirements.

- The revised MFRS 124 "Related party disclosures" (effective from 1 January 2012) removes the exemption to disclose transactions between government-related entities and the government, and all other government-related entities. The following new disclosures are now required for government related entities:

  - the name of the government and the nature of their relationship;
  - the nature and amount of each individually significant transactions; and
  - the extent of any collectively significant transactions, qualitatively or quantitatively.

**(A) BASIS OF PREPARATION (continued)**

**Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (continued)**

- IC Interpretation 19 "Extinguishing financial liabilities with equity instruments" (effective from 1 July 2011) provides clarification when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. A gain or loss, being the difference between the carrying value of the financial liability and the fair value of the equity instruments issued, shall be recognised in income statement. Entities are no longer permitted to reclassify the carrying value of the existing financial liability into equity with no gain or loss recognised in income statement.

(ii) Financial year beginning on/after 1 January 2013

- MFRS 9 "Financial instruments -classification and measurement of financial assets and financial liabilities" (effective from 1 January 2015) replaces the multiple classification and measurement models in MFRS 139 with a single model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

  The accounting and presentation for financial liabilities and for de-recognising financial instruments has been relocated from MFRS 139, without change, except for financial liabilities that are designated at fair value through profit or loss ('FVTPL'). Entities with financial liabilities designated at FVTPL recognise changes in the fair value due to changes in the liability's credit risk directly in other comprehensive income ('OCI'). There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity.

  The guidance in MFRS 139 on impairment of financial assets and hedge accounting continues to apply.

- MFRS 10 "Consolidated financial statements" (effective from 1 January 2013) changes the definition of control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. It establishes control as the basis for determining which entities are consolidated in the consolidated financial statements and sets out the accounting requirements for the preparation of consolidated financial statements. It replaces all the guidance on control and consolidation in MFRS 127 "Consolidated and separate financial statements" and IC Interpretation 112 "Consolidation – special purpose entities".

- MFRS 11 "Joint arrangements" (effective from 1 January 2013) requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement, rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

- MFRS 12 "Disclosures of interests in other entities" (effective from 1 January 2013) sets out the required disclosures for entities reporting under the two new standards, MFRS 10 and MFRS 11, and replaces the disclosure requirements currently found in MFRS 128 "Investments in associates". It requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

- MFRS 13 "Fair value measurement" (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7 "Financial instruments: Disclosures", but apply to all assets and liabilities measured at fair value, not just financial ones.

## (A) BASIS OF PREPARATION (continued)

**Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (continued)**

- The revised MFRS 127 "Separate financial statements" (effective from 1 January 2013) includes the provisions on separate financial statements that are left after the control provisions of MFRS 127 have been included in the new MFRS 10.

- The revised MFRS 128 "Investments in associates and joint ventures"(effective from 1 January 2013) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of MFRS 11.

- Amendment to MFRS 7 "Financial instruments: Disclosures on transfers of financial assets" (effective from 1 July 2011) promotes transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.

- Amendment to MFRS 101 "Financial statement presentation" (effective from 1 July 2012) requires entities to separate items presented in 'other comprehensive income' ('OCI') in the statement of comprehensive income into two groups, based on whether or not they may be recycled to income statement in the future. The amendments do not address which items are presented in OCI.

The Bank will apply these standards when effective.

## (B) JOINTLY CONTROLLED ENTITIES

Jointly controlled entities are corporations, partnerships or other entities over which there is contractually agreed sharing of control by the Bank with one or more parties where the strategic financial and operating decisions relating to the entities require unanimous consent of the parties sharing control.

Investment in jointly controlled entities are accounted for in the consolidated financial statements using the equity method of accounting and are initially recognised at cost. The Bank's investment in jointly controlled entities includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Bank's share of the post-acquisition profits or losses of the jointly controlled entities are recognised in the income statement, and its share of the post-acquisition movements in reserves are recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Bank's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Bank's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity.

Unrealised gains on transactions between the Bank and its jointly controlled entity are eliminated to the extent of the Bank's interest in the jointly controlled entity; unrealised losses are also eliminated unless the transaction provides evidence on impairment of the asset transferred. Where necessary, adjustments have been made to the financial statements of jointly controlled entities to ensure consistency of accounting policies with those of the Bank.

**Investment in jointly controlled entity**

In the Bank's separate financial statements, investment in a jointly controlled entity is stated at cost less accumulated impairment losses. At each reporting date, the Bank assesses whether there is any indication of impairment. If such indication exists, an analysis is performed to assess whether the carrying amount of the investment is fully recoverable. A write-down is made if the carrying amount exceeds the recoverable amount. Any subsequent increase in recoverable amount is recognised in the income statement (refer to accounting policy D for impairment of non-financial assets).

On disposal of investment in subsidiaries and jointly controlled entity, the difference between disposal proceed and the carrying amounts of the investments are recognised in profit or loss.

### (C) INTANGIBLE ASSETS

**Computer software**

Acquired computer software are capitalised on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (five years). Computer software classified as intangible asset are stated at cost less accumulated amortisation and accumulated impairment losses, if any.

Costs associated with developing or maintaining computer software programmes are recognised as an expense when incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

### (D) IMPAIRMENT ON NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Any subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

### (E) RECOGNITION OF FINANCING INCOME AND HIBAH

Islamic financing income is recognised on an accrual basis in accordance with the Shariah principles and BNM/GP8-i. Al-Ijarah Thumma Al-Bai ('AITAB') financing income recognised using the effective income rates method over the lease terms, whilst Al-Bai Bithaman Ajil ('BBA'), Al-Murabahah, Al-Istisna' and Bai'-Inah financing income is recognised on a monthly basis over the period of the financing contracts, based on an agreed profit at the inception of such contracts.

Financial assets classified as held-to-maturity and financing and receivables are measured at amortised cost using effective profit rate method. Finance income is recognised using effective income rates ('EIR'), which is the rate that exactly discounts estimated future cash receipts through the expected life of the financing or, when appropriate, a shorter period to the net carrying amount of the financing.

When a financing is impaired, the Bank reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective profit rate of the instument, and continues unwinding the discount as profit income. Profit income on impaired financing is recognised using the original effective profit rate.

Income from securities portfolio is recognised on an accrual basis using the effective profit method. The income includes coupons earned and accrued discount and amortisation of premium on these securities

### (F) RECOGNITION OF FEES, OTHER INCOME AND PROFIT PAYABLE

Financing arrangement fees and commissions are recognised as income when all conditions precedent are fulfilled.
Guarantee fees which are material are recognised as income based on time apportionment.
Dividends from securities portfolio are recognised when received.
Fees and other profit from Islamic Banking business are recognised on an accrual basis in accordance with the principles of Shariah.
Profit payable on deposits and placements of banks and other financial institutions are expensed as incurred.

## (G) FINANCIAL ASSETS

All financial assets which include derivative financial instruments have to be recognised in the statement of financial position and measured in accordance with their assigned category.

The Bank allocates financial assets to the following FRS 139 categories:

Financing, advances and other financing; financial assets at fair value through profit or loss, financial investments available-for-sale; and financial investments held-to-maturity. Management determines the classification of its financial instruments at initial recognition.

### Financing, advances and other financing

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

Financing, advances and other financing are initially recognised at fair value which is the cash consideration to originate or purchase the financing including any transaction costs and measured subsequently at amortised cost using the effective profit rate method, less impairment allowance.

An uncollectible financing, advance and other financing or portion of a financing, advances and other financing classified as bad is written off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

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

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include among others:
- past due contractual payments;
- significant financial difficulties of customer;
- probability of bankruptcy or other financial re-organisation;
- default of related customer.

The estimated period between a loss occurring and its identification for credit cards is six months and for all other financing are twelve months.

The Bank first assesses whether objective evidence of impairment exists individually for financing that are individually significant, and individually or collectively for financing that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financing, whether significant or not, it includes the financing in a group of financing with similar credit risk characteristics and collectively assesses them for impairment. Financing that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. Financing that are individually assessed for impairment and for which no impairment loss is required (over collateralised financing) are collectively assessed as a separate segment.

The amount of the loss is measured as the difference between the financing's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financing's original effective profit rate. 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. If a financing has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financing reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

## (G) FINANCIAL ASSETS (continued)

### Financing, advances and other financing (continued)

For the purposes of a collective evaluation of impairment, financing are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such financing by being indicative of the customers' ability to pay all amounts due according to the contractual terms of the financing being evaluated.

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

Estimates of changes in future cash flows for groups of financing should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

The collective assessment is also subject to the transitional arrangement prescribed in BNM's guidelines on Classification and Impairment Provisions for Loans/Financing issued on 13 December 2010.

### Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held-for-trading and financial assets designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held-for-trading unless they are designated and effective as hedging instruments. Derivatives are recognised in the statement of financial position as 'Derivative financial assets' when their fair values are positive. Financial assets held-for-trading consist of debt instruments, including money-market paper, traded corporate and bank financing, and equity instruments, as well as financial assets with embedded derivatives. They are recognised in the statement of financial position as 'Financial assets held-for-trading'.

Financial instruments included in this category are recognised intially at fair value; transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair value are included directly in the income statement.

The Bank may designate certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed. The fair value option is only applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis or
- the financial assets consists of debt host and an embedded derivatives that must be separated.

Financial assets for which the fair value option is applied are recognised in the statement of financial position as 'Financial assets designated at fair value'. Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in the income statement.

The Bank may choose to reclassify a non-derivative financial assets held-for-trading out of this category where:

- in rare circumstances, it is no longer held for the purpose of selling or repurchasing in the near term or
- it is no longer held for purpose of trading, it would have met the definition of a financing and receivable on initial classification and the Bank have the intention and ability to hold it for the foreseeable future or until maturity.

**(G) FINANCIAL ASSETS (continued)**

**Financial investments available-for-sale**

Financial investments available-for-sale are non-derivative financial assets that are either designated in this category or not classified as held-for-trading or held-to-maturity investments.

Investments in equity instruments where there is no quoted market price in an active market and whose fair value cannot be reliably measured, will be stated at cost.

Any gains or losses arising from the change in fair value adjustments are recognised directly in statement of comprehensive income except for impairment losses and foreign exchange gains or losses. When the financial asset is derecognised, the cumulative gains or loss previously recognised in statement of comprehensive income shall be transferred to the income statement.

A financial investments available-for-sale that would have met the definition of financing and receivables may only be transferred from the available-for-sale classification where the Bank have the intention and the ability to hold the asset for the foreseeable future or until maturity.

Impairment of financial investments available-for-sale is assessed when there is an objective evidence of impairment. Cumulative unrealised losses that had been recognised directly in equity shall be removed and recognised in income statement even though the securities have not been derecognised. Impairment loss in addition to the above unrealised losses is also recognised in the income statement. Subsequent reversal of impairment on debt instrument in the income statement is allowed when the decrease in impairment can be related objectively to an event occuring after the impairment was recognised.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairement resulting in the recognition of an impairement loss. Impairment losses recognised in the income statement on equity instruments shall not be reversed.

**Financial investments held-to-maturity**

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

Financial investments held-to-maturity are measured at amortised cost using the effective profit rate method. Gains or losses are recognised in income statement when the securities are derecognised or impaired and through the amortisation process.

If, as a result of a change in intention or ability, it is no longer appropriate to classify a financial investment as held-to-maturity, the Bank shall reclassify the investment as available-for-sale and remeasured at fair value, and the difference between its carrying amount and fair value shall be recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

Any sale or reclassification of a significant amount of financial instruments held-to-maturity before maturity during the current financial year or last two preceding financial years will “taint” the entire category and result in the remaining financial instruments held-to-maturity being reclassified to available-for-sale except for sales or reclassification that:

- are so close to maturity or call date that changes in the market rate would not have significant effect on the financial asset’s fair value;
- occur after the Bank has collected substantially all of the financial asset’s original principal; or
- are attributable to an isolated event that is beyond the Bank’s control is non-recurring and could not have been reasonably anticipated by the Bank.

Impairment of financial investments held-to-maturity is assessed when there is an objective evidence of impairment. The impairment loss is measured as the difference between the financial investments’ carrying amount and the present value of estimated future cash flows discounted at the financial investments’ original effective interest rate. Subsequent reversal of impairment is allowed in the event of an objective decrease in impairment. Recognition of impairment losses and its reversal is made through the income statement.

### (G) FINANCIAL ASSETS (continued)

**Recognition**

The Bank uses trade date accounting for regular way contracts when recording financial asset transactions. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as 'Assets pledged as collateral', if the transferee has the right to sell or repledge them.

**De-recognition**

Financial assets are derecognised when te contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent de-recognition).

### (H) FINANCIAL LIABILITIES

All financial liabilities which include derivative financial instruments have to be recognised in the statement of financial position and measured in accordance with their assigned category.

The Bank's holding in financial liabilities are in financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that designated at fair value) and financial liabilities at amortised cost. Financial liabilities are derecognised when extinguished.

This category comprises two sub-categories: financial liabilities classified as held-for-trading, and financial liabilities designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held-for-trading unless they are designated and effective as hedging instruments. Derivatives are recognised in the statement of financial position as 'Derivative financial liabilities' when their fair values are negative.

Gains and losses arising from changes in fair value of financial liabilities classified held-for-trading are included in the income statement.

**Other liabilities measured at amortised cost**

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. All the financial liabilities of the Bank are measured at amortised cost.

**De-recognition**

Financial liabilities are de-recognised when they have been redeemed or otherwise extinguished.

## (I) OFFSETTING FINANCIAL INSTRUMENTS

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

## (J) PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the placed part is derecognised. All the repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Property and equipment are depreciated on the straight line basis to write-off the cost of the assets, to their residual values over their estimated useful lives summarised as follows:

| | |
|---|---|
| Renovation | 5 years or the period of the lease whichever is greater |
| Office equipment and furniture | 10 years |
| Computer equipment and software | 5 years |
| Motor vehicles | 5 years |

Depreciation on capital work-in-progress commences when the assets are ready for thier intended use.

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

At each reporting date, the Bank assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write-down is made if the carrying amount exceeds the recoverable amount. Any subsequent increase in the recoverable amount is recognised in the income statement (refer to accounting policy D on impairment of non-financial asset).

Gains and losses on disposal are determined by comparing proceeds with carrying amount and are recognised within other operating income in the income statement.

## (K) FOREIGN CURRENCY TRANSLATIONS

### Functional and presentation currency

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

### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

## (K) FOREIGN CURRENCY TRANSLATIONS (continued)

### Transactions and balances (continued)

Changes in the fair value of monetary financial assets denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the financial asset and other changes in the carrying amount of the financial asset. Translation differences related to changes in the amortised cost are recognised in income statement, and other changes in the carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit and loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in other comprehensive income.

## (L) CURRENT AND DEFERRED INCOME TAXES

### Current tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period where the Bank and jointly controlled entity operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

### Deferred tax

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the end of the reporting date and are expected to apply when the related deferred tax assets is realised or the deferred tax liability is settled.

Deferred tax is recognised on temporary differences arising on investment in jointly controlled entity where the timing of the reversal of the temporary difference can be controlled by the Entity and it is possible that the temporary difference will not reverse in the foreseeable future.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on net basis.

## (M) ZAKAT

The Bank pays zakat based on 2.5% of prior year's net asset method, to comply with the principles of Shariah and as approved by the Shariah Committee. The Bank does not pay zakat on behalf of the shareholders or depositors.

### (N) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in hand, bank balances and deposits and placements maturing within one month which are held for the purpose of meeting short term commitments and are readily convertible to cash without significant risk of changes in value.

### (O) FORECLOSED PROPERTIES

Foreclosed properties are stated at the lower of cost and net realisable value.

### (P) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

### (Q) BILLS AND ACCEPTANCES PAYABLE

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

### (R) OTHER PROVISIONS

Provisions are recognised by the Bank when all of the following conditions have been met:

- the Bank has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources to settle the obligation will be required; and
- a reliable estimate of the amount of obligation can be made.

Where the Bank expects a provision to be reimbursed (for example, under an insurance contract), the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense.

### (S) EMPLOYEE BENEFITS

**Short term employee benefits**

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Bank.

**Defined contribution plan**

The defined contribution plan is a pension plan under which the Group pays fixed contributions to the National Pension Scheme, the Employees' Provident Fund ('EPF') and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The Bank's contribution to defined contribution plans are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Bank has no further payment obligations.

**Termination benefits**

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

## 1 GENERAL INFORMATION

The Bank, a wholly-owned subsidiary of AFFIN Bank Berhad, was incorporated on 13 September 2005 and commenced operations on 1 April 2006. The net assets of AFFIN Bank's Islamic Division was transferred to AFFIN Islamic Bank on 1 April 2006.

The Bank is principally engaged in all aspects of Islamic banking and finance business and in the provision of related financial services in accordance with the Shariah principles.

The number of employees in the Bank at the end of financial year was 198 (2010: 180) employees.

The holding company of the Bank is AFFIN Bank Berhad. The penultimate holding company is AFFIN Holdings Berhad and ultimate holding corporate body is Lembaga Tabung Angkatan Tentera, a statutory body incorporated under the Tabung Angkatan Tentera Act, 1973.

The Bank is a limited liability company, incorporated and domiciled in Malaysia.

## 2 CASH AND SHORT-TERM FUNDS

| | **Economic Entity/ The Bank** | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Cash and bank balances with banks and other financial institutions | **3,625** | 3,373 |
| Money at call and interbank placements with remaining maturity not exceeding one month | **4,452,075** | 2,636,599 |
| | **4,455,700** | 2,639,972 |

## 3 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

| | **Economic Entity/ The Bank** | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| **At fair value** | | |
| Malaysian Government treasury bills | **-** | 28,836 |
| Malaysian Government investment issues | **696,279** | 736,608 |
| BNM Sukuk | **-** | 32,017 |
| Bank Negara Malaysia Monetary Notes | **149,671** | 157,035 |
| Khazanah bonds | **14,262** | 13,250 |
| | **860,212** | 967,746 |
| Unquoted securities: | | |
| Shares in Malaysia | **69** | 72 |
| Private debt securities | | |
| - in Malaysia | **619,994** | 366,320 |
| - outside Malaysia | **-** | 11,098 |
| | **1,480,275** | 1,345,236 |

## 4 FINANCING, ADVANCES AND OTHER FINANCING

### (i) By type

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Cash line | **207,564** | 223,926 |
| Term financing | | |
| - House financing | **1,270,814** | 1,053,556 |
| - Hire purchase receivables | **1,232,416** | 1,061,166 |
| - Syndicated financing | **144,462** | 116,995 |
| - Other term financing | **1,347,351** | 934,792 |
| Bills receivables | **394** | 1,389 |
| Trust receipts | **33,581** | 43,958 |
| Claims on customers under acceptance credits | **91,844** | 57,938 |
| Staff financing (of which RM Nil to Directors) | **8,871** | 8,035 |
| Revolving credit | **132,544** | 142,463 |
| **Gross financing, advances and other financing** | **4,469,841** | 3,644,218 |
| Less: | | |
| Allowance for impairment | | |
| - Individual | **(34,927)** | (36,141) |
| - Collective | **(60,709)** | (52,481) |
| **Total net financing, advances and other financing** | **4,374,205** | 3,555,596 |

Included in other term financing as at reporting date is RM23.3 million (2010: RM13.5 million) of term financing disbursed by the Bank to jointly controlled entity, AFFIN-i Goodyear Sdn Bhd.

### (ii) By contract

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Bai' Bithaman Ajil (deferred payment sale) | **2,278,578** | 1,930,780 |
| AITAB | **1,232,416** | 1,061,166 |
| Murabahah (cost-plus) | **172,282** | 97,882 |
| Others | **786,565** | 554,390 |
| | **4,469,841** | 3,644,218 |

**4 FINANCING, ADVANCES AND OTHER FINANCING (continued)**

**(iii) By type of customer**

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Domestic non-banking institutions | | |
| - Others | **307,259** | 421,701 |
| Domestic business enterprises | | |
| - Small medium enterprises | **584,698** | 478,087 |
| - Others | **848,317** | 520,041 |
| Government and statutory bodies | **15,845** | - |
| Individuals | **2,470,533** | 2,104,253 |
| Other domestic entities | **117,520** | 1,835 |
| Foreign entities | **125,669** | 118,301 |
| | **4,469,841** | 3,644,218 |

**(iv) By profit rate sensitivity**

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Fixed rate | | |
| - House financing | **92,769** | 102,763 |
| - Hire purchase receivables | **1,232,416** | 1,061,005 |
| - Other fixed rate financing | **594,839** | 534,012 |
| Variable rate | | |
| - BFR plus | **2,045,947** | 1,613,660 |
| - Cost plus | **503,870** | 332,778 |
| | **4,469,841** | 3,644,218 |

**4 FINANCING, ADVANCES AND OTHER FINANCING (continued)**

**(v) By economic sectors**

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Primary agriculture | **86,615** | 97,004 |
| Mining and quarrying | **167** | 235 |
| Manufacturing | **220,313** | 129,928 |
| Electricity, gas and water supply | **816** | 864 |
| Construction | **324,374** | 339,700 |
| Real estate | **442,885** | 44,679 |
| Wholesale & retail trade and restaurants & hotels | **44,325** | 48,892 |
| Transport, storage and communication | **10,775** | 6,444 |
| Finance, insurance and business services | **433,606** | 587,462 |
| Education, health & others | **412,370** | 271,096 |
| Household | **2,490,826** | 2,117,282 |
| Others | **2,769** | 632 |
| | **4,469,841** | 3,644,218 |

**(vi) By economic purpose**

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Purchase of securities | **81** | 13,439 |
| Purchase of transport vehicles | **1,232,126** | 1,061,924 |
| Purchase of landed property of which: | | |
| - Residential | **1,374,301** | 1,069,215 |
| - Non-residential | **748,396** | 425,851 |
| Fixed assets other than land and building | **50,036** | 10,096 |
| Personal use | **38,726** | 32,317 |
| Consumer durable | **26** | 34 |
| Construction | **149,920** | 124,087 |
| Working capital | **870,231** | 895,788 |
| Others | **5,998** | 11,467 |
| | **4,469,841** | 3,644,218 |

**4 FINANCING, ADVANCES AND OTHER FINANCING (continued)**

**(vii) By geographical distribution**

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Perlis | **3,014** | 1,886 |
| Kedah | **213,779** | 211,638 |
| Pulau Pinang | **101,315** | 95,025 |
| Perak | **198,587** | 164,339 |
| Selangor | **1,471,952** | 1,178,385 |
| Wilayah Persekutuan | **1,211,294** | 844,114 |
| Negeri Sembilan | **70,886** | 61,171 |
| Melaka | **40,046** | 40,779 |
| Johor | **174,660** | 137,953 |
| Pahang | **254,947** | 254,716 |
| Terengganu | **327,431** | 289,479 |
| Kelantan | **209,938** | 197,841 |
| Sarawak | **25,589** | 25,324 |
| Sabah | **60,990** | 36,285 |
| Labuan | **9** | 12 |
| Outside Malaysia | **105,404** | 105,271 |
| | **4,469,841** | 3,644,218 |

**5 IMPAIRED FINANCING**

**(i) Movements of impaired financing**

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| At beginning of the financial year | **152,601** | 130,840 |
| Classified as impaired | **112,975** | 92,689 |
| Reclassified as non-impaired | **(70,602)** | (42,087) |
| Amount recovered | **(20,025)** | (22,714) |
| Amount written-off | **(2,605)** | (6,127) |
| **At end of the financial year** | **172,344** | 152,601 |
| Ratio of gross impaired financing, advances and other financing to gross financing, advances and other financing | **3.86%** | 4.19% |

## 5 IMPAIRED FINANCING (continued)

### (ii) Movements in allowance for impairment on financing

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| **Individual impairment** | | |
| At beginning of the financial year | **36,141** | 23,228 |
| Provision for financing impairment | **5,029** | 25,307 |
| Amount recovered | **(1,372)** | (9,891) |
| Amount written-off | **(2,338)** | (1,175) |
| Unwinding of discount of allowance | **(2,533)** | (1,328) |
| **At end of the financial year** | **34,927** | 36,141 |
| **Collective impairment** | | |
| At beginning of the financial year | **52,481** | 43,925 |
| Provision for financing impairment/(recovered) | **7,874** | 13,365 |
| Amount written-off | **-** | (3,511) |
| Exchange differences | **354** | (1,298) |
| **At end of the financial year** | **60,709** | 52,481 |

### (iii) Impaired financing by economic sectors

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Primary agriculture | **45** | 63 |
| Mining and quarrying | **-** | 50 |
| Manufacturing | **20,466** | 21,124 |
| Electricity, gas and water supply | **266** | 294 |
| Construction | **67,906** | 77,451 |
| Wholesale & retail trade and restaurants & hotels | **2,220** | 2,548 |
| Finance, insurance and business services | **28,389** | 640 |
| Education, health & others | **37** | - |
| Household | **52,918** | 50,431 |
| Others | **97** | - |
| | **172,344** | 152,601 |

**5 IMPAIRED FINANCING (continued)**

**(iv) Impaired financing by economic purpose**

| | **Economic Entity/ The Bank** | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Purchase of transport vehicles | **11,315** | 7,844 |
| Purchase of landed property of which: | | |
| - Residential | **41,892** | 42,441 |
| - Non-residential | **504** | 625 |
| Fixed assets other than land & building | **-** | 448 |
| Personal use | **4,088** | 202 |
| Construction | **63,490** | 61,713 |
| Working capital | **50,955** | 39,324 |
| Others | **100** | 4 |
| | **172,344** | 152,601 |

**(v) Impaired financing by geographical distribution**

| | **Economic Entity/ The Bank** | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Kedah | **1,001** | 1,384 |
| Pulau Pinang | **1,811** | 2,228 |
| Perak | **2,552** | 1,643 |
| Selangor | **46,930** | 44,399 |
| Wilayah Persekutuan | **12,217** | 11,666 |
| Negeri Sembilan | **2,181** | 2,017 |
| Melaka | **196** | 498 |
| Johor | **2,799** | 2,846 |
| Pahang | **3,718** | 3,645 |
| Terengganu | **2,620** | 1,480 |
| Kelantan | **4,486** | 3,159 |
| Sarawak | **238** | 227 |
| Sabah | **443** | 227 |
| Outside Malaysia | **91,152** | 77,182 |
| | **172,344** | 152,601 |

## 6 OTHER ASSETS

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Other debtors, deposits and prepayments | **385** | 327 |
| Clearing accounts | **47,222** | 812 |
| Foreclosed properties (a) | **395** | 395 |
| | **48,002** | 1,534 |

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| **(a) Foreclosed properties** | | |
| At beginning of the financial year | **395** | 414 |
| Allowance for impairment losses | **-** | (19) |
| At end of the financial year | **395** | 395 |

## 7 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

The statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act 2009, the amounts of which are determined at set percentages of total eligible liabilities.

## 8 INVESTMENT IN JOINTLY CONTROLLED ENTITY

| | Economic Entity | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Unquoted shares at cost | **500** | 500 |
| Economic Entity's share of post acquisition retained losses | **(210)** | - |
| | **290** | 500 |

The summarised financial information of jointly controlled entity are as follows:

| | | |
|---|---|---|
| Revenue | **10** | 2 |
| Loss after tax | **(420)** | (89) |
| Total assets | **31,711** | 21,518 |
| Total liabilities | **31,132** | 20,619 |

The Economy Entity/Bank did not account for the share of post acquisition retained losses in 2010 as it is immaterial and has not commenced the development of land.

The jointly controlled entity was incorporated on 1 April 2008 and the details are as follows:

| Name | Principal activities | Issued and paid up share capital RM'000 | Percentage of equity held 2011 % | 2010 % |
|---|---|---|---|---|
| AFFIN-i Goodyear Sdn Bhd | Land development project | **1,000** | **50** | 50 |

On 1 April 2008, the Bank and Jurus Positif Sdn Bhd, a subsidiary of Mutiara Goodyear Development Berhad, entered into a joint venture agreement under the Shariah principles ('Musharakah Agreement') to develop a land into a housing scheme at Bukit Gambir, Pulau Pinang.

The agreement also includes an arrangement where Jurus Positif Sdn Bhd may acquire the Bank's shares upon the completion of the project at a mutually agreed price, unless both shareholders decide to continue the joint venture for subsequent projects.

Major strategic operation and financial decisions relating to the activities of AFFIN-i Goodyear Sdn Bhd requires unanimous consent by both joint venture parties. The Economic Entity's interest in AFFIN-i Goodyear Sdn Bhd has been treated as investment in jointly controlled entity, which has been accounted for in the consolidated financial statements using the equity method of accounting.

## 9 PROPERTY AND EQUIPMENT

| **Economic Entity/The Bank 2011** | **Renovation RM'000** | **Office equipment and furniture RM'000** | **Computer equipment and software RM'000** | **Motor vehicles RM'000** | **Capital work-in progress RM'000** | **Total RM'000** |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2011 | **1,356** | **1,022** | **1,420** | **458** | **-** | **4 ,256** |
| Additions | **861** | **486** | **504** | **-** | **2,214** | **4,065** |
| Write-off | **-** | **(3)** | **(40)** | **-** | **-** | **(43)** |
| Reclassification | **9** | **3** | **-** | **-** | **(2,214)** | **(2,202)** |
| At 31 December 2011 | **2,226** | **1,508** | **1,884** | **458** | **-** | **6,076** |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2011 | **787** | **308** | **778** | **260** | **-** | **2,133** |
| Charge for the financial year | **398** | **152** | **318** | **91** | **-** | **959** |
| Write-off | **-** | **(3)** | **(32)** | **-** | **-** | **(35)** |
| Reclassification | **-** | **2** | **-** | **-** | **-** | **2** |
| At 31 December 2011 | **1,185** | **459** | **1,064** | **351** | **-** | **3 ,059** |
| **Net book value as at 31 December 2011** | **1,041** | **1,049** | **820** | **107** | **-** | **3,017** |

| Economic Entity/The Bank 2010 | Renovation RM'000 | Office equipment and furniture RM'000 | Computer equipment and software RM'000 | Motor vehicles RM'000 | Capital work-in progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| At 1 January 2010 | 1,351 | 999 | 1,222 | 458 | 1,550 | 5,580 |
| Additions | 5 | 20 | 100 | - | - | 125 |
| Write-off | - | - | (4) | - | - | (4) |
| Reclassification | - | - | - | - | (1,550) | (1,550) |
| Transfer from Holding Company | - | 3 | 102 | - | - | 105 |
| At 31 December 2010 | 1,356 | 1,022 | 1,420 | 458 | - | 4,256 |
| Accumulated depreciation | | | | | | |
| At 1 January 2010 | 517 | 210 | 526 | 168 | - | 1,421 |
| Charge for the financial year | 270 | 98 | 253 | 92 | - | 713 |
| Write-off | - | - | (3) | - | - | (3) |
| Transfer from Holding Company | - | - | 2 | - | - | 2 |
| At 31 December 2010 | 787 | 308 | 778 | 260 | - | 2,133 |
| Net book value as at 31 December 2010 | 569 | 714 | 642 | 198 | - | 2,123 |

## 10 INTANGIBLE ASSETS

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| **Computer software** | | |
| **Cost** | | |
| At beginning of the financial year | **4,077** | 2,527 |
| Additions | **120** | - |
| Reclassification | **2,205** | 1,550 |
| At end of the financial year | **6,402** | 4,077 |
| **Accumulated amortisation** | | |
| At beginning of the financial year | **2,615** | 1,800 |
| Charge for the financial year | **532** | 815 |
| At end of the financial year | **3,147** | 2,615 |
| **Net book value as at end of the financial year** | **3,255** | 1,462 |

## 11 DEFERRED TAX

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts determined after appropriate offsetting, are shown in the statement of financial position:

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Deferred tax assets: | | |
| - to be recovered after more than 12 months | **-** | 5,221 |
| - to be recovered within 12 months | **-** | (930) |
| Deferred tax liabilities: | | |
| - to be recovered after more than 12 months | **(836)** | - |
| - to be recovered within 12 months | **(71)** | - |
| | **(907)** | 4,291 |

## 11 DEFERRED TAX (continued)

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| At beginning of the financial year | **4,291** | 6,577 |
| (Charged)/credited to income statement (Note 25) | **(5,873)** | (1,004) |
| - Property and equipment | **(36)** | 69 |
| - Intangible assets | **(449)** | (183) |
| - General allowances on bad and doubtful financing | **-** | (11,017) |
| - Collective allowances (transitional provision) for impaired financing | **(6,518)** | 6,518 |
| - Unrealised forex revaluation gain | **-** | 1,629 |
| - Others | **1,130** | 1,980 |
| Charged to equity | **675** | (1,282) |
| **At end of the financial year** | **(907)** | 4,291 |

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Subject to income tax | | |
| Deferred tax assets (before offsetting) | | |
| Collective allowances (transitional provision) for impaired financing | **-** | 6,518 |
| Others | **1,130** | - |
| | **1,130** | 6,518 |
| Offsetting | **(1,130)** | (2,227) |
| **Deferred tax assets (after offsetting)** | **-** | 4,291 |
| Deferred tax liabilities (before offsetting) | | |
| Property and equipment | **(317)** | (281) |
| Intangible assets | **(814)** | (365) |
| AFS revaluation reserves | **(906)** | (1,581) |
| | **(2,037)** | (2,227) |
| Offsetting | **1,130** | 2,227 |
| **Deferred tax liabilities (after offsetting)** | **(907)** | - |

## 12 DEPOSITS FROM CUSTOMERS

### (i) By type of deposit

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| **Non-Mudharabah** | | |
| Demand deposits | **1,923,732** | 1,488,093 |
| Savings deposits | **204,743** | 192,016 |
| Negotiable instruments of deposit ('NID') | **119,778** | - |
| **Mudharabah** | | |
| Demand deposits | **14,147** | 10,794 |
| Savings deposits | **98,790** | 66,187 |
| General investment deposits | **4,293,135** | 3,153,171 |
| Special investment deposits | **822,914** | 642,171 |
| | **7,477,239** | 5,552,432 |

### (ii) Maturity structure of general investment deposits and NID

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Due within six months | **3,540,513** | 2,756,754 |
| Six months to one year | **809,427** | 392,167 |
| One year to three years | **62,771** | 3,311 |
| Three years to five years | **202** | 939 |
| | **4,412,913** | 3,153,171 |

### (iii) By type of customer

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Government and statutory bodies | **3,192,422** | 1,800,116 |
| Business enterprises | **2,358,011** | 1,592,653 |
| Individuals | **605,957** | 435,331 |
| Others | **1,320,849** | 1,724,332 |
| | **7,477,239** | 5,552,432 |

## 13 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| **Mudharabah** | | |
| Licensed banks | **1,688,032** | 1,088,431 |
| Licensed investment banks | **50,066** | 123,678 |
| Bank Negara Malaysia | **96** | - |
| Other financial institutions | **460,950** | 138,985 |
| | **2,199,144** | 1,351,094 |

| | Economic Entity/ The Bank | |
|---|---|---|
| **Maturity structure of deposits** | | |
| Due within six months | **1,971,822** | 1,341,831 |
| One year to three years | **-** | 9,263 |
| Three years to five years | **202,053** | - |
| Over five years | **25,269** | - |
| | **2,199,144** | 1,351,094 |

## 14 OTHER LIABILITIES

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Margin and collateral deposits | **660** | 2,639 |
| Sundry creditors | **15,572** | 16,615 |
| Clearing accounts | **-** | 16,910 |
| Profit equalisation reserve (a) | **-** | - |
| Defined contribution plan (b) | **543** | 520 |
| Accrued employee benefits (c) | **23** | 20 |
| | **16,798** | 36,704 |

### (a) Profit equalisation reserve

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| At beginning of the financial year | **-** | - |
| Provided in the financial year | **2,646** | 4,452 |
| Written back in the financial year | **(2,646)** | (4,452) |
| At end of the financial year | **-** | - |

## 14 OTHER LIABILITIES (continued)

### (b) Defined contribution plan

The Bank contributes to the Employee Provident Fund ('EPF'), the national defined contribution plan. Once the contributions have been paid, the Bank has no further payment obligations.

### (c) Accrued employee benefits

This refers to the accruals for short-term employee benefits for leave entitlement. Under employment contract, employees earn their leave entitlement which they are entitled to carry forward and will lapse if not utilised in the following accounting period. Accruals are made for the estimated liability for unutilised annual leave.

## 15 AMOUNT DUE TO HOLDING COMPANY

| | **Economic Entity/ The Bank** | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Amount due to holding company | **355,535** | 183,541 |
| | **355,535** | 183,541 |

The amount due to holding company is unsecured and bear profit of 3.02% per annum (2010: 2.62%) with no fixed terms of repayment.

## 16 SHARE CAPITAL

| **Economic Entity/The Bank 2011** | **Number of ordinary shares of RM 1 each '000** | **Amount RM '000** |
|---|---|---|
| **Authorised** | | |
| At beginning/end of the financial year | **1,000,000** | **1,000,000** |
| **Issued and fully paid** | | |
| At beginning/end of the financial year | **260,000** | **260,000** |

| Economic Entity/The Bank 2010 | Number of ordinary shares of RM 1 each '000 | Amount RM '000 |
|---|---|---|
| Authorised: | | |
| At beginning/end of the financial year | 1,000,000 | 1,000,000 |
| Issued and fully paid: | | |
| At beginning/end of the financial year | 260,000 | 260,000 |

## 17 RESERVES

| | Economic Entity | | The Bank | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Retained profits | **112,149** | 87,349 | **112,359** | 87,349 |
| AFS revaluation reserves | **2,719** | 4,745 | **2,719** | 4,745 |
| Statutory reserves | **106,420** | 81,410 | **106,420** | 81,410 |
| | **221,288** | 173,504 | **221,498** | 173,504 |
| **Statutory reserves** | | | | |
| At beginning of the financial year | **81,410** | 68,397 | **81,410** | 68,397 |
| Transfer from retained profits | **25,010** | 13,013 | **25,010** | 13,013 |
| At end of the financial year | **106,420** | 81,410 | **106,420** | 81,410 |

Movement of the unrealised gains/(losses) on 'Available-for-sale'

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| At beginning of the financial year | **4,745** | 900 |
| Unrealised gains/(losses) on 'financial investments available-for-sale' | **(2,701)** | 5,127 |
| Deferred tax | **675** | (1,282) |
| At end of the financial year * | **2,719** | 4,745 |

* The depositors' portion of net unrealized gains or losses on 'Available-for-sale' at the end of financial year is net unrealized losses of RM3, 531,683 (2010: net unrealized gains of RM5, 412,198).

(a) A single tier company tax was introduced effective 1 January 2008. Under this single tier system, tax on a company's profit is a final tax, and dividends distributed to shareholders will be exempted from tax. Companies with Section 108 tax credit balance are given an option to elect to move to a single tier system immediately or allowed to use the Section 108 credit balance for the purpose of dividend distribution during transitional period of 6 years until 31 December 2013.

The Bank has elected to use its Section 108 credit balance for the purpose of dividend distribution during a transitional period of 6 years until 31 December 2013. The Section 108 balance of the Bank as at 31 December 2007 will be frozen and can only be adjusted downwards for any tax discharged, remitted or refunded during the 6 years period.

As at 31 December 2011, the Bank has a tax credit balance of RM27, 882,876 under Section 108 of the Income Tax Act, 1967 and text exempt account balance of RM5, 578,528 under Section 12 of the Income Tax (Amendment) Act 1999, subject to agreement by the Inland Revenue Board.

(b) The statutory reserves of the Bank are maintained in compliance with the provisions of the Banking and Financial Institutions Act, 1989 and are not distributable as cash dividends.

(c) AFS revaluation reserves represent the unrealized gains or losses arising from the change in fair value of investments classified as financial investment available-for-sale. The gains or losses are transferred in the income statement upon disposal or when the securities become impaired.

## 18 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Income derived from investment of: | | |
| - General investment deposits * (a) | **225,920** | 174,856 |
| - Other deposits (b) | **142,991** | 112,546 |
| | **368,911** | 287,402 |

* Includes the profit earned from investment of RPSIA in financing, advances and other financing of RM2,296,644 (2010: RM3,605,787).

### a) Income derived from investment of general investment deposits

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| **Finance income and hibah** | | |
| Financing, advances and other financing | **131,293** | 106,508 |
| Financial assets held-for-trading | **-** | 5 |
| Financial investments available-for-sale | **27,084** | 20,556 |
| Money at call and deposits with financial institutions | **54,564** | 35,058 |
| | **212,941** | 162,127 |
| Amortisation of premium less accretion of discount | **1,844** | 5,165 |
| Total finance income and hibah | **214,785** | 167,292 |
| **Other operating income** | | |
| Fee income | | |
| Commission | **1,091** | 999 |
| Service charges and fees | **2,311** | 1,560 |
| Guarantee fees | **1,086** | 1,198 |
| | **4,488** | 3,757 |
| Income from financial instruments: | | |
| Gain on sale of: | | |
| - financial assets held-for-trading | **68** | 85 |
| - financial investments available-for-sale | **3,671** | 1,637 |
| | **3,739** | 1,722 |
| Other income | | |
| Foreign exchange profit: | | |
| - realised | **1,350** | 1,266 |
| Other non-operating income | **1,558** | 819 |
| | **2,908** | 2,085 |
| **Total income derived from investment of general investment deposits** | **225,920** | 174,856 |

## 18 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS (continued)

### b) Income derived from investment of other deposits

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| **Finance income and hibah** | | |
| Financing, advances and other financing | **83,098** | 68,554 |
| Financial assets held-for-trading | **-** | 3 |
| Financial investments available-for-sale | **17,142** | 13,231 |
| Money at call and deposits with financial institution | **34,535** | 22,565 |
| | **134,775** | 104,353 |
| Amortisation of premium less accretion of discount | **1,167** | 3,324 |
| Total finance income and hibah | **135,942** | 107,677 |
| **Other operating income** | | |
| Fee income | | |
| Commission | **691** | 643 |
| Service charges and fees | **1,463** | 1,004 |
| Guarantee fees | **688** | 771 |
| | **2,842** | 2,418 |
| Income from financial instruments: | | |
| Gain on sale of: | | |
| - financial assets held-for-trading | **43** | 55 |
| - financial investments available-for-sale | **2,323** | 1,054 |
| | **2,366** | 1,109 |
| Other income | | |
| Foreign exchange profit: | | |
| - realised | **855** | 815 |
| Other non-operating income | **986** | 527 |
| | **1,841** | 1,342 |
| **Total income derived from investment of other deposits** | **142,991** | 112,546 |

## 19 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| **Finance income and hibah** | | |
| Financing, advances and other financing | **12,118** | 10,995 |
| Financial assets held-for-trading | **-** | 1 |
| Financial investments available-for-sale | **2,500** | 2,122 |
| Money at call and deposits with financial institution | **5,036** | 3,619 |
| | **19,654** | 16,737 |
| Amortisation of premium less accretion of discount | **170** | 533 |
| Total finance income and hibah | **19,824** | 17,270 |
| **Other operating income** | | |
| Fee income | | |
| Commission | **101** | 103 |
| Service charges and fees | **213** | 161 |
| Guarantee fees | **100** | 124 |
| | **414** | 388 |
| Income from financial instruments: | | |
| Gain on sale of: | | |
| - financial assets held-for-trading | **6** | 9 |
| - financial investments available-for-sale | **339** | 169 |
| | **345** | 178 |
| **Other income** | | |
| Foreign exchange profit: | | |
| - realised | **125** | 131 |
| Other non-operating income | **144** | 85 |
| | **269** | 216 |
| **Total income derived from investment of shareholders' funds** | **20,852** | 18,052 |

## 20 ALLOWANCES FOR LOSSES ON FINANCING

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Individual impairment | | |
| - made in the financial year | **5,029** | 25,307 |
| - written-back | **(1,372)** | (9,891) |
| Collective impairment | | |
| - made/(written-back) | **7,874** | 13,365 |
| Bad debts on financing: | | |
| - recovered | **(923)** | (310) |
| - written-off | **165** | 183 |
| | **10,773** | 28,654 |

## 21 INCOME ATTRIBUTABLE TO THE DEPOSITORS

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Deposits from customers | | |
| - mudharabah | **136,273** | 92,155 |
| - non-mudharabah | **23,071** | 18,477 |
| Deposits and placement of banks and other financial institutions | | |
| - mudharabah | **47,921** | 23,996 |
| Others | **4,827** | 4,917 |
| | **212,092** | 139,545 |

## 22 PERSONNEL EXPENSES

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Wages, salaries and bonuses | **42,279** | 41,910 |
| Defined contribution plan ('EPF') | **6,651** | 6,548 |
| Other personnel costs | **6,269** | 6,009 |
| | **55,199** | 54,467 |

## 23 OTHER OVERHEADS AND EXPENDITURES

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| **Establishment costs** | | |
| Rental of premises | **3,545** | 3,324 |
| Equipment rental | **28** | 23 |
| Repair and maintenance | **4,189** | 3,757 |
| Depreciation of property and equipment | **959** | 713 |
| Amortisation of intangible assets | **532** | 815 |
| Licence fee | **183** | 239 |
| Insurance and indemnities | **47** | 35 |
| Security services | **1,836** | 1,550 |
| Electricity, water and sewerage | **1,271** | 1,260 |
| Other establishment costs | **11,915** | 13,101 |
| | **24,505** | 24,817 |
| **Marketing expenses** | | |
| Business promotion and advertisement | **1,002** | 371 |
| Entertainment | **406** | 229 |
| Travelling and accommodation | **942** | 1,021 |
| Other marketing expenses | **356** | 296 |
| | **2,706** | 1,917 |
| **Administration and general expenses** | | |
| Telecommunication expenses | **744** | 700 |
| Auditors' remuneration | **409** | 268 |
| Professional fees | **3,691** | 5,191 |
| Property and equipment written-off | **8** | 2 |
| Mail and courier charges | **539** | 658 |
| Stationery and consumables | **2,193** | 1,531 |
| Other administration and general expenses | **1,810** | 1,163 |
| | **9,394** | 9,513 |
| | **36,605** | 36,247 |

The expenditure includes the following statutory disclosures:

| | | |
|---|---|---|
| Directors' remuneration (Note 24) | **2,395** | 1,946 |
| Rental of premises | **3,545** | 3,324 |
| Equipment rental | **28** | 23 |
| Auditors' remuneration | | |
| - statutory audit fees | **126** | 96 |
| - audit related fees | **47** | 97 |
| - non-audit fees | **236** | 75 |
| Depreciation of property and equipment | **959** | 713 |
| Amortisation of intangible assets | **532** | 815 |

## 24 CEO, DIRECTORS AND SHARIAH COMMITEE MEMBERS' REMUNERATION

The Directors of the Bank who have held office during the period since the date of the last report are:

**Executive Director**

En. Kamarul Ariffin bin Mohd Jamil
*(Resigned as Director w.e.f 1 November 2011)*

**Non-Executive Directors**

Jen Tan Sri Dato' Seri Ismail bin Haji Omar (Bersara) (Chairman)
Dato' Zulkiflee Abbas bin Abdul Hamid
*(Resigned as Director w.e.f 1 November 2011)*
Tan Sri Dato' Lodin bin Wok Kamaruddin
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara)
Tan Sri Dato' Seri Mohamed Jawhar
En. Mohd Suffian bin Haji Haron
Associate Professor Dr. Asyraf Wajdi bin Dato' Dusuki
*(Appointed as Director w.e.f 9 May 2011)*
Dato' Sri Abdul Aziz bin Abdul Rahman
*(Appointed as Director w.e.f 1 November 2011)*

The aggregate amount of remuneration for the Directors of the Bank for the financial year are as follows:

| | **Economic Entity/ The Bank** | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| **Executive Director** | | |
| Salaries | **546** | 504 |
| Bonuses | **728** | 576 |
| Defined contribution plan ('EPF') | **210** | 179 |
| Other employee benefits | **43** | 43 |
| Benefits-in-kind | **80** | 41 |
| **Non-executive Directors** | | |
| Fees | **736** | 603 |
| **Shariah Committee** | | |
| Fees | **52** | - |
| **Directors' remuneration** | **2,395** | 1,946 |

**24 CEO, DIRECTORS AND SHARIAH COMMITEE MEMBERS' REMUNERATION (continued)**

A summary of the total remuneration of the Directors, distinguishing between Executive and Non-Executive Directors.

| Economic Entity/The Bank 2011 | Salaries RM'000 | Bonuses RM'000 | Directors' Fees RM'000 | * Other emoluments RM'000 | Benefits-in-kind RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **Executive Director/CEO** | | | | | | |
| Kamarul Ariffin bin Mohd Jamil | 546 | 728 | - | 253 | 80 | 1,607 |
| | 546 | 728 | - | 253 | 80 | 1,607 |
| **Non-executive Directors** | | | | | | |
| Jen Tan Sri Dato' Seri Ismail bin Haji Omar (Bersara) | - | - | 123 | - | - | 123 |
| Dato' Zulkiflee Abbas bin Abdul Hamid | - | - | 37 | - | - | 37 |
| Tan Sri Dato' Lodin bin Wok Kamaruddin | - | - | 92 | - | - | 92 |
| Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara) | - | - | 128 | - | - | 128 |
| Tan Sri Dato' Seri Mohamed Jawhar | - | - | 171 | - | - | 171 |
| En. Mohd Suffian bin Haji Haron | - | - | 111 | - | - | 111 |
| Associate Professor Dr. Asyraf Wajdi bin Dato' Dusuki | - | - | 112 | - | - | 112 |
| Dato' Sri Abdul Aziz bin Abdul Rahman | - | - | 14 | - | - | 14 |
| | - | - | 788 | - | - | 788 |
| **Total** | 546 | 728 | 788 | 253 | 80 | 2,395 |

| Economic Entity/The Bank 2010 | Salaries RM'000 | Bonuses RM'000 | Directors' Fees RM'000 | * Other emoluments RM'000 | Benefits-in-kind RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| Executive Director/CEO | | | | | | |
| Kamarul Ariffin bin Mohd Jamil | 504 | 576 | - | 222 | 41 | 1,343 |
| | 504 | 576 | - | 222 | 41 | 1,343 |
| Non-executive Directors | | | | | | |
| Jen Tan Sri Dato' Seri Ismail bin Haji Omar (Bersara) | - | - | 125 | - | - | 125 |
| Dato' Zulkiflee Abbas bin Abdul Hamid | - | - | 40 | - | - | 40 |
| Tan Sri Dato' Lodin bin Wok Kamaruddin | - | - | 22 | - | - | 22 |
| Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara) | - | - | 128 | - | - | 128 |
| Tan Sri Dato' Seri Mohamed Jawhar | - | - | 176 | - | - | 176 |
| En. Mohd Suffian bin Haji Haron | - | - | 112 | - | - | 112 |
| | - | - | 603 | - | - | 603 |
| Total | 504 | 576 | 603 | 222 | 41 | 1,946 |

* Executive Director's Other emoluments include allowance and EPF

## 25 TAXATION

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Malaysian income tax : | | |
| Current tax | **16,829** | 9,934 |
| (Over)/under provision in prior year | **(3,120)** | 4,951 |
| Deferred tax (Note 11) | **5,873** | 1,004 |
| | **19,582** | 15,889 |

Numerical reconciliation between the average effective tax rate and the Malaysian tax rate:

| | **%** | % |
|---|---|---|
| Malaysian tax rate | **25.00** | 25.00 |
| Tax effect of: | | |
| Non-allowable expenses | **0.22** | 0.14 |
| Tax savings arising from income exempt from tax for International Currency Business Unit (ICBU) | **(1.46)** | 6.06 |
| (Over)/under provision in prior years | **(4.16)** | 10.64 |
| Recognition of deferred tax previously not recognised | **(1.66)** | - |
| Others | **8.14** | (7.70) |
| **Average effective tax rate** | **26.08** | 34.14 |

## 26 EARNINGS PER SHARE

The basic and fully diluted earnings per ordinary share for the Economic Entity and the Bank have been calculated based on the net profit attributable to ordinary equity holders of the Economic Entity and the Bank of RM49,810,000 (2010: RM26,026,000) and RM50,020,000 (2010: RM26,026,000) respectively. The weighted average number of shares in issue during the financial year of 260,000,000 (2010: 260,000,000) is used for the computation.

## 27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

| Related parties | Relationships |
|---|---|
| Lembaga Tabung Angkatan Tentera ('LTAT') | Ultimate holding corporate body |
| AFFIN Holdings Berhad ('AHB') | Penultimate holding company |
| AFFIN Bank Berhad ('ABB') | Holding company |
| Subsidiaries and associates of LTAT | Subsidiary and associate companies of the ultimate holding corporate body |
| Subsidiaries and associates of AHB as disclosed in its financial statements | Subsidiary and associate companies of the penultimate holding company |
| Subsidiaries of ABB as disclosed in its financial statements | Subsidiary companies of the holding company |
| Joint controlled entity as disclosed in Note 8 | Joint controlled entity of AFFIN Islamic Bank Berhad |
| Voting shares in body corporate not less than 15% of votes | Other related companies |
| Key management personnel | The key management personnel of the Bank consist of:<br>- Chief Executive Officer<br>- Member of Senior Management team |
| Related parties of key management personnel (deemed as related to the Bank) | - Close family members and dependents of key management personnel<br>- Entities that are controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members |

## 27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

### (a) Related parties balances

| Economic Entity/The Bank 2011 | Ultimate holding corporate body RM'000 | Penultimate holding company RM'000 | Holding company RM'000 | Other related companies RM'000 | Companies in which certain Directors have substantial interest RM'000 |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Income on short-term advances | - | - | - | 1 ,112 | - |
| Other income | - | - | - | 15 | - |
| | - | - | - | 1,127 | - |
| **Expenditure** | | | | | |
| Hibah/profit paid on fixed deposits | - | - | - | 160 | - |
| Hibah/profit paid on deposits and placement of banks and other financial institutions | - | - | 661 | - | - |
| Hibah/profit paid on special investment account | - | - | - | 418 | - |
| Hibah/profit paid on PSIA/RPSIA | - | - | 15,913 | - | - |
| Brokerage fees | - | - | - | 2 | - |
| Others | - | - | 64,268 | 148 | - |
| | - | - | 80,842 | 728 | - |
| **Amount due from** | | | | | |
| Advances | - | - | - | 23,330 | - |
| Deposits and placement with banks and other financial institutions | - | - | - | 150,143 | - |
| Intercompany balances | - | - | - | 2,745 | - |
| | - | - | - | 176,218 | - |
| **Amount due to** | | | | | |
| Demand and fixed deposits | 715 | - | - | 25,716 | 38 |
| Deposits and placement of banks and other financial institutions | - | - | 145,803 | - | - |
| Special investment account | - | - | 570,266 | 10,182 | - |
| Intercompany balances | - | - | 355,534 | - | - |
| | 715 | - | 1,071,603 | 35,898 | 38 |

## 27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

### (a) Related parties balances (continued)

| Economic Entity/The Bank 2010 | Ultimate holding corporate body RM'000 | Penultimate holding company RM'000 | Holding company RM'000 | Other related companies RM'000 | Companies in which certain Directors have substantial interest RM'000 |
|---|---|---|---|---|---|
| Income | | | | | |
| Income on short-term advances | - | - | - | 810 | - |
| Income on deposits and placement with banks and other financial institutions | - | - | 7 | - | - |
| Other income | - | - | - | 63 | - |
| | - | - | 7 | 873 | - |
| Expenditure | | | | | |
| Hibah/profit paid on fixed deposits | 97 | - | - | 117 | - |
| Hibah/profit paid on deposits and placement of banks and other financial institutions | 1 | - | 1 ,404 | - | - |
| Hibah/profit paid on special investment account | 135 | - | - | 671 | - |
| Hibah/profit paid on PSIA/RPSIA | - | - | 7,031 | - | - |
| Brokerage fees | - | - | - | 29 | - |
| Others | - | - | 62,948 | 305 | - |
| | 233 | - | 71,383 | 1,122 | - |
| Amount due from | | | | | |
| Advances | - | - | - | 13,505 | - |
| Intercompany balances | - | - | - | 2,745 | - |
| Other receivables | - | - | - | 2 | - |
| | - | - | - | 16,252 | - |
| Amount due to | | | | | |
| Demand and fixed deposits | 1 ,066 | - | - | 19,061 | 1 |
| Deposits and placement of banks and other financial institutions | - | - | 144,993 | - | - |
| Special investment account | - | - | 335,370 | 17,401 | - |
| Intercompany balances | - | - | 183,541 | - | - |
| Other payables | - | 1 | - | 6 | - |
| | 1,066 | 1 | 663,904 | 36,468 | 1 |

## 27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

### (b) Key management personnel compensation

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Short-term employment benefits | | |
| Salaries | **582** | 912 |
| Bonuses | **1,028** | 1,012 |
| Defined contribution plan ('EPF') | **265** | 329 |
| Other employee benefits | **52** | 148 |
| Benefit-in-kind | **80** | 62 |
| | **2,007** | 2,463 |

Included in the above table are Directors' remuneration as disclosed in Note 24.

## 28 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions.

The commitments and contingencies consist of:

| **Economic Entity /The Bank** | **Principal amount** | **Credit equivalent amount *** | **Risk-weighted amount *** |
|---|---|---|---|
| **2011** | **RM'000** | **RM'000** | **RM'000** |
| Direct credit substitutes | **8,104** | **8,104** | **6,470** |
| Transaction-related contingent items | **149,456** | **74,728** | **69,462** |
| Short-term self-liquidating trade related contingencies | **345,900** | **69,180** | **28,160** |
| Irrevocable commitments to extend credit: | | | |
| - maturity less than one year | **958,076** | **191,615** | **156,334** |
| - maturity more than one year | **428,138** | **85,628** | **79,644** |
| | **1,889,674** | **429,255** | **340,070** |

## 28 COMMITMENTS AND CONTINGENCIES (continued)

| Economic Entity/The Bank 2010 | Principal amount RM'000 | Credit equivalent amount * RM'000 | Risk-weighted amount * RM'000 |
|---|---|---|---|
| Direct credit substitutes | 26,528 | 26,528 | 18,864 |
| Transaction-related contingent items | 198,425 | 99,212 | 93,813 |
| Short-term self-liquidating trade related contingencies | 686,477 | 137,295 | 31,527 |
| Irrevocable commitments to extend credit: | | | |
| - maturity less than one year | 651,595 | - | - |
| - maturity more than one year | 459,864 | - | - |
| | 2,022,889 | 263,035 | 144,204 |

* The credit equivalent amount is arrived at using the credit conversion factors as per Bank Negara Malaysia's revised Capital Adequacy for Islamic Banks ("CAFIB") guidelines.

## 29 FINANCIAL RISK MANAGEMENT

### (i) Credit risk

Credit risk is the potential financial loss resulting from the failure of the customer or counterparty to settle the financial and contractual obligations to the Bank. Credit risk emanates mainly from financing, advances and other financing, financing commitments arising from such financing activities, as well as through financial transactions with counterparties including interbank money market activities, derivative instruments used for hedging and debt securities.

The management of credit in the Bank is governed by a set of credit policies approved by the Board of Directors. Approval authorities are delegated to Senior Management and Group Management Loan Committee ('GMLC') to implement the credit policies and ensure sound credit granting standards.

An independent Group Risk Management ('GRM') function with a direct reporting line to Board Risk Management Committee ('BRMC') is in place to ensure adherence to risk standards and discipline. Portfolio management risk reports are submitted regularly to BRMC.

Financing guidelines and credit strategies are formulated and incorporated in the Annual Credit Plan. New businesses are governed by the risk acceptance criteria and customer qualifying criteria/fitness standards prescribed in the Credit Plan. The Credit Plan is reviewed at least annually and approved by the BRMC.

**Credit risk measurement**

*Financing, advances and other financing*

Credit evaluation is the process of analysing the creditworthiness of the prospective customer against the Bank's underwriting criteria and the ability of the Bank to make a return commensurate to the level of risk undertaken. A critical element in the evaluation process is the assignment of a credit risk grade to the counterparty. This assists in the risk assessment and decision making process. The Bank has developed internal rating models to support the assessment and quantification of credit risk.

For consumer mass market products, statistically developed application scorecards are used by the Business to assess the risks associated with the credit applications. The scorecards are used as a decision support tool at financing origination.

**29 FINANCIAL RISK MANAGEMENT (continued)**

**(i) Credit risk (continued)**

**Credit risk measurement (continued)**

*Over-the-Counter ('OTC') Derivatives*

The OTC Derivatives credit exposure is computed using the Current Exposure Method. Under the Current Exposure Method, computation of credit equivalent exposure for profit rate and exchange rate related contracts is derived from the summation of the two elements; the replacement costs (obtained by marking-to-market) of all contracts and the potential future exposure of outstanding contracts (Add On charges depending on the specific remaining tenor to maturity).

**Risk limit control and mitigation policies**

The Bank employs various policies and practices to control and mitigate credit risk.

*Financing limits*

The Bank establishes internal limits and related financing guidelines to manage large exposures and avoid undue concentration of credit risk in its credit portfolio. The limits include single customer groupings, connected parties, and geographical and industry segments. These risks are monitored regularly and the limits reviewed annually or sooner depending on changing market and economic conditions when considered appropriate.

The credit risk exposure for derivative and financing books is managed as part of the overall financing limits with customers together with potential exposure from market movements.

*Collateral*

Credits are established against customer's capacity to pay/ repay rather than rely solely on security. However, collateral may be taken to mitigate credit risk. The main collateral types accepted and given value by the Bank are:-

- mortgage over residential properties;
- charges over commercial real estate or vehicles financed;
- charges over business assets such as business premises, inventory and accounts receivable; and
- charges over financial instruments such as marketable equities.

*Financing covenants (for credit related commitments and financing books)*

The primary purpose of these instruments is to ensure that funds are available to a customer when required. Guarantees and standby letters of credit carry the same credit risk as financing. Documentary and commercial letters of credit are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct financing.

Commitment to extend credit represents unutilised portion of approved credit in the form of financing, guarantees or letters of credit. In terms of credit risk, the Bank is potentially exposed to loss in an amount equal to the total unutilised commitments. However, the potential amount of loss is less than the total unutilised commitments, as most commitments to extend credit are contingent upon customers maintaining specific minimum credit standards.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than short-term commitments.

**29 FINANCIAL RISK MANAGEMENT (continued)**

**(i) Credit risk (continued)**

**Credit risk monitoring**

Retail credits are actively monitored and managed on a portfolio basis by product type. A new collection management system has been implemented with a dedicated team in place to promptly identify, monitor and manage delinquent accounts at early stages of delinquency.

Corporate credits and large individual accounts are reviewed by the Business Units at least once a year against updated information. This is to ensure that the credit grades remain appropriate and detect any signs of weaknesses or deterioration in the credit quality. Remedial action is taken where evidence of deterioration exists.

Early Alert Process is in place as part of a means to pro-actively identify, report and manage deteriorating credit quality. Watchlist accounts are closely reviewed and monitored with corrective measures initiated to prevent them from turning impaired. As a rule, watchlist accounts are either worked up or worked out within a period of twelve months.

**Credit risk culture**

The Bank recognises that learning is a continuous journey and is committed to enhance the knowledge and required skills set of its staff. It places strong emphasis in creating and enhancing risk awareness in the organisation.

For effective and efficient staff learning, the Bank has implemented an E-Learning Program with an online Learning Management System ('LMS'). The LMS provides staff with a progressive self-learning alternative at own pace.

Group Risk Management commenced an Internal Credit Certification ('ICC') Programme for both Business Banking and Consumer Credit in July 2009 and August 2009 respectively. In October 2010, the Bank introduced ICC-Market Risk with the Diagnostic Assessment conducted through the LMS.

The aim of the ICCs is to assist the core credit related group of personnel in Affin achieve a minimum level of knowledge and analytical skills required to make sound corporate and commercial financing to customers. It is envisaged that the core credit related group of personnel would all be certified within 2 to 3 years.

**Maximum exposure to credit risk**

For financial assets recognised on the statement of financial position, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the guarantees were to be called upon. For financing commitments and other credit related commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

**29 FINANCIAL RISK MANAGEMENT (continued)**

**(i) Credit risk (continued)**

**Maximum exposure to credit risk (continued)**

The exposure to credit risk of the Bank equals their carrying amount in the statement of financial position as at reporting date, except for the followings:

| | | Economic Entity/ The Bank | |
|---|---|---|---|
| | | **2011** | **2011** |
| | | **Carrying Value RM'000** | **Maximum Credit Exposure RM'000** |
| **Credit risk exposures of on-balance sheet assets:** | | | |
| Financial investments available-for-sale | # | **1,480,275** | **1,480,206** |
| **Credit risk exposure of off-balance sheet items:** | | | |
| Financial guarantees | ^ | **157,560** | **82,832** |
| Financing commitments and other credit related commitments | ^ | **1,732,114** | **346,423** |
| **Total maximum credit risk exposure** | | **3,369,949** | **1,909,461** |

| | | Economic Entity/ The Bank | |
|---|---|---|---|
| | | 2010 | 2010 |
| | | Carrying Value RM'000 | Maximum Credit Exposure RM'000 |
| Credit risk exposures of on-balance sheet assets: | | | |
| Financial investments available-for-sale | # | 1,345,236 | 1,345,164 |
| Credit risk exposure of off-balance sheet items: | | | |
| Financial guarantees | ^ | 224,953 | 125,741 |
| Financing commitments and other credit related commitments | ^ | 1,797,936 | 137,294 |
| Total maximum credit risk exposure | | 3,368,125 | 1,608,199 |

# including equity securities
^ amount stated at notional value

Whilst the Bank's maximum exposure to credit risk is the carrying value of the assets, or in the case of off-balance sheet items, the amount guaranteed, committed or accepted, in most cases the likely exposure is far less due to collateral, credit enhancements and other actions taken to mitigate the credit exposure.

The financial effect of collateral held for financing, advances and other financing of the Bank is 73% (2010:68%). The financial effects of collateral for the other financial assets are insignificant.

**29 FINANCIAL RISK MANAGEMENT (continued)**

**(i) Credit risk (continued)**

**Credit risk concentration**

Credit risk is the risk of financial loss from the failure of customers to meet their obligations. Exposure to credit risk is managed through portfolio management. The credit portfolio's risk profiles and exposures are reviewed and monitored regularly to ensure that an acceptable level of risk diversification is maintained. Exposure to credit risk is also managed in part by obtaining collateral security and corporate and personal guarantees.

The credit risk concentrations of the Bank, by industry concentration, are set out in the following tables:

| **Economic Entity/ The Bank 2011** | **Cash and short-term funds RM'000** | **Financial investments available-for-sale RM'000** | **Financing, advances and other financing (*) RM'000** | **Other assets RM'000** | **On balance sheet total RM'000** | **Commitments and contingencies RM'000** |
|---|---|---|---|---|---|---|
| Agriculture | **-** | **-** | **86,615** | **-** | **86,615** | **2,615** |
| Mining and quarrying | **-** | **-** | **167** | **-** | **167** | **-** |
| Manufacturing | **-** | **-** | **213,470** | **-** | **213,470** | **34,075** |
| Electricity, gas and water supply | **-** | **-** | **816** | **-** | **816** | **-** |
| Construction | **-** | **-** | **297,942** | **-** | **297,942** | **120,389** |
| Real estate | **-** | **-** | **442,885** | **-** | **442,885** | **24,013** |
| Transport, storage and communication | **-** | **50,624** | **10,775** | **-** | **61,399** | **16,748** |
| Finance, insurance and business services | **153,432** | **573,359** | **433,215** | **-** | **1,160,006** | **78,548** |
| Government and government agencies | **4,302,268** | **845,950** | **5,584** | **-** | **5,153,802** | **80,080** |
| Wholesale & retail trade and restaurants & hotels | **-** | **10,273** | **43,136** | **-** | **53,409** | **27,023** |
| Others | **-** | **-** | **2,900,309** | **47,300** | **2,947,609** | **45,764** |
| **Total assets** | **4,455,700** | **1,480,206** | **4,434,914** | **47,300** | **10,418,120** | **429,255** |

* Not inclusive of collective allowance amounting to RM61 million.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 28.

| Economic Entity/ The Bank 2010 | Cash and short-term funds RM'000 | Financial investments available-for-sale RM'000 | Financing, advances and other financing (*) RM'000 | Other assets RM'000 | On balance sheet total RM'000 | Commitments and contingencies RM'000 |
|---|---|---|---|---|---|---|
| Agriculture | - | - | 97,004 | - | 97,004 | 25,268 |
| Mining and quarrying | - | - | 235 | - | 235 | 21 |
| Manufacturing | - | - | 122,731 | - | 122,731 | 3,487 |
| Electricity, gas and water supply | - | - | 864 | - | 864 | - |
| Construction | - | - | 312,314 | - | 312,314 | 62,115 |
| Real estate | - | - | 44,679 | - | 44,679 | - |
| Transport, storage and communication | - | 25,160 | 6,444 | - | 31,604 | - |
| Finance, insurance and business services | 33,293 | 365,508 | 587,462 | - | 986,263 | 32,238 |
| Government and government agencies | 2,606,679 | 954,496 | - | - | 3,561,175 | 131,966 |
| Wholesale & retail trade and restaurants & hotels | - | - | 48,370 | - | 48,370 | 4,135 |
| Others | - | - | 2,387,974 | 878 | 2,388,852 | 3,805 |
| Total assets | 2,639,972 | 1,345,164 | 3,608,077 | 878 | 7,594,091 | 263,035 |

* Not inclusive of collective allowance amounting to RM52 million.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 28.

**29 FINANCIAL RISK MANAGEMENT (continued)**

**(i) Credit risk (continued)**

**Collaterals**

The main types of collateral obtained by the Bank are as follows:

- for personal house financing, mortgages over residential properties;
- for commercial property financing, charges over the properties being financed;
- for hire purchase facilities, charges over the vehicles or plant and machineries financed; and
- for other financing, charges over business assets such as premises, inventories, trade receivables or deposits.

**Total financing, advances and other financing - credit quality**

All financing, advances and other financing are categorised into “neither past due nor impaired”, “past due but not impaired” and “impaired”. Past due financing refer to financing that are overdue by one day or more. Impaired financing are financing with months-in-arrears more than 90 days or with impairment allowances.

*Distribution of financing, advances and other financing by credit quality*

| | **Economic Entity/ The Bank** | |
|---|---|---|
| | **2011** | 2010 |
| | **RM’000** | RM’000 |
| Neither past due nor impaired (a) | **3,886,659** | 3,021,133 |
| Past due but not impaired (b) | **410,838** | 470,484 |
| Impaired (c) | **172,344** | 152,601 |
| Gross financing, advances and other financing | **4,469,841** | 3,644,218 |
| less: Allowance for impairment | | |
| - Individual | **(34,927)** | (36,141) |
| - Collective | **(60,709)** | (52,481) |
| Net financing, advances and other financing | **4,374,205** | 3,555,596 |

Past due but not impaired includes accounts within grace period amounting to RM0.1 billion (2010: RM0.1 billion).

(a) Financing neither past due nor impaired

Analysis of financing, advances and other financing that are neither past due nor impaired analysed based on the Bank’s internal credit grading system is as follows:

| | **Economic Entity/ The Bank** | |
|---|---|---|
| | **2011** | 2010 |
| Quality classification | **RM’000** | RM’000 |
| Satisfactory | **3,527,570** | 2,633,609 |
| Special mention | **359,089** | 387,524 |
| | **3,886,659** | 3,021,133 |

**29 FINANCIAL RISK MANAGEMENT (continued)**

**(i) Credit risk (continued)**

Quality classification definitions

Satisfactory: Exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or levels of expected loss.

Special mention: Exposures require varying degrees of special attention and default risk is of greater concern.

(b) Financing past due but not impaired

Certain financing, advances and other financing are past due but not impaired as the collateral values of these financing are in excess of the principal and profit outstanding. Allowances for these financing may have been set aside on a portfolio basis. The Bank's financing, advances and other financing which are past due but not impaired are as follows:

| | **Economic Entity/ The Bank** | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Past due up to 30 days | **148,170** | 187,140 |
| Past due 30-60 days | **183,308** | 146,364 |
| Past due 60-90 days | **79,360** | 136,980 |
| | **410,838** | 470,484 |

(c) Financing impaired

| | **Economic Entity/ The Bank** | |
|---|---|---|
| | **2011** | 2010 |
| Analysis of impaired assets | **RM'000** | RM'000 |
| Gross impaired financing | **172,344** | 152,601 |
| Individually impaired financing | **75,391** | 110,487 |

## 29 FINANCIAL RISK MANAGEMENT (continued)

### (i) Credit risk (continued)

**Collateral and other credit enhancements obtained**

During the year, the Bank has not obtained any assets by taking possession of collateral held as security or calling upon other credit enhancements.

Foreclosed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. The carrying amount of foreclosed properties held by the Bank as at reporting date has been classified as Other assets as disclosed in Note 6.

**Private debt securities, treasury bills and derivatives**

Private debt securities, treasury bills and other eligible bills included in financial assets held-for-trading and financial investments available-for-sale are measured on a fair value basis. The fair value will reflect the credit risk of the issuer.

Most listed and some unlisted securities are rated by external rating agencies. The Bank mainly uses external credit ratings provided by RAM, MARC, Standard & Poors' or Moody's.

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency :

| **Economic Entity/The Bank 2011** | **AAA RM'000** | **AA- to AA+ RM'000** | **A- to A+ RM'000** | **Lower than A- RM'000** | **Unrated RM'000** | **Impaired RM'000** | **Total RM'000** |
|---|---|---|---|---|---|---|---|
| Financial investments available-for-sale: | | | | | | | |
| Malaysian Government investment issues | **-** | **-** | **-** | **-** | **696,279** | **-** | **696,279** |
| Bank Negara Malaysia Monetary Notes | **-** | **-** | **-** | **-** | **149,671** | **-** | **149,671** |
| Others | **-** | **-** | **-** | **-** | **14,262** | **-** | **14,262** |
| Unquoted Shares in Malaysia | **-** | **-** | **-** | **-** | **69** | **-** | **69** |
| Private debt securities | **594,903** | **25,091** | **-** | **-** | **-** | **-** | **619,994** |
| | **594,903** | **25,091** | **-** | **-** | **860,281** | **-** | **1,480,275** |

| Economic Entity/The Bank 2010 | AAA RM'000 | AA- to AA+ RM'000 | A- to A+ RM'000 | Lower than A- RM'000 | Unrated RM'000 | Impaired RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| Financial investments available-for-sale: | | | | | | | |
| Malaysian Government treasury bills | - | - | - | - | 28,836 | - | 28,836 |
| Malaysian Government investment issues | - | - | - | - | 736,608 | - | 736,608 |
| BNM Sukuk | - | - | - | - | 32,017 | - | 32,017 |
| Bank Negara Malaysia Monetary Notes | - | - | - | - | 157,035 | - | 157,035 |
| Others | - | - | - | - | 13,250 | - | 13,250 |
| Unquoted Shares in Malaysia | - | - | - | - | 72 | - | 72 |
| Private debt securities | 322,586 | 43,734 | - | 11,098 | - | - | 377,418 |
| | 322,586 | 43,734 | - | 11,098 | 967,818 | - | 1,345,236 |

Collateral is not generally obtained directly from the issuers of debt securities. Certain debt securities may be collateralised by specifically identified assets that would be obtainable in the event of default.

**29 FINANCIAL RISK MANAGEMENT (continued)**

**(ii) Market risk**

Market risk is defined as the risk of losses to the Bank's portfolio positions arising from movements in market prices. The Bank's market risk management objective is to ensure that market risk is appropriately identified, measured, controlled, managed and reported.

The Bank's exposure to market risk stems primarily from price rate risk and foreign exchange rate risk. Price rate risk arises mainly from differences in timing between the maturities or repricing of assets, liabilities and derivatives. The Bank is also exposed to basis risk when there is a mismatch between the change in price of a hedge and the change in price of the assets it hedges. Foreign exchange rate risk arises from unhedged positions of customers' requirements and proprietary positions.

Market risk arising from the Bank's trading book is primarily controlled through the imposition of Cut-loss and Value-at-Risk (VaR) Limits which are approved by both the Asset Liability Management Committee ('ALCO') and Board Risk Management Committee ('BRMC') in accordance with the Bank's risk appetite. These limits are set and reviewed regularly having regard to a number of factors, including liquidity and the Bank's business strategy.

For non-trading book, the Bank quantifies the price rate risk by analysing the repricing mismatch between the rate sensitive assets and rate sensitive liabilities. The Bank also performs Net Gap Income simulation to assess the variation in earnings under various rates scenarios.

The non-trading book's profit rate risk is managed through limits set over time buckets together with an Overall Risk Tolerance Limit.

In addition, the Bank conducts periodic stress test of its respective portfolios to ascertain market risk under abnormal market conditions.

The Bank's Management, ALCO and BRMC are regularly kept informed of its risk profile and positions.

**Net profit income sensitivity**

The table below shows the pre-tax net profit income sensitivity for the non-trading financial assets and financial liabilities held at 31 December 2011. The sensitivity has been measured using the Repricing Gap Simulation methodology based on 100 basis points parallel shifts in the profit rate.

| **Economic Entity/The Bank 2011** | **+100 basis point RM million** | **-100 basis point RM million** |
|---|---|---|
| Impact on net profit income | **6.8** | **(6.8)** |
| As percentage of net profit income | **4.1%** | **-4.1%** |
| | | |
| Economic Entity/The Bank 2010 | | |
| Impact on net profit income | (4.5) | 4.5 |
| As percentage of net profit income | -3.3% | 3.3% |

**29 FINANCIAL RISK MANAGEMENT (continued)**

**(ii) Market risk (continued)**

**Foreign exchange risk sensitivity analysis**

| **Economic Entity/The Bank** | **Open position** | | | |
|---|---|---|---|---|
| | **US Dollar equivalent amount** | **Ringgit Malaysia equivalent amount** | **Ringgit Malaysia equivalent amount for 1% fall in US Dollar** | **Impact of 1% fall in US Dollar exchange rate** |
| **2011** | **'000** | **'000** | **'000** | **'000** |
| US Dollar | **(9,245)** | **(29,370)** | **(29,076)** | **294** |
| Others | **(363)** | **(1,153)** | **(1,142)** | **12** |

The impact on the Bank's outstanding foreign exchange position as at 31 December 2011 for a one percent change in USD exchange rate from 3.1770 to 3.1452 was an increase of about RM305,233.

| Economic Entity/The Bank | Open position | | | |
|---|---|---|---|---|
| | US Dollar equivalent amount | Ringgit Malaysia equivalent amount | Ringgit Malaysia equivalent amount for 1% fall in US Dollar | Impact of 1% fall in US Dollar exchange rate |
| 2010 | '000 | '000 | '000 | '000 |
| US Dollar | 1,491 | 4,599 | 4,553 | 46 |
| Others | (306) | (943) | (933) | (9) |

The impact on the Bank's outstanding foreign exchange position as at 31 December 2010 for a one percent change in USD exchange rate from 3.0835 to 3.0527 was an increase of about RM37,000.

**29 FINANCIAL RISK MANAGEMENT (continued)**

**(ii) Market risk (continued)**

**Foreign exchange risk**

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table summarises the Bank's exposure to foreign currency exchange rate risk as at reporting date. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

| **Economic Entity/ The Bank 2011** | **Euro RM'000** | **United States Dollar RM'000** | **Great Britain Pound RM'000** | **Australian Dollar RM'000** | **Japanese Yen RM'000** | **Others RM'000** | **Total RM'000** |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and short-term funds | **485** | **1,506** | **643** | **218** | **80** | **357** | **3,289** |
| Financing, advances and other financing | **-** | **159,530** | **-** | **-** | **-** | **-** | **159,530** |
| **Total financial assets** | **485** | **161,036** | **643** | **218** | **80** | **357** | **162,819** |
| **Liabilities** | | | | | | | |
| Deposits from customers | **605** | **67** | **7** | **-** | **-** | **-** | **679** |
| Deposits and placements of banks and other financial institutions | **-** | **140,520** | **-** | **-** | **-** | **-** | **140,520** |
| **Total financial liabilities** | **605** | **140,587** | **7** | **-** | **-** | **-** | **141,199** |
| Net on-balance sheet financial position | **(120)** | **20,449** | **636** | **218** | **80** | **357** | **21,620** |
| Off balance sheet credit commitments | **215,772** | **1,085,112** | **4,511** | **-** | **-** | **16,601** | **1,321,996** |
| Economic Entity/ The Bank 2010 | | | | | | | |
| Assets | | | | | | | |
| Cash and short-term funds | 221 | 32,248 | 159 | 284 | 145 | 236 | 33,293 |
| Financial investments available-for-sale | 207 | 10,941 | - | - | - | - | 11,148 |
| Financing, advances and other financing | - | 157,955 | - | - | - | - | 157,955 |
| Total financial assets | 428 | 201,144 | 159 | 284 | 145 | 236 | 202,396 |
| Liabilities | | | | | | | |
| Deposits from customers | 95 | 84 | 3 | - | - | - | 182 |
| Total financial liabilities | 95 | 84 | 3 | - | - | - | 182 |
| Net on-balance sheet financial position | 333 | 201,060 | 156 | 284 | 145 | 236 | 202,214 |
| Off balance sheet credit commitments | 460,578 | 220,007 | 8,655 | - | - | 5,503 | 694,743 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 29 FINANCIAL RISK MANAGEMENT (continued)

### (ii) Market risk (continued)

**Profit rate risk**

The Bank is exposed to the risks associated with the effects of fluctuations in the prevailing levels of profit rate on the financial position and cash flows of its portfolio. The fluctuations in the profit rate can be influenced by changes in profit rates that affect the value of financial instruments under its portfolio.

| | Non-trading book | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Economic Entity 2011** | **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** | **Trading book RM'000** | **Total RM'000** | **Effective profit rate %** |
| **Assets** | | | | | | | | | |
| Cash and short-term funds | 4,446,680 | - | - | - | - | 9,020 | - | 4,455,700 | 3.00 |
| Financial investments available-for-sale | - | 49,640 | 169,785 | 1,007,285 | 241,950 | 11,615 | - | 1,480,275 | 3.56 |
| Financing, advances and other financing | | | | | | | | | |
| - non-impaired | 2,248,253 | 131,931 | 361,686 | 999,100 | 556,527 | (60,709)* | - | 4,236,788 | 4.90 |
| - impaired | - | - | - | - | - | 137,417 # | - | 137,417 | |
| Others (1) | - | - | - | - | - | 220,731 | - | 220,731 | |
| **Total assets** | 6,694,933 | 181,571 | 531,471 | 2,006,385 | 798,477 | 318,074 | - | 10,530,911 | |

* The negative balance represents collective allowance for financing, advances and other financing.

# Net of individual allowance.

(1) Others include other assets, tax recoverable, statutory deposits with Bank Negara Malaysia, investment in jointly controlled entity, amount due from jointly controlled entity, property and equipment and intangible assets.

## 29 FINANCIAL RISK MANAGEMENT (continued)

### (ii) Market risk (continued)

**Profit rate risk (continued)**

| | Non-trading book | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Economic Entity 2011** | **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** | **Trading book RM'000** | **Total RM'000** | **Effective profit rate %** |
| **Liabilities** | | | | | | | | | |
| Deposits from customers | 4,151,042 | 1,845,682 | 1,385,787 | 62,924 | - | 31,804 | - | 7,477,239 | 2.83 |
| Deposits and placements of banks and other financial institutions | 1,259,469 | 694,411 | 9,772 | 197,210 | 25,000 | 13,282 | - | 2,199,144 | 3.15 |
| Amount due to holding company | 355,535 | - | - | - | - | - | - | 355,535 | 3.02 |
| Other liabilities (2) | - | - | - | - | - | 17,705 | - | 17,705 | |
| **Total liabilities** | 5,766,046 | 2,540,093 | 1,395,559 | 260,134 | 25,000 | 62,791 | - | 10,049,623 | |
| Equity | - | - | - | - | - | 481,288 | - | 481,288 | |
| **Total liabilities and equity** | 5,766,046 | 2,540,093 | 1,395,559 | 260,134 | 25,000 | 544,079 | - | 10,530,911 | |
| On-balance sheet profit sensitivity gap | 928,887 | (2,358,522) | (864,088) | 1,746,251 | 773,477 | (226,005) | | | |
| **Total profit sensitivity gap** | 928,887 | (2,358,522) | (864,088) | 1,746,251 | 773,477 | (226,005) | | | |

(2) Other Liabilities include deferred tax liabilities and other liabilities.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 29 FINANCIAL RISK MANAGEMENT (continued)

### (ii) Market risk (continued)

**Profit rate risk (continued)**

| | Non-trading book | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **The Bank 2011** | **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** | **Trading book RM'000** | **Total RM'000** | **Effective profit rate %** |
| **Assets** | | | | | | | | | |
| Cash and short-term funds | 4,446,680 | - | - | - | - | 9,020 | - | 4,455,700 | 3.00 |
| Financial investments available-for-sale | - | 49,640 | 169,785 | 1,007,285 | 241,950 | 11,615 | - | 1,480,275 | 3.56 |
| Financing, advances and other financing | | | | | | | | | |
| - non-impaired | 2,248,253 | 131,931 | 361,686 | 999,100 | 556,527 | (60,709)* | - | 4,236,788 | 4.90 |
| - impaired | - | - | - | - | - | 137,417# | - | 137,417 | |
| Others (1) | - | - | - | - | - | 220,941 | - | 220,941 | |
| **Total assets** | **6,694,933** | **181,571** | **531,471** | **2,006,385** | **798,477** | **318,284** | **-** | **10,531,121** | |

* The negative balance represents collective allowance for financing, advances and other financing.

\# Net of individual allowance.

(1) Others include other assets, tax recoverable, statutory deposits with Bank Negara Malaysia, investment in jointly controlled entity, amount due from jointly controlled entity, property and equipment and intangible assets.

**29 FINANCIAL RISK MANAGEMENT (continued)**

**(ii) Market risk (continued)**

**Profit rate risk (continued)**

| | Non-trading book | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **The Bank** | **Up to 1 month** | **> 1-3 months** | **> 3-12 months** | **> 1-5 years** | **Over 5 years** | **Non-profit sensitive** | **Trading book** | **Total** | **Effective profit rate** |
| **2011** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **%** |
| **Liabilities** | | | | | | | | | |
| Deposits from customers | 4,151,042 | 1,845,682 | 1,385,787 | 62,924 | - | 31,804 | - | 7,477,239 | 2.83 |
| Deposits and placements of banks and other financial institutions | 1,259,469 | 694,411 | 9,772 | 197,210 | 25,000 | 13,282 | - | 2,199,144 | 3.15 |
| Amount due to holding company | 355,535 | - | - | - | - | - | - | 355,535 | 3.02 |
| Other liabilities (2) | - | - | - | - | - | 17,705 | - | 17,705 | |
| **Total liabilities** | 5,766,046 | 2,540,093 | 1,395,559 | 260,134 | 25,000 | 62,791 | - | 10,049,623 | |
| Equity | - | - | - | - | - | 481,498 | - | 481,498 | |
| **Total liabilities and equity** | 5,766,046 | 2,540,093 | 1,395,559 | 260,134 | 25,000 | 544,289 | - | 10,531,121 | |
| On-balance sheet profit sensitivity gap | (5,766,046) | (2,540,093) | (1,395,559) | (260,134) | (25,000) | (544,289) | | | |
| **Total profit sensitivity gap** | (5,766,046) | (2,540,093) | (1,395,559) | (260,134) | (25,000) | (544,289) | | | |

(2) Other Liabilities include deferred tax liabilities and other liabilities.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 29 FINANCIAL RISK MANAGEMENT (continued)

### (ii) Market risk (continued)

**Profit rate risk (continued)**

| Economic Entity/The Bank 2010 | Non-trading book Up to 1 month RM'000 | > 1-3 months RM'000 | > 3-12 months RM'000 | > 1-5 years RM'000 | Over 5 years RM'000 | Non-profit sensitive RM'000 | Trading book RM'000 | Total RM'000 | Effective profit rate % |
|---|---|---|---|---|---|---|---|---|---|
| Assets | | | | | | | | | |
| Cash and short-term funds | 2,631,845 | - | - | - | - | 8,127 | - | 2,639,972 | 2.78 |
| Financial investments available-for-sale | 61,617 | 195,976 | 9,905 | 1,013,565 | 52,948 | 11,225 | - | 1,345,236 | 3.45 |
| Financing, advances and other financing | | | | | | | | | |
| - non-impaired | 1,769,134 | 116,759 | 330,346 | 811,891 | 463,487 | (52,481)* | - | 3,439,136 | 4.83 |
| - impaired | - | - | - | - | - | 116,460 # | - | 116,460 | |
| Others (1) | - | - | - | - | - | 16,471 | - | 16,471 | |
| Total assets | 4,462,596 | 312,735 | 340,251 | 1,825,456 | 516,435 | 99,802 | - | 7,557,275 | |

* The negative balance represents collective allowance for financing, advances and other financing.

\# Net of individual allowance.

(1) Others include other assets, tax recoverable, investment in jointly controlled entity, amount due from jointly controlled entity, property and equipment, intangible assets and deferred tax assets.

## 29 FINANCIAL RISK MANAGEMENT (continued)

### (ii) Market risk (continued)

**Profit rate risk (continued)**

| Economic Entity/The Bank 2010 | Non-trading book Up to 1 month RM'000 | > 1-3 months RM'000 | > 3-12 months RM'000 | > 1-5 years RM'000 | Over 5 years RM'000 | Non-profit sensitive RM'000 | Trading book RM'000 | Total RM'000 | Effective profit rate % |
|---|---|---|---|---|---|---|---|---|---|
| Liabilities | | | | | | | | | |
| Deposits from customers | 3,384,419 | 1,317,888 | 826,942 | 4,225 | - | 18,958 | - | 5,552,432 | 2.85 |
| Deposits and placements of banks and other financial institutions | 727,887 | 580,196 | 37,003 | - | - | 6,008 | - | 1,351,094 | 2.54 |
| Amount due to holding company | 183,541 | - | - | - | - | - | - | 183,541 | 2.62 |
| Other liabilities | - | - | - | - | - | 36,704 | - | 36,704 | |
| Total liabilities | 4,295,847 | 1,898,084 | 863,945 | 4,225 | - | 61,670 | - | 7,123,771 | |
| Equity | - | - | - | - | - | 433,504 | - | 433,504 | |
| Total liabilities and equity | 4,295,847 | 1,898,084 | 863,945 | 4,225 | - | 495,174 | - | 7,557,275 | |
| On-balance sheet profit sensitivity gap | 166,749 | (1,585,349) | (523,694) | 1,821,231 | 516,435 | (395,372) | | | |
| Total profit sensitivity gap | 166,749 | (1,585,349) | (523,694) | 1,821,231 | 516,435 | (395,372) | | | |

**29 FINANCIAL RISK MANAGEMENT (continued)**

**(iii) Liquidity risk**

Liquidity risk is the risk of incurring additional cost to generate cash to cover the required funding shortfall in the trading and banking book. Liquidity risk arises from the Bank's funding activities and the management of its assets.

To measure and manage net funding requirements, the Bank adopts BNM's New Liquidity Framework ('NLF'). The NLF ascertains the liquidity condition based on the contractual and behavioral cash-flow of assets, liabilities and off-balance sheet commitments, taking into consideration the realisable cash value of the eligible liquefiable assets. The NLF is also supported by indicative ratios on the Bank's funding structure to monitor the reliance on particular funding sources.

The Bank employs liquidity risk indicators as an early alert of any structural change for liquidity risk management. Liquidity risk is tracked using internal and external qualitative and quantitative indicators. The Bank also conducts liquidity stress tests to gauge the Bank's resilience in the event of a liquidity crisis. In addition, the Bank has in place the Contingency Funding Plan, which provides a systematic approach in handling liquidity disruption. The document encompasses strategies, decision-making authorities, and courses of action to be taken in the event of liquidity crisis and emergencies.

The BRMC is responsible for the Bank's liquidity policy although the strategic management of liquidity has been delegated to the ALCO. The BRMC is informed regularly of the liquidity situation in the Bank.

**Liquidity risk disclosure table which is based on contractual undiscounted cash flow:**

| **Economic Entity/The Bank 2011** | **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** | **Total RM'000** |
|---|---|---|---|---|---|---|
| Deposits from customers | **4,178,066** | **1,859,892** | **1,416,798** | **62,960** | **-** | **7,517,716** |
| Deposits and placements of banks and other financial institutions | **1,262,237** | **703,276** | **9,956** | **242,355** | **38,135** | **2,255,959** |
| Other liabilities | **16,798** | **-** | **-** | **-** | **-** | **16,798** |
| Amount due to holding company | **355,535** | **-** | **-** | **-** | **-** | **355,535** |
| | **5,812,636** | **2,563,168** | **1,426,754** | **305,315** | **38,135** | **10,146,008** |

| Economic Entity/The Bank 2010 | 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 | Total RM'000 |
|---|---|---|---|---|---|---|
| Deposits from customers | 3,389,525 | 1,336,226 | 853,178 | 4,709 | - | 5,583,638 |
| Deposits and placements of banks and other financial institutions | 729,439 | 588,102 | 28,209 | 9,745 | - | 1,355,495 |
| Other liabilities | 36,704 | - | - | - | - | 36,704 |
| Amount due to holding company | 183,541 | - | - | - | - | 183,541 |
| | 4,339,209 | 1,924,328 | 881,387 | 14,454 | - | 7,159,378 |

## 29 FINANCIAL RISK MANAGEMENT (continued)

### (iii) Liquidity risk (continued)

**Liquidity risk for assets and liabilities based on remaining contractual maturities**

The maturities of on-balance sheet assets and liabilities as well as other off-balance sheet assets and liabilities, commitments and counter-guarantees are important factors in assessing the liquidity of the Bank. The table below provides analysis of assets and liabilities into relevant maturity tenures based on remaining contractual maturities.

| Economic Entity 2011 | Up to 3 months RM'000 | > 3-6 months RM'000 | > 6-12 months RM'000 | > 1-3 years RM'000 | > 3-5 years RM'000 | Over 5 years RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and short-term funds | 4,455,700 | - | - | - | - | - | 4,455,700 |
| Financial investments available-for-sale | 58,845 | 117,162 | 55,033 | 650,883 | 356,402 | 241,950 | 1,480,275 |
| Financing, advances and other financing | 95,259 | 156,117 | 52,476 | 221,480 | 664,090 | 3,184,783 | 4,374,205 |
| Other assets | 47,230 | - | 179 | 179 | - | 414 | 48,002 |
| Amount due from jointly controlled entity | 2,745 | - | - | - | - | - | 2,745 |
| Other non-financial assets (1) | 160,000 | - | 3,422 | - | - | 6,562 | 169,984 |
| | 4,819,779 | 273,279 | 111,110 | 872,542 | 1,020,492 | 3,433,709 | 10,530,911 |
| **Liabilities** | | | | | | | |
| Deposits from customers | 6,017,902 | 584,000 | 812,365 | 62,970 | 2 | - | 7,477,239 |
| Deposits and placements of banks and other financial institutions | 1,961,998 | 9,824 | - | - | 202,053 | 25,269 | 2,199,144 |
| Other liabilities | 16,798 | - | - | - | - | - | 16,798 |
| Amount due to holding company | 355,535 | - | - | - | - | - | 355,535 |
| Deferred tax liabilities | - | - | - | - | - | 907 | 907 |
| | 8,352,233 | 593,824 | 812,365 | 62,970 | 202,055 | 26,176 | 10,049,623 |
| On balance sheet gap | (3,532,454) | (320,545) | (701,255) | 809,572 | 818,437 | 3,407,533 | 481,288 |
| Off balance sheet credit commitments | - | - | 1,543,773 | - | - | - | 1,543,773 |
| **Net maturity mismatch** | (3,532,454) | (320,545) | 842,518 | 809,572 | 818,437 | 3,407,533 | 2,025,061 |

(1) Other non-financial assets include tax recoverable, statutory deposits with Bank Negara Malaysia, investment in jointly controlled entity, property and equipment and intangible assets.

**29 FINANCIAL RISK MANAGEMENT (continued)**

**(iii) Liquidity risk (continued)**

**Liquidity risk for assets and liabilities based on remaining contractual maturities (continued)**

| **The Bank 2011** | **Up to 3 months RM'000** | **> 3-6 months RM'000** | **> 6-12 months RM'000** | **> 1-3 years RM'000** | **> 3-5 years RM'000** | **Over 5 years RM'000** | **Total RM'000** |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and short-term funds | **4,455,700** | **-** | **-** | **-** | **-** | **-** | **4,455,700** |
| Financial investments available-for-sale | **58,845** | **117,162** | **55,033** | **650,883** | **356,402** | **241,950** | **1,480,275** |
| Financing, advances and other financing | **95,259** | **156,117** | **52,476** | **221,480** | **664,090** | **3,184,783** | **4,374,205** |
| Other assets | **47,230** | **-** | **179** | **179** | **-** | **414** | **48,002** |
| Amount due from jointly controlled entity | **2,745** | **-** | **-** | **-** | **-** | **-** | **2,745** |
| Other non-financial assets (1) | **160,000** | **-** | **3,422** | **-** | **-** | **6,772** | **170,194** |
| | **4,819,779** | **273,279** | **111,110** | **872,542** | **1,020,492** | **3,433,919** | **10,531,121** |
| **Liabilities** | | | | | | | |
| Deposits from customers | **6,017,902** | **584,000** | **812,365** | **62,970** | **2** | **-** | **7,477,239** |
| Deposits and placements of banks and other financial institutions | **1,961,998** | **9,824** | **-** | **-** | **202,053** | **25,269** | **2,199,144** |
| Other liabilities | **16,798** | **-** | **-** | **-** | **-** | **-** | **16,798** |
| Amount due to holding company | **355,535** | **-** | **-** | **-** | **-** | **-** | **355,535** |
| Deferred tax liabilities | **-** | **-** | **-** | **-** | **-** | **907** | **907** |
| | **8,352,233** | **593,824** | **812,365** | **62,970** | **202,055** | **26,176** | **10,049,623** |
| On balance sheet gap | **(3,532,454)** | **(320,545)** | **(701,255)** | **809,572** | **818,437** | **3,407,743** | **481,498** |
| Off balance sheet credit commitments | **-** | **-** | **1,543,773** | **-** | **-** | **-** | **1,543,773** |
| **Net maturity mismatch** | **(3,532,454)** | **(320,545)** | **842,518** | **809,572** | **818,437** | **3,407,743** | **2,025,271** |

(1) Other non-financial assets include tax recoverable, statutory deposits with Bank Negara Malaysia, investment in jointly controlled entity, property and equipment and intangible assets.

**29 FINANCIAL RISK MANAGEMENT (continued)**

**(iii) Liquidity risk (continued)**

**Liquidity risk for assets and liabilities based on remaining contractual maturities (continued)**

| Economic Entity/The Bank 2010 | Up to 3 months RM'000 | > 3-6 months RM'000 | > 6-12 months RM'000 | > 1-3 years RM'000 | > 3-5 years RM'000 | Over 5 years RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| Assets | | | | | | | |
| Cash and short-term funds | 2,639,972 | - | - | - | - | - | 2,639,972 |
| Financial investments available-for-sale | 267,179 | 1,567 | 9,977 | 671,951 | 341,614 | 52,948 | 1,345,236 |
| Financing, advances and other financing | 224,118 | 141,913 | 32,199 | 162,462 | 493,611 | 2,501,293 | 3,555,596 |
| Other assets | 881 | - | 100 | 144 | - | 409 | 1,534 |
| Amount due from jointly controlled entity | 2,745 | - | - | - | - | - | 2,745 |
| Other non-financial assets (1) | - | - | 3,816 | - | - | 8,376 | 12,192 |
| | 3,134,895 | 143,480 | 46,092 | 834,557 | 835,225 | 2,563,026 | 7,557,275 |
| Liabilities | | | | | | | |
| Deposits from customers | 4,714,758 | 433,288 | 400,136 | 3,311 | 939 | - | 5,552,432 |
| Deposits and placements of banks and other financial institutions | 1,314,068 | 27,775 | - | - | 9,251 | - | 1,351,094 |
| Other liabilities | 36,704 | - | - | - | - | - | 36,704 |
| Amount due to holding company | 183,541 | - | - | - | - | - | 183,541 |
| | 6,249,071 | 461,063 | 400,136 | 3,311 | 10,190 | - | 7,123,771 |
| On balance sheet gap | (3,114,176) | (317,583) | (354,044) | 831,246 | 825,035 | 2,563,026 | 433,504 |
| Off balance sheet credit commitments | - | - | - | 1,454,717 | - | - | 1,454,717 |
| Net maturity mismatch | (3,114,176) | (317,583) | (354,044) | 2,285,963 | 825,035 | 2,563,026 | 1,888,221 |

(1) Other non-financial assets include tax recoverable, investment in jointly controlled entity, property and equipment, intangible assets and deferred tax assets.

## 29 FINANCIAL RISK MANAGEMENT (continued)

### (iv) Operational risk management

Operational risk is the risk of loss arising from inadequate or failed internal processes, action on or by people, infrastructure or technology or events which are beyond the bank's immediate control which have an operational impact, including natural disaster, fraudulent activities and money laundering.

The Bank manages operational risk through a control based environment in which policies and procedures are formulated after taking into account individual unit's business activities, the market in which it is operating and regulatory requirement in force. Risk is identified through the use of assessment tools and measured using threshold/limits mapped against risk matrix. Monitoring and control procedures include the use of key control standards, independent tracking of risk, back-up procedures and contingency plans, including disaster recovery and business continuity plans. This is supported by periodic reviews undertaken by Group Internal Audit to ensure adequacy and effectiveness of the Group Operational Risk Management process.

The Bank gathers, analyses and reports operational risk loss and 'near miss' events to Group Operational Risk Management Committee and Board Risk Management Committee. Appropriate remedial actions are reviewed for effectiveness and implemented to minimise the recurrence of similar risk events.

As a matter of requirement, all Operational Risk Coordinators must satisfy an internal operational risk (including anti-money laundering/counter financing of terrorism and business continuity management) Certification Program. These coordinators will first go through an on-line self learning exercise before attempting on-line assessments to measure their skills and knowledge level. This will enable Group Risk Management to prescribe appropriate training and development activities for the coordinators.

### (v) Fair value financial assets and liabilities

The fair value of the financial assets and financial liabilities of the Bank approximated to their carrying value as at reporting date, except for the following:

| **Economic Entity/The Bank**<br>**2011** | **RM'000**<br>**Carrying value** | **RM'000**<br>**Fair value** |
|---|---|---|
| **Financial Assets** | | |
| Financing, advances and other financing | **4,374,205** | **4,531,231** |
| **Financial Liabilities** | | |
| Deposits from customers | **7,477,239** | **7,476,443** |

| Economic EntityThe Bank<br>2010 | RM'000<br>Carrying value | RM'000<br>Fair value |
|---|---|---|
| Financial Assets | | |
| Financing, advances and other financing | 3,555,596 | 3,579,199 |
| Financial Liabilities | | |
| Deposits from customers | 5,552,432 | 5,549,325 |

**29 FINANCIAL RISK MANAGEMENT (continued)**

**(v) Fair value financial assets and liabilities (continued)**

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

Quoted market prices, when available, are used as the measure of fair values. For financial instruments, without quoted market prices, fair values are estimated using net present value or other valuation techniques. These techniques involve a certain degree of uncertainty depending on the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in these assumptions could materially affect these estimates and the resulting fair value.

Fair value information for non-financial assets and liabilities are excluded as they do not fall within the scope of FRS 132 which requires fair values to be disclosed. This includes property and equipment, statutory deposits with Bank Negara Malaysia, other assets, tax recoverable, deferred tax and intangible assets.

The Islamic derivative financial instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuation in market profit rates or foreign exchange rates relative to their terms. The extent to which instruments are favorable or unfavorable and the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair value estimates were determined by application of the methodologies and assumptions described below.

**Short-term funds and placements with banks and other financial institutions**

For short-term funds and placements with banks and other financial institutions with maturity of less than six months, the carrying amount is a reasonable estimate of fair value.

For amounts with maturities of six months or more, fair values have been estimated by reference to current rates at which similar deposits and placements would be made with similar credit ratings and maturities.

**Financial investments available-for-sale and held-to-maturity**

The fair values of financial investments available-for-sale and financial investments held-to-maturity are reasonable estimates based on quoted market prices. In the absence of such quoted prices, the fair values are based on the expected cash flows of the instruments discounted by indicative market yields for the similar instruments as at reporting date or the audited net tangible asset of the invested company.

**Financing, advances and other financing**

Financing, advances and other financing of the Bank comprise of floating rate financing and fixed rate financing. For performing floating rate financing, the carrying amount is a reasonable estimate of their fair values.

The fair values of performing fixed rate financing are arrived at using the discounted cash flows based on the prevailing market rates of financing, advances and other financing with similar credit ratings and maturities.

The fair values of impaired financing, whether fixed or floating are represented by their carrying values, net of individual and collective allowances, being the reasonable estimate of recoverable amount.

**29 FINANCIAL RISK MANAGEMENT (continued)**

**(v) Fair value financial assets and liabilities (continued)**

**Deposits from customers, banks and other financial institutions and bills and acceptances payable**

The carrying values of deposits and liabilities with maturities of six months or less are assumed to be reasonable estimates of their fair values. Where the remaining maturities of deposits and liabilities are above six months, their estimated fair values are arrived at using the discounted cash flows based on prevailing market rates currently offered for similar remaining maturities.

The estimated fair value of deposits with no stated maturity, which include non-profit bearing deposits, approximates carrying amount which represents the amount payable/ repayable on demand.

**Other assets and liabilities**

The carrying value less any estimated allowance for financial assets and liabilities included in other assets and other liabilities are assumed to approximate their fair values as these items are not materially sensitive to the shift in market profit rates.

**Fair value measurements**

The following table presents assets and liabilities measured at fair value and classified by level of the following fair value measurement heirarchy:

(a) Level 1 - quoted price (unadjusted) in active markets for identical assets and liabilities;

(b) Level 2 - inputs other than quoted price included within level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e.derived from prices); and

(c) Level 3 - inputs for the asset and liability that are not based on observable market data (unobservable inputs).

| | **Level 1 RM'000** | **Level 2 RM'000** | **Level 3 RM'000** | **Total RM'000** |
|---|---|---|---|---|
| **Economic Entity/The Bank** | | | | |
| **2011** | | | | |
| **Assets** | | | | |
| Financial investments available-for-sale | | | | |
| - Private debt securities | **-** | **619,994** | **-** | **619,994** |
| - Equity securities | **-** | **-** | **69** | **69** |
| - Other financial assets | **-** | **860,212** | **-** | **860,212** |

| | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total RM'000 |
|---|---|---|---|---|
| Economic Entity/The Bank | | | | |
| 2010 | | | | |
| Assets | | | | |
| Financial investments available-for-sale | | | | |
| - Private debt securities | - | 377,418 | - | 377,418 |
| - Equity securities | - | - | 72 | 72 |
| - Other financial assets | - | 967,746 | - | 967,746 |

## 29 FINANCIAL RISK MANAGEMENT (continued)

### (v) Fair value financial assets and liabilities (continued)

Financial instruments that are valued using quoted prices in active market are classified as Level 1 of the valuation hierarcy. These would include listed equities which are actively traded.

Where fair value is determined using quoted prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Bank then determine fair value based upon valuation techniques that use as inputs, market parameters inclusing but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high. These would include corporate private debt securities and corporate notes.

The Bank classify financial instruments as Level 3 when there is reliance on unobservable inputs to the valuation model attributing to a significant contribution to the instrument value. Valuation reserves or pricing adjustments where applicable will be used to converge to fair value.

The Bank may also use valuation models or discounted cash flow technique to determine the fair value.

The valuation techniques and inputs used generally depend on the contractual terms and the risks inherent in the instrument as well as the availability of pricing information in the market. Principal techniques used include discounted cash flows, and other appropriate valuation models.

The following table present the changes in Level 3 instruments for the financial year ended:

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| | **RM'000** | RM'000 |
| Opening | **72** | 575 |
| AFS revaluation reserves | **(3)** | (503) |
| Closing | **69** | 72 |

**Effect of changes in significant unobservable assumptions to reasonably possible alternatives**

As at reporting date, financial instruments measured with valuation techniques using significant unobservable inputs (Level 3) mainly include unquoted shares held for socio economic purposes.

In estimating its significance, the Bank used an approach that is currently based on methodologies used for fair value adjustments. These adjustments reflects the values that the Bank estimates is appropriate to adjust from the valuations produced to reflect for uncertainties in the inputs used. The methodologies used can be a statistical or other relevant approved techniques.

## 30 CAPITAL MANAGEMENT

The Bank's objectives when managing capital are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Bank operates;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Bank maintains a ratio of total regulatory capital to its risk-weighted assets above a minimum level agreed with the management which takes into account the risk profile of the Bank.

The table in Note 31 below summarises the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2011.

## 31 CAPITAL ADEQUACY

**The capital adequacy ratios are as follows:**

| | Economic Entity | | The Bank | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Tier I capital** | | | | |
| Paid-up share capital | **260,000** | 260,000 | **260,000** | 260,000 |
| Retained profits | **112,149** | 87,349 | **112,359** | 87,349 |
| Statutory reserves | **106,420** | 81,410 | **106,420** | 81,410 |
| | **478,569** | 428,759 | **478,779** | 428,759 |
| Less: | | | | |
| Deferred tax assets | **-** | (5,872) | **-** | (5,872) |
| Total Tier I capital | **478,569** | 422,887 | **478,779** | 422,887 |
| **Tier II capital** | | | | |
| Collective impairment @ | **44,041** | 42,234 | **44,041** | 42,234 |
| Total Tier II capital | **44,041** | 42,234 | **44,041** | 42,234 |
| Total capital | **522,610** | 465,121 | **522,820** | 465,121 |
| **Capital Base** | **522,610** | 465,121 | **522,820** | 465,121 |

@ Qualifying collective impairment is restricted to allowances on unimpaired portion of the financing, advances and other financing.

## 31 CAPITAL ADEQUACY (continued)

**The capital adequacy ratios are as follows (continued):**

| | Economic Entity | | The Bank | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Core capital ratio | **11.08%** | 12.36% | **11.08%** | 12.36% |
| Risk-weighted capital ratio | **12.10%** | 13.59% | **12.10%** | 13.59% |
| Core capital ratio (net of proposed dividend) | **11.08%** | 12.36% | **11.08%** | 12.36% |
| Risk-weighted capital ratio (net of proposed dividend) | **12.10%** | 13.59% | **12.10%** | 13.59% |
| Risk-weighted assets for: | | | | |
| Credit risk | **3,983,070** | 3,131,480 | **3,983,070** | 3,131,480 |
| Market risk | **30,671** | 4,599 | **30,671** | 4,599 |
| Operational risk | **307,036** | 285,924 | **307,036** | 285,924 |
| **Total risk-weighted assets** | **4,320,777** | 3,422,003 | **4,320,777** | 3,422,003 |

Pursuant to Bank Negara Malaysia's circular, 'Recognition of Deferred Tax Asset ('DTA') and Treatment of DTA for RWCR Purposes' dated 8 August 2003, deferred tax income/(expenses) is excluded from the calculation of Tier I capital and DTA is excluded from the calculation of risk-weighted assets.

Effective 1 January 2008, the Bank's capital ratios is being computed in accordance with the RWCAF (Basel II - Risk Weighted Assets Computation) or Capital Adequacy Framework for Islamic Banks (CAFIB). The Bank has adopted the Standardised Approach for credit risk and market risk, and Basic Indicator Approach for operational risk computation.

## 32 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. To enhance the information content of the estimates, certain variables that are anticipated to have material impact to the Bank's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

**Allowance for losses on financing, advances and other financing**

The accounting estimates and judgments related to the impairment of financing and provision for off-balance sheet positions is a critical accounting estimate because the underlying assumptions used for both the individually and collectively assessed impairment can change from period to period and may significantly affect the Bank's results of operations.

In assessing assets for impairment, management judgment is required. The determination of the impairment allowance required for financing which are deemed to be individually significant often requires the use of considerable management judgment concerning such matters as local economic conditions, the financial performance of the counterparty and the value of any collateral held, for which there may not be a readily accessible market. The actual amount of the future cash flows and their timing may differ from the estimates used by management and consequently may cause actual losses to differ from the reported allowances.

The impairment allowance for portfolios of smaller-balance homogenous financing, such as those to individuals and small business customers of the private and retail business, and for those financing which are individually significant but for which no objective evidence of impairment exists, is determined on a collective basis. The collective impairment allowance is calculated on a portfolio basis using statistical models which incorporate numerous estimates and judgments, and therefore is subject to estimation uncertainty. The Bank performs a regular review of the models and underlying data and assumptions as far as possible to reflect the current economic circumstances. The probability of default, loss given defaults, and loss identification period, amongst other things, are all taken into account during this review.

### 33 CREDIT EXPOSURES ARISING FROM TRANSACTIONS WITH CONNECTED PARTIES

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

| | | |
|---|---|---|
| (i) | The aggregate value of outstanding credit exposures with connected parties (RM'000) | 321,725 |
| (ii) | The percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures | 5% |
| (iii) | The percentage of outstanding credit exposures with connected parties which is impaired or in default | Nil |

### 34 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 28 February 2012.

# STATEMENT BY DIRECTORS

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

We, JEN TAN SRI DATO' SERI ISMAIL BIN HAJI OMAR (BERSARA) and EN. MOHD SUFFIAN BIN HAJI HARON, two of the Directors of AFFIN ISLAMIC BANK BERHAD, state that, in the opinion of the Directors, the accompanying financial statements set out on pages 38 to 111 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2011 and of the results and cash flows of the Bank in accordance with the provisions of the Companies Act, 1965, the MASB Approved Accounting Standards for Entities Other Than Private Entities and Bank Negara Malaysia Guidelines.

Signed on behalf of the Board of Directors in accordance with their resolution dated 28 February 2012.

**JEN TAN SRI DATO' SERI ISMAIL BIN HAJI OMAR (BERSARA)**
*Chairman*

**EN. MOHD SUFFIAN BIN HAJI HARON**
*Director*

# STATUTORY DECLARATION

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

I, EE KOK SIN, the officer of AFFIN ISLAMIC BANK BERHAD primarily responsible for the financial management of the Bank, do solemnly and sincerely declare that in my opinion, the accompanying financial statements set out on pages 38 to 111 are 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.

**EE KOK SIN**

Subscribed and solemnly declared by the abovenamed EE KOK SIN at Kuala Lumpur in Malaysia on 28 February 2012, before me.

Commissioner for Oaths

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBER OF AFFIN ISLAMIC BANK BERHAD

(Incorporated In Malaysia)

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of AFFIN Islamic Bank Berhad, which comprise the statements of financial position as at 31 December 2011 of the Economic Entity and of the Bank, and the statements of income, comprehensive income, changes in equity and cash flows of the Economic Entity and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 38 to 111.

### Directors's Responsibility for the Financial Statements

The directors of the Bank are responsible for the preparation of financial statements that give a true and fair view in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the Companies Act, 1965, and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### Auditors's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, 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 MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Economic Entity and of the Bank as of 31 December 2011 and of their financial performance and cash flows for the year then ended.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

## OTHER MATTERS

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

**PRICEWATERHOUSECOOPERS**
**(No. AF : 1146)**
**Chartered Accountants**

**SOO HOO KHOON YEAN**
**(No. 2682/10/13 (J))**
**Chartered Accountant**

Kuala Lumpur, Malaysia
28 February 2012

# SHARIAH COMMITTEE'S REPORT

**In the name of Allah, the Most Beneficent, the Most Merciful**

**Praise to Allah, the Lord of the Worlds, and peace and blessings on our Prophet Muhammad and on his scion and companions**

السلام عليكم ورحمة الله وبركاته

In compliance with the letter of appointment, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by the AFFIN Islamic Bank Berhad ('AFFIN ISLAMIC') during the period ended 31 December 2011. We have also conducted our review to form an opinion as to whether the AFFIN ISLAMIC has complied with the Shariah principles and with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions made by us.

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

We have assessed the work carried out by Shariah review and Shariah audit which included examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by the AFFIN ISLAMIC.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the AFFIN ISLAMIC has not violated the Shariah principles.

We conducted an interactive session with senior management to enhance understanding on Islamic finance. Periodic training for staff has been conducted in order to provide adequate knowledge and competencies in undertaking tasks for the business of AFFIN ISLAMIC.

In our opinion:

1. the contracts, transactions and dealings entered into by the AFFIN ISLAMIC during the year ended 31 December 2011 that we have reviewed are in compliance with the Shariah principles;

2. the allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles;

3. all earnings that have been realised from sources or by means prohibited by the Shariah principles have been considered for disposal to charitable causes; the amount channeled to charity fund as at 31 December 2011 was RM290,417.77 as purification of late payment charges and fee income earned from impermissible usage of debit card; and

4. the calculation of zakat is in compliance with Shariah principles.

# SHARIAH COMMITTEE'S REPORT

We, the members of the Shariah Committee of AFFIN ISLAMIC, do hereby confirm that the operations of the AFFIN ISLAMIC for the year ended 31 December 2011 have been conducted in conformity with the Shariah principles.

Chairman of the Shariah Committee:

**Associate Professor Dr. Asyraf Wajdi bin Dato' Dusuki**

Shariah Committee:

**Associate Professor Dr. Said Bouheraoua**

Shariah Committee:

**Assistant Professor Dr. Ahmad Azam bin Othman**

Shariah Committee:

**Dr. Yasmin Hanani binti Mohd Safian**

Shariah Committee:

**Dr. Zulkifli bin Hasan**

Kuala Lumpur, Malaysia
28 February 2012

**Table of Contents**

# BASEL II PILLAR 3 DISCLOSURES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 1 Introduction

### 1.1 Background

AFFIN Islamic Bank Berhad ('AFFIN ISLAMIC') adopted Basel II in January 2008 in line with the directive from Bank Negara Malaysia ('BNM'). The Basel II framework is structured around three fundamental Pillars.

- Pillar 1 defines the minimum capital requirement to ensure that financial institutions hold sufficient capital to cover their exposure to credit, market and operational risks.

- Pillar 2 requires financial institutions to have a process for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital levels.

- Pillar 3 requires financial institutions to establish and implement an appropriate disclosure policy that promotes transparency regarding their risk management practices and capital adequacy positions.

AFFIN ISLAMIC elected to adopt the following approaches under Pillar 1 requirements:

- Standardised Approach for Credit Risk
- Basic Indicator Approach for Operational Risk
- Standardised Approach for Market Risk

### 1.2 Scope of Application

This document contains the disclosure requirements under Pillar 3 for AFFIN ISLAMIC for the year ended 31 December 2011. The disclosures are made in line with the Pillar 3 disclosure requirements under the Basel II framework as laid out by BNM.

The disclosures should be read in conjunction with AFFIN ISLAMIC's 2011 Annual Report for the year ended 31 December 2011.

## 2 Risk governance structure

### 2.1 Overview

The Board of Directors of AFFIN ISLAMIC is ultimately responsible for the overall performance of AFFIN ISLAMIC. The Board's responsibilities remain within the framework of BNM Guidelines. The Board also exercises great care to ensure that high ethical standards are upheld, and that the interests of stakeholders are not compromised. These include responsibility for determining AFFIN ISLAMIC's general policies and strategies for the short, medium and long term, approving business plans, including targets and budgets, and approving major strategic decisions.

The Board has overall responsibility for maintaining the proper management and protection of AFFIN ISLAMIC's interests by ensuring effective implementation of the risk management policy and process, as well as adherence to a sound system of internal control, and by seeking regular assurance on their effectiveness. The Board also recognises that risks cannot be eliminated completely. As such, the inherent system of internal control is designed to provide a reasonable though not absolute assurance against the risk of material errors, fraud or losses occurring. The system of internal controls encompasses controls relating to financial, operational, risk management and compliance with applicable laws, regulations, policies and guidelines.

The terms of reference of the Board Committees as disclosed in the Annual Report provide an outline of its role and functions. In carrying out its functions, the Board has delegated specific responsibilities to other Board Committees, which operated under approved terms of reference, to assist the Board in discharging their duties. The Chairmen of the various Committees report on the outcome of their Committee meetings to the Board and any further deliberation is made at Board level, if required. These reports and deliberations are incorporated into the Minutes of the Board meetings. The Board meets on a monthly basis.

The Board of AFFIN ISLAMIC has a balance composition with a strong independent element. It consists of representatives from the private sector with suitable qualifications fulfilling the fit and proper criteria as required by BNM/GP1, a mixture of different skills, competencies, experience and personalities.

## 2 Risk Governance Structure (continued)

### 2.2 Board Committees

*Board Remuneration Committee ('BRC')*

The BRC is responsible for providing a formal and transparent procedure for developing the remuneration policy for Directors, Managing Director/Chief Executive Officer and key senior management officers and ensuring that compensation is competitive and consistent with AFFIN ISLAMIC's culture, objectives and strategy.

The Committee obtains advice from experts in compensation and benefits, both internally and externally.

*Board Nominating Committee ('BNC')*

The BNC is responsible for providing a formal and transparent procedure for the appointment of Directors and Managing Director/Chief Executive Officer, assessing the effectiveness of individual Directors, the Board as a whole and the performance of the Managing Director/Chief Executive Officer and key senior management personnel.

*Board Risk Management Committee ('BRMC')*

The BRMC is responsible for overseeing management's activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process is in place and functioning.

It has responsibility for reviewing and approving all risk management policies and risk management methodologies. BRMC also reviews guidelines and portfolio management reports including risk exposure information.

The Committee also ensures that the procedures and framework in relation to identifying, measuring, monitoring and controlling risk are operating effectively.

*Board Loan Review and Recovery Committee ('BLRRC')*

The BLRRC is responsible in providing critical review of financing and other credit facilities with higher risk implications, after due process of checking, analysis, review and recommendation by the Credit Risk Management function, and if found necessary, exercise the power to veto financing applications that have been approved by the Group Management Loan Committee. BLRRC also reviews the impaired financing reports presented by the Management.

*Audit and Examination Committee ('AEC')*

The AEC is responsible for providing oversight on reviewing the adequacy and integrity of the internal control systems and oversees the work of the internal and external auditors.

Reliance is placed on the results of independent audits performed primarily by internal auditors, the outcome of statutory audits on financial statements conducted by external auditors and on representations by Management based on their control self-assessment of all areas of their responsibility.

Minutes of Audit & Examination Committee meetings, which provide a summary of the proceedings, are circulated to Board members for notation and discussion. AFFIN ISLAMIC has an established Group Internal Audit Division ('GIA') which reports functionally to the Audit Committee and administratively to the Managing Director/Chief Executive Officer.

## 2 Risk Governance Structure (continued)

### 2.2 Board Committees (continued)

*Shariah Committee*

AFFIN ISLAMIC's business activities are subject to Shariah compliance and conformation by the Shariah Committee. The Shariah Committee is formed as legislated under Section 3(5)(b) of the Islamic Banking Act, 1983 and as per Shariah Governance Framework for Islamic Financial Institutions.

(i) To advise the Board on Shariah matters in order to ensure that the business operations of AFFIN ISLAMIC comply with the Shariah principles at all times;
(ii) To endorse and validate relevant documentations of AFFIN ISLAMIC's products to ensure that the product comply with Shariah principles; and
(iii) To advise AFFIN ISLAMIC on matters to be referred to the Shariah Advisory Council.

### 2.3 Management Committees

*Management Committee ('MCM')*

MCM comprising the senior management team chaired by the MD/CEO, assists the Board in managing the day-today operations and ensure its effectiveness. MCM formulates tactical plans and business strategies, monitors AFFIN ISLAMIC's overall performance, and ensures that the activities are in accordance with corporate objectives, strategies, policies and annual business plan and budget.

*Group Management Loan Committee ('GMLC')*

GMLC is established within senior management chaired by the MD/CEO to approve complex and larger financing and workout/recovery proposals beyond the delegated authority of the concerned individual senior management personnel of AFFIN ISLAMIC.

*Asset and Liability Management Committee ('ALCO')*

ALCO's responsibilities include:

(i) Managing the assets and liabilities of the AFFIN ISLAMIC through coordination of the AFFIN ISLAMIC's overall planning process including strategic planning, budgeting and management process;

(ii) Directing the AFFIN ISLAMIC's overall acquisition and allocation of funds;

(iii) Prudently managing the AFFIN ISLAMIC's profit rate exposure;

(iv) Determining the overall Balance Sheet strategy and ensuring policy compliance;

(v) Determining the type and scope of derivative activities, approve individual derivative transactions as well as control over the level of exposure in derivatives;

(vi) Reviewing market risks in the AFFIN ISLAMIC's trading portfolios;

(vii) Managing the effective usage of economic and regulatory capital throughout the organisation;

(viii) Reviewing and recommending the capital plan for approval;

(ix) Approving capital management standards and policies, capital raising and repayment transactions;

(x) Reviewing quarterly capital adequacy monitoring reports; and

(xi) Reviewing and approving key assumptions inherent in economic capital modelling and stress/scenario tests.

## 2 Risk Governance Structure (continued)

### 2.3 Management Committees (continued)

*Group Operational Risk Management Committee ('GORMC')*

GORMC is established within senior management to manage operational risks. Its responsibilities include:

(i) To evaluate operational risks issues on escalating importance/strategic risk exposure;

(ii) To review and recommend on broad operational risks management policies best practices for adoption by AFFIN ISLAMIC's operating units;

(iii) To review the effectiveness of broad internal controls and making recommendation on changes if necessary;

(iv) To review/approve recommendation on operational risk management groups section up to address specific issue;

(v) To take the lead in inculcating an operational risks awareness culture;

(vi) To approve operational risk management methodologies/measurements tools; and

(vii) To review and approve the strategic operational risk management initiatives/plans and to endorse for BRMC's approval if necessary.

*Early Alert Committee ('EAC')*

EAC is established within senior management chaired by the MD/CEO to monitor credit quality through monthly review of the Early Alert, Watchlist and Exit Accounts and review the actions taken to address the emerging risks and issues in these accounts.

### 2.4 Group Risk Management Function

An integrated risk management framework is in place. The Group Risk Management ('GRM') function, headed by Group Chief Risk Officer ('GCRO') and operating in an independent capacity, is part of AFFIN ISLAMIC's senior management structure which works closely as a team in managing risks to enhance stakeholders' value.

GRM reports to BRMC. Committees namely BLRRC, GMLC, ALCO and GORMC assist BRMC in managing credit, liquidity and operational risk. The responsibilities of these Committees include risk identification, risk assessment and measurement, risk control and mitigation; and risk monitoring.

### 2.5 Internal Audit and Internal Control Activities

In accordance with BNM's GP10 guidelines, GIA conducts continuous reviews on auditable areas within AFFIN ISLAMIC. The continuous reviews by GIA are focused on areas of significant risks and effectiveness of internal control in accordance to the audit plan approved by the AEC.

Based on GIA's review, identification and assessment of risk, testing and evaluation of controls, GIA will provide an opinion on the effectiveness of internal controls maintained by each entity. The risks highlighted on the respective auditable areas as well as recommendation made by the GIA are addressed at AEC and Management meetings on bi-monthly basis. The AEC also conduct annual reviews on the adequacy of internal audit function, scope of work, resources and budget of GIA.

## 3 Capital

### 3.1 Capital Structure

The following table sets forth details on the capital resources and capital adequacy ratios for the Bank as at 31 December 2011. The Bank's Core capital ratio ('CCR') and Risk-weighted capital ratio ('RWCR') as at 31 December 2011 were above the BNM minimum requirements of 4.0% and 8.0%.

| | Economic Entity | | The Bank | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Tier I capital** | | | | |
| Paid-up share capital | **260,000** | 260,000 | **260,000** | 260,000 |
| Retained profits | **112,149** | 87,349 | **112,359** | 87,349 |
| Statutory reserves | **106,420** | 81,410 | **106,420** | 81,410 |
| | **478,569** | 428,759 | **478,779** | 428,759 |
| Less: | | | | |
| Deferred tax assets | - | (5,872) | - | (5,872) |
| Total Tier I capital | **478,569** | 422,887 | **478,779** | 422,887 |
| **Tier II capital** | | | | |
| Collective impairment | **44,041** | 42,234 | **44,041** | 42,234 |
| Total Tier II capital | **44,041** | 42,234 | **44,041** | 42,234 |
| **Capital base** | **522,610** | 465,121 | **522,820** | 465,121 |
| Core capital ratio | **11.08%** | 12.36% | **11.08%** | 12.36% |
| Risk-weighted capital ratio | **12.10%** | 13.59% | **12.10%** | 13.59% |
| Core capital ratio (net of proposed dividends) | **11.08%** | 12.36% | **11.08%** | 12.36% |
| Risk-weighted capital ratio (net of proposed dividends) | **12.10%** | 13.59% | **12.10%** | 13.59% |
| Risk-weighted assets for: | | | | |
| Credit risk | **3,983,070** | 3,131,480 | **3,983,070** | 3,131,480 |
| Market risk | **30,671** | 4,599 | **30,671** | 4,599 |
| Operational risk | **307,036** | 285,924 | **307,036** | 285,924 |
| Total risk-weighted assets | **4,320,777** | 3,422,003 | **4,320,777** | 3,422,003 |

### 3.2 Capital Adequacy

The Bank's has in place an internal limit for its CCR and RWCR, which is guided by the need to maintain a prudent relationship between available capital and the risks of its underlying businesses. The capital management process is monitored by managements through periodic reviews.

Refer to Appendix I

## 4 Risk Management Objectives and Policies

AFFIN ISLAMIC is principally engaged in all aspects of banking and related financial services. The principal activities of AFFIN ISLAMIC's subsidiaries are Islamic banking business, property management services, nominee and trustee services. There have been no significant changes in these principal activities during the financial year.

AFFIN ISLAMIC's business activities involve the analysis, measurement, acceptance, and management of risks but it operates within well defined risk acceptance criteria covering customer segments, industries and products. AFFIN ISLAMIC does not enter into risk it cannot administer, book, monitor or value, or deal with persons of questionable integrity.

AFFIN ISLAMIC's risk management policies are established to identify all the key risks, assess and measure these risks, control and mitigate these risks, and manage and monitor the risk positions.

AFFIN ISLAMIC regularly reviews its risk management policies and systems to reflect changes in markets, products and best practice in risk management processes. AFFIN ISLAMIC's aim is to achieve an appropriate balance between risk and return and minimise any potential adverse effects.

The key business risks to which AFFIN ISLAMIC is exposed are credit risk, liquidity risk, market risk and operational risk.

## 5 Credit Risk

### 5.1 Credit Risk Management Objectives and Policies

Credit risk is the potential financial loss resulting from the failure of the customer or counterparty to settle the financial and contractual obligations to AFFIN ISLAMIC. Credit risk emanates mainly from financing, advances and other financing, financing commitments arising from such financing activities, as well as through financial transactions with counterparties including interbank money market activities, derivative instruments used for hedging and debt securities.

The management of credit in AFFIN ISLAMIC is governed by a set of credit policies approved by the Board of Directors. Approval authorities are delegated to Senior Management and GMLC to implement the credit policies and ensure sound credit granting standards.

An independent GRM function with a direct reporting line to BRMC is in place to ensure adherence to risk standards and discipline.

Financing guidelines and credit strategies are formulated and incorporated in the Annual Credit Plan. New businesses are governed by the risk acceptance criteria and customer qualifying criteria/fitness standards prescribed in the Credit Plan. The Credit Plan is reviewed at least annually and approved by the BRMC.

### 5.2 Application of Standardised Approach for Credit Risk

AFFIN ISLAMIC uses the following ECAIs to determine the risk weights for the rated credit exposures:

- RAM Rating Services Berhad
- Malaysian Rating Corporation Berhad
- Standard & Poor's Rating Services
- Moody's Investors Service
- Fitch Ratings

## 5 Credit Risk (continued)

### 5.2 Application of Standardised Approach for Credit Risk (continued)

The external ratings of the ECAIs are used to determine the risk weights of the following types of exposure: sovereigns, banks, public sector entities and corporates.

The mapping of the rating categories of different ECAIs to the risk weights is in accordance with the guidelines provided by BNM. In cases where there is no issuer or issue rating, the exposures are treated as unrated and accorded a risk weight appropriate for unrated exposure in the respective category.

The external ratings are updated in the core banking system, and extracted and matched by the risk system according to the above rules to determine the appropriate risk weights.

Refer to Appendix II and Appendices III (i) to III (ii).

### 5.3 Credit Risk Measurement

*Financing, advances and other financing*

Credit evaluation is the process of analysing the creditworthiness of the prospective customer against AFFIN ISLAMIC's underwriting criteria and the ability of AFFIN ISLAMIC to make a return commensurate to the level of risk undertaken. A critical element in the evaluation process is the assignment of a credit risk grade to the counterparty. This assists in the risk assessment and decision making process. AFFIN ISLAMIC has developed internal rating models to support the assessment and quantification of credit risk.

For consumer mass market products, statistically developed application scorecards are used by the Business to assess the risks associated with the credit application. The scorecards are used as a decision support tool at financing origination.

*Over-the-Counter ('OTC') Derivatives*

The OTC Derivatives credit exposure is computed using the Current Exposure Method. Under the Current Exposure Method, computation of credit equivalent exposure for profit rate and exchange rate related contracts is derived from the summation of the two elements; the replacement costs (obtained by marking-to-market) of all contracts and the potential future exposure of outstanding contracts (Add On charges depending on the specific remaining tenor to maturity).

### 5.4 Risk Limit Control and Mitigation Policies

AFFIN ISLAMIC employs various policies and practices to control and mitigate credit risk.

*Financing limits*

AFFIN ISLAMIC establishes internal limits and related financing guidelines to manage large exposures and avoid undue concentration of credit risk in its credit portfolio. The limits include single customer groupings, connected parties, and geographical and industry segments. These risks are monitored regularly and the limits reviewed annually or sooner depending on changing market and economic conditions.

The credit risk exposure for derivative and financing books is managed as part of the overall financing limits with customers together with potential exposure from market movements.

## 5 Credit Risk (continued)

### 5.4 Risk Limit Control and Mitigation Policies (continued)

*Collateral*

Credits are established against customer's capacity to pay/ repay rather than rely solely on security. However, collateral may be taken to mitigate credit risk. The main collateral types accepted and given value by AFFIN ISLAMIC are:

- Mortgages over residential properties;
- Charges over commercial real estate or vehicles financed;
- Charges over business assets such as business premises, inventory and account receivables; and
- Charges over financial instruments such as marketable securities

In order to be recognised as security, all items pledged must have value and AFFIN ISLAMIC must have physical control and/or legal title thereto, together with the necessary documentation to enable AFFIN ISLAMIC to realise the asset without the co-operation of the asset owner. Other items, such as personal or corporate guarantees, may be taken for comfort but will not be treated as security for approval purposes. Valuations are updated on a regular basis.

Prior to acceptance of any item as security, verification must be done to ensure that the security exists and an accurate and up-to-date valuation can be placed upon it. A pre-facility disbursement site visit must be undertaken in respect of landed security of significant value. Where third parties are used to undertake a valuation they must be taken from a list of approved valuers.

All assets which provide security to AFFIN ISLAMIC must be adequately protected with a Takaful provider from the list of approved Takaful companies.

The security documentation process is centralised in an independent Security Documentation Section at Head Office. AFFIN ISLAMIC adopts standardised Letter of Offer and Legal Documents. Variations/amendments require the approval from the relevant approving authority in the Bank.

*Financial covenants (for credit related commitments and financing books)*

The primary purpose of these instruments is to ensure that funds are available to a customer when required. Guarantees and standby letters of credit carry the same credit risk as financing. Documentary and commercial letters of credit are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct financing.

Commitment to extend credit represents unutilised portion of approved credit in the form of financing, guarantees or letters of credit. In terms of credit risk, AFFIN ISLAMIC is potentially exposed to loss in an amount equal to the total unutilised commitments. However, the potential amount of loss is less than the total unutilised commitments, as most commitments to extend credit are contingent upon customers maintaining specific minimum credit standards.

AFFIN ISLAMIC monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than short-term commitments.

Refer to Appendix IV (a) to (b).

## 5 Credit Risk (continued)

### 5.5 Credit Risk Monitoring

Retail credits are actively monitored and managed on a portfolio basis by product type. A new collection management system has been implemented with a dedicated team in place to promptly identify, monitor and manage delinquent accounts at early stages of delinquency.

Corporate credits and large individual accounts are reviewed by the Business Units at least once a year against updated information. This is to ensure that the credit grades remain appropriate and detect any signs of weaknesses or deterioration in the credit quality. Remedial action is taken where evidence of deterioration exists.

Early Alert Process is in place as part of a means to pro-actively identify, report and manage deteriorating credit quality. Watchlist accounts are closely reviewed and monitored with corrective measures initiated to prevent them from turning impaired. As a rule, watchlist accounts are either worked up or worked out within a period of twelve months.

Portfolio management risk reports are submitted regularly to EAC and BRMC.

### 5.6 Impairment Provisioning

*Individual impairment provisioning*

Significant financing, with or without past due status, are subject to individual assessment for impairment when an evidence of impairment surfaces or at the very least once annually during the annual review process.

If impaired, the amount of loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows discounted at the financial assets original effective profit rate. The level of impairment allowance on significant financing is reviewed regularly, at least quarterly or more often when circumstances require.

Significant financing that are deemed not impaired after individual assessment are included in a group of financing with similar characteristics and collectively assessed for impairment.

*Collective impairment provisioning*

All financing are grouped in respective business segments according to similar credit risk characteristics and is generally based on industry, asset or collateral type, credit grade and past due status grouped based on business segments.

Portfolio provisioning is determined for each segment based on its respective loss probabilities and other information relevant to estimation of the future cash flows of each segment.

Collective provisioning is applicable to all financing not covered under individual assessment as well as significant financing that are deemed not impaired after individual assessment.

*Total financing, advances and other financing - credit quality*

All financing, advances and other financing are categorised into "neither past due nor impaired", "past due but not impaired" and "impaired". Past due financing refer to financing that are overdue by one day or more. Impaired financing are financing with months-in-arrears more than 90 days or with impaired allowances.

**5 Credit Risk (continued)**

**5.6 Impairment Provisioning (continued)**

**Analysed by economic sector**

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| **Past due financing** | **RM'000** | RM'000 |
| Primary agriculture | **341** | 65 |
| Mining and quarrying | **63** | - |
| Manufacturing | **1,023** | 2,449 |
| Electricity, gas and water supply | **63** | 121 |
| Construction | **32,319** | 62,758 |
| Real estate | **-** | 2,044 |
| Wholesale & retail trade and restaurants & hotels | **2,660** | 5,937 |
| Transport, storage and communication | **1,722** | 920 |
| Finance, insurance and business services | **1,579** | 48,690 |
| Education, health and others | **1,093** | 401 |
| Household | **369,975** | 347,099 |
| | **410,838** | 470,484 |

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| **Individual impairment** | **RM'000** | RM'000 |
| Manufacturing | **6,843** | 7,197 |
| Construction | **26,432** | 27,386 |
| Wholesale & retail trade and restaurants & hotels | **1,189** | 522 |
| Finance, insurance and business services | **391** | - |
| Education, health and others | **-** | 1,036 |
| Household | **72** | - |
| | **34,927** | 36,141 |

**5 Credit Risk (continued)**

**5.6 Impairment Provisioning (continued)**

**Analysed by economic sector (continued)**

| Individual impairment charged | Economic Entity/ The Bank 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| Manufacturing | **1,416** | 1,964 |
| Construction | **1,881** | 22,725 |
| Wholesale & retail trade and restaurants & hotels | **831** | 522 |
| Finance, insurance and business services | **391** | - |
| Education, health and others | **-** | 96 |
| Household | **510** | - |
| | **5,029** | 25,307 |

| Individual impairment written-off | Economic Entity/ The Bank 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| Manufacturing | **448** | 1,175 |
| Construction | **1,889** | - |
| | **2,337** | 1,175 |

| Collective impairment | Economic Entity/ The Bank 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| Primary agriculture | **427** | 235 |
| Mining and quarrying | **4** | 13 |
| Manufacturing | **2,082** | 1,320 |
| Electricity, gas and water supply | **40** | 38 |
| Construction | **4,045** | 2,306 |
| Real estate | **1,815** | 223 |
| Wholesale & retail trade and restaurants & hotels | **334** | 420 |
| Transport, storage and communication | **101** | 26 |
| Finance, insurance and business services | **2,453** | 1,700 |
| Education, health and others | **2,236** | 1,141 |
| Household | **47,172** | 18,984 |
| Others | - | 26,075 |
| | **60,709** | 52,481 |

## 5 Credit Risk (continued)

### 5.6 Impairment Provisioning (continued)

**Analysed by geographical area**

| Past due financing | Economic Entity/ The Bank 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| Perlis | **260** | 342 |
| Kedah | **36,574** | 61,752 |
| Pulau Pinang | **9,019** | 8,556 |
| Perak | **39,743** | 37,048 |
| Selangor | **118,400** | 113,931 |
| Wilayah Persekutuan | **38,008** | 75,472 |
| Negeri Sembilan | **9,305** | 11,266 |
| Melaka | **3,659** | 3,660 |
| Johor | **19,657** | 21,205 |
| Pahang | **25,619** | 26,672 |
| Terengganu | **53,632** | 50,786 |
| Kelantan | **48,204** | 49,387 |
| Sarawak | **3,176** | 3,682 |
| Sabah | **5,582** | 6,713 |
| Labuan | **-** | 12 |
| | **410,838** | 470,484 |

| Individual impairment | Economic Entity/ The Bank 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| Pulau Pinang | **-** | 6 |
| Selangor | **-** | 7,718 |
| Wilayah Persekutuan | **1,261** | 1,031 |
| Pahang | **6,843** | - |
| Outside Malaysia | **26,823** | 27,386 |
| | **34,927** | 36,141 |

## 5 Credit Risk (continued)

### 5.6 Impairment Provisioning (continued)

**Analysed by geographical area (continued)**

| | Economic Entity/ The Bank | |
|---|---|---|
| | **2011** | 2010 |
| **Collective impairment** | **RM'000** | RM'000 |
| Perlis | **19** | 9 |
| Kedah | **3,177** | 1,575 |
| Pulau Pinang | **1 ,576** | 884 |
| Perak | **3,542** | 1,129 |
| Selangor | **24,170** | 36,829 |
| Wilayah Persekutuan | **8 ,789** | 3,946 |
| Negeri Sembilan | **1,732** | 834 |
| Melaka | **473** | 309 |
| Johor | **2,581** | 1,432 |
| Pahang | **3,012** | 1,392 |
| Terengganu | **3,765** | 1,338 |
| Kelantan | **6,526** | 2,395 |
| Sarawak | **431** | 149 |
| Sabah | **916** | 260 |
| | **60,709** | 52,481 |

### 5.7 Credit Risk Culture

AFFIN ISLAMIC recognises that learning is a continuous journey and is committed to enhance the knowledge and required skills set of its staff. It places strong emphasis in creating and enhancing risk awareness in the organisation.

For effective and efficient staff learning, AFFIN ISLAMIC has implemented an E-Learning Program with an online Learning Management System ('LMS'). The LMS provides staff with a progressive self-learning alternative at own pace.

GRM commenced an Internal Credit Certification ('ICC') Programme for both Business Banking and Consumer Credit in July 2009 and August 2009 respectively.

The aim of the ICCs is to assist the core credit related group of personnel in AFFIN ISLAMIC achieve a minimum level of knowledge and analytical skills required to make sound corporate and commercial financing to customers. It is envisaged that the core credit related group of personnel would all be certified within 2 to 3 years.

## 6 Market Risk

### 6.1 Market Risk Management Objectives and Policies

Market risk is defined as the risk of losses to AFFIN ISLAMIC's portfolio positions arising from movements in market prices. AFFIN ISLAMIC's market risk management objective is to ensure that market risk is appropriately identified, measured, controlled, managed and reported.

AFFIN ISLAMIC's exposure to market risk stems primarily from profit rate risk and foreign exchange rate risk. Profit rate risk arises mainly from differences in timing between the maturities or repricing of assets, liabilities and derivatives. AFFIN ISLAMIC is also exposed to basis risk when there is a mismatch between the change in price of a hedge and the change in price of the assets it hedges. Foreign exchange rate risk arises from unhedged positions of customers' requirements and proprietary positions.

### 6.2 Application of Standardised Approach for Market Risk

AFFIN ISLAMIC adopts the Standardised Approach for the purpose of calculating the capital requirement for market risk.

Refer Appendix I.

### 6.3 Market Risk Measurement, Control and Monitoring

Market risk arising from AFFIN ISLAMIC's trading book is primarily controlled through the imposition of Cut-loss and Value-at-Risk ('VaR') Limits which are approved by both the Asset Liability Management Committee ('ALCO') and Board Risk Management Committee ('BRMC') in accordance with AFFIN ISLAMIC's risk appetite. These limits are set and reviewed regularly having regard to a number of factors, including liquidity and AFFIN ISLAMIC's business strategy.

For non-trading book, AFFIN ISLAMIC quantifies the profit rate risk by analysing the repricing mismatch between the rate sensitive assets and rate sensitive liabilities. AFFIN ISLAMIC also performs Net Profit Income simulation to assess the variation in earnings under various rates scenarios.

The non-trading book's profit rate risk is managed through limits set over time buckets together with an Overall Risk Tolerance Limit.

In addition, AFFIN ISLAMIC conducts periodic stress test of its respective portfolios to ascertain market risk under abnormal market conditions.

AFFIN ISLAMIC's Management, ALCO and BRMC are regularly kept informed of its risk profile and positions.

### 6.4 Value-at-Risk ('VaR')

Value-at-Risk ('VaR') is used to compute the maximum potential loss amount over a specified holding period of a Trading portfolio. It measures the risk of losses arising from potential adverse movements in profit rates and foreign exchange rates that could affect values of financial instruments.

The Variance-Covariance Parametric methodology is adopted to compute the potential loss amount. This is a statistically defined, probability-based approach that uses volatilities and correlations to quantify price risks. Under this methodology, a matrix of historical volatilities and correlations is computed from the past 100 business days' market data. VaR is then computed by applying these volatilities and correlations to the outstanding trading portfolio.

## 6 Market Risk (continued)

### 6.4 Value-at-Risk ('VaR') (continued)

Other risk measures include the following:

(i) Mark-to-Market valuation tracks the current market value of the outstanding financial instruments.

(ii) Stress tests are conducted to attempt to quantify market risk arising from low probability, abnormal market movements. The stress test measure the change in value arising from range of extreme movements in the profit rates and foreign exchange rates based on past experience and simulated stress scenarios.

(iii) Sensitivity/Dollar Duration is an additional measure of profit rate risk that is computed on a daily basis. It measures the change in value of a portfolio resulting from a 0.01% increase in profit rates. This measure identifies profit rate exposures that are most vulnerable to profit rate changes and it facilitates the implementation of hedging strategies.

### 6.5 Foreign Exchange Risk

AFFIN ISLAMIC takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

### 6.6 Market Risk Culture

In October 2010, AFFIN ISLAMIC introduced ICC-Market Risk with the Diagnostic Assessment conducted through the LMS.

## 7 Liquidity Risk

### 7.1 Liquidity Risk Management Objectives and Policies

Liquidity risk is the risk of incurring additional cost to generate cash to cover the required funding shortfall in the trading and banking book. Liquidity risk arises from the Bank's funding activities and the management of its assets.

### 7.2 Liquidity Risk Measurement, Control and Monitoring

To measure and manage net funding requirements, AFFIN ISLAMIC adopts BNM's New Liquidity Framework ('NLF'). The NLF ascertains the liquidity condition based on the contractual and behavioral cash-flow of assets, liabilities and off-balance sheet commitments, taking into consideration the realisable cash value of the eligible liquefiable assets. The NLF is also supported by indicative ratios on AFFIN ISLAMIC's funding structure to monitor the reliance on particular funding sources.

AFFIN ISLAMIC employs liquidity risk indicators as an early alert of any structural change for liquidity risk management. Liquidity risk is tracked using internal and external qualitative and quantitative indicators. AFFIN ISLAMIC also conducts liquidity stress tests to gauge AFFIN ISLAMIC's resilience in the event of a liquidity crisis. In addition, AFFIN ISLAMIC has in place the Contingency Funding Plan, which provides a systematic approach in handling liquidity disruption. The document encompasses strategies, decision-making authorities, and courses of action to be taken in the event of liquidity crisis and emergencies.

The BRMC is responsible for AFFIN ISLAMIC's liquidity policy although the strategic management of liquidity has been delegated to the ALCO. The BRMC is informed regularly of the liquidity situation in AFFIN ISLAMIC.

## 8 Operational Risk

### 8.1 Operational Risk Management Objectives and Policies

Operational risk is the risk of loss arising from inadequate or failed internal processes, action on or by people, infrastructure or technology or events which are beyond the bank's immediate control which have an operational impact, including natural disaster, fraudulent activities and money laundering.

AFFIN ISLAMIC manages operational risk through a control based environment in which policies and procedures are formulated after taking into account individual unit's business activities, the market in which it is operating and regulatory requirement in force.

### 8.2 Application of Basic Indicator Approach for Operational Risk

AFFIN ISLAMIC adopts the Basic Indicator Approach for the purpose of calculating the capital requirement for operational risk. The capital requirement is calculated by taking 15% of AFFIN ISLAMIC's average annual gross income over the previous three years.

### 8.3 Operational Risk Measurement, Control and Monitoring

Risk is identified through the use of assessment tools and measured using threshold/limits mapped against risk matrix. Monitoring and control procedures include the use of key control standards, independent tracking of risk, back-up procedures and contingency plans, including disaster recovery and business continuity plans. This is supported by periodic reviews undertaken by GIA to ensure adequacy and effectiveness of the Group Operational Risk Management process.

AFFIN ISLAMIC gathers and reports operational risk loss and 'near miss' events to GORMC and BRMC. Appropriate remedial actions are reviewed and implemented to minimise the recurrence of such events.

### 8.4 Operational Risk Culture

As a matter of requirement, all Operational Risk Coordinators must satisfy an internal operational risk (including anti-money laundering/counter financing of terrorism and business continuity management) Certification Program. These coordinators will first go through an on-line self learning exercise before attempting on-line assessments to measure their skills and knowledge level. This will enable GRM to prescribe appropriate training and development activities for the coordinators.

## 9 Shariah Compliance

Shariah compliance is the fundamental of Islamic banking and finance. It gives legitimacy to the practices and business operations of the Islamic financial institutions ('IFIs') concerned. Comprehensive compliance with Shariah principles would also boosts confidence of shareholders and public that all the practices and activities by the IFIs are in compliance with the Shariah principles at all times.

Shariah Governance Framework for Islamic Financial Institutions (the 'Framework') issued by Bank Negara Malaysia becomes the main reference to oversee the Shariah governance process within AFFIN ISLAMIC. In order to comply with all the requirements in the Framework, Board of Directors of AFFIN ISLAMIC are very committed to ensure among others all the required Shariah compliance and research functions include Shariah Risk Management Control, Shariah Review, Shariah Research and Shariah Audit are properly established to undertake its respective functions. Equally important to it, the existence of Shariah Committee with qualified members that regularly provides AFFIN ISLAMIC with Shariah advice and guidance has further strengthened the Shariah governance process within AFFIN ISLAMIC.

# BASEL II PILLAR 3 DISCLOSURES



## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

The Bank has adopted Basel II - Risk Weighted Assets computation under the BNM's Risk-Weighted Capital Adequacy Framework with effect from 1 January 2008. The Bank has adopted the Standardised Approach for credit risk and market risk, and Basic Indicator Approach for operation risk computation.

The following information concerning the Group and the Bank's risk exposures are disclosed as accompanying information to the annual report, and does not form part of the audited accounts.

**Disclosure on Capital Adequacy under the Standardised Approach (RM'000)**
**Economic Entity/The Bank**
**2011**

| | Exposure Class | Gross Exposures/ EAD before CRM | | Net Exposures/ EAD after CRM | Risk Weighted Assets | Total Risk Weighted Assets after Effects of PSIA | Minimum Capital Requirements at 8% |
|---|---|---|---|---|---|---|---|
| 1 | **CREDIT RISK** | | | | | | |
| | On Balance Sheet Exposures | | | | | | |
| | Corporates | 1,890,565 | | 1,815,381 | 1,347,470 | 1,347,470 | 107,798 |
| | Regulatory Retail | 1,302,701 | | 1,298,513 | 973,885 | 973,885 | 77,911 |
| | Other Assets | 271,035 | | 271,035 | 29,574 | 29,574 | 2 ,366 |
| | Sovereigns/Central Banks | 5,137,298 | | 5,137,298 | - | - | - |
| | Banks, Development Financial Institutions & MDBs | 174,994 | | 174,994 | 34,999 | 34,999 | 2,800 |
| | Insurance Companies, Securities Firms & Fund Managers | 110,616 | | 110,616 | 98,549 | 98,549 | 7,884 |
| | Residential Real Estate (RRE) Financing | 1,109,367 | | 1,107,060 | 816,501 | 816,501 | 65,320 |
| | Higher Risk Assets | 41,327 | | 41,326 | 61,988 | 61,988 | 4,959 |
| | Defaulted Exposures | 215,504 | | 215,490 | 280,034 | 280,034 | 22,403 |
| | **Total for On-Balance Sheet Exposures** | 10,253,407 | | 10,171,713 | 3,643,000 | 3,643,000 | 291,441 |
| | Off Balance Sheet Exposures | | | | | | |
| | Off Balance Sheet Exposures other than OTC derivatives or credit derivatives | 424,631 | | 417,474 | 333,315 | 333,315 | 26,665 |
| | Defaulted Exposures | 4,624 | | 4,503 | 6,755 | 6,755 | 540 |
| | **Total for Off-Balance Sheet Exposures** | 429,255 | | 421,977 | 340,070 | 340,070 | 27,205 |
| | **Total for On and Off-Balance Sheet Exposures** | 10,682,662 | | 10,593,690 | 3,983,070 | 3,983,070 | 318,646 |
| 2 | **MARKET RISK** | Long Position | Short Position | | | | |
| | Foreign Currency Risk | 1,292 | 30,671 | (29,379) | 30,671 | - | 2,454 |
| 3 | **OPERATIONAL RISK** | | | | | | |
| | Operational Risk | | | | 307,036 | | 24,563 |
| | **Total RWA and Capital Requirements** | | | | 4,320,777 | 3,983,070 | 345,663 |

OTC "Over The Counter"
PSIA "Profit Sharing Investment Account"

# BASEL II PILLAR 3 DISCLOSURES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

**Disclosure on Capital Adequacy under the Standardised Approach (RM'000)**
Economic Entity/The Bank
2010

| | Exposure Class | Gross Exposures/ EAD before CRM | | Net Exposures/ EAD after CRM | Risk Weighted Assets | Total Risk Weighted Assets after Effects of PSIA | Minimum Capital Requirements at 8% |
|---|---|---|---|---|---|---|---|
| 1 | CREDIT RISK | | | | | | |
| | On Balance Sheet Exposures | | | | | | |
| | Corporates | 1,478,875 | | 1,402,285 | 1,080,790 | 1,080,790 | 86,463 |
| | Regulatory Retail | 1,934,946 | | 1,927,320 | 1,445,490 | 1,445,490 | 115,639 |
| | Other Assets | 81,081 | | 81,081 | 42,246 | 42,246 | 3,381 |
| | Sovereigns/Central Banks | 3 ,540,757 | | 3,540,757 | 10,941 | 10,941 | 875 |
| | Banks, Development Financial Institutions & MDBs | 55,839 | | 55,839 | 11,168 | 11,168 | 893 |
| | Insurance Companies, Securities Firms & Fund Managers | 95,057 | | 95,057 | 95,056 | 95,056 | 7,605 |
| | Residential Real Estate (RRE) Financing | 121,302 | | 120,959 | 51,846 | 51,846 | 4,147 |
| | Higher Risk Assets | 42,663 | | 42,663 | 63,995 | 63,995 | 5,120 |
| | Defaulted Exposures | 146,785 | | 146,764 | 185,744 | 185,744 | 14,859 |
| | Total for On-Balance Sheet Exposures | 7,497,305 | | 7,412,725 | 2,987,276 | 2,987,276 | 238,982 |
| | Off Balance Sheet Exposures | | | | | | |
| | Off Balance Sheet Exposures other than OTC derivatives or credit derivatives | 263,036 | | 263,036 | 144,204 | 144,204 | 11,536 |
| | Total for Off-Balance Sheet Exposures | 263,036 | | 263,036 | 144,204 | 144,204 | 11,536 |
| | Total for On and Off-Balance Sheet Exposures | 7,760,341 | | 7,675,761 | 3,131,480 | 3,131,480 | 250,518 |
| 2 | MARKET RISK | Long Position | Short Position | | | | |
| | Foreign Currency Risk | 4,599 | - | 4,599 | 4,599 | - | 368 |
| 3 | OPERATIONAL RISK | | | | | | |
| | Operational Risk | | | | 285,924 | | 22,874 |
| | Total RWA and Capital Requirements | | | | 3,422,003 | 3,131,480 | 273,760 |

OTC "Over The Counter"
PSIA "Profit Sharing Investment Account"

**Disclosure on Capital Adequacy under the Standardised Approach (continued)**

Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices. The Bank's Capital at-Risk ('CaR') is defined as the amount of the Bank's capital that is exposed to the risk of unexpected losses arising particularly from movements in profit rates and foreign exchange rates. A CaR Limit is set as a management trigger to ensure that the Bank's exposure to such movements do not compromise the Bank's capital adequacy. The Bank is currently adopting BNM's Standardised Approach for the computation of market risk capital charges. The market risk capital charges addresses among others, capital requirement for market risk which includes the profit rate risk pertaining to the Bank's exposure in the trading book as well as foreign exchange risk in the trading and banking books.

The computation of market risk capital charge covers the following outstanding financial instruments:

a) Foreign Exchange
b) Islamic Profit Rate Swap
c) Cross Currency Swap ('CCS')
d) Fixed Income Instruments (i.e. Private Debt and Government Securities)

# BASEL II PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

**Disclosure on Credit Risk: Disclosures on Risk Weights under the Standardised Approach (RM'000)**
**Economic Entity/The Bank**
**2011**

| Risk Weights | Exposures after Netting and Credit Risk Mitigation | | | | | | | | | | | | Total Exposure after Netting & Credit Risk Mitigation | Total Risk Weighted Assets |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sovereigns & Central Banks | PSEs | Banks, MDBs and FDIs | Insurance Companies, Securities Firms & Fund Managers | Corporates | Regulatory Retail | Residential Mortgages | Higher Risk Assets | Other Assets | Specialised Financing /Investment | Securitisation | Equity | | |
| 0% | 5,145,976 | - | - | - | - | - | - | - | 241,707 | - | - | - | 5,387,683 | - |
| 10% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 20% | 51,243 | - | 188,177 | 15,084 | 580,195 | - | - | - | 1,721 | - | - | - | 836,420 | 167,284 |
| 35% | - | - | - | - | - | - | 93,541 | - | - | - | - | - | 93,541 | 32,740 |
| 50% | - | - | - | - | 45,000 | 922 | 64,197 | - | - | - | - | - | 110,119 | 55,059 |
| 70% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 75% | - | - | - | - | - | 1,327,834 | 790,663 | - | - | - | - | - | 2,118,497 | 1,588,873 |
| 90% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 100% | - | - | - | 135,049 | 1,491,776 | - | 175,818 | 37,058 | 24,362 | - | - | - | 1,864,063 | 1,864,063 |
| 110% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 115% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 125% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 135% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 150% | - | - | - | - | 29,421 | 31,786 | 48,402 | 70,513 | 3,245 | - | - | - | 183,367 | 275,051 |
| 250% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 270% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 350% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 400% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 625% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 937.5% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1250% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Average Risk Weight** | | | | | | | | | | | - | | - | - |
| **Deduction from Capital Base** | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

PSE "Public Sector Entities"
MDB "Multilateral Development Banks"
FDI "Financial Development Institutions"

# BASEL II PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

**Disclosure on Credit Risk: Disclosures on Risk Weights under the Standardised Approach (RM'000)**

Economic Entity/The Bank

2010

| Risk Weights | Exposures after Netting and Credit Risk Mitigation | | | | | | | | | | | | Total Exposure after Netting & Credit Risk Mitigation | Total Risk Weighted Assets |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sovereigns & Central Banks | PSEs | Banks, MDBs and FDIs | Insurance Companies, Securities Firms & Fund Managers | Corporates | Regulatory Retail | Residential Mortgages | Higher Risk Assets | Other Assets | Specialised Financing /Investment | Securitisation | Equity | | |
| 0% | 3,529,816 | - | - | - | - | - | - | - | 38,494 | - | - | - | 3,568,310 | - |
| 10% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 20% | 131,966 | - | 67,700 | - | 343,568 | - | - | - | 2,454 | - | - | - | 545,688 | 109,138 |
| 35% | - | - | - | - | - | - | 57,554 | - | - | - | - | - | 57,554 | 20,144 |
| 50% | - | - | - | - | 100,824 | - | 63,405 | - | - | - | - | - | 164,229 | 82,115 |
| 70% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 75% | - | - | - | - | - | 1,927,320 | - | - | - | - | - | - | 1,927,320 | 1,445,490 |
| 90% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 100% | 10,941 | - | - | 95,056 | 1,091,030 | 4,828 | 15,492 | 34,559 | 36,887 | - | - | - | 1,288,793 | 1,288,793 |
| 110% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 115% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 125% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 135% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 150% | - | - | - | - | - | 61,646 | - | 58,976 | 3,245 | - | - | - | 123,867 | 185,801 |
| 250% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 270% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 350% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 400% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 625% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 937.5% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1250% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Average Risk Weight | | | | | | | | | | | - | | - | - |
| Deduction from Capital Base | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

PSE "Public Sector Entities"
MDB "Multilateral Development Banks"
FDI "Financial Development Institutions"

# BASEL II PILLAR 3 DISCLOSURES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

**(i) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000)**
**Economic Entity/The Bank**
**2011**

| Exposure Class | | Ratings of Corporate by Approved ECAIs | | | | |
|---|---|---|---|---|---|---|
| | Moodys | Aaa to Aa3 | A1 to A3 | Baa1 to Ba3 | B1 to C | Unrated |
| | S&P | AAA to AA- | A+ to A- | BBB+ to BB- | B+ to D | Unrated |
| | Fitch | AAA to AA- | A+ to A- | BBB+ to BB- | B+ to D | Unrated |
| | RAM | AAA to AA3 | A to A3 | BBB1 to BB3 | B to D | Unrated |
| | MARC | AAA to AA- | A+ to A- | BBB+ to BB- | B+ to D | Unrated |
| | Rating & Investment Inc | AAA to AA- | A+ to A- | BBB+ to BB- | B+ to D | Unrated |
| **On and Off-Balance-Sheet Exposures** | | | | | | |
| **Credit Exposures (using Corporate Risk Weights)** | | | | | | |
| Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates) | | - | - | - | - | - |
| Insurance Cos, Securities Firms & Fund Managers | | - | - | - | - | 153,133 |
| Corporates | | 2,985 | 69,975 | - | - | 2,154,723 |
| **Total** | | **2,985** | **69,975** | **-** | **-** | **2,307,856** |

# BASEL II PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011



**(i) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000)**

Economic Entity/The Bank

2010

| Exposure Class | Ratings of Corporate by Approved ECAIs | | | | | |
|---|---|---|---|---|---|---|
| | Moodys | Aaa to Aa3 | A1 to A3 | Baa1 to Ba3 | B1 to C | Unrated |
| | S&P | AAA to AA- | A+ to A- | BBB+ to BB- | B+ to D | Unrated |
| | Fitch | AAA to AA- | A+ to A- | BBB+ to BB- | B+ to D | Unrated |
| | RAM | AAA to AA3 | A to A3 | BBB1 to BB3 | B to D | Unrated |
| | MARC | AAA to AA- | A+ to A- | BBB+ to BB- | B+ to D | Unrated |
| | Rating & Investment Inc | AAA to AA- | A+ to A- | BBB+ to BB- | B+ to D | Unrated |
| On and Off-Balance-Sheet Exposures | | | | | | |
| Credit Exposures (using Corporate Risk Weights) | | | | | | |
| Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates) | | - | - | - | - | - |
| Insurance Cos, Securities Firms & Fund Managers | | - | - | - | - | 95,056 |
| Corporates | | 6,017 | 100,824 | - | - | 1,440,303 |
| Total | | 6,017 | 100,824 | - | - | 1,535,359 |

# BASEL II PILLAR 3 DISCLOSURES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

**(ii) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000) (continued)**
**Economic Entity/The Bank**
**2011**

| Exposure Class | | Ratings of Sovereigns and Central Banks by Approved ECAIs | | | | | |
|---|---|---|---|---|---|---|---|
| | Moodys | Aaa to Aa3 | A1 to A3 | Baa1 to Baa3 | Ba1 to B3 | Caa1 to C | Unrated |
| | S&P | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | CCC+ to D | Unrated |
| | Fitch | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | CCC+ to D | Unrated |
| | Rating & Investment Inc | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | CCC+ to C | Unrated |
| **On and Off-Balance-Sheet Exposures** | | | | | | | |
| Sovereigns and Central Banks | | - | 5,197,219 | - | - | - | - |
| **Total** | | - | 5,197,219 | - | - | - | - |

| Exposure Class | | Ratings of Banking Institutions by Approved ECAIs | | | | | |
|---|---|---|---|---|---|---|---|
| | Moodys | Aaa to Aa3 | A1 to A3 | Baa1 to Baa3 | Ba1 to B3 | Caa1 to C | Unrated |
| | S&P | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | CCC+ to D | Unrated |
| | Fitch | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | CCC+ to D | Unrated |
| | RAM | AAA to AA3- | A1 to A3 | BBB1+ to BBB3 | BB1 to B3 | C1+ to D | Unrated |
| | MARC | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | C+ to D | Unrated |
| | Rating & Investment Inc | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | CCC+ to C | Unrated |
| **On and Off-Balance-Sheet Exposures** | | | | | | | |
| Banks, MDBs and FDIs | | 13,183 | - | - | - | - | 174,994 |
| **Total** | | 13,183 | - | - | - | - | 174,994 |

# BASEL II PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011



**(ii) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000) (continued)**

Economic Entity/The Bank

2010

| Exposure Class | Ratings of Sovereigns and Central Banks by Approved ECAIs | | | | | | |
|---|---|---|---|---|---|---|---|
| | Moodys | Aaa to Aa3 | A1 to A3 | Baa1 to Baa3 | Ba1 to B3 | Caa1 to C | Unrated |
| | S&P | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | CCC+ to D | Unrated |
| | Fitch | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | CCC+ to D | Unrated |
| | Rating & Investment Inc | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | CCC+ to C | Unrated |
| On and Off-Balance-Sheet Exposures<br>Sovereigns and Central Banks | | - | 3,661,782 | - | 10,941 | - | - |
| Total | | - | 3,661,782 | - | 10,941 | - | - |

| Exposure Class | Ratings of Banking Institutions by Approved ECAIs | | | | | | |
|---|---|---|---|---|---|---|---|
| | Moodys | Aaa to Aa3 | A1 to A3 | Baa1 to Baa3 | Ba1 to B3 | Caa1 to C | Unrated |
| | S&P | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | CCC+ to D | Unrated |
| | Fitch | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | CCC+ to D | Unrated |
| | RAM | AAA to AA3- | A1 to A3 | BBB1+ to BBB3 | BB1 to B3 | C1+ to D | Unrated |
| | MARC | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | C+ to D | Unrated |
| | Rating & Investment Inc | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | CCC+ to C | Unrated |
| On and Off-Balance-Sheet Exposures<br>Banks, MDBs and FDIs | | 11,861 | - | - | - | - | 55,839 |
| Total | | 11,861 | - | - | - | - | 55,839 |

# BASEL II PILLAR 3 DISCLOSURES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

**a) Disclosures on Credit Risk Mitigation (RM'000)**
**Economic Entity/The Bank**
**2011**

| Exposure Class | Exposures before CRM | Exposures Covered by Guarantees /Credit Derivatives | Exposures Covered by Eligible Financial Collateral | Exposures Covered by Other Eligible Collateral |
|---|---|---|---|---|
| **Credit Risk** | | | | |
| On-Balance Sheet Exposures | | | | |
| Sovereigns/Central Banks | 5,137,298 | - | - | - |
| Banks, Development Financial Institutions & MDBs | 174,994 | - | - | - |
| Insurance Cos, Securities Firms & Fund Managers | 110,616 | - | - | - |
| Corporates | 1,890,565 | 3,200 | 81,171 | - |
| Regulatory Retail | 1,302,701 | - | 5,358 | - |
| Residential Mortgages | 1,109,367 | - | 2,306 | - |
| Higher Risk Assets | 41,327 | - | 2 | - |
| Other Assets | 271,035 | - | - | - |
| Defaulted Exposures | 215,504 | - | 134 | - |
| **Total for On-Balance Sheet Exposures** | 10,253,407 | 3,200 | 88,971 | - |
| Off-Balance Sheet Exposures | | | | |
| Off-Balance sheet exposures other than OTC derivatives or credit derivatives | 424,631 | - | - | - |
| Defaulted Exposures | 4,624 | - | - | - |
| **Total for Off-Balance Sheet Exposures** | 429,255 | - | - | - |
| **Total On and Off-Balance Sheet Exposures** | 10,682,662 | 3,200 | 88,971 | - |

# BASEL II PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011



**a) Disclosures on Credit Risk Mitigation (RM'000)**

Economic Entity/The Bank

2010

| Exposure Class | Exposures before CRM | Exposures Covered by Guarantees /Credit Derivatives | Exposures Covered by Eligible Financial Collateral | Exposures Covered by Other Eligible Collateral |
|---|---|---|---|---|
| Credit Risk | | | | |
| On-Balance Sheet Exposures | | | | |
| Sovereigns/Central Banks | 3,540,757 | - | - | - |
| Banks, Development Financial Institutions & MDBs | 55,839 | - | - | - |
| Insurance Cos, Securities Firms & Fund Managers | 95,057 | - | - | - |
| Corporates | 1,478,875 | - | 76,590 | - |
| Regulatory Retail | 1,934,946 | - | 7,627 | - |
| Residential Mortgages | 121,302 | - | 343 | - |
| Higher Risk Assets | 42,663 | - | - | - |
| Other Assets | 81,081 | - | - | - |
| Defaulted Exposures | 146,785 | - | 20 | - |
| Total for On-Balance Sheet Exposures | 7,497,305 | - | 84,580 | - |
| Off-Balance Sheet Exposures | | | | |
| Off-Balance sheet exposures other than OTC derivatives or credit derivatives | 263,036 | - | - | - |
| Total for Off-Balance Sheet Exposures | 263,036 | - | - | - |
| Total On and Off-Balance Sheet Exposures | 7,760,341 | - | 84,580 | - |

**b) Disclosure on Off-Balance Sheet and Counterparty Credit Risk (RM'000)**

Counterparty Credit Risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cashflows. An economic loss could occur if the transactions with the counterparty has a positive economic value for the Bank at the time of default.

In contrast to the exposure to credit risk through a financing, where the exposure to credit risk is unilateral and only the financing bank faces the risk of loss, Counterparty Credit Risk creates a bilateral risk of loss where the market value for many types of transactions can be positive or negative to either counterparty.

In respect of off-balance sheet items, the credit risk inherent in each off-balance sheet instrument is translated into an on-balance sheet exposure equivalent (credit equivalent) by multiplying the nominal principal amount with a credit conversion factor ('CCF') as prescribed by the Standardised Approach under the Risk Weighted Capital Adequacy Framework. The resulting amount is then weighted against the risk weight of the counterparty. In addition, counterparty risk weights for over-the-counter ('OTC') derivative transactions will be determined based on the external rating of the counterparty and will not be subject to any specific ceiling.

**Economic Entity/The Bank**
**2011**

| Description | Total Principle Amount | Positive Fair Value of Derivative Contracts | Total Credit Equivalent Amount | Total Risk Weighted Amount |
|---|---|---|---|---|
| Direct Credit Substitutes | 8,104 | | 8,104 | 6,470 |
| Transaction related contingent Items | 149,456 | | 74,728 | 69,462 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year | 428,138 | | 85,628 | 79,644 |
| Short Term Self Liquidating trade related contingencies | 345,900 | | 69,180 | 28,160 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year | 958,076 | | 191,615 | 156,334 |
| **Total** | 1,889,674 | - | 429,255 | 340,070 |

# BASEL II PILLAR 3 DISCLOSURES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011



**b) Disclosure on Off-Balance Sheet and Counterparty Credit Risk (RM'000)(continued)**

Economic Entity/The Bank

2010

| Description | Total Principle Amount | Positive Fair Value of Derivative Contracts | Total Credit Equivalent Amount | Total Risk Weighted Amount |
|---|---|---|---|---|
| Direct Credit Substitutes | 26,528 | | 26,528 | 18,864 |
| Transaction related contingent Items | 198,425 | | 99,212 | 93,813 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year | 459,864 | | - | - |
| Short Term Self Liquidating trade related contingencies | 686,477 | | 137,295 | 31,527 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year | 651,595 | | - | - |
| Total | 2,022,889 | - | 263,035 | 144,204 |

### c) Disclosures on Market Risk - Profit Rate Risk/Rate of Return Risk in the Banking Book

Profit rate risk is the current and prospective impact to the Bank's financial condition due to adverse changes in the profit rates to which the statement of financial position is exposed. The objective is to manage profit rate risk to achieve stable and sustainable net gap income in the long term which impact can be viewed from the perspectives of (1) earnings in the next 12 months, and (2) economic value.

(1) Next 12 months' Earnings - Profit rate risk from the earnings perspective is the impact based on changes to the net gap income over the next 12 months. This risk is measured monthly through sensitivity analysis including the application of an instantaneous 100 basis point parallel shock in profit rates across the yield curve. The prospective change to the net gap income is measured using an Asset Liability Management simulation model which incorporates the assessment of both existing and new business.

(2) Economic Value - Measuring the change in the economic value of equity is an assessment of the long term impact to the earnings potential. This is assessed through the application of relevant duration factors to capture the net economic value impact over the long term or total life of all balance sheet assets and liabilities to adverse changes in profit rates.

The above calculations do not take into account financing prepayments.

| | **Economic Entity/The Bank** | | Economic Entity/The Bank | |
|---|---|---|---|---|
| | **2011** | **2011** | 2010 | 2010 |
| **Type of Currency (RM million)** | **Impact on Positions (100 basis points) Parallel Shift** | | Impact on Positions (100 basis points) Parallel Shift | |
| | **Increase/(Decline) in Earnings** | **Increase/(Decline) in Economic Value** | Increase/(Decline) in Earnings | Increase/(Decline) in Economic Value |
| Ringgit Malaysia | **8.0** | **(48.8)** | (4.4) | (16.7) |
| US Dollar | **(1.2)** | **(0.1)** | (0.2) | 0.2 |
| **Total** | **6.8** | **(48.9)** | (4.6) | (16.5) |

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