


Banking is

About...

AFFIN ISLAMIC

AFFIN ISLAMIC BANK BERHAD (709506-V)

Annual Report 2012

Contents

Banking is About...

At AFFIN ISLAMIC, we remove the boundaries within the processes of banking and focus on customer centricity. We reach out to our customers, improve relationships with them and ensure that each one of them feels privileged and has the best of service from us. We set ourselves apart in this industry through a concerted effort in understanding our customers, listening to them, then delivering the most appropriate financial solutions. Simply put, banking is about you and your continued satisfied relationship with us.

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".

... Banking Without Barriers™

- Discipline
- Integrity
- Humility
- Caring
- Creativity

Banking is about being **passionate**

We are passionate in all that we do. A passion to achieve more, be better and to have that focused discipline to be able to carry forth a service that our customers deserve and require.

- Creativity
- Caring
- Humility
- Integrity
- Discipline

Banking is about adding **values**

- Creativity
- Caring
- Humility
- Integrity

It's not just about numbers, nor a focus on the bottom line only. Our belief is in delivering a trust that is self evident in the way we service each of our customers...a genuine courtesy and respect which comes from a desire to deliver more.

Banking is about bringing **smiles**

We understand that when we are able to consistently provide financial solutions for our customers, when they know they can trust a bank that delivers more for them – that's when we are truly satisfied that we have fulfilled our goals.

- Creativity
- Caring
- Humility

Banking is about being **thoughtful**

It's a genuine care for our customers that truly make a difference – listening to them, understanding them and finally delivering our promises – now that's a bank that goes beyond barriers.

• **Creativity**
• **Caring**

Banking is about being **imaginative**

Creativity

No two financial challenges are ever the same. It requires a deep understanding of the situation and innovative solutions. At AFFIN ISLAMIC, we look beyond the standard to provide financial solutions to our many customers.

CORPORATE INFORMATION

NAME

Affin Islamic Bank Berhad (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.

BOARD OF DIRECTORS

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

Directors
YBhg.Tan Sri Dato' Seri 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
(Independent Non-Executive Director)

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

Assoc. Prof. Dr. Asyraf Wajdi bin Dato' Dusuki
(Independent Non-Executive Director)

YBhg. Tan Sri Dato' Sri Abdul Aziz bin Abdul Rahman
(Independent Non-Executive Director)

CHIEF EXECUTIVE OFFICER

En. Kamarul Ariffin bin Mohd Jamil

SECRETARY

Nimma Safira binti Khalid

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
360,000,002
Par value
RM1.00
Total
RM360,000,002

SUBSTANTIAL SHAREHOLDER

No of shares
Affin Bank Berhad - 360,000,002

EXTERNAL AUDITORS

PricewaterhouseCoopers (AF 1146)

CORPORATE STRUCTURE

AS AT 31 DECEMBER 2012

LEMBAGA TABUNG ANGKATAN TENTERA

Lembaga Tabung Angkatan Tentera — 35.19%

Boustead Holdings Berhad

Boustead Holdings Berhad — 20.69% (Lembaga Tabung Angkatan Tentera 60.75%)

BEA 東亞銀行

Bank of East Asia Limited — 23.52%

OTHERS — 20.60%

AFFIN HOLDINGS

AFFIN HOLDINGS BERHAD

- 100% AFFIN BANK — **AFFIN Bank Berhad**
  - 100% AFFIN ISLAMIC — **AFFIN Islamic Bank Berhad**
    - 50% **AFFIN-i Nadayu Sdn Bhd** [2]
      (formerly known as AFFIN-i Goodyear Sdn Bhd)
      (jointly owned by AFFIN Islamic Bank Berhad and Jurus Positif Sdn Bhd with a 50 : 50 ownership)
  - 100% **ABB Nominee (Tempatan) Sdn Bhd**
  - 100% **PAB Properties Sdn Bhd**
  - 20% **ABB Trustee Berhad** [2]
  - 100% **AFFIN Factors Sdn Bhd** [1]
  - 100% **ABB Nominee (Asing) Sdn Bhd** [1]
  - 100% **AFFIN Futures Sdn Bhd** [1]
  - 100% **ABB IT & Services Sdn Bhd** [1]
  - 100% **BSNCB Nominees (Tempatan) Sdn Bhd** [1]
  - 100% **AFFIN Recoveries Berhad** [1]
  - 100% **AFFIN-ACF Nominees (Tempatan) Sdn Bhd** [1,3]
  - 100% **PAB Property Management Services Sdn Bhd** [1,3]
  - 100% **PAB Property Development Sdn Bhd** [1,3]
  - 100% **ABB Venture Capital Sdn Bhd** [1,3]
  - 100% **ABB Asset Management (M) Berhad** [1,3]
  - 100% **BSNC Nominees (Tempatan) Sdn Bhd** [1,3]
  - 100% **BSN Merchant Nominees (Asing) Sdn Bhd** [1,3]
  - 20% **UBB Trustee (Malaysia) Berhad** [2]
- 100% **AFFIN Capital Sdn Bhd**
- 100% **AFFIN-ADB Sdn Bhd**
- 100% **AFFIN MoneyBrokers Sdn Bhd**
- 100% **AFFIN-ACF Holdings Sdn Bhd**
  - 100% **AFFIN-ACF Capital Sdn Bhd**
- 100% **AFFIN Investment Bank Berhad**
  - 100% **AFFIN Fund Management Berhad**
  - 100% **Merchant Nominees (Tempatan) Sdn Bhd**
  - 67% **Classic Precision Sdn Bhd**
  - 100% **AFFIN Nominees (Tempatan) Sdn Bhd**
  - 100% **AFFIN Nominees (Asing) Sdn Bhd**
- 51% **AXA AFFIN Life Insurance Berhad**
- 33.6% **AXA AFFIN General Insurance Berhad**

1 Dormant
2 Associate
3 Companies where application to strike-off have been filed by the Bank.

BOARD OF DIRECTORS & CEO

Left to right :

1. YBhg. Jen. Tan Sri Dato' Seri Ismail bin Haji Omar (Bersara)
   Chairman
   Non-Independent Non-Executive Director

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

3. YBhg.Tan Sri Dato' Seri Lodin bin Wok Kamaruddin
   Non-Independent Non-Executive Director

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

Left to right :

5. YBhg. Tan Sri Dato' Seri Mohamed Jawhar
   Independent Non-Executive Director

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

7. Associate Professor Dr. Asyraf Wajdi bin Dato' Dusuki
   Independent Non-Executive Director

8. YBhg. Tan Sri Dato' Sri Abdul Aziz bin Abdul Rahman
   Independent Non-Executive Director

PROFILE OF DIRECTORS

YBHG. JEN. TAN SRI DATO' SERI ISMAIL BIN HAJI 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.

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

Jen. Tan Sri Dato' Seri Ismail bin Haji Omar (Bersara) attended all 13 Board Meetings held during the financial year ended 31 December 2012.

YBHG. TAN SRI DATO' SERI LODIN BIN WOK KAMARUDDIN

Non-Independent Non-Executive Director

Tan Sri Dato' Seri 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.

He has extensive experience in managing a provident fund and in the establishment, restructuring and management of various business interest ranging from plantation, trading, financial services, property development, oil and gas, pharmaceuticals to shipbuilding. 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.

He 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 Board 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. Among the many awards Tan Sri Dato' Seri Lodin received to-date include the Chevalier De La Legion D'Honneur from the French Government, the Malaysian Outstanding Entrepreneurship Award, the Degree of Laws honoris causa from the University of Nottingham, United Kingdom, the UiTM Alumnus of the Year 2010 Award and The BrandLaureate Most Eminent Brand ICON Leadership Award 2012 by Asia Pacific Brands Foundation.

Tan Sri Dato' Seri Lodin bin Wok Kamaruddin attended all 13 Board Meetings held during the financial year ended 31 December 2012.

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 1965, 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.

Presently he is the Executive Deputy Chairman / Managing Director of Boustead Heavy Industries Corporation Berhad. He is also the Board member of Muhibbah Engineering (M) Berhad and Favelle Favco Berhad.

Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor attended all 13 Board Meetings held during the financial year ended 31 December 2012.

YBHG. TAN SRI DATO' SERI MOHAMED JAWHAR

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 the 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. He was appointed 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 while 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.

Tan Sri Dato' Seri Mohamed Jawhar attended 12 out of the 13 Board Meetings held during the financial year ended 31 December 2012.

EN. MOHD SUFFIAN BIN HAJI HARON

Independent Non-Executive Director

En. Mohd Suffian bin Haji Haron, aged 67, 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).

Presently he is the Board member of AFFINBANK, L.K. & Associates Sdn Bhd and Pharmaniaga Bhd.

En. Mohd Suffian bin Haji Haron attended all 13 Board Meetings held in the financial year ended 31 December 2012.

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). Apart from serving ISRA, he also serves as an Independent Director of Affin Islamic Bank. He sits as the Chairman of AFFIN ISLAMIC Shariah Committee and Shariah consultant and advisor to several financial institutions and advisory firms including Maldives Capital Market Development Authority, AIA AFG Takaful Berhad, Maldives Allied Insurance Pvt Ltd., London-based Mortgage Company Chain Mender Limited, London-based Halal Industries PLC, US-Based Islamic Financial Institution United Chartered Bank (UCB), PriceWaterhouseCoopers (PWC) Malaysia, and Singapore-based IFIS Business Advisory Pte Ltd.

He is also a member of the Board of Studies for Islamic Finance Programme at International Islamic University Malaysia (IIUM), University Utara Malaysia (UUM), University Tun Abdul Razak (UniRAZAK) and Associate Fellow at ISDEV, University Sains Malaysia (USM).

He holds Master of Science degree in Islamic Economics, Banking and Finance and PhD in Islamic Banking and Finance from Loughborough University, United Kingdom.

His articles have been published in numerous international and local refereed academic journals. One of his articles entitled "Banking for the Poor: The Role of Islamic Banking in Microfinance Initiatives" was awarded as the 2009 Outstanding Paper Award by the well-known International Referred Journal Article Publisher Emerald Literati Network.

In 2011, he was also conferred with Global Islamic Finance Award for the category "The Most Upcoming Personality in Islamic Finance" in Oman Islamic Economic Forum. Apart from that he has presented papers at both local and international conferences including London, New Zealand, Luxembourg, Bahrain, Doha, Kuwait, Berlin, Dubai, Tehran, Istanbul, Oman, 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 both local and international.

Associate Professor Dr. Asyraf Wajdi bin Dato' Dusuki attended 12 out of 13 Board Meetings held during the financial year ended 31 December 2012.

YBHG. TAN SRI DATO' SRI ABDUL AZIZ BIN ABDUL RAHMAN

Independent Non-Executive Director

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

He graduated with a Bachelor of Commerce from University of New South Wales, Sydney, Australia. He is a 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 the Board member of AFFINBANK, the International Islamic University Malaysia and University Malaysia Pahang.

Tan Sri Dato' Sri Abdul Aziz bin Abdul Rahman attended 12 out of the 13 Board Meetings held during during the financial year ended 31 December 2012.

MANAGEMENT TEAM

En. Kamarul Ariffin Mohd Jamil
Chief Executive Officer

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

En. Hazlan bin Hasan
Head, Business Banking

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

En. Saiful Anuar bin Hambali
Head, Shariah Supervisory

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

En. Lokman bin Shamsuddin
Head, Business Banking Support

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)

Pn. Norhayati binti Mohd Shah
Head, Product Development

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). Apart from serving ISRA, he also serves as an Independent Director of Affin Islamic Bank. He sits as the Chairman of AFFIN ISLAMIC Shariah Committee and is a Shariah consultant and advisor to several financial institutions and advisory firms including Maldives Capital Market Development Authority, AIA AFG Takaful Berhad, AIA Takaful International, London-based Mortgage Company Chain Mender Limited, London-based Halal Industries PLC, US-Based Islamic Financial Institution United Chartered Bank (UCB) and Singapore-based IFIS Business Advisory Pte Ltd. He is also a member of the Board of Studies for Islamic Finance Programme at International Islamic University Malaysia (IIUM), University Utara Malaysia (UUM), University of Management and Technology (UMTECH) and Associate Fellow at ISDEV, University Sains Malaysia (USM). He holds a Master of Science degree in Islamic Economics, Banking and Finance and PhD in Islamic Banking and Finance from Loughborough University, United Kingdom. His articles have been published in numerous international and local refereed academic journals. One of his articles 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. In 2011, he was also conferred with a Global Islamic Finance Award for the category "The Most Upcoming Personality in Islamic Finance" in Oman Islamic Economic Forum. Apart from that, he has presented papers at both local and international conferences including London, New Zealand, Luxembourg, Bahrain, Doha, Kuwait, Berlin, Dubai, Tehran, Istanbul, Oman, 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 both local and international.

ASSOCIATE PROFESSOR DR BOUHERAOUA SAID

Associate Professor Dr. Bouheraoua Said obtained a Bachelor in Fiqh and Usul Fiqh from the 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. He was also an Associate Professor at Department of Islamic Law, Ahmad Ibrahim Kulliyyah of Laws, IIUM and Coordinator of Arabic Unit at the faculty. He is an expert in the research area of Usul Fiqh/Shariah in terms of providing Shariah ruling based on Islamic legal sources which contribute to the authentic innovation in Islamic Banking and Finance. He is currently 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, organised by International Institute of Islamic Thought & IIUM.

ASSISTANT PROFESSOR DR. AHMAD AZAM OTHMAN

Assistant Professor Dr. Ahmad Azam Othman is currently an Assistant Professor at Islamic Law Department, Ahmad Ibrahim Kulliyyah of Laws (AIKOL), International Islamic University Malaysia (IIUM). He was the Director of Harun M. Hashim Law Centre, AIKOL, IIUM and the Head of Islamic Law Department, AIKOL, IIUM. His specialised areas are Islamic law of Property, Transactions, Personal 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 a number of PhD Theses 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 a 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 the Shariah and Law Faculty, Islamic Science University of Malaysia (USIM). He is also a Shariah panel for the Institute of Fatwa Management and Research, USIM. Besides these appointments, he is 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 an 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. His articles have been numerously published in various academic journals and he has presented many papers in various conferences both local and abroad. His research includes corporate and Shariah governance and regulation in Islamic finance. His recent book entitled 'Shari'ah Governance in Islamic Banks: Edinburgh Guides to Islamic Finance' published by the Edinburgh University Press, UK is available in the market. Dr. Zulkifli Hasan holds a PhD in Islamic Finance from Durham University, UK. Besides this, he holds a 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.

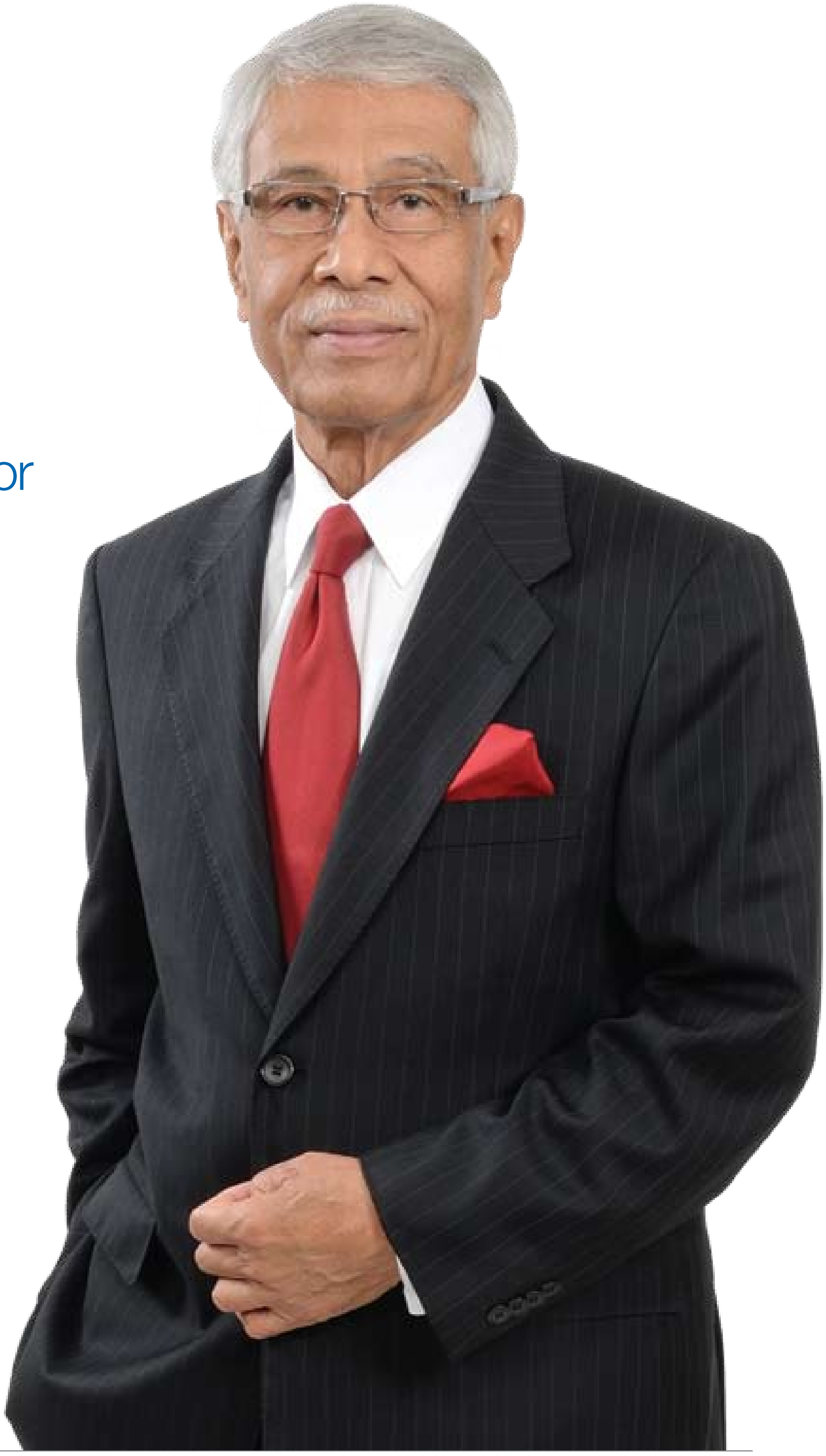
DR. YASMIN HANANI MOHD SAFIAN

Dr. Yasmin Hanani Mohd Safian is the Dean of Faculty Shariah and Law, Universiti Sains Islam Malaysia. 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 a series of research and academic writing including The Small and Medium Sized Enterprises (SMEs)'s Perception Towards Islamic Banking Product and Services, Legal Evidences in Utilizing Fiat Money, Masalih Mursalah and its Application in Islamic Banking Finance-A Case Study on BBA, Variable Rate Financing in Malaysian Islamic Banking, Sistem Ekonomi Kerajaan Turki Uthmaniyyah, Legal Issues in Takaful and The Development of Islamic Wealth Management. Dr. Yasmin has actively participated in paper presentations in many seminars and conferences nationally and internationally including in Pennyslvania USA, United Kingdom, Italy, Egypt and Brunei. She is also actively involved in academic paper reviewing, examining of PhD theses, supervising Masters and PhD students as well as conducting research grants which are related to muamalat, Islamic banking and takaful.

CHAIRMAN'S STATEMENT

Assalamualaikum w.b.t.
Dear Shareholders,

On behalf of the Board of Directors, I hereby present the Annual Report and Financial Statements for Affin Islamic Bank Berhad for the financial year ended 31 December 2012.



Globally, Islamic finance grew strongly in 2012, spurred by rising demand for Islamic financial services and a strong sukuk market. The Islamic finance sector has become the fastest growing segment in the global financial industry.

The continuing Eurozone crisis which impacted the European banking system saw many businesses looking to Islamic finance as a stable alternative. This fuelled further growth of the Islamic finance system in traditional markets such as the GCC region and Malaysia as well as non-traditional regions such as Europe.

Domestically, Malaysia continued to grow as an international Islamic financial hub. The country maintained its position as a global sukuk market leader and a preferred destination for Islamic funds.

According to the Economic Report 2012/2013 released by the Ministry of Finance, Malaysia the Islamic banking business continued to expand in the first seven months of 2012 with total assets increasing 20.6% to RM469.5 billion, representing 24.2% of the country's banking system's assets.

Growth was driven mainly by increasing awareness and acceptance towards Islamic finance from the retail and institutional sectors, strong government support, greater product innovation and a comprehensive legal, tax, accounting, regulatory and supervisory framework.

Against this backdrop, Affin Islamic Bank Berhad ("AFFIN ISLAMIC" or "the Bank") continued to register healthy growth in its financial and operational performance.

Profit before zakat and taxation grew by 42.1% from the previous financial year to reach RM106.4 million. Total customer deposits from all customer segments reached RM9.0 billion – a 20.9% increase from 2011. Total financing also expanded by 16.6% to RM5.2 billion.

2012 has been a positive year for AFFIN ISLAMIC. The year under review saw the Bank making significant strides in financial performance, and successfully expanding its business. Among the highlights included the opening of the 8th AFFIN ISLAMIC branch, located in Bangi, Selangor and the introduction of several new Shariah based products to bring new business to the Bank.

Aside from business, throughout the year the Bank gave back to the community by contributing zakat of more than RM8 million in total to eligible recipients.

Other highlights included a zakat contribution to 70 hardcore poor residents in Bagan Datoh, Perak, to repair their houses as part of the 'Program Baik-Pulih Rumah Asnaf Miskin'. The Bank also collaborated with Majlis Agama Islam Dan Adat Melayu Terengganu (MAIDAM) and the State Government for the building and handing over of houses to 40 underprivileged families, a project worth more than RM2.0 million. To continue to show its support towards the Malaysian Armed Forces, AFFIN ISLAMIC contributed RM500,000 zakat to Tabung Zakat Angkatan Tentera Malaysia (TZ ATM) within Kor Agama Angkatan Tentera (KAGAT).

In addition to this, in August 2012, AFFIN ISLAMIC contributed RM90,000 as part of zakat for Harian Metro's Titipan Kasih, a program that aims to ease the burden of the poor, orphans and single mothers. AFFIN ISLAMIC also extended zakat contribution to Raudhatus Sakinah, an institution which provides shelter and protection to single

+42.1%

Profit Before Zakat & Taxation

+16.6%

Financing Growth

mothers and teenagers involved in social problems such as abuse and sexual assault. The institution offers counselling for these young single mothers, some as young as 14-years-old and incorporates various programmes and activities for character development to improve their future. These include Fardhu 'Ain and other religious syllabus, motivation courses, sports and recreational activities, skills development and counselling.

As part of its ongoing efforts to encourage poor students to further their studies, the Bank also contributed zakat of up to RM150,000 each to eight (8) local universities.

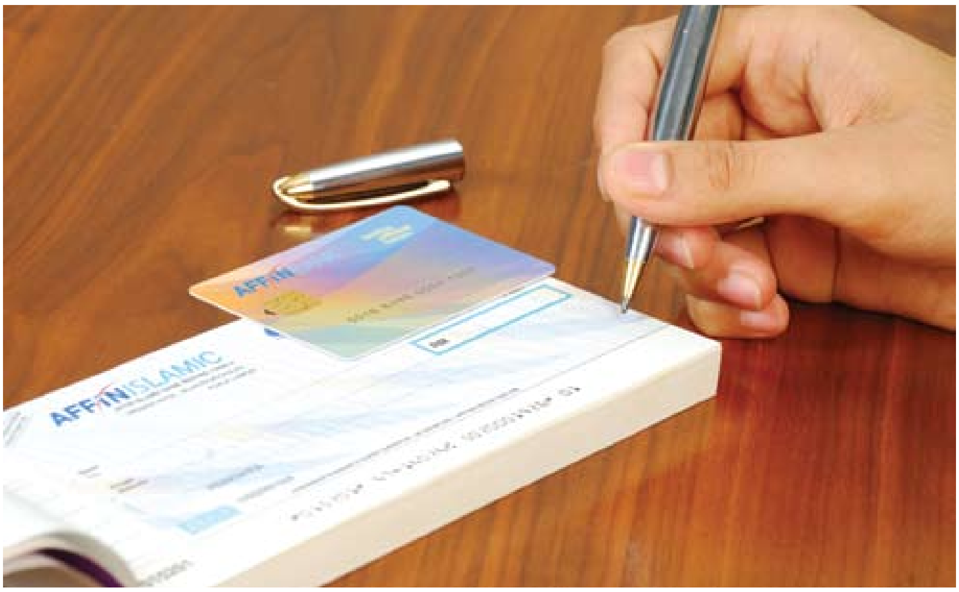
Prospects & Outlook

The global Islamic finance sector continues to grow rapidly, fuelled by the continued weakness of the global financial system, greater harmonisation between varying jurisprudence and the growing awareness and acceptance towards Islamic finance. Ernst & Young's World Islamic Banking Competitiveness Report 2013 has cited that global Islamic banking assets held by commercial banks are set to cross US$1.8 trillion in 2013, up from the US$1.3 trillion of assets held in 2011.

As Islamic banking and finance continues to mature, better systems and solutions for retail and business customers will come into place. This is evident throughout the world, not just in Islamic financial capitals, but even in Western Europe, Africa and even East Asia. Islamic finance is no longer viewed merely as an alternative to conventional financing, but is very much emerging as a comparative financial system with equal standing.

Locally, prospects remain positive for the sector. The driving factors continue to remain intact, providing a conducive environment for the continued growth and progress of Islamic banking and finance in the country. It is estimated that in Malaysia, Islamic banking and finance will grow at an increasingly faster rate in 2013.

+20.9%
Customer Deposits Growth



Supported by a fairly buoyant economy and continued growth in the public and private sector consumption and investment, the Bank is confident that the outlook is positive for the year ahead.

Given this scenario, AFFIN ISLAMIC will continue to perform well given its unique value proposition, diverse portfolio of products and its sound business strategy. Furthermore, the continued ability to leverage on the parent bank will hold the Bank in good stead going forward.

It is expected that competition will intensify as new market entrants and new products enter in 2013. However, AFFIN ISLAMIC is of the view that this would be a positive catalyst in driving industry-wide improvement among Islamic finance players. Competition will promote greater innovation in banking products, improve customer service as well as contribute to a more robust Islamic finance eco-system in Malaysia.

Going forward, the Bank will focus on further developing its business, especially in the deposits sector to avoid over reliance on government related accounts. We expect the retail and SME segments to be prominent business drivers for the Bank in 2013. The Bank will also look to grow its fee-based income and further increase its non-fund based income contribution to total income.

In establishing its market presence, the Bank will look to further expand its branch network, particularly in key locations that offer growth potential. This would be areas with a large retail or commercial base in fast growing locations across the country. Alternatively, branches may be relocated to more strategic areas to realise this objective.

AFFIN ISLAMIC anticipates that 2013 will provide better growth opportunities and compelling demand from various segments of customers especially within ASEAN as we explore to expand our business in Indonesia and China. The Bank will seek to leverage on these opportunities to ensure that it remains a significant and relevant entity to the growth of Islamic Banking.

Ultimately, AFFIN ISLAMIC like its parent bank aims to maintain its upward momentum in creating sustainable, long-term income for the Bank while developing new and innovative Shariah based products that are acceptable to customers. These underlying efforts will be supported by the Bank's push to create new wealth via new income streams as well as regional expansion.

Acknowledgements

On behalf of the Board, I wish to express our appreciation to all AFFIN ISLAMIC employees for their steadfast dedication, professionalism and efforts during the year under review. I also wish to extend the Board's appreciation to the Management Team for steering the Bank to another year of growth and profitability.

Last but not least, I wish to say thank you to our customers and business partners for their support; and my fellow Board members and the relevant Board Committees for their counsel and guidance in what has been a positive year under review for AFFIN ISLAMIC Bank.

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

PERFORMANCE REVIEW

The year under review saw AFFIN ISLAMIC delivering continued improvement in business performance as reflected by its stronger balance sheet underpinned by growing income and profitability.

For 2012, the Bank's total net income stood at RM204.0 million. This is a 22.3% increase compared to the previous financial year. Profit before zakat and taxation had risen by 42.1% to RM106.4 million while profit after zakat and taxation was recorded at RM73.8 million – a 48.2% increase from 2011. Earnings per share (EPS) was 25.8 sen compared to 19.2 sen in the previous financial year.

Customer deposits saw a healthy increase of 20.9% or RM1.6 billion to set a record high of RM9.0 billion.

Total gross financing, advances and other financing grew by 16.6% to reach RM5.2 billion.

The major contributor to growth in financing was the retail segment which presented 65.4% of the financing growth.

AFFIN ISLAMIC also successfully improved the growth of its assets. The Bank maintained a healthy balance sheet with total assets amounting to RM11.7 billion, which is a 11.3% improvement compared to 2011. In maintaining asset quality, AFFIN ISLAMIC practised prudence in ensuring that any debts accepted were of lower risk and higher profitability.

As at December 31, 2012, the Net Impaired Financing ratio for AFFIN ISLAMIC had improved 53 basis points to 1.62%, while capital ratio remains strong, well above the

+48.2%
Profit After Zakat and Taxation

+11.3%
Total Assets Growth

1.62% Net Impaired Financing Ratio	**15.15%** Risk Weighted Capital Ratio	**+24.1%** Income Growth (Investment Activities)

recommended industry benchmark with Core Capital Ratio (CCR) and Risk Weighted Capital Ratio (RWCR) measuring at 14.61% and 15.15% respectively.

Total income derived from investment activities also had a growth of 24.1% rising to RM483.6 million in 2012 from RM389.8 million in 2011.

The Bank's improved performance was driven by its successful House and Car Financing businesses, the introduction of new Shariah based products and the expansion of its fee-based products and recurring income operations. Low cost deposits also contributed significantly to business growth.

AFFIN ISLAMIC also benefited from the existing synergy and close working relationship with the parent bank, Affin Bank Berhad (AFFINBANK). A key driver in the Bank's improved performance was its ability to leverage on AFFINBANK's 100-strong branch network nationwide (of which eight (8) are AFFIN ISLAMIC branches) and the various promotional campaigns initiated by the parent bank. This relationship also extended to cross sharing of industry expertise, talent and other resources that allowed for greater cost effectiveness and market reach for AFFIN ISLAMIC throughout the year.

Nevertheless, AFFIN ISLAMIC continued to develop its own identity as a wholly-owned subsidiary in 2012. Towards this end, AFFIN ISLAMIC's 8th, fully-dedicated, Islamic branch was opened in February in Bangi, Selangor. The opening is a reflection of the Bank's commitment to further develop its branch network, to promote its products to the market and to create greater awareness and acceptance of AFFIN ISLAMIC as a premier Islamic financial institution in Malaysia.

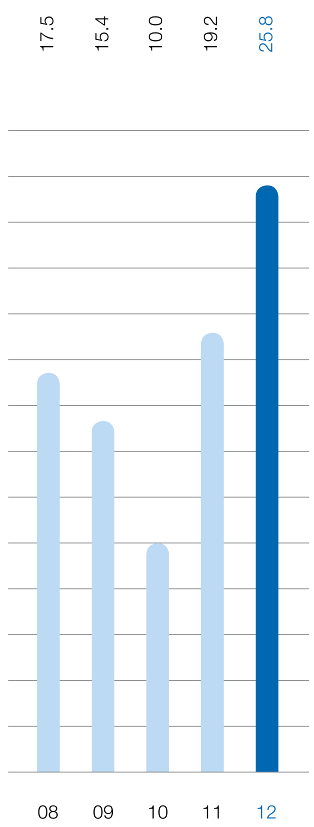
The financial year was also noteworthy for AFFIN ISLAMIC's foray into the regional Islamic banking market through strategic partnerships. The decision to expand regionally is in line with the Bank's aspirations to seek new opportunities outside of Malaysia and to develop new markets in fast-growing economies such as China and Indonesia.

Going forward, the Bank is of the view that Islamic finance will continue to grow in acceptance among all customer segments, Muslim and non-Muslim alike. Given the external developments within the Islamic banking ecosystem, both globally and in Malaysia, 2013 is likely to harbour renewed prospects for growth and progress. The market, barring any unforeseen circumstances will continue to grow at a healthy pace. As such, the outlook for the upcoming financial year remains positive.

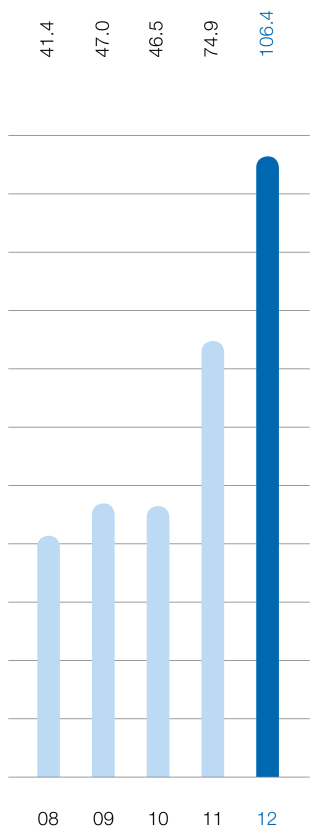
AFFIN ISLAMIC, given its track record for success and its sound business fundamentals is well poised to tap this growing market and further establish itself as a leading player within Malaysia and regionally.

FINANCIAL HIGHLIGHTS

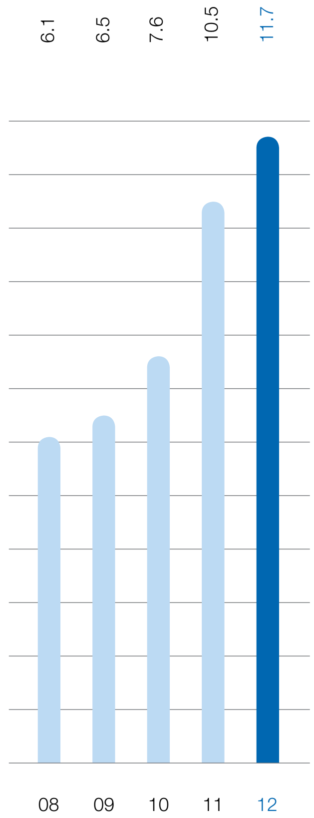
Earnings Per Share (EPS)
(Sen)



Profit Before Zakat And Taxation
(RM'million)



Total Assets
(RM'billion)

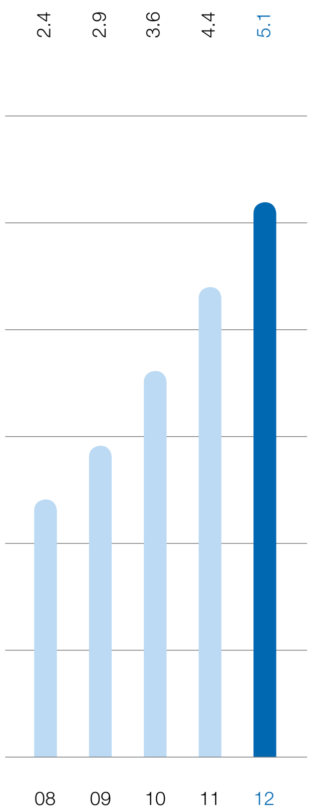


The Bank's EPS for the financial year ended 31 December 2012 stood at 25.8 sen, compared to 19.2 sen the year before.

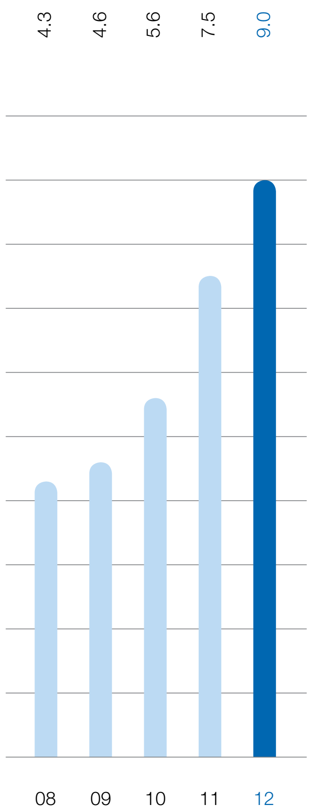
The Bank achieved profit before zakat and taxation of RM106.4 million, a commendable 42.1% rise for the year ended 31 December 2012, compared to RM74.9 million in 2011. The Bank's profit after zakat and taxation also rose by 48.2% to RM73.8 million for the year ended 31 December 2012.

The Bank's financial position as at 31 December 2012 continued to remain strong with total assets of RM11.7 billion, an increase of 11.3% compared with RM10.5 billion as at 31 December 2011.

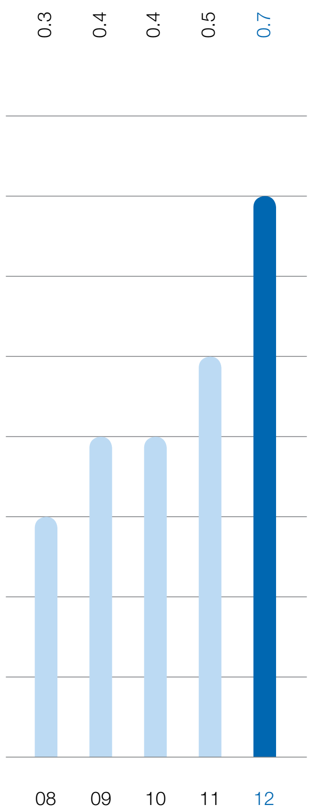
Net Financing, Advances & Other Financing
(RM'billion)



Deposits From Customers
(RM'billion)



Shareholders' Equity
(RM'billion)



The Bank's net financing, advances and other financing grew by 17.6% to RM5.1 billion compared with RM4.4 billion in 2011, as economic activities and demand for credit gathered momentum during the year under review.

Total deposits increased by 20.9% year-on-year to RM9.0 billion as at 31 December 2012, in correspondence to the Bank's financing growth.

Total shareholders' equity of the Bank increased by 36.1% to RM0.7 billion from RM0.5 billion the year before.

CORPORATE DIARY

January – August 2012

As part of its ongoing efforts to encourage poor students to further their studies, AFFIN ISLAMIC contributes a portion of its wealth towards education purposes. The following Universities received up to RM150,000 zakat contribution from AFFIN ISLAMIC:

- Universiti Teknologi Mara
- Universiti Malaysia Pahang
- Universiti Pendidikan Sultan Idris
- Universiti Utara Malaysia
- Universiti Malaya
- Universiti Teknologi Malaysia
- Management Science University
- International Islamic University Malaysia

13 February 2012

AFFIN ISLAMIC opens its 8th fully dedicated Islamic branch in Bangi.

1 June 2012

AFFIN ISLAMIC makes a zakat contribution of RM750,000 for *'Program Baik-Pulih Rumah Asnaf Miskin'*, to help 70 poor and needy residents in Bagan Datoh to repair and rebuild their homes.

26 July 2012

AFFIN ISLAMIC participates in the handing over of houses to some 40 underprivileged families, as part of its zakat contribution. The project, worth about RM2,055,600, is a collaborative effort between AFFIN ISLAMIC, Majlis Agama Islam Dan Adat Melayu Terengganu (MAIDAM) and the State Government.

2 August 2012

AFFIN ISLAMIC contributes RM500,000 as zakat payment to Tabung Zakat Angkatan Tentera Malaysia (TZ ATM) within Kor Agama Angkatan Tentera (KAGAT) to show its support towards the Malaysian Armed Forces.

11 – 15 August 2012

AFFIN ISLAMIC contributes RM90,000 as zakat for Harian Metro's *Titipan Kasih*, a program which helps ease the burden of the poor, orphans and single mothers.

18 – 20 September 2012

AFFIN ISLAMIC participates in the Global Islamic Finance Forum to enhance the Bank's presence and branding equity to all local and international delegates.

9 October 2012

AFFIN ISLAMIC contributes RM50,000 zakat to Raudhatus Sakinah, to show support to an institution which provides shelter and protection to troubled teenagers. The institution provides classes that can build self-confidence for the trainees such as Fardhu 'Ain, other religious syllabus, motivation, sports and recreation, skills, and counseling.

15 – 17 October 2012

AFFIN ISLAMIC participates in Kuala Lumpur Islamic Finance Forum 2012, a platform to update staff on Shariah contemporary issues and challenges.

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 **7TH 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 **MONDAY**, **25 MARCH 2013** AT **9.00 A.M.** FOR THE TRANSACTION OF THE FOLLOWING BUSINESS:-

Agenda:

1. To receive the Statutory Statements of Accounts for the year ended 31 December 2012 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 Association and who, being eligible offer themselves for re-election:-

   (a) YBhg. Tan Sri Dato' Seri Lodin bin Wok Kamaruddin
   (b) YBhg. Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara)

3. 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".

4. To approve Directors' Fees.

5. To re-appoint Messrs. PricewaterhouseCoopers as Auditors for the financial year ending 31 December 2013 and to authorise the Directors to fix their remuneration.

6. To transact any other ordinary business of the Company.

BY ORDER OF THE BOARD

NIMMA SAFIRA BINTI KHALID
Secretary

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

The Directors hereby submit their report together with the audited financial statements of the Bank for the financial year ended 31 December 2012.

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	106,422	106,652
Zakat and taxation	(32,590)	(32,590)
Net profit for the financial year	**73,832**	**74,062**

DIVIDENDS

No dividends have been paid by the Bank in respect of the financial year ended 31 December 2011 and 2012.

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

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

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

Tan Sri Dato' Sri Abdul Aziz bin Abdul Rahman
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

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 Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

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 2012 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 146 of the financial statements.

DIRECTORS' INTERESTS

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

	Ordinary shares of RM1 each			
	As at 1.1.2012	Bought	Sold	As at 31.12.2012
AFFIN Holdings Berhad				
Tan Sri Dato' Seri Lodin bin Wok Kamaruddin	* 808,714	-	-	808,714
Boustead Heavy Industries Corporation Berhad				
Tan Sri Dato' Seri Lodin bin Wok Kamaruddin	2,000,000	-	-	2,000,000
Boustead Petroleum Sdn Berhad				
Tan Sri Dato' Seri Lodin bin Wok Kamaruddin	5,916,465	-	-	5,916,465
Al-Hadharah Boustead REIT				
Tan Sri Dato' Seri Lodin bin Wok Kamaruddin	250,000	-	-	250,000
Pharmaniaga Berhad				
Tan Sri Dato' Seri Lodin bin Wok Kamaruddin	3,184,538	^ 2,700,266	202,918	5,681,886

* Shares held in trust by nominee company

^ Part of shares acquired under BHB Divestment 2 on 10 January 2012 - 1,201,649
Bonus issue - 1:10 issued on 20 February 2012 - 438,617
Employee Share Award Scheme (credited on 12 June 2012) - 60,000
Divestment by Boustead Holdings Berhad through connected parties - 1,000,000

DIRECTORS' INTERESTS

	Ordinary shares of RM10 each; RM5 uncalled			
	As at 1.1.2012	Bought	Transfer	As at 31.12.2012
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 1.1.2012	Bought	Sold	As at 31.12.2012
Boustead Holdings Berhad				
Tan Sri Dato' Seri Lodin bin Wok Kamaruddin	26,011,599	+ 2,601,159	420,000	28,192,758

+ Bonus issue issued on 11 October 2012

	Redeemable preference shares of RM1 each			
	As at 1.1.2012	Bought	Sold	As at 31.12.2012
Boustead Petroleum Sdn Berhad				
Tan Sri Dato' Seri 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 25 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, 13 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

(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) and 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) *Chairman / Non-Independent Non-Executive Director*	13 / 13
Tan Sri Dato' Seri Lodin bin Wok Kamaruddin *Member / Non-Independent Non-Executive Director*	13 / 13
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara) *Member / Non-Independent Non-Executive Director*	13 / 13
Tan Sri Dato' Sri Abdul Aziz bin Abdul Rahman *Member / Independent Non-Executive Director*	12 / 13
Tan Sri Dato' Seri Mohamed Jawhar *Member / Independent Non-Executive Director*	12 / 13
En. Mohd Suffian bin Haji Haron *Member / Independent Non-Executive Director*	13 / 13
Associate Professor Dr. Asyraf Wajdi bin Dato' Dusuki *Member / Independent Non-Executive Director*	12 / 13

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:

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.

CORPORATE GOVERNANCE

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

Board Committees (continued)

Nomination Committee (continued)

There were 4 meetings held during the financial year ended 31 December 2012. The Nomination Committee comprises the following members:

Members	Total Meetings Attended
En. Mohd Suffian bin Haji Haron *Chairman / Independent Non-Executive Director*	4 / 4
Tan Sri Dato' Seri Lodin bin Wok Kamaruddin *Member / Non-Independent Non-Executive Director* *(Appointed as member w.e.f 13 January 2012)*	3 / 3
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara) *Member / Non-Independent Non-Executive Director*	4 / 4
Tan Sri Dato' Sri Abdul Aziz bin Abdul Rahman *Member / Independent Non-Executive Director* *(Appointed as member w.e.f 13 January 2012)*	3 / 3
Tan Sri Dato' Seri Mohamed Jawhar *Member / Independent Non-Executive Director*	4 / 4

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 4 meetings held during the financial year ended 31 December 2012. The Remuneration Committee comprises the following members:

Members	Total Meetings Attended
Tan Sri Dato' Seri Mohamed Jawhar *Chairman / Independent Non-Executive Director*	4 / 4
Tan Sri Dato' Seri Lodin bin Wok Kamaruddin *Member / Non-Independent Non-Executive Director* *(Appointed as member w.e.f 13 January 2012)*	3 / 3
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara) *Member / Non-Independent Non-Executive Director*	4 / 4

CORPORATE GOVERNANCE

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

Board Committees (continued)

Shariah Committee

The AFFIN Islamic Bank Berhad'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 AFFIN Islamic Bank Berhad on matters to be referred to the Shariah Advisory Council.

During the financial year ended 31 December 2012, a total of 12 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 *Chairman*	12 / 12
Associate Professor Dr. Said Bouheraoua *Member*	11 / 12
Assistant Professor Dr. Ahmad Azam bin Othman *Member*	12 / 12
Dr. Yasmin Hanani binti Mohd Safian *Member*	12 / 12
Dr. Zulkifli bin Hasan *Member*	11 / 12

CORPORATE GOVERNANCE

(ii) Group Risk Management

The Group 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 Group Risk Management function provides support to the Board Risk Management Committee ('BRMC'). Committees namely Board Loan Review and Recovery Committee ('BLRRC'), Management Committee ('MCM'), Group Management Loan Committee ('GMLC'), Asset and Liability Management Committee ('ALCO'), Group Operational Risk Management Committee ('GORMC') and Early Alert Committee ('EAC') assist the BRMC in managing credit, market, liquidity and operational risks respectively.

Responsibilities of these committees include:
- risk identification
- risk assessment and measurement
- risk control and migration
- risk monitoring

Board Risk Management Committee ('BRMC')

The main function of Board Risk Management Committee ('BRMC') is to assist the Board in its supervisory role in the management of risk in the Bank. It has responsibility for approving and reviewing all risk management policies and methodologies of the Bank. BRMC also reviews guidelines and portfolio management reports including risk exposure information.

BRMC provides 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 30 to 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 *Member / Independent Non-Executive Director*	5 / 6

Board Loan Review and Recovery Committee ('BLRRC')

Board Loan Review and Recovery Committee ('BLRRC') critically reviews loans 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 loan applications that have been accepted by the Group Management Loan Committee ('GMLC'). The Committee is also responsible to review the impaired loans presented by Management.

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

	Total Meetings Attended
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara) *Member / Independent Non-Executive Director*	12 / 12

CORPORATE GOVERNANCE

(ii) Group Risk Management (continued)

Management Committee ('MCM')

MCM comprising the senior management team chaired by the MD/CEO, assists the Board in managing the day-to-day operations and ensure its effectiveness. MCM formulates tactical plans and business strategies, monitors the Bank'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')

Group Management Loan Committee ('GMLC') 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.

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 interest rate exposure;
- Determine the overall Balance Sheet strategy and ensuring policy compliance;
- Determined 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 modeling and stress/scenario tests.

Group Operational Risk Management Committee ('GORMC')

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.

CORPORATE GOVERNANCE

(ii) Group Risk Management (continued)

Early Alert Committee ('EAC')

Early Alert Committee ('EAC') is established within senior management chaired by 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.

(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.

- 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.

CORPORATE GOVERNANCE

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

Internal Controls (continued)

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 2012 and the following Independent Non-Executive Directors of the Bank sit in the meeting:

Members	Total Meetings Attended
Tan Sri Dato' Seri Mohamed Jawhar *Member / Independent Non-Executive Director*	7 / 7
Associate Professor Dr. Asyraf Wajdi bin Dato' Dusuki *Member / Independent Non-Executive Director* *(Appointed as member w.e.f. 13 January 2012)*	6 / 6

(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 fulfill their duties and specific responsibilities.

BUSINESS PLAN AND STRATEGY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

AFFIN Islamic has been growing and developing progressively for the past six 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 2012, 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 2012, AFFIN Islamic performed well recording the highest profit before taxation since inception at RM106.4 million. The good performance was a result of strong gross financing growth by 16.6% to RM5.2 billion while total customer deposits (excluding treasury deposits) grew 25.6% to RM8.2 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, and Bai Bithaman Ajil concepts.

While ascertaining its business growth, the Bank knows that the community is also one of the main drivers of the industry. For year 2012, the Bank has been proactive in its zakat distribution activities as follows:

- Constructed 56 houses for the hard-core poor in Terengganu, Kelantan, Perak, Penang, Kedah and Pahang.
- Upgraded and repaired 68 houses for the hard-core poor in Bagan Datoh, Baling and Tumpat.
- RM1.5 million financial aid to several Religious Bodies.
- RM2.0 million zakat contribution for needy students of Higher Education Institutions (IPT).
- RM1.4 million financial aid to other needy people, bodies and organisations.

BUSINESS OUTLOOK FOR 2013

In 2013, AFFIN Islamic will look into the following areas:

- Continue to increase business revenue:
  - Improve existing business by expanding existing successful business and improving underperforming business
  - Introduce new business/products
  - Improve profit margin and fee income growth
  - Value added product/ cross selling opportunities
  - Review product/pricing/package competitiveness against competitors
  - Step-up marketing and sales performance at both Head Office and branches
  - Capabilities and capacity building, including opening of new branches

- More efficient use of Group distributional channels and services.

- Continuous improvement in Financing assets portfolio.

- Closer synergy and teamwork with Parent Bank to drive Group Business goals and aspirations.

- Increase market visibility.

- Continuous migration towards globally accepted Shariah based products and practices.

AFFIN Islamic is confident that the business climate will be favourable 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 2013 will provide growth opportunities in various business segments especially within the ASEAN region. 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 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.

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 2013.

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 2012

		Economic Entity			The Bank		
	Note	**31.12.2012 RM'000**	31.12.2011 RM'000	1.1.2011 RM'000	**31.12.2012 RM'000**	31.12.2011 RM'000	1.1.2011 RM'000
ASSETS							
Cash and short-term funds	2	**4,076,266**	4,455,700	2,639,972	**4,076,266**	4,455,700	2,639,972
Deposits and placements with banks and other financial institutions	3	**250,086**	-	-	**250,086**	-	-
Financial investments available-for-sale	4	**1,979,812**	1,480,275	1,345,236	**1,979,812**	1,480,275	1,345,236
Financing, advances and other financing	5	**5,143,356**	4,374,205	3,555,596	**5,143,356**	4,374,205	3,555,596
Other assets	7	**64,317**	48,002	1,534	**64,317**	48,002	1,534
Amount due from jointly controlled entity		**2,745**	2,745	2,745	**2,745**	2,745	2,745
Tax recoverable		**-**	3,422	3,816	**-**	3,422	3,816
Deferred tax assets	8	**-**	-	4,291	**-**	-	4,291
Statutory deposits with Bank Negara Malaysia	9	**201,500**	160,000	-	**201,500**	160,000	-
Investment in jointly controlled entity	10	**60**	290	500	**500**	500	500
Property and equipment	11	**3,027**	3,017	2,123	**3,027**	3,017	2,123
Intangible assets	12	**2,458**	3,255	1,462	**2,458**	3,255	1,462
TOTAL ASSETS		**11,723,627**	10,530,911	7,557,275	**11,724,067**	10,531,121	7,557,275
LIABILITIES AND EQUITY							
Deposits from customers	13	**9,042,261**	7,477,239	5,552,432	**9,042,261**	7,477,239	5,552,432
Deposits and placements of banks and other financial institutions	14	**1,839,724**	2,199,144	1,351,094	**1,839,724**	2,199,144	1,351,094
Other liabilities	15	**23,521**	16,798	36,704	**23,521**	16,798	36,704
Amount due to holding company	16	**153,296**	355,535	183,541	**153,296**	355,535	183,541
Provision for taxation		**9,560**	-	-	**9,560**	-	-
Deferred tax liabilities		**266**	907	-	**266**	907	-
TOTAL LIABILITIES		**11,068,628**	10,049,623	7,123,771	**11,068,628**	10,049,623	7,123,771
Share capital	17	**360,000**	260,000	260,000	**360,000**	260,000	260,000
Reserves	18	**294,999**	221,288	173,504	**295,439**	221,498	173,504
TOTAL EQUITY		**654,999**	481,288	433,504	**655,439**	481,498	433,504
TOTAL LIABILITIES AND EQUITY		**11,723,627**	10,530,911	7,557,275	**11,724,067**	10,531,121	7,557,275
COMMITMENTS AND CONTINGENCIES	29	**1,569,943**	1,889,674	2,022,889	**1,569,943**	1,889,674	2,022,889

The accounting policies on pages 60 to 74 and the notes on pages 75 to 145 form an integral part of these financial statements.

INCOME STATEMENTS

for the financial year ended 31 December 2012

	Note	Economic Entity 31.12.2012 RM'000	Economic Entity 31.12.2011 RM'000	The Bank 31.12.2012 RM'000	The Bank 31.12.2011 RM'000
Income derived from investment of depositors' funds and others	19	**459,994**	368,911	**459,994**	368,911
Income derived from investment of shareholders' funds	20	**23,650**	20,852	**23,650**	20,852
Allowances for losses on financing	21	**15,420**	(10,773)	**15,420**	(10,773)
Total distributable income		**499,064**	378,990	**499,064**	378,990
Income attributable to the depositors	22	**(295,030)**	(212,092)	**(295,030)**	(212,092)
Transfer from profit equalisation reserve	15(a)	**-**	-	**-**	-
Total net income		**204,034**	166,898	**204,034**	166,898
Personnel expenses	23	**(61,339)**	(55,199)	**(61,339)**	(55,199)
Other overheads and expenditures	24	**(36,043)**	(36,605)	**(36,043)**	(36,605)
		106,652	75,094	**106,652**	75,094
Share of joint venture's results		**(230)**	(210)	**-**	-
Profit before zakat and taxation		**106,422**	74,884	**106,652**	75,094
Zakat		**(6,064)**	(5,492)	**(6,064)**	(5,492)
Taxation	26	**(26,526)**	(19,582)	**(26,526)**	(19,582)
Net profit after zakat and taxation		**73,832**	49,810	**74,062**	50,020
Attributable to:					
Equity holders of the Bank		**73,832**	49,810	**74,062**	50,020
Earnings per share (sen):					
- Basic/fully diluted	27	**25.8**	19.2	**25.9**	19.2

The accounting policies on pages 60 to 74 and the notes on pages 75 to 145 form an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

for the financial year ended 31 December 2012

	Economic Entity		The Bank	
	31.12.2012	31.12.2011	**31.12.2012**	31.12.2011
	RM'000	RM'000	**RM'000**	RM'000
Profit after zakat and taxation	**73,832**	49,810	**74,062**	50,020
Other comprehensive income:				
Net fair value change in financial investments available-for-sale	**(159)**	(2,701)	**(159)**	(2,701)
Deferred tax on financial investments available-for-sale	**38**	675	**38**	675
Other comprehensive income for the financial year, net of tax	**(121)**	(2,026)	**(121)**	(2,026)
Total comprehensive income for the year	**73,711**	47,784	**73,941**	47,994
Attributable to equity holders of the Bank:				
- Total comprehensive income	**73,711**	47,784	**73,941**	47,994

The accounting policies on pages 60 to 74 and the notes on pages 75 to 145 form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

for the financial year ended 31 December 2012

Economic Entity	Share capital RM'000	Statutory reserves RM'000	AFS revaluation reserves RM'000	Retained profits RM'000	Total RM'000
	Attributable to Equity Holders of the Bank				
At 1 January 2012	**260,000**	**106,420**	**2,719**	**112,149**	**481,288**
Comprehensive income:					
Net profit for the financial year	-	-	-	73,832	73,832
Other comprehensive income (net of tax)					
- Financial investments available-for-sale	-	-	(121)	-	(121)
Total comprehensive income	-	-	(121)	73,832	73,711
Issued during the financial period	100,000	-	-	-	100,000
Transfer to statutory reserves	-	37,031	-	(37,031)	-
At 31 December 2012	**360,000**	**143,451**	**2,598**	**148,950**	**654,999**
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 (net of tax)					
- Financial investments available-for-sale	-	-	(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

The accounting policies on pages 60 to 74 and the notes on pages 75 to 145 form an integral part of these financial statements.

The Bank	Share capital RM'000	Non-distributable Statutory reserves RM'000	Non-distributable AFS revaluation reserves RM'000	Distributable Retained profits RM'000	Total RM'000
At 1 January 2012	**260,000**	**106,420**	**2,719**	**112,359**	**481,498**
Comprehensive income:					
Net profit for the financial year	-	-	-	74,062	74,062
Other comprehensive income (net of tax)					
- Financial investments available-for-sale	-	-	(121)	-	(121)
Total comprehensive income	-	-	(121)	74,062	73,941
Issued during the financial year	100,000	-	-	-	100,000
Transfer to statutory reserves	-	37,031	-	(37,031)	-
At 31 December 2012	**360,000**	**143,451**	**2,598**	**149,390**	**655,439**
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 (net of tax)					
- Financial investments available-for-sale	-	-	(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

The accounting policies on pages 60 to 74 and the notes on pages 75 to 145 form an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

for the financial year ended 31 December 2012

	Economic Entity		The Bank	
	31.12.2012 RM'000	31.12.2011 RM'000	**31.12.2012 RM'000**	31.12.2011 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before zakat and taxation	**106,422**	74,884	**106,652**	75,094
Adjustments for items not involving the movement of cash and cash equivalents:				
Finance income and hibah from:				
- financial investments available-for-sale	**(58,072)**	(46,726)	**(58,072)**	(46,726)
Amortisation of premium less accretion of discount				
- financial investments available-for-sale	**(14,456)**	(3,181)	**(14,456)**	(3,181)
Gain on sale from:				
- financial assets held-for-trading	**-**	(117)	**-**	(117)
- financial investments available-for-sale	**(5,831)**	(6,333)	**(5,831)**	(6,333)
Depreciation of property and equipment	**1,153**	959	**1,153**	959
Property and equipment written-off	**1**	8	**1**	8
Amortisation of intangible assets	**797**	532	**797**	532
Net individual impairment	**2,653**	3,657	**2,653**	3,657
Net collective impairment	**(17,569)**	7,874	**(17,569)**	7,874
Bad debt on financing written-off	**82**	165	**82**	165
Share of joint venture's results	**230**	210	**-**	-
Operating profit before changes in working capital	**15,410**	31,932	**15,410**	31,932
(Increase)/decrease in operating assets:				
Deposits and placements with banks and other financial institutions	**(250,086)**	-	**(250,086)**	-
Financial assets held-for-trading	**-**	117	**-**	117
Foreign exchange transaction	**(1,302)**	(835)	**(1,302)**	(835)
Financing, advances and other financing	**(754,317)**	(830,305)	**(754,317)**	(830,305)
Other assets	**(16,314)**	(46,469)	**(16,314)**	(46,469)
Amount due from holding company	**(202,239)**	-	**(202,239)**	-
Statutory deposits with Bank Negara Malaysia	**(41,500)**	(160,000)	**(41,500)**	(160,000)
Increase/(decrease) in operating liabilities:				
Deposits from customers	**1,565,022**	1,924,807	**1,565,022**	1,924,807
Deposits and placements of banks and other financial institutions	**(359,420)**	848,050	**(359,420)**	848,050
Amount due to holding company	**-**	171,994	**-**	171,994
Other liabilities	**5,447**	(20,195)	**5,447**	(20,195)
Cash (used in)/generated from operations	**(39,299)**	1,919,096	**(39,299)**	1,919,096
Zakat paid	**(4,819)**	(5,203)	**(4,819)**	(5,203)
Tax paid	**(14,147)**	(13,315)	**(14,147)**	(13,315)
Net cash (used in)/generated from operating activities	**(58,265)**	1,900,578	**(58,265)**	1,900,578

The accounting policies on pages 60 to 74 and the notes on pages 75 to 145 form an integral part of these financial statements.

	Economic Entity		The Bank	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Finance income and hibah received from:				
- financial investments available-for-sale	58,072	46,726	58,072	46,726
Net purchase of financial investments available-for-sale	(479,406)	(128,226)	(479,406)	(128,226)
Purchase of property and equipment	(1,136)	(4,065)	(1,136)	(4,065)
Purchase of intangible assets	-	(120)	-	(120)
Net cash used in investing activities	(422,470)	(85,685)	(422,470)	(85,685)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase in share capital	100,000	-	100,000	-
Net cash generated from financing activities	100,000	-	100,000	-
Net (decrease)/increase in cash and cash equivalents	(380,735)	1,814,893	(380,735)	1,814,893
Net increase in foreign exchange	1,301	835	1,301	835
Cash and cash equivalents at beginning of the financial year	4,455,700	2,639,972	4,455,700	2,639,972
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR (Note 2)	4,076,266	4,455,700	4,076,266	4,455,700

The accounting policies on pages 60 to 74 and the notes on pages 75 to 145 form an integral part of these financial statements.

(A) BASIS OF PREPARATION

The financial statements of the Bank have been prepared in accordance with the provisions of the Malaysian Financial Reporting Standards ('MFRS'), International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

The financial statements of the Bank for the year ended 31 December 2012 are the first set of financial statements prepared in accordance with the MFRS, including MFRS 1 "First-time adoption of MFRS". The Economic Entity and the Bank's first MFRS financial statements include at least three statements of financial position, two statements of comprehensive income, two separate income statements, two statements of cash flows and two statements of changes in equity and related notes, including comparative information.

The Bank have consistently applied the same accounting policies in its opening MFRS statement of financial position at 1 January 2011 (transition date) and throughout all years presented, as if these policies had always been in effect. There is no significant financial impact on the adoption of MFRS that requires restatement to the comparative figures in the financial statements.

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 MFRS 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 revenues and expenses during the reported period. It also requires Directors to exercise their judgment in the process of applying the Bank's accounting policies. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 33.

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 2013

- 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.

(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)

(i) Financial year beginning on/after 1 January 2013 (continued)

- 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.

- 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 101 “Presentation of items of other comprehensive income” (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 profit or loss in the future. The amendments do not address which items are presented in OCI.

- Amendment to MFRS 7 “Financial instruments: Disclosures” (effective from 1 January 2013) requires more extensive disclosures focusing on quantitative information about recognised financial instruments that are offset in the statement of financial position and those that are subject to master netting or similar arrangements irrespective of whether they are offset.

(ii) Financial year beginning on/after 1 January 2014

- Amendment to MFRS 132 “Financial instruments: Presentation” (effective from 1 January 2014) does not change the current offsetting model in MFRS 132. It clarifies the meaning of ‘currently has a legally enforceable right of set-off’ that the right of set-off must be available today (not contingent on a future event) and legally enforceable for all counterparties in the normal course of business. It clarifies that some gross settlement mechanisms with features that are effectively equivalent to net settlement will satisfy the MFRS 132 offsetting criteria.

(iii) Financial year beginning on/after 1 January 2015

- 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.

(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)

(iii) Financial year beginning on/after 1 January 2015 (continued)

- 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 7 requires disclosures on transition from MFRS 139 to MFRS 9.

  The Bank will apply these standards when effective. The adoption standards, amendments to published standards and interpretations to existing standards do not have significant impact on the financial statements of the Bank except for enhanced disclosure.

(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.

The Bank's interest in jointly controlled entities is accounted for in the financial statements by the equity method of accounting. Equity accounting involves recognising the Bank's share of the post-acquisition results of jointly controlled entities in profit or loss and its share of post-acquisition changes of the investee's reserves in other comprehensive income. The cumulative post-acquisition changes are adjusted against the cost of the investment and include goodwill on acquisition (net of accumulated impairment loss).

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.

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.

(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 EXPENSE

Financing income and expense for all profit-bearing financial instruments measured at amortised cost and profit bearing financial assets as held-for-trading and available-for-sale are recognised within "income derived from investment from depositors' funds", "income derived from investment from shareholders' funds" and "income attributable to depositors" respectively in the income statement using the effective profit method.

The effective profit method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the financing income or expense over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective profit rate, the Bank takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective profit rate, but not future credit losses.

Profit or income on impaired financial assets is recognised using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

(F) RECOGNITION OF FEES AND OTHER INCOME

Fees and commissions are recognised as income when all conditions precedent are fulfilled.

Guarantee fees which are material are recognised as income based on a time apportionment method.

Dividends are recognised when the right to receive payment is established.

(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 MFRS 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 all other financing are twelve months.

(G) FINANCIAL ASSETS (continued)

Financing, advances and other financing (continued)

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.

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.

Change in accounting policy

Previously, the Bank applied the Amendment to FRS 139 "Financial Instruments: Recognition and Measurement", which included an additional transitional arrangement for financial sectors, whereby BNM may prescribed the use of an alternative basis for collective assessment of impairments on financing, advances and other financing. This transitional arrangement is prescribed in BNM's Guidelines on Classification and Impairment Provisions for Financing, whereby banking institutions are required to maintain collective allowances of at least 1.5% of total outstanding financing, net of individual impairment allowances under the transitional provisions in the guidelines.

(G) FINANCIAL ASSETS (continued)

Financing, advances and other financing (continued)

Change in accounting policy (continued)

With effect from 1 January 2012, BNM has removed the transitional provision for banking institutions on collective evaluation of financing impairment assessment and financing loss provisioning to comply with MFRS 139 requirements. Exposures not individually known to be impaired are placed into pools of similar assets with similar risk characteristics to be collectively assessed for losses that have been incurred but not identified yet. The required financing loss allowance is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data.

There is no significant financial impact on the changes in accounting policy above.

Rescheduled and restructured financing

Where a financing, advances and other financings shows evidence of credit weaknesses, the Bank may seek to renegotiate the financing rather than to take possession of collateral. This may involve an extension of the payment arrangements via rescheduling or the renegotiation of new financing terms and conditions via restructuring. Management monitors the renegotiated financing, advances and other financings to ensure that all the revised terms are met and that the payment are made promptly for a continuous period. Where an impaired financing is renegotiated, the customer must adhere to the revised and/or restructured payment terms for a continuous period of six months before the financing, advances and other financing is classified as non-impaired. These financing, advances and other financing continue to be subjected to individual or collective impairment assessment.

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 initially at fair value; transaction costs are taken directly to the income statement. Financial assets at fair value through profit or loss are subsequently carried at fair value. Changes in fair values including the effects of currency translation, interest and dividend income are recognised in the income statement in the period in which the changes arise.

(G) FINANCIAL ASSETS (continued)

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

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.

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 loans and receivables, held-for-trading or held-to-maturity investments.

Financial instruments available-for-sale are initially recognised at fair value plus transaction costs and subsequently measured at fair value.

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.

(G) FINANCIAL ASSETS (continued)

Financial investments available-for-sale (continued)

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 occurring 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 impairment resulting in the recognition of an impairment 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 initially recognised at fair value plus transaction costs, and subsequently measured at amortised cost using the effective profit method.

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 profit 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 settlement 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 de-recognised when the 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 de-recognised 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 de-recognised. 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 their 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 2.5775% 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 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/ takaful 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.

(R) OTHER PROVISIONS (continued)

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 Bank 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.

(T) FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to financial institutions and other bodies on behalf of customers to secure banking facilities.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised.

(T) FINANCIAL GUARANTEE CONTRACTS (continued)

The liability is subsequently recognised at the higher of the amount determined in accordance with MFRS 137 “Provisions, contingent liabilities and contingent assets” and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where financial guarantees in relation to payables of subsidiaries are provided by the Bank for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of investment in subsidiaries.

(U) PROFIT EQUALISATION RESERVE (‘PER’)

Bank Negara Malaysia has issued its revised Guidelines on Profit Equalisation Reserve (‘PER’) and the implementation date of the guidelines take effect for financial year beginning 1 July 2011.

Beginning of the financial period, the Bank has adopted the revised Guidelines on PER and has apply in managing the Displaced Commercial Risk (‘DCR’) in accordance with Shariah principles. The PER is for Mudharabah accounts.

With these revised PER Guidelines, the release of PER shall be appropriated from both Investment Account Holder (‘IAH’) and Bank’s portion based on the contractual profit sharing ratio at the point of utilisation. The amount of PER shall be limited to the maximum of the either PER of the IAH or Bank depending on prevailing profit sharing ratio.

The IAH portion of the existing PER shall be classified as a liability and is recognised at cost. Subsequent apportionments will be recognised in the income statement. The eventual distribution of PER as profit distributable to the IAH will be treated as an outflow of funds due to the settlement of the obligation to the IAH.

The PER of the Bank shall be classified as a separate reserve in equity and subsequent apportionments from and distributions to retained earnings will be treated as a transfer between reserves.

The change in accounting policy is accounted for prospectively and there is no financial impact to the result of the Bank.

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 220 (31.12.2011: 198, 1.1.2011: 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		
	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Cash and bank balances with banks and other financial institutions	**4,727**	3,625	3,373
Money at call and interbank placements with remaining maturity not exceeding one month	**4,071,539**	4,452,075	2,636,599
	4,076,266	4,455,700	2,639,972

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Economic Entity/ The Bank		
	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Licensed banks	**150,078**	-	-
Bank Negara Malaysia	**100,008**	-	-
	250,086	-	-

4 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	Economic Entity/ The Bank		
	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
At fair value			
Malaysian Government treasury bills	-	-	28,836
Malaysian Government investment issues	874,709	696,279	736,608
BNM Sukuk	-	-	32,017
Bank Negara Malaysia Monetary Notes	367,054	149,671	157,035
Khazanah Sukuk	36,189	14,262	13,250
	1,277,952	860,212	967,746
Unquoted securities:			
Shares in Malaysia	69	69	72
Private debt securities			
- in Malaysia	701,791	619,994	366,320
- outside Malaysia	-	-	11,098
	1,979,812	1,480,275	1,345,236

5 FINANCING, ADVANCES AND OTHER FINANCING

(i) By type

	Economic Entity/ The Bank		
	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Cash line	187,020	207,564	223,926
Term financing			
- House financing	1,511,961	1,270,814	1,053,556
- Hire purchase receivables	1,438,230	1,232,416	1,061,166
- Syndicated financing	259,993	144,462	116,995
- Business term financing	1,458,138	1,347,351	934,792
Bills receivables	390	394	1,389
Trust receipts	28,445	33,581	43,958
Claims on customers under acceptance credits	133,577	91,844	57,938
Staff financing (of which RM Nil to Directors)	10,899	8,871	8,035
Revolving credit	184,734	132,544	142,463
Gross financing, advances and other financing	5,213,387	4,469,841	3,644,218
Less:			
Allowance for impairment			
- Individual	(35,095)	(34,927)	(36,141)
- Collective	(34,936)	(60,709)	(52,481)
Total net financing, advances and other financing	5,143,356	4,374,205	3,555,596

Included in business term financing as at reporting date is RM35.2 million (31.12.2011: RM23.3 million, 1.1.2011: RM13.5 million) of term financing disbursed by the Bank to jointly controlled entity, AFFIN-i Nadayu Sdn Bhd (fka AFFIN-i Goodyear Sdn Bhd).

5 FINANCING, ADVANCES AND OTHER FINANCING (continued)

(ii) By maturity structure

	Economic Entity/ The Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Maturing within one year	**565,710**	617,049	562,320
One year to three years	**354,583**	226,528	167,772
Three years to five years	**770,713**	696,513	505,314
Over five years	**3,522,381**	2,929,751	2,408,812
	5,213,387	4,469,841	3,644,218

(iii) By contract

	Economic Entity/ The Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Bai' Bithaman Ajil (deferred payment sale)	**2,223,828**	2,278,578	1,930,780
AITAB	**1,438,230**	1,232,416	1,061,166
Murabahah (cost-plus)	**248,623**	172,282	97,882
Others	**1,302,706**	786,565	554,390
	5,213,387	4,469,841	3,644,218

(iv) By type of customer

	Economic Entity/ The Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Domestic non-banking institutions			
- Others	**310,059**	307,259	421,701
Domestic business enterprises			
- Small medium enterprises	**427,991**	584,698	478,087
- Others	**1,326,600**	848,317	520,041
Government and statutory bodies	**21,662**	15,845	-
Individuals	**2,916,350**	2,470,533	2,104,253
Other domestic entities	**85,726**	117,520	1,835
Foreign entities	**124,999**	125,669	118,301
	5,213,387	4,469,841	3,644,218

5 FINANCING, ADVANCES AND OTHER FINANCING (continued)

(v) By profit rate sensitivity

	Economic Entity/ The Bank		
	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Fixed rate			
- House financing	**83,011**	92,769	102,763
- Hire purchase receivables	**1,438,230**	1,232,416	1,061,005
- Other fixed rate financing	**662,096**	594,839	534,012
Variable rate			
- BFR plus	**2,395,805**	2,045,947	1,613,660
- Cost plus	**634,245**	503,870	332,778
	5,213,387	4,469,841	3,644,218

(vi) By economic sectors

	Economic Entity/ The Bank		
	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Primary agriculture	**85,078**	86,615	97,004
Mining and quarrying	**812**	167	235
Manufacturing	**220,650**	220,313	129,928
Electricity, gas and water supply	**22,971**	816	864
Construction	**430,657**	324,374	339,700
Real estate	**409,472**	442,885	44,679
Wholesale & retail trade and restaurants & hotels	**137,276**	44,325	48,892
Transport, storage and communication	**17,147**	10,775	6,444
Finance, insurance and business services	**487,510**	433,606	587,462
Education, health & others	**460,216**	412,370	271,096
Household	**2,940,583**	2,490,826	2,117,282
Others	**1,015**	2,769	632
	5,213,387	4,469,841	3,644,218

5 FINANCING, ADVANCES AND OTHER FINANCING (continued)

(vii) By economic purpose

	Economic Entity/ The Bank		
	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Purchase of securities	**34**	81	13,439
Purchase of transport vehicles	**1,438,181**	1,232,126	1,061,924
Purchase of landed property of which:			
- Residential	**1,601,485**	1,374,301	1,069,215
- Non-residential	**865,774**	748,396	425,851
Fixed assets other than land and building	**65,883**	50,036	10,096
Personal use	**39,854**	38,726	32,317
Consumer durable	**17**	26	34
Construction	**214,075**	149,920	124,087
Working capital	**981,028**	870,231	895,788
Others	**7,056**	5,998	11,467
	5,213,387	4,469,841	3,644,218

(viii) By geographical distribution

	Economic Entity/ The Bank		
	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Perlis	**9,337**	3,014	1,886
Kedah	**275,950**	213,779	211,638
Pulau Pinang	**90,357**	101,315	95,025
Perak	**249,961**	198,587	164,339
Selangor	**1,854,322**	1,471,952	1,178,385
Wilayah Persekutuan	**1,417,487**	1,211,294	844,114
Negeri Sembilan	**98,342**	70,886	61,171
Melaka	**55,684**	40,046	40,779
Johor	**181,161**	174,660	137,953
Pahang	**250,096**	254,947	254,716
Terengganu	**354,214**	327,431	289,479
Kelantan	**195,746**	209,938	197,841
Sarawak	**26,755**	25,589	25,324
Sabah	**53,344**	60,990	36,285
Labuan	**7**	9	12
Outside Malaysia	**100,624**	105,404	105,271
	5,213,387	4,469,841	3,644,218

6 IMPAIRED FINANCING

(i) Movements of impaired financing

	Economic Entity/ The Bank	
	31.12.2012	31.12.2011
	RM'000	RM'000
At beginning of the financial year	**172,344**	152,601
Classified as impaired	**67,040**	112,975
Reclassified as non-impaired	**(80,004)**	(70,602)
Amount recovered	**(21,384)**	(20,025)
Amount written-off	**(8,204)**	(2,605)
At end of the financial year	**129,792**	172,344
Ratio of gross impaired financing, advances and other financing to gross financing, advances and other financing	**2.49%**	3.86%

(ii) Movements in allowance for impairment on financing

	Economic Entity/ The Bank	
	31.12.2012	31.12.2011
	RM'000	RM'000
Individual impairment		
At beginning of the financial year	**34,927**	36,141
Provision for financing impairment	**2,823**	5,029
Amount recovered	**(170)**	(1,372)
Amount written-off	**-**	(2,338)
Unwinding of discount of allowance	**(2,485)**	(2,533)
At end of the financial year	**35,095**	34,927
Collective impairment		
At beginning of the financial year	**60,709**	52,481
Provision for (recovered)/impairment financing	**(17,569)**	7,874
Amount written-off	**(8,204)**	-
Exchange differences	**-**	354
At end of the financial year	**34,936**	60,709

6 IMPAIRED FINANCING (continued)

(iii) Impaired financing by economic sectors

	Economic Entity/ The Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Primary agriculture	**-**	45	63
Mining and quarrying	**62**	-	50
Manufacturing	**20,879**	20,466	21,124
Electricity, gas and water supply	**-**	266	294
Construction	**66,192**	67,906	77,451
Wholesale & retail trade and restaurants & hotels	**3,500**	2,220	2,548
Transport, storage and communication	**57**	-	-
Finance, insurance and business services	**766**	28,389	640
Education, health & others	**-**	37	-
Household	**38,232**	52,918	50,431
Others	**104**	97	-
	129,792	172,344	152,601

(iv) Impaired financing by economic purpose

	Economic Entity/ The Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Purchase of transport vehicles	**6,079**	11,315	7,844
Purchase of landed property of which:			
- Residential	**32,115**	41,892	42,441
- Non-residential	**560**	504	625
Fixed assets other than land and building	**-**	-	448
Personal use	**-**	4,088	202
Construction	**61,296**	63,490	61,713
Working capital	**29,637**	50,955	39,324
Others	**105**	100	4
	129,792	172,344	152,601

6 IMPAIRED FINANCING (continued)

(v) Impaired financing by geographical distribution

	Economic Entity/ The Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Kedah	**1,225**	1,001	1,384
Pulau Pinang	**1,342**	1,811	2,228
Perak	**1,484**	2,552	1,643
Selangor	**44,752**	46,930	44,399
Wilayah Persekutuan	**5,955**	12,217	11,666
Negeri Sembilan	**2,375**	2,181	2,017
Melaka	**237**	196	498
Johor	**2,116**	2,799	2,846
Pahang	**2,961**	3,718	3,645
Terengganu	**1,687**	2,620	1,480
Kelantan	**2,375**	4,486	3,159
Sarawak	**587**	238	227
Sabah	**1,400**	443	227
Outside Malaysia	**61,296**	91,152	77,182
	129,792	172,344	152,601

7 OTHER ASSETS

	Economic Entity/ The Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Other debtors, deposits and prepayments	**707**	385	327
Cheque clearing accounts	**63,215**	47,222	812
Foreclosed properties (a)	**395**	395	395
	64,317	48,002	1,534

(a) Foreclosed properties

	Economic Entity/ The Bank	
	31.12.2012 RM'000	31.12.2011 RM'000
At beginning of the financial year	**395**	395
Allowance for impairment losses	**-**	-
At end of the financial year	**395**	395

8 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		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 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	**(810)**	(836)	-
- to be recovered within 12 months	**544**	(71)	-
	(266)	(907)	4,291
At beginning of the financial year	**(907)**	4,291	
Credited/(charged) to income statement (Note 26)	**603**	(5,873)	
- Property and equipment	**72**	(36)	
- Intangible assets	**199**	(449)	
- Collective allowances (transitional provision) for impaired financing	**-**	(6,518)	
- Provision for other liabilities	**332**	1,130	
Charged to equity	**38**	675	
At end of the financial year	**(266)**	(907)	
Subject to income tax			
Deferred tax assets (before offsetting)			
Collective allowances (transitional provision) for impaired financing	**-**	-	6,518
Provision for other liabilities	**1,462**	1,130	-
	1,462	1,130	6,518
Offsetting	**(1,462)**	(1,130)	(2,227)
Deferred tax assets (after offsetting)	**-**	-	4,291
Deferred tax liabilities (before offsetting)			
Property and equipment	**(245)**	(317)	(281)
Intangible assets	**(615)**	(814)	(365)
AFS revaluation reserves	**(868)**	(906)	(1,581)
	(1,728)	(2,037)	(2,227)
Offsetting	**1,462**	1,130	2,227
Deferred tax liabilities (after offsetting)	**(266)**	(907)	-

9 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.

10 INVESTMENT IN JOINTLY CONTROLLED ENTITY

	Economic Entity		
	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Unquoted shares at cost	**500**	500	500
Economic Entity's share of post acquisition retained losses	**(440)**	(210)	-
	60	290	500

	The Bank		
	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Unquoted shares at cost	**500**	500	500

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

Revenue	**8**	10	2
Loss after tax	**(460)**	(420)	(89)
Total assets	**46,516**	31,711	21,518
Total liabilities	**46,396**	31,132	20,619
Capital commitment for property and equipment	**-**	-	-

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 31.12.2012 %	31.12.2011 %	1.1.2011 %
AFFIN-i Nadayu Sdn Bhd	Land development project	**1,000**	**50**	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 Nadayu Sdn Bhd (fka AFFIN-i Goodyear Sdn Bhd) requires unanimous consent by both joint venture parties. The Economic Entity's interest in AFFIN-i Nadayu 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.

11 PROPERTY AND EQUIPMENT

Economic Entity/The Bank 31.12.2012	**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 2012	**2,226**	**1,508**	**1,884**	**458**	**-**	**6,076**
Additions	**490**	**432**	**214**	**-**	**-**	**1,136**
Write-off	**-**	**-**	**(140)**	**-**	**-**	**(140)**
Reclassification	**-**	**(1)**	**44**	**-**	**-**	**43**
At 31 December 2012	**2,716**	**1,939**	**2,002**	**458**	**-**	**7,115**
Accumulated depreciation						
At 1 January 2012	**1,185**	**459**	**1,064**	**351**	**-**	**3,059**
Charge for the financial year	**514**	**178**	**369**	**92**	**-**	**1,153**
Write-off	**-**	**-**	**(139)**	**-**	**-**	**(139)**
Reclassification	**-**	**(1)**	**16**	**-**	**-**	**15**
At 31 December 2012	**1,699**	**636**	**1,310**	**443**	**-**	**4,088**
Net book value as at 31 December 2012	**1,017**	**1,303**	**692**	**15**	**-**	**3,027**

Economic Entity/The Bank 31.12.2011						
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

12 INTANGIBLE ASSETS

	Economic Entity/ The Bank	
	31.12.2012 RM'000	31.12.2011 RM'000
Cost		
At beginning of the financial year	6,402	4,077
Additions	-	120
Reclassification	-	2,205
At end of the financial year	6,402	6,402
Accumulated amortisation		
At beginning of the financial year	3,147	2,615
Charge for the financial year	797	532
At end of the financial year	3,944	3,147
Net book value as at end of the financial year	2,458	3,255

13 DEPOSITS FROM CUSTOMERS

(i) By type of deposit

	Economic Entity/ The Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Non-Mudharabah			
Demand deposits	2,604,233	1,923,732	1,488,093
Savings deposits	221,111	204,743	192,016
Negotiable Islamic Debt Certificate ('NIDC')	-	119,778	-
Mudharabah			
Demand deposits	31,496	14,147	10,794
Savings deposits	112,378	98,790	66,187
General investment deposits	5,239,911	4,293,135	3,153,171
Special investment deposits	833,132	822,914	642,171
	9,042,261	7,477,239	5,552,432

13 DEPOSITS FROM CUSTOMERS (continued)

(ii) Maturity structure of general investment deposits and NID

	Economic Entity/ The Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Due within six months	**4,353,807**	3,540,513	2,756,754
Six months to one year	**874,676**	809,427	392,167
One year to three years	**11,227**	62,771	3,311
Three years to five years	**201**	202	939
	5,239,911	4,412,913	3,153,171

(iii) By type of customer

	Economic Entity/ The Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Government and statutory bodies	**2,941,589**	3,192,422	1,800,116
Business enterprises	**3,302,604**	2,358,011	1,592,653
Individuals	**845,270**	605,957	435,331
Others	**1,952,798**	1,320,849	1,724,332
	9,042,261	7,477,239	5,552,432

14 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Economic Entity/ The Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Mudharabah			
Licensed banks	**1,578,884**	1,688,032	1,088,431
Licensed investment banks	**58,521**	50,066	123,678
Bank Negara Malaysia	**-**	96	-
Other financial institutions	**202,319**	460,950	138,985
	1,839,724	2,199,144	1,351,094
Maturity structure of deposits			
Due within six months	**1,580,067**	1,971,822	1,341,831
One year to three years	**-**	-	9,263
Three years to five years	**210,980**	202,053	-
Over five years	**48,677**	25,269	-
	1,839,724	2,199,144	1,351,094

15 OTHER LIABILITIES

	Economic Entity/ The Bank		
	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Margin and collateral deposits	**3,032**	660	2,639
Other creditors and accruals	**19,750**	15,572	16,615
Cheque clearing accounts	**-**	-	16,910
Profit equalisation reserve (a)	**-**	-	-
Defined contribution plan (b)	**716**	543	520
Accrued employee benefits (c)	**23**	23	20
	23,521	16,798	36,704

(a) Profit equalisation reserve

	Economic Entity/ The Bank		
	31.12.2012	31.12.2011	1.1.2011
	RM'000	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	**-**	-	-

(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.

16 AMOUNT DUE TO HOLDING COMPANY

	Economic Entity/ The Bank		
	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Amount due to holding company	**153,296**	355,535	183,541

The amount due to holding company is unsecured and bear profit of 3.08% per annum (31.12.2011: 3.02%, 1.1.2011: 2.62%) with no fixed terms of repayment.

17 SHARE CAPITAL

Economic Entity/The Bank
31.12.2012

	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 of the financial year	**260,000**	**260,000**
Issued during the financial year	**100,000**	**100,000**
At end of the financial year	**360,000**	**360,000**

Economic Entity/The Bank
31.12.2011

	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
1.1.2011

	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

18 RESERVES

	Economic Entity			The Bank		
	31.12.2012	31.12.2011	1.1.2011	**31.12.2012**	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000	**RM'000**	RM'000	RM'000
Retained profits	**148,950**	112,149	87,349	**149,390**	112,359	87,349
AFS revaluation reserves	**2,598**	2,719	4,745	**2,598**	2,719	4,745
Statutory reserves	**143,451**	106,420	81,410	**143,451**	106,420	81,410
	294,999	221,288	173,504	**295,439**	221,498	173,504
Statutory reserves						
At beginning of the financial year	**106,420**	81,410	68,397	**106,420**	81,410	68,397
Transfer from retained profits	**37,031**	25,010	13,013	**37,031**	25,010	13,013
At end of the financial year	**143,451**	106,420	81,410	**143,451**	106,420	81,410

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

	Economic Entity/ The Bank		
	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
At beginning of the financial year	**2,719**	4,745	900
Unrealised (losses)/gains on 'financial investments available-for-sale'	**(159)**	(2,701)	5,127
Deferred tax	**38**	675	(1,282)
At end of the financial year *	**2,598**	2,719	4,745

* The depositors' portion of net unrealised gains or losses on 'Available-for-sale' at the end of financial year is net unrealised losses of RM3,295,000 (31.12.2011: net unrealised losses of RM3,532,000, 1.1.2011: net unrealised gains of RM5,412,000).

(a) A single tier company tax was introduced effective 1 January 2008. Under this single tier system, tax on a company's profits 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 a 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 2012, the Bank has a tax credit balance of RM27,882,876 under Section 108 of the Income Tax Act, 1967 and tax exempt account balance of RM6,779,562 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 Islamic Banking Act, 1983 and are not distributable as cash dividends.

(c) AFS revaluation reserves represent the unrealised 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.

19 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	Economic Entity/ The Bank	
	31.12.2012	31.12.2011
	RM'000	RM'000
Income derived from investment of:		
- General investment deposits (a)	**305,298**	225,920
- Other deposits (b)	**154,696**	142,991
	459,994	368,911

a) Income derived from investment of general investment deposits

	Economic Entity/ The Bank	
	31.12.2012	31.12.2011
	RM'000	RM'000
Finance income and hibah		
Financing, advances and other financing	**166,781**	131,293
Financial investments available-for-sale	**36,658**	27,084
Money at call and deposits with financial institutions	**81,591**	54,564
	285,030	212,941
Amortisation of premium less accretion of discount	**9,125**	1,844
Total finance income and hibah	**294,155**	214,785
Other operating income		
Fee income		
Commission	**935**	1,091
Service charges and fees	**3,722**	2,311
Guarantee fees	**1,074**	1,086
	5,731	4,488
Income from financial instruments:		
Gain on sale of:		
- financial assets held-for-trading	**-**	68
- financial investments available-for-sale	**3,681**	3,671
	3,681	3,739
Other income		
Foreign exchange profit:		
- realised	**239**	1,350
Other non-operating income	**1,492**	1,558
	1,731	2,908
Total income derived from investment of general investment deposits	**305,298**	225,920

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

b) Income derived from investment of other deposits

	Economic Entity/ The Bank	
	31.12.2012	31.12.2011
	RM'000	RM'000
Finance income and hibah		
Financing, advances and other financing	**84,509**	83,098
Financial investments available-for-sale	**18,575**	17,142
Money at call and deposits with financial institution	**41,342**	34,535
	144,426	134,775
Amortisation of premium less accretion of discount	**4,624**	1,167
Total finance income and hibah	**149,050**	135,942
Other operating income		
Fee income		
Commission	**474**	691
Service charges and fees	**1,886**	1,463
Guarantee fees	**544**	688
	2,904	2,842
Income from financial instruments:		
Gain on sale of:		
- financial assets held-for-trading	**-**	43
- financial investments available-for-sale	**1,865**	2,323
	1,865	2,366
Other income		
Foreign exchange profit:		
- realised	**121**	855
Other non-operating income	**756**	986
	877	1,841
Total income derived from investment of other deposits	**154,696**	142,991

20 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	Economic Entity/ The Bank	
	31.12.2012 RM'000	31.12.2011 RM'000
Finance income and hibah		
Financing, advances and other financing	12,920	12,118
Financial investments available-for-sale	2,839	2,500
Money at call and deposits with financial institution	6,321	5,036
	22,080	19,654
Amortisation of premium less accretion of discount	707	170
Total finance income and hibah	22,787	19,824
Other operating income		
Fee income		
Commission	72	101
Service charges and fees	288	213
Guarantee fees	83	100
	443	414
Income from financial instruments:		
Gain on sale of:		
- financial assets held-for-trading	-	6
- financial investments available-for-sale	285	339
	285	345
Other income		
Foreign exchange profit:		
- realised	19	125
Other non-operating income	116	144
	135	269
Total income derived from investment of shareholders' funds	23,650	20,852

21 ALLOWANCES FOR LOSSES ON FINANCING

	Economic Entity/ The Bank	
	31.12.2012	31.12.2011
	RM'000	RM'000
Individual impairment		
- made in the financial year	2,823	5,029
- written-back	(170)	(1,372)
Collective impairment		
- (written-back)/made	(17,569)	7,874
Bad debts on financing:		
- recovered	(586)	(923)
- written-off	82	165
	(15,420)	10,773

22 INCOME ATTRIBUTABLE TO THE DEPOSITORS

	Economic Entity/ The Bank	
	31.12.2012	31.12.2011
	RM'000	RM'000
Deposits from customers		
- mudharabah	209,334	136,273
- non-mudharabah	29,197	23,071
Deposits and placement of banks and other financial institutions		
- mudharabah	52,575	47,921
Others	3,924	4,827
	295,030	212,092

23 PERSONNEL EXPENSES

	Economic Entity/ The Bank	
	31.12.2012	31.12.2011
	RM'000	RM'000
Wages, salaries and bonuses	47,630	42,279
Defined contribution plan ('EPF')	7,758	6,651
Other personnel costs	5,951	6,269
	61,339	55,199

24 OTHER OVERHEADS AND EXPENDITURES

	Economic Entity/ The Bank	
	31.12.2012 RM'000	31.12.2011 RM'000
Establishment costs		
Rental of premises	3,822	3,545
Equipment rental	38	28
Repair and maintenance	4,716	4,189
Depreciation of property and equipment	1,153	959
Amortisation of intangible assets	797	532
IT consultancy fees	8,040	7,472
Dataline rental	565	455
Security services	2,273	1,836
Electricity, water and sewerage	1,498	1,271
Licence fee	197	183
Insurance and indemnities	120	47
Other establishment costs	3,706	3,988
	26,925	24,505
Marketing expenses		
Business promotion and advertisement	431	1,002
Entertainment	443	406
Traveling and accommodation	1,037	942
Other marketing expenses	332	356
	2,243	2,706
Administration and general expenses		
Telecommunication expenses	793	744
Auditors' remuneration	299	409
Professional fees	1,107	3,691
Property and equipment written-off	1	8
Mail and courier charges	628	539
Stationery and consumables	2,150	2,193
Commissions expenses	220	261
Brokerage expenses	100	126
Directors' fees and allowances	959	736
Donations	132	100
Settlement, clearing and bank charges	319	293
Stamp duties	4	3
Operational and litigation write-off expenses	45	-
Other administration and general expenses	118	291
	6,875	9,394
	36,043	36,605

24 OTHER OVERHEADS AND EXPENDITURES (continued)

The expenditure includes the following statutory disclosures:

	Economic Entity/ The Bank	
	31.12.2012	31.12.2011
	RM'000	RM'000
Directors' remuneration (Note 25)	**2,686**	2,395
Rental of premises	**3,822**	3,545
Equipment rental	**38**	28
Auditors' remuneration		
- statutory audit fees	**136**	126
- under provision prior year	**-**	4
- audit related fees	**123**	97
- non-audit fees	**40**	182
Depreciation of property and equipment	**1,153**	959
Amortisation of intangible assets	**797**	532

25 CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION

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

CEO

En. Kamarul Ariffin bin Mohd Jamil

Non-Executive Directors

Jen Tan Sri Dato' Seri Ismail bin Haji Omar (Bersara) (Chairman)
Tan Sri Dato' Seri 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
Tan Sri Dato' Sri Abdul Aziz bin Abdul Rahman

25 CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION (continued)

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

	Economic Entity/ The Bank	
	31.12.2012	31.12.2011
	RM'000	RM'000
CEO		
Salaries	**582**	546
Bonuses	**755**	728
Defined contribution plan ('EPF')	**221**	210
Other employee benefits	**43**	43
Benefits-in-kind	**42**	80
Non-executive Directors		
Fees	**959**	736
Shariah Committee		
Shariah Committee fees	**84**	52
Directors' remuneration	**2,686**	2,395

25 CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION (CONTINUED)

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

Economic Entity/The Bank 31.12.2012	**Salaries RM'000**	**Bonuses RM'000**	**Directors' Fees RM'000**	*** Other emoluments RM'000**	**Benefits-in-kind RM'000**	**Total RM'000**
CEO						
Kamarul Ariffin bin Mohd Jamil	**582**	**755**	**-**	**264**	**42**	**1,643**
Total	**582**	**755**	**-**	**264**	**42**	**1,643**
Non-executive Directors						
Jen Tan Sri Dato' Seri Ismail bin Haji Omar (Bersara)	**-**	**-**	**134**	**-**	**-**	**134**
Tan Sri Dato' Seri Lodin bin Wok Kamaruddin	**-**	**-**	**135**	**-**	**-**	**135**
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara)	**-**	**-**	**167**	**-**	**-**	**167**
Tan Sri Dato' Seri Mohamed Jawhar	**-**	**-**	**139**	**-**	**-**	**139**
En. Mohd Suffian bin Haji Haron	**-**	**-**	**123**	**-**	**-**	**123**
Associate Professor Dr. Asyraf Wajdi bin Dato' Dusuki	**-**	**-**	**227**	**-**	**-**	**227**
Tan Sri Dato' Sri Abdul Aziz bin Abdul Rahman	**-**	**-**	**118**	**-**	**-**	**118**
Total	**-**	**-**	**1,043**	**-**	**-**	**1,043**
Grand Total	**582**	**755**	**1,043**	**264**	**42**	**2,686**

Economic Entity / The Bank 31.12.2011	Salaries RM'000	Bonuses RM'000	Directors' Fees RM'000	* Other emoluments RM'000	Benefits-in-kind RM'000	Total RM'000
CEO						
Kamarul Ariffin bin Mohd Jamil	546	728	-	253	80	1,607
Total	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' Seri 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
Tan Sri Dato' Sri Abdul Aziz bin Abdul Rahman	-	-	14	-	-	14
Total	-	-	788	-	-	788
Grand Total	546	728	788	253	80	2,395

* Executive Director's other emoluments include allowance and EPF

26 TAXATION

	Economic Entity/ The Bank	
	31.12.2012	31.12.2011
	RM'000	RM'000
Malaysian income tax		
Current tax	**27,060**	16,829
Under/(over) provision in prior year	**69**	(3,120)
Deferred tax (Note 8)	**(603)**	5,873
	26,526	19,582

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	**0.09**	0.22
Tax savings arising from income exempt from tax for International Currency Business Unit (ICBU)	**(0.28)**	(1.46)
Under/(over) provision in prior years	**0.06**	(4.16)
Recognition of deferred tax previously not recognised	**-**	(1.66)
Zakat contribution	**-**	(0.54)
Reversal of deferred taxation due to changes in tax treatment	**-**	8.68
Average effective tax rate	**24.87**	26.08

27 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 RM73,832,000 (31.12.2011: RM49,810,000) and RM74,062,000 (31.12.2011: RM50,020,000) respectively. The weighted average number of shares in issue during the financial year of RM285,956,000 (31.12.2011: 260,000,000) is used for the computation.

28 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

Related parties	Relationships
Lembaga Tabung Angkatan Tentera ('LTAT')	Ultimate holding corporate body, which is Government-Link Investment Company ('GLIC') of the Government of Malaysia
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 10	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: - Chief Executive Officer - 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 - Entities that are controlled, jointly controlled or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family member

The Bank do not have any individually or collectively significant transactions outside the ordinary course of business with the Government of Malaysia and government related entities. In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances.

28 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Related parties transactions and balances

Economic Entity/The Bank	Ultimate holding corporate body 31.12.2012 RM'000	Ultimate holding corporate body 31.12.2011 RM'000	Penultimate holding company 31.12.2012 RM'000	Penultimate holding company 31.12.2011 RM'000	Holding companies 31.12.2012 RM'000	Holding companies 31.12.2011 RM'000
Income						
Income on short-term financing	-	-	-	-	-	-
Income on deposits and placement with banks and other financial institutions	-	-	-	-	-	-
Other income	-	-	-	-	-	-
	-	-	-	-	-	-
Expenditure						
Hibah/profit paid on general investment deposits	-	-	-	-	-	-
Hibah/profit paid on deposits and placement of banks and other financial institutions	-	-	-	-	525	661
Hibah/profit paid on special investment account	-	-	-	-	-	-
Hibah/profit paid on PSIA/RPSIA	-	-	-	-	24,174	15,913
Brokerage fees	-	-	-	-	-	-
Others	-	-	-	-	67,490	64,268
	-	-	-	-	92,189	80,842

Economic Entity/The Bank	Other related companies 31.12.2012 RM'000	Other related companies 31.12.2011 RM'000	Companies in which certain Directors have substantial interest 31.12.2012 RM'000	Companies in which certain Directors have substantial interest 31.12.2011 RM'000	Key Management Personnel 31.12.2012 RM'000	Key Management Personnel 31.12.2011 RM'000
Income						
Income on short-term financing	1,802	1,112	-	-	-	-
Income on deposits and placement with banks and other financial institutions	3,813	-	-	-	-	-
Other income	-	15	-	-	-	-
	5,615	1,127	-	-	-	-
Expenditure						
Hibah/profit paid on general investment deposits	1,277	160	-	-	15	5
Hibah/profit paid on deposits and placement of banks and other financial institutions	-	-	-	-	-	-
Hibah/profit paid on special investment account	2,079	418	-	-	-	-
Hibah/profit paid on PSIA/RPSIA	-	-	-	-	-	-
Brokerage fees	-	2	-	-	-	-
Others	238	148	-	-	-	-
	3,594	728	-	-	15	5

28 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Related parties transactions and balances (continued)

	Ultimate holding corporate body			Penultimate holding company			Holding companies		
Economic Entity/The Bank	**31.12.2012 RM'000**	31.12.2011 RM'000	1.1.2011 RM'000	**31.12.2012 RM'000**	31.12.2011 RM'000	1.1.2011 RM'000	**31.12.2012 RM'000**	31.12.2011 RM'000	1.1.2011 RM'000
Amount due from									
Financing	**-**	-	-	**-**	-	-	**-**	-	-
Deposits and placement with banks and other financial institutions	**-**	-	-	**-**	-	-	**-**	-	-
Intercompany balances	**-**	-	-	**-**	-	-	**-**	-	-
	-	-	-	**-**	-	-	**-**	-	-
Amount due to									
Demand and general investment deposits	**736**	715	1,066	**-**	-	-	**-**	-	-
Deposits and placement of banks and other financial institutions	**-**	-	-	**-**	-	-	**102,434**	145,803	144,993
Special investment account	**-**	-	-	**-**	-	-	**656,230**	570,266	335,370
Income payable	**-**	-	-	**-**	-	1	**-**	-	-
Intercompany balances	**-**	-	-	**-**	-	-	**153,296**	355,534	183,541
	736	715	1,066	**-**	-	1	**911,960**	1,071,603	663,904
Commitment	**-**	-	-	**-**	-	-	**-**	-	-

	Other related companies			Companies in which certain Directors have substantial interest			Key Management Personnel		
Economic Entity/The Bank	**31.12.2012 RM'000**	31.12.2011 RM'000	1.1.2011 RM'000	**31.12.2012 RM'000**	31.12.2011 RM'000	1.1.2011 RM'000	**31.12.2012 RM'000**	31.12.2011 RM'000	1.1.2011 RM'000
Amount due from									
Financing	**36,123**	23,330	13,507	**-**	-	-	**549**	-	-
Deposits and placement with banks and	**-**	-	-	**-**					
other financial institutions	**200,493**	150,143	-	**-**	-	-	**-**	-	-
Intercompany balances	**2,745**	2,745	2,745	**-**	-	-	**-**	-	-
	239,361	176,218	16,252	**-**	-	-	**549**	-	-
Amount due to									
Demand and general investment deposits	**83,402**	25,716	19,061	**13**	38	1	**2,301**	1,530	855
Deposits and placement of banks and other financial institutions	**-**	-	-	**-**	-	-	**-**	-	-
Special investment account	**9,366**	10,182	17,401	**-**	-	-	**-**	-	-
Income payable	**-**	-	6	**-**	-	-	**-**	-	-
	92,768	35,898	36,468	**13**	38	1	**2,301**	1,530	855
Commitment	**80,399**	90,228	-	**-**	-	-	**-**	-	-

28 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(b) Key management personnel compensation

	Economic Entity/ The Bank 31.12.2012 RM'000	Economic Entity/ The Bank 31.12.2011 RM'000
Short-term employment benefits		
Salaries	582	582
Bonuses	755	1,028
Defined contribution plan ('EPF')	221	265
Other employee benefits	43	52
Benefit-in-kind	42	80
	1,643	2,007

Included in the above table are Directors' remuneration as disclosed in Note 25.

29 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 31.12.2012	Principal amount RM'000	Credit equivalent amount * RM'000	Risk-weighted amount * RM'000
Direct credit substitutes	9,374	9,374	7,732
Transaction-related contingent items	130,067	65,034	63,374
Short-term self-liquidating trade related contingencies	237,199	47,440	11,535
Irrevocable commitments to extend credit:			
- maturity less than one year	811,391	162,278	139,768
- maturity more than one year	381,912	190,955	175,291
	1,569,943	475,081	397,700

Economic Entity/The Bank 31.12.2011	Principal amount RM'000	Credit equivalent amount * RM'000	Risk-weighted amount * 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

29 COMMITMENTS AND CONTINGENCIES (continued)

Economic Entity/The Bank 1.1.2011	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 and risk-weighted amount is arrived at using the credit conversion factors as per Bank Negara Malaysia's revised Capital Adequacy for Islamic Banks ("CAFIB") guidelines.

30 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 risk in the Bank is governed by a set of approved credit policies, guidelines and procedures. 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, headed by Group Chief Risk Officer ('GCRO') with 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 Annual Credit Plan. The Annual 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.

30 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (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 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.

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.

Credit Related Commitments

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.

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.

30 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Credit risk monitoring (continued)

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 implements an Internal Credit Certification ('ICC') Programme for both Business Banking and Consumer Credit.

The aim of the ICCs is to assist the core credit related group of personnel in the Bank achieve a minimum level of knowledge and analytical skills required to make sound corporate and commercial financing to customers.

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.

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	
	31.12.2012 Carrying Value RM'000	31.12.2012 Maximum Credit Exposure RM'000
Credit risk exposures of on-balance sheet assets:		
Financial investments available-for-sale	# 1,979,812	1,979,743
Credit risk exposure of off-balance sheet items:		
Financial guarantees	^ 139,441	74,408
Financing commitments and other credit related commitments	^ 1,430,502	400,673
Total maximum credit risk exposure	3,549,755	2,454,824

30 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Maximum exposure to credit risk (continued)

	Economic Entity/ The Bank 31.12.2011 Carrying Value RM'000	Economic Entity/ The Bank 31.12.2011 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 1.1.2011 Carrying Value RM'000	Economic Entity/ The Bank 1.1.2011 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

The following have been excluded for the purpose of maximum credit risk exposure calculation:

investment in quoted and unquoted shares
^ 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 77% (31.12.2011: 73%, 1.1.2011: 68%). The financial effects of collateral for the other financial assets are insignificant.

30 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 31.12.2012	Cash and short-term funds RM'000	Deposits and placement with banks and other financial institutions 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	-	-	-	85,078	-	85,078	2,617
Mining and quarrying	-	-	-	812	-	812	-
Manufacturing	-	-	-	214,211	-	214,211	36,447
Electricity, gas and water supply	-	-	-	22,971	-	22,971	-
Construction	-	-	15,397	403,895	-	419,292	181,964
Real estate	-	-	-	409,472	-	409,472	12,627
Transport, storage and communication	-	-	-	17,147	-	17,147	6,110
Finance, insurance and business services	385,144	150,078	712,233	487,510	-	1,734,965	50,302
Government and government agencies	3,691,122	100,008	1,241,763	21,662	-	5,054,555	82,555
Wholesale & retail trade and restaurants & hotels	-	-	10,350	135,418	-	145,768	20,672
Others	-	-	-	3,380,116	63,795	3,443,911	81,787
Total assets	4,076,266	250,086	1,979,743	5,178,292	63,795	11,548,182	475,081

* Not inclusive of collective allowance amounting to RM35 million.
Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 29.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2012

30 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Credit risk concentration (continued)

Economic Entity/The Bank 31.12.2011	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	47,498	2,947,807	45,764
Total assets	4,455,700	1,480,206	4,434,914	47,498	10,418,318	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 29.

30 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Credit risk concentration (continued)

Economic Entity/The Bank 1.1.2011	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	-	-	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	1,036	2,389,010	3,805
Total assets	2,639,972	1,345,164	3,608,077	1,036	7,594,249	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 29.

30 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		
	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Neither past due nor impaired (a)	**4,640,565**	3,886,659	3,021,133
Past due but not impaired (b)	**443,030**	410,838	470,484
Impaired (c)	**129,792**	172,344	152,601
Gross financing, advances and other financing	**5,213,387**	4,469,841	3,644,218
less: Allowance for impairment			
- Individual	**(35,095)**	(34,927)	(36,141)
- Collective	**(34,936)**	(60,709)	(52,481)
Net financing, advances and other financing	**5,143,356**	4,374,205	3,555,596

Past due but not impaired includes accounts within grace period amounting to RM0.1 billion (31.12.2011: RM0.1 billion, 1.1.2011: RM0.1 billion).

30 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Total financing, advances and other financing - credit quality (continued)

(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		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Quality classification			
Satisfactory	**4,121,586**	3,527,570	2,633,609
Special mention	**518,979**	359,089	387,524
	4,640,565	3,886,659	3,021,133

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		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Past due up to 30 days	**201,631**	148,170	187,140
Past due 30-60 days	**160,251**	183,308	146,364
Past due 60-90 days	**81,148**	79,360	136,980
	443,030	410,838	470,484

30 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Total financing, advances and other financing - credit quality (continued)

(c) Financing impaired

	Economic Entity/ The Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Analysis of impaired assets:			
Gross impaired financing	**129,792**	172,344	152,601
Individually impaired financing	**70,855**	75,391	110,487

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 7.

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 & Poor's or Moody's.

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

30 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Economic Entity/The Bank 31.12.2012	**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	-	-	-	-	874,709	-	874,709
Bank Negara Malaysia Monetary Notes	-	-	-	-	367,054	-	367,054
Others	-	-	-	-	36,189	-	36,189
Unquoted Shares in Malaysia	-	-	-	-	69	-	69
Private debt securities	691,440	10,351	-	-	-	-	701,791
	691,440	10,351	-	-	1,278,021	-	1,979,812

Economic Entity/The Bank 31.12.2011	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

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.

30 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Economic Entity/The Bank 1.1.2011	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 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.

30 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 factors such as profit rates, foreign exchange rates and changes in volatility. The Bank is exposed to market risks from its trading and investment activities. 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.

The Bank's market risk management control strategy is established based on its risk appetite, market liquidity and business strategies as well as macroeconomic conditions. These limits are reviewed at least on an annual basis.

Market risk arising from the Bank's trading book is primarily controlled through the imposition of Cut-loss and Value-at-Risk ('VaR') Limits.

The Bank quantifies price rate risk by analysing the repricing mismatch between the rate sensitive assets and rate sensitive liabilities. It also conducts Net Profit Income simulations to assess the variation in earnings under various rates scenarios. The potential long term effects of the Bank's overall exposure is also tracked by assessing the impact on economic value of equity ('EVE').

The Bank's profit rate risk is managed through Earnings-at-Risk ('EaR') and Economic Value-at-Risk ('EVaR') limits.

In addition, the Bank conducts periodic stress test of its respective business 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 financial assets and financial liabilities held as at reporting date. The sensitivity has been measured using the Repricing Gap Simulation methodology based on 100 basis points parallel shifts in the profit rate.

30 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Net profit income sensitivity (continued)

Economic Entity/The Bank 31.12.2012	**+100 basis point RM million**	**-100 basis point RM million**
Impact on net profit income	**13.0**	**(13.0)**
As percentage of net profit income	**6.4%**	**-6.4%**

Economic Entity/The Bank 31.12.2011	+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 1.1.2011	+100 basis point RM million	-100 basis point RM million
Impact on net profit income	(4.5)	4.5
As percentage of net profit income	-3.3%	3.3%

Foreign exchange risk sensitivity analysis

	Open Position			
Economic Entity/The Bank 31.12.2012	**US Dollar equivalent amount '000**	**Ringgit Malaysia equivalent amount '000**	**Ringgit Malaysia equivalent amount for 1% fall in US Dollar '000**	**Impact of 1% fall in US Dollar exchange rate '000**
US Dollar	**583**	**1,782**	**1,765**	**(18)**
Others	**(417)**	**(1,275)**	**(1,262)**	**13**

The impact on the outstanding foreign exchange position as at 31 December 2012 for a one percent change in USD exchange rate from 3.0590 to 3.0284 was a decrease of RM5,000.

30 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Foreign exhange risk sensitivity analysis (continued)

Economic Entity/The Bank 31.12.2011	Open Position US Dollar equivalent amount '000	Ringgit Malaysia equivalent amount '000	Ringgit Malaysia equivalent amount for 1% fall in US Dollar '000	Impact of 1% fall in US Dollar exchange rate '000
US Dollar	(9,245)	(29,370)	(29,076)	294
Others	(363)	(1,153)	(1,142)	11

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 RM305,000.

Economic Entity/The Bank 1.1.2011	Open Position US Dollar equivalent amount '000	Ringgit Malaysia equivalent amount '000	Ringgit Malaysia equivalent amount for 1% fall in US Dollar '000	Impact of 1% fall in US Dollar exchange rate '000
US Dollar	1,491	4,599	4,553	(46)
Others	(306)	(943)	(933)	10

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 decrease of about RM36,000.

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.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2012

30 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Foreign exchange risk (continued)

Economic Entity/The Bank 31.12.2012	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	1,359	2,141	379	213	229	270	4,591
Financing, advances and other financing	-	164,355	-	-	-	-	164,355
Total financial assets	1,359	166,496	379	213	229	270	168,946
Liabilities							
Deposits from customers	1,165	244	7	-	3	-	1,419
Deposits and placements of banks and other financial institutions	-	102,434	-	-	-	-	102,434
Total financial liabilities	1,165	102,678	7	-	3	-	103,853
Net on-balance sheet financial position	194	63,818	372	213	226	270	65,093
Off balance sheet credit commitments	163,762	57,486	2,671	-	-	9,618	233,537

30 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Foreign exchange risk (continued)

Economic Entity/The Bank 31.12.2011	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

30 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Foreign exchange risk (continued)

Economic Entity/The Bank 1.1.2011	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	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

30 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 31.12.2012	**Up to 1 month RM'000**	**> 1-3 months RM'000**	**>3-12 months RM'000**	**>1-5 years RM'000**	**Over 5 Years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective profit rate %**
Assets									
Cash and short-term funds	4,067,999	-	-	-	-	8,267	-	4,076,266	3.00
Deposits and placements with banks and other financial institutions	-	250,000	-	-	-	86	-	250,086	3.13
Financial investments available-for-sale	132,051	209,188	380,689	859,634	383,275	14,975	-	1,979,812	3.43
Financing, advances and other financing									
- non-impaired	2,789,158	158,374	411,599	1,106,885	617,579	(34,936) *	-	5,048,659	5.37
- impaired	-	-	-	-	-	94,697 #	-	94,697	
Others (1)	-	-	-	-	-	274,107	-	274,107	
Total assets	6,989,208	617,562	792,288	1,966,519	1,000,854	357,196	-	11,723,627	

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

\# Net of individual allowance.

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

30 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Profit rate risk (continued)

Economic Entity 31.12.2012	Non-trading book Up to 1 month RM'000	> 1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 Years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
Liabilities									
Deposits from customers	5,253,150	1,732,177	1,976,034	11,366	-	69,534	-	9,042,261	2.74
Deposits and placements of banks and other financial institutions	1,127,472	396,515	49,037	197,211	46,627	22,862	-	1,839,724	3.21
Amount due to holding company	153,296	-	-	-	-	-	-	153,296	3.08
Other liabilities (2)	-	-	-	-	-	33,347	-	33,347	
Total liabilities	6,533,918	2,128,692	2,025,071	208,577	46,627	125,743	-	11,068,628	
Equity	-	-	-	-	-	654,999	-	654,999	
Total liabilities and equity	6,533,918	2,128,692	2,025,071	208,577	46,627	780,742	-	11,723,627	
On-balance sheet profit sensitivity gap	455,290	(1,511,130)	(1,232,783)	1,757,942	954,227	(423,546)			
Total profit sensitivity gap	455,290	(1,511,130)	(1,232,783)	1,757,942	954,227	(423,546)			

(2) Other liabilities include provision for taxation, deferred tax liabilities and other liabilities.

30 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Profit rate risk (continued)

	Non-trading book								
Economic Entity 31.12.2011	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	5.59
- 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, investment in jointly controlled entity, amount due from jointly controlled entity, property and equipment, intangible assets and statutory deposits with Bank Negara Malaysia.

30 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Profit rate risk (continued)

Economic Entity 31.12.2011	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	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.

30 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Profit rate risk (continued)

The Bank 31.12.2012	Non-trading book Up to 1 month RM'000	> 1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 Years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
Assets									
Cash and short-term funds	4,067,999	-	-	-	-	8,267	-	4,076,266	3.00
Deposits and placements with banks and other financial institutions	-	250,000	-	-	-	86	-	250,086	3.13
Financial investments available-for-sale	132,051	209,188	380,689	859,634	383,275	14,975	-	1,979,812	3.43
Financing, advances and other financing									
- non-impaired	2,789,158	158,374	411,599	1,106,885	617,579	(34,936) *	-	5,048,659	5.37
- impaired	-	-	-	-	-	94,697 #	-	94,697	
Others (1)	-	-	-	-	-	274,547	-	274,547	
Total assets	6,989,208	617,562	792,288	1,966,519	1,000,854	357,636	-	11,724,067	

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

\# Net of individual allowance.

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

30 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Profit rate risk (continued)

The Bank 31.12.2012	Non-trading book Up to 1 month RM'000	> 1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 Years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
Liabilities									
Deposits from customers	5,253,150	1,732,177	1,976,034	11,366	-	69,534	-	9,042,261	2.74
Deposits and placements of banks and other financial institutions	1,127,472	396,515	49,037	197,211	46,627	22,862	-	1,839,724	3.21
Amount due to holding company	153,296	-	-	-	-	-	-	153,296	3.08
Other liabilities (2)	-	-	-	-	-	33,347	-	33,347	
Total liabilities	6,533,918	2,128,692	2,025,071	208,577	46,627	125,743	-	11,068,628	
Equity	-	-	-	-	-	655,439	-	655,439	
Total liabilities and equity	6,533,918	2,128,692	2,025,071	208,577	46,627	781,182	-	11,724,067	
On-balance sheet profit sensitivity gap	455,290	(1,511,130)	(1,232,783)	1,757,942	954,227	(423,546)			
Total profit sensitivity gap	455,290	(1,511,130)	(1,232,783)	1,757,942	954,227	(423,546)			

(2) Other liabilities include provision for taxation, deferred tax liabilities and other liabilities.

30 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Profit rate risk (continued)

The Bank 31.12.2011	Non-trading book: Up to 1 month RM'000	Non-trading book: > 1-3 months RM'000	Non-trading book: >3-12 months RM'000	Non-trading book: >1-5 years RM'000	Non-trading book: Over 5 Years RM'000	Non-trading book: 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	5.59
- 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.

30 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Profit rate risk (continued)

The Bank 31.12.2011	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	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	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.

30 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Profit rate risk (continued)

Economic Entity/The Bank 1.1.2011	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	5.58
- 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.

30 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Profit rate risk (continued)

Economic Entity/The Bank 1.1.2011	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)			

30 FINANCIAL RISK MANAGEMENT (continued)

(iii) Liquidity risk

Liquidity risk is the current and prospective risk to earnings or capital arising from a bank's inability to meet its obligations when they fall due. Liquidity risk includes the inability to manage sudden decreases or changes in funding sources. Liquidity risk also arises from the failure to recognise changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

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 behavioural 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.

30 FINANCIAL RISK MANAGEMENT (continued)

(iii) Liquidity risk (continued)

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

The table below provides analysis of cash flow payables for financial liabilities based on remaining contractual maturities on undiscounted basis. The balances in the table below do not agree directly to the balances reported in the statement of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and profit payments.

Economic Entity/The Bank 31.12.2012	Up to 1 month RM'000	> 1-3 months RM'000	> 3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Deposits from customers	5,273,752	1,767,507	2,040,154	11,933	-	9,093,346
Deposits and placements of banks and other financial institutions	1,128,165	405,176	49,594	242,355	70,047	1,895,337
Other liabilities	23,521	-	-	-	-	23,521
Amount due to holding company	153,296	-	-	-	-	153,296
	6,578,734	2,172,683	2,089,748	254,288	70,047	11,165,500
31.12.2011						
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
1.1.2011						
Deposits from customers	3,390,093	1,336,337	853,580	4,709	-	5,584,759
Deposits and placements of banks and other financial institutions	728,871	587,951	27,807	9,745	-	1,354,374
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

30 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 31.12.2012	Up to 1 month RM'000	> 1-3 months RM'000	> 3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Assets						
Cash and short-term funds	4,076,266	-	-	-	-	4,076,266
Deposits and placements with banks and other financial institutions	-	250,086	-	-	-	250,086
Financial investments available-for-sale	132,891	221,279	382,733	859,634	383,275	1,979,812
Financing, advances and other financing	87,765	92,478	188,289	1,048,201	3,726,623	5,143,356
Other assets	63,788	-	108	-	421	64,317
Amount due from jointly controlled entity	2,745	-	-	-	-	2,745
Other non-financial assets (1)	201,500	-	-	-	5,545	207,045
	4,564,955	563,843	571,130	1,907,835	4,115,864	11,723,627
Liabilities						
Deposits from customers	5,270,770	1,756,365	2,003,697	11,429	-	9,042,261
Deposits and placements of banks and other financial institutions	1,127,768	403,153	49,146	210,980	48,677	1,839,724
Other liabilities	23,521	-	-	-	-	23,521
Amount due to holding company	153,296	-	-	-	-	153,296
Other non-financial liabilities (2)	-	-	9,560	-	266	9,826
	6,575,355	2,159,518	2,062,403	222,409	48,943	11,068,628
On balance sheet gap	(2,010,400)	(1,595,675)	(1,491,273)	1,685,426	4,066,921	654,999
Off balance sheet credit commitments	-	-	(1,332,744)	-	-	(1,332,744)
Net maturity mismatch	(2,010,400)	(1,595,675)	(2,824,017)	1,685,426	4,066,921	(677,745)

(1) Other non-financial assets include statutory deposits with Bank Negara Malaysia, investment in jointly controlled entity, property and equipment and intangible assets.
(2) Other non-financial liabilities include provision for taxation and deferred tax liabilities.

30 FINANCIAL RISK MANAGEMENT (continued)

(iii) Liquidity risk (continued)

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

Economic Entity 31.12.2011	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
Assets						
Cash and short-term funds	4,455,700	-	-	-	-	4,455,700
Financial investments available-for-sale	970	57,875	172,195	1,007,285	241,950	1,480,275
Financing, advances and other financing	10,054	88,504	208,593	885,570	3,181,484	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
	4,676,699	146,379	384,389	1,893,034	3,430,410	10,530,911
Liabilities						
Deposits from customers	4,158,617	1,859,285	1,396,365	62,972	-	7,477,239
Deposits and placements of banks and other financial institutions	1,261,344	700,654	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
	5,792,294	2,559,939	1,406,189	265,025	26,176	10,049,623
On balance sheet gap	(1,115,595)	(2,413,560)	(1,021,800)	1,628,009	3,404,234	481,288
Off balance sheet credit commitments	-	-	(1,543,773)	-	-	(1,543,773)
Net maturity mismatch	(1,115,595)	(2,413,560)	(2,565,573)	1,628,009	3,404,234	(1,062,485)

(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.

30 FINANCIAL RISK MANAGEMENT (continued)

(iii) Liquidity risk (continued)

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

The Bank 31.12.2012	Up to 1 month RM'000	> 1-3 months RM'000	> 3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Assets						
Cash and short-term funds	4,076,266	-	-	-	-	4,076,266
Deposits and placements with banks and other financial institutions	-	250,086	-	-	-	250,086
Financial investments available-for-sale	132,891	221,279	382,733	859,634	383,275	1,979,812
Financing, advances and other financing	87,765	92,478	188,289	1,048,201	3,726,623	5,143,356
Other assets	63,788	-	108	-	421	64,317
Amount due from jointly controlled entity	2,745	-	-	-	-	2,745
Other non-financial assets (1)	201,500	-	-	-	5,985	207,485
	4,564,955	563,843	571,130	1,907,835	4,116,304	11,724,067
Liabilities						
Deposits from customers	5,270,770	1,756,365	2,003,697	11,429	-	9,042,261
Deposits and placements of banks and other financial institutions	1,127,768	403,153	49,146	210,980	48,677	1,839,724
Other liabilities	23,521	-	-	-	-	23,521
Amount due to holding company	153,296	-	-	-	-	153,296
Other non-financial liabilities (2)	-	-	9,560	-	266	9,826
	6,575,355	2,159,518	2,062,403	222,409	48,943	11,068,628
On balance sheet gap	(2,010,400)	(1,595,675)	(1,491,273)	1,685,426	4,067,361	655,439
Off balance sheet credit commitments	-	-	(1,332,744)	-	-	(1,332,744)
Net maturity mismatch	(2,010,400)	(1,595,675)	(2,824,017)	1,685,426	4,067,361	(677,305)

(1) Other non-financial assets include statutory deposits with Bank Negara Malaysia, investment in jointly controlled entity, property and equipment and intangible assets.
(2) Other non-financial liabilities include provision for taxation and deferred tax liabilities.

30 FINANCIAL RISK MANAGEMENT (continued)

(iii) Liquidity risk (continued)

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

The Bank 31.12.2011	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
Assets						
Cash and short-term funds	4,455,700	-	-	-	-	4,455,700
Financial investments available-for-sale	970	57,875	172,195	1,007,285	241,950	1,480,275
Financing, advances and other financing	10,054	88,504	885,570	208,593	3,181,484	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
	4,676,699	146,379	1,061,366	1,216,057	3,430,620	10,531,121
Liabilities						
Deposits from customers	4,158,617	1,859,285	1,396,365	62,972	-	7,477,239
Deposits and placements of banks and other financial institutions	1,261,344	700,654	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
	5,792,294	2,559,939	1,406,189	265,025	26,176	10,049,623
On balance sheet gap	(1,115,595)	(2,413,560)	(344,823)	951,032	3,404,444	481,498
Off balance sheet credit commitments	-	-	(1,543,773)	-	-	(1,543,773)
Net maturity mismatch	(1,115,595)	(2,413,560)	(1,888,596)	951,032	3,404,444	(1,062,275)

(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.

30 FINANCIAL RISK MANAGEMENT (continued)

(iii) Liquidity risk (continued)

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

Economic Entity/The Bank 1.1.2011	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
Assets						
Cash and short-term funds	2,639,972	-	-	-	-	2,639,972
Financial investments available-for-sale	63,895	203,284	11,544	1,013,565	52,948	1,345,236
Financing, advances and other financing	110,294	117,148	174,112	656,073	2,497,969	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
	2,817,787	320,432	189,572	1,669,782	2,559,702	7,557,275
Liabilities						
Deposits from customers	3,387,963	1,326,795	833,424	4,250	-	5,552,432
Deposits and placements of banks and other financial institutions	728,363	585,705	27,775	9,251	-	1,351,094
Other liabilities	36,704	-	-	-	-	36,704
Amount due to holding company	183,541	-	-	-	-	183,541
	4,336,571	1,912,500	861,199	13,501	-	7,123,771
On balance sheet gap	(1,518,784)	(1,592,068)	(671,627)	1,656,281	2,559,702	433,504
Off balance sheet credit commitments	-	-	(1,454,717)	-	-	(1,454,717)
Net maturity mismatch	(1,518,784)	(1,592,068)	(2,126,344)	1,656,281	2,559,702	(1,021,213)

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

30 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, analyzes 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 minimize 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.

30 FINANCIAL RISK MANAGEMENT (continued)

(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 31.12.2012	**RM'000 Carrying value**	**RM'000 Fair value**
Financial Assets		
Financing, advances and other financing	**5,143,356**	**5,098,046**
Financial Liabilities		
Deposits from customers	**9,042,261**	**9,041,213**

Economic Entity/The Bank 31.12.2011	RM'000 Carrying value	RM'000 Fair value
Financial Assets		
Financing, advances and other financing	4,374,205	4,316,836
Financial Liabilities		
Deposits from customers	7,477,239	7,476,443

Economic Entity/The Bank 1.1.2011	RM'000 Carrying value	RM'000 Fair value
Financial Assets		
Financing, advances and other financing	3,555,596	3,490,806
Financial Liabilities		
Deposits from customers	5,552,432	5,549,325

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 MFRS 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.

30 FINANCIAL RISK MANAGEMENT (continued)

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

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.

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 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.

30 FINANCIAL RISK MANAGEMENT (continued)

Fair value measurements

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

(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).

Economic Entity/The Bank **31.12.2012**	**Level 1** **RM'000**	**Level 2** **RM'000**	**Level 3** **RM'000**	**Total** **RM'000**
Assets				
Financial investments available- for-sale				
- Private debt securities	**-**	**701,791**	**-**	**701,791**
- Equity securities	**-**	**-**	**69**	**69**
- Other financial assets	**-**	**1,277,952**	**-**	**1,277,952**

Economic Entity/The Bank 31.12.2011	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Assets				
Financial investments available- for-sale				
- Private debt securities	-	619,994	-	619,994
- Equity securities	-	-	69	69
- Other financial assets	-	860,212	-	860,212

Economic Entity/The Bank 1.1.2011	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Assets				
Financial investments available- for-sale				
- Private debt securities	-	377,418	-	377,418
- Equity securities	-	-	72	72
- Other financial assets	-	967,746	-	967,746

Financial instruments that are valued using quoted prices in active market are classified as Level 1 of the valuation hierarchy. 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 including 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.

30 FINANCIAL RISK MANAGEMENT (continued)

Fair value measurements (continued)

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		
	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Opening	**69**	72	575
AFS revaluation reserves	**-**	(3)	(503)
Closing	**69**	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.

31 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 32 below summarises the composition of regulatory capital and the ratios of the Bank for the financial year ended 31 December 2012.

32 CAPITAL ADEQUACY

The capital adequacy ratios are as follows:

	Economic Entity		The Bank	
	31.12.2012	31.12.2011	**31.12.2012**	31.12.2011
	RM'000	RM'000	**RM'000**	RM'000
Tier I capital				
Paid-up share capital	**360,000**	260,000	**360,000**	260,000
Retained profits	**148,950**	112,149	**149,390**	112,359
Statutory reserves	**143,451**	106,420	**143,451**	106,420
	652,401	478,569	**652,841**	478,779
Less:				
Deferred tax assets	**(600)**	-	**(600)**	-
Total Tier I capital	**651,801**	478,569	**652,241**	478,779
Tier II capital				
Collective impairment @	**23,782**	44,041	**23,782**	44,041
Total Tier II capital	**23,782**	44,041	**23,782**	44,041
Total capital	**675,583**	522,610	**676,023**	522,820
Less:				
Investment in capital instruments of other banking institutions	**-**	-	**-**	-
Capital Base	**675,583**	522,610	**676,023**	522,820
Core capital ratio	**14.61%**	11.08%	**14.62%**	11.08%
Risk-weighted capital ratio	**15.15%**	12.10%	**15.16%**	12.10%
Core capital ratio (net of proposed dividend)	**14.61%**	11.08%	**14.62%**	11.08%
Risk-weighted capital ratio (net of proposed dividend)	**15.15%**	12.10%	**15.16%**	12.10%
Risk-weighted assets for:				
Credit risk	**4,135,300**	3,983,070	**4,135,300**	3,983,070
Market risk	**1,782**	30,671	**1,782**	30,671
Operational risk	**323,284**	307,036	**323,284**	307,036
Total risk-weighted assets	**4,460,366**	4,320,777	**4,460,366**	4,320,777

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

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.

33 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.

34 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)	**396,983**
(ii)	The percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures	**6%**
(iii)	The percentage of outstanding credit exposures with connected parties which is impaired or in default	**Nil**

35 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 2013.

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 53 to 145 are drawn up so as to give a true and fair view of the state of affairs of the Economic Entity and the Bank as at 31 December 2012 and of the results and cash flows of the Economic Entity and of the Bank in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

Signed on behalf of the Board of Directors in accordance with their resolution dated 28 February 2013.

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 Economic Entity and the Bank, do solemnly and sincerely declare that, in my opinion, the accompanying financial statements set out on pages 53 to 145, are correct and I make this solemn declaration conscientiously believing the same to be true, 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 2013, before me.

Commissioner for Oaths

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF AFFIN ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of AFFIN Islamic Bank Berhad on pages 53 to 145 which comprise the statements of financial position as at 31 December 2012 of the Economic Entity and of the Bank, and 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 Notes 1 to 34.

Directors' 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 Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act 1965 and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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 entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence 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 Malaysian Financial Reporting Standards, International Financial Reporting Standards 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 2012 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 members of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS
(No. AF : 1146)
Chartered Accountants

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

Kuala Lumpur, Malaysia
28 February 2013

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 AFFIN Islamic Bank Berhad ('AFFIN ISLAMIC') during the period ended 31 December 2012. We have also conducted our review to form an opinion as to whether 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 the review work carried out by Shariah review and Shariah audit of 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 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 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 AFFIN ISLAMIC during the year ended 31 December 2012 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 2012 was RM22,581.72 as purification of profits earned from invalid Trust Receipt-i contracts and fees income earned from use of debit card at certain merchants; and

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

SHARIAH COMMITTEES' REPORT

We, the members of the Shariah Committee of AFFIN ISLAMIC, do hereby confirm that the operations of AFFIN ISLAMIC for the year ended 31 December 2012 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 2013

BASEL II Pillar 3 Disclosures

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BASEL II
PILLAR 3 DISCLOSURES
for the financial year ended 31 December 2012

1 Introduction

1.1 Background

AFFIN Islamic Bank Berhad ('AFFIN ISLAMIC') adopted Basel II since 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 2012. 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 2012 Annual Report for the year ended 31 December 2012.

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.

2 Risk Governance Structure

2.1 Overview (continued)

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 operate 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.

2.2 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 ABB's culture, objectives and strategy.

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

Board Nomination 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.

2 Risk Governance Structure

2.2 Board Committees (continued)

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 ('GMLC'). 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.

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.

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

(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-to-day 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.

2 Risk Governance Structure

2.3 Management Committees (continued)

Asset and Liability Management Committee ('ALCO')

ALCO's responsibilities include:

(i) Managing the asset liability of AFFIN ISLAMIC through coordination of the overall planning process including strategic planning, budgeting and asset liability management process;

(ii) Directing AFFIN ISLAMIC's overall acquisition and allocation of funds;

(iii) Prudently managing AFFIN ISLAMIC's profit rate exposure;

(iv) Determine the overall Balance Sheet strategy and ensuring policy compliance;

(v) Determined the type and scope of derivative activities, approve individual derivative transactions as well as control over the level of exposure in derivative;

(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 modeling and stress/scenario tests.

Group Operational Risk Management Committee ('GORMC')

GORMC is established within senior management chaired by MD/CEO to deliberate and 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.

2 Risk Governance Structure

2.3 Management Committees (continued)

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, MCM, GMLC, ALCO, GORMC and EAC assist BRMC in managing credit, market, liquidity and operational risks. 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 2012. The Bank's Core capital ratio ('CCR') and Risk-weighted capital ratio ('RWCR') as at 31 December 2012 were above the BNM minimum requirements of 4.0% and 8.0%.

	Economic Entity		The Bank	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Tier I capital				
Paid-up share capital	360,000	260,000	360,000	260,000
Retained profits	148,950	112,149	149,390	112,359
Statutory reserves	143,451	106,420	143,451	106,420
	652,401	478,569	652,841	478,779
Less:				
Deferred tax assets	(600)	-	(600)	-
Total Tier I capital	651,801	478,569	652,241	478,779
Tier II capital				
Collective impairment	23,782	44,041	23,782	44,041
Total Tier II capital	23,782	44,041	23,782	44,041
Capital base	675,583	522,610	676,023	522,820
Core capital ratio	14.61%	11.08%	14.62%	11.08%
Risk-weighted capital ratio	15.15%	12.10%	15.16%	12.10%
Core capital ratio (net of proposed dividends)	14.61%	11.08%	14.62%	11.08%
Risk-weighted capital ratio (net of proposed dividends)	15.15%	12.10%	15.16%	12.10%
Risk-weighted assets for:				
Credit risk	4,135,300	3,983,070	4,135,300	3,983,070
Market risk	1,782	30,671	1,782	30,671
Operational risk	323,284	307,036	323,284	307,036
Total risk-weighted assets	4,460,366	4,320,777	4,460,366	4,320,777

3 Capital

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. 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 and advances, 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 risk in AFFIN ISLAMIC is governed by a set of approved credit policies, guidelines and procedures. Approval authorities are delegated to Senior Management and GMLC to implement the credit policies and ensure sound credit granting standards.

An independent GRM function, headed by Group Chief Risk Officer ('GCRO') with direct reporting line to BRMC is in place to ensure adherence to risk standards and discipline.

Lending 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 Annual Credit Plan. The Annual Credit Plan is reviewed at least annually and approved by the BRMC.

5 Credit Risk

5.2 Application of Standardised Approach to 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

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 Credit Risk

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.

Collateral

Credits are established against customer's capacity to pay 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 covered or insured with a Takaful company or insurer from the approved list.

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.

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.

5 Credit Risk

5.4 Risk Limit Control and Mitigation Policies (continued)

Credit related commitments

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).

5.5 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.

5 Credit Risk

5.6 Impairment Provisioning (continued)

Collective impairment provisioning (continued)

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.

Analysed by economic sectors

	Economic Entity/ The Bank	
	31.12.2012	31.12.2011
	RM'000	RM'000
Past due financing		
Primary agriculture	**593**	341
Mining and quarrying	**87**	63
Manufacturing	**2,779**	1,023
Electricity, gas and water supply	**280**	63
Construction	**8,249**	32,319
Real estate	**336**	-
Wholesale & retail trade and restaurants & hotels	**4,053**	2,660
Transport, storage and communication	**2,891**	1,722
Finance, insurance and business services	**58,677**	1,579
Education, health and others	**1,013**	1,093
Household	**364,072**	369,975
	443,030	410,838

	Economic Entity/ The Bank	
	31.12.2012	31.12.2011
	RM'000	RM'000
Individual impairment		
Manufacturing	**6,439**	6,843
Construction	**26,762**	26,432
Wholesale & retail trade and restaurants & hotels	**1,858**	1,189
Finance, insurance and business services	**-**	391
Household	**36**	72
	35,095	34,927

5 Credit Risk

5.6 Impairment Provisioning (continued)

Analysed by economic sectors (continued)

	Economic Entity/ The Bank	
	31.12.2012	31.12.2011
	RM'000	RM'000
Individual impairment charged		
Manufacturing	**755**	1,416
Construction	**304**	1,881
Wholesale & retail trade and restaurants & hotels	**1,411**	831
Finance, insurance and business services	**39**	391
Household	**314**	510
	2,823	5,029

	Economic Entity/ The Bank	
	31.12.2012	31.12.2011
	RM'000	RM'000
Individual impairment written-off		
Manufacturing	**-**	448
Construction	**-**	1,889
	-	2,337

	Economic Entity/ The Bank	
	31.12.2012	31.12.2011
	RM'000	RM'000
Collective impairment		
Primary agriculture	**253**	427
Mining and quarrying	**67**	4
Manufacturing	**1,504**	2,082
Electricity, gas and water supply	**90**	40
Construction	**4,756**	4,045
Real estate	**687**	1,815
Wholesale & retail trade and restaurants & hotels	**674**	334
Transport, storage and communication	**118**	101
Finance, insurance and business services	**1,709**	2,453
Education, health and others	**1,629**	2,236
Household	**23,449**	47,172
	34,936	60,709

5 Credit Risk

5.6 Impairment Provisioning (continued)

Analysed by geographical area

	Economic Entity/ The Bank	
	31.12.2012	31.12.2011
	RM'000	RM'000
Past due financing		
Perlis	**351**	260
Kedah	**12,150**	36,574
Pulau Pinang	**9,359**	9,019
Perak	**43,596**	39,743
Selangor	**137,738**	118,400
Wilayah Persekutuan	**85,119**	38,008
Negeri Sembilan	**11,175**	9,305
Melaka	**3,534**	3,659
Johor	**19,967**	19,657
Pahang	**22,464**	25,619
Terengganu	**49,881**	53,632
Kelantan	**41,298**	48,204
Sarawak	**2,787**	3,176
Sabah	**3,605**	5,582
Labuan	**6**	-
	443,030	410,838

	Economic Entity/ The Bank	
	31.12.2012	31.12.2011
	RM'000	RM'000
Individual impairment		
Selangor	**1,263**	-
Wilayah Persekutuan	**682**	1,261
Pahang	**6,439**	6,843
Sabah	**279**	-
Outside Malaysia	**26,432**	26,823
	35,095	34,927

5 Credit Risk

5.6 Impairment Provisioning (continued)

	Economic Entity/ The Bank	
	31.12.2012 RM'000	31.12.2011 RM'000
Collective impairment		
Perlis	**37**	19
Kedah	**1,028**	3,177
Pulau Pinang	**685**	1,576
Perak	**1,766**	3,542
Selangor	**13,825**	24,170
Wilayah Persekutuan	**8,254**	8,789
Negeri Sembilan	**1,089**	1,732
Melaka	**312**	473
Johor	**1,462**	2,581
Pahang	**1,230**	3,012
Terengganu	**2,050**	3,765
Kelantan	**2,454**	6,526
Sarawak	**415**	431
Sabah	**329**	916
	34,936	60,709

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 implements an Internal Credit Certification ('ICC') Programme for both Business Banking and Consumer Credit.

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.

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 factors such as profit rates, foreign exchange rates and changes in volatility. AFFIN ISLAMIC is exposed to market risks from its trading and investment activities.

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

AFFIN ISLAMIC's market risk management control strategy is established based on its risk appetite, market liquidity and business strategies as well as macroeconomic conditions. These limits are reviewed at least on an annual basis.

Market risk arising from AFFIN ISLAMIC's trading book is primarily controlled through the imposition of Cut-loss and Value-at-Risk ('VaR') Limits.

AFFIN ISLAMIC quantifies profit rate risk by analysing the repricing mismatch between the rate sensitive assets and rate sensitive liabilities. It also conducts Net Profit Income simulations to assess the variation in earnings under various rates scenarios. The potential long term effects of the Bank's overall exposure is also tracked by assessing the impact on economic value of equity ('EVE').

AFFIN ISLAMIC's profit rate risk is managed through Earnings-at-Risk ('EaR') and Economic Value-at-Risk ('EVaR') limits.

In addition, AFFIN ISLAMIC conducts periodic stress test of its respective business 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 Market Risk

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.

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. Stress tests measure the changes in values arising from extreme movements in 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.

7 Liquidity Risk

7.1 Liquidity Risk Management Objectives and Policies

Liquidity risk is the current and prospective risk to earnings or capital arising from a bank's inability to meet its obligations when they fall due. Liquidity risk includes the inability to manage sudden decreases or changes in funding sources. Liquidity risk also arises from the failure to recognise changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

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 behavioural 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.

7 Liquidity Risk

7.2 Liquidity Risk Measurement, Control and Monitoring (continued)

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/ financing of terrorism.

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 Group Internal Audit to ensure adequacy and effectiveness of the Group Operational Risk Management process.

AFFIN ISLAMIC gathers, analyses and reports operational risk loss and 'near miss' events to Group Operational Risk Management Process ('GORMC') and Board Risk Management Committee ('BRMC'). Appropriate remedial actions are reviewed for effectiveness and implemented to minimize 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 Group Risk Management 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, Shariah Review, Shariah Research and Shariah Audit are properly established to effectively perform its respective functions.

Continuous training programs are provided to Shariah Committee members to equip them with better understanding and exposure on banking operations and to Board of Directors, management members and staff for fundamental and advanced knowledge on Shariah and Islamic commercial law matters.

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 Economic Entity 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
31.12.2012

	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		2,243,072	1,944,118	1,536,425	1,536,425	122,914
	Regulatory Retail		1,799,481	1,792,264	1,346,797	1,346,797	107,744
	Other Assets		297,875	297,875	29,842	29,842	2,387
	Sovereigns/Central Banks		5,021,400	5,021,400	-	-	-
	Banks, Development Financial Institutions & MDBs		574,720	555,004	111,001	111,001	8,880
	Insurance Companies, Securities Firms & Fund Managers		110,286	95,149	95,149	95,149	7,612
	Residential Real Estate (RRE) Financing		1,115,133	1,112,664	457,488	457,488	36,599
	Higher Risk Assets		31,459	31,443	47,164	47,164	3,773
	Defaulted Exposure		95,029	95,011	113,734	113,734	9,098
	Total for On-Balance Sheet Exposures		11,288,455	10,944,928	3,737,600	3,737,600	299,007
	Off Balance Sheet Exposures						
	Off Balance Sheet Exposures other than OTC derivatives or credit derivatives		474,399	464,636	396,677	396,677	31,734
	Defaulted Exposures		682	682	1,023	1,023	82
	Total for Off-Balance Sheet Exposures		475,081	465,318	397,700	397,700	31,816
	Total for On and Off-Balance Sheet Exposures		11,763,536	11,410,246	4,135,300	4,135,300	330,823
2	**MARKET RISK**	Long Position	Short Position				
	Foreign Currency Risk	1,782	-	1,782	1,782	-	143
3	**OPERATIONAL RISK**						
	Operational Risk				323,284		25,863
	Total RWA and Capital Requirements				4,460,366	4,135,300	356,829

OTC "Over The Counter"
PSIA "Profit Sharing Investment Account"

Disclosure on Capital Adequacy under the Standardised Approach (RM'000)
Economic Entity/The Bank
31.12.2011

	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"

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 2012

Disclosure on Credit Risk: Disclosures on Risk Weights under the Standardised Approach (RM'000)
Economic Entity/The Bank
31.12.2012

	Exposures after Netting and Credit Risk Mitigation													
Risk Weights	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	Total Exposure after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
0%	5,024,482	-	-	-	-	-	-	-	265,983	-	-	-	5,290,465	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	44,881	-	558,118	-	475,759	-	-	-	4,590	-	-	-	1,083,348	216,670
35%	-	-	-	-	-	-	839,987	-	-	-	-	-	839,987	293,995
50%	-	-	-	-	75,733	-	215,047	-	-	-	-	-	290,780	145,390
70%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
75%	-	-	-	-	-	1,852,388	11,467	-	-	-	-	-	1,863,855	1,397,891
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	134,081	1,718,142	5,517	80,727	204	24,057	-	-	-	1,962,728	1,962,728
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
115%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	567	20,659	10,177	44,436	3,245	-	-	-	79,084	118,626
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 2012

Disclosure on Credit Risk: Disclosures on Risk Weights under the Standardised Approach (RM'000)
Economic Entity/The Bank
31.12.2011

	Exposures after Netting and Credit Risk Mitigation													
Risk Weights	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	Total Exposure after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
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"

(i) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000)
Economic Entity/The Bank
31.12.2012

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						
Rated 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		-	-	-	-	149,884
Corporates		22,016	40,989	-	-	2,513,719
Total		22,016	40,989	-	-	2,663,603

BASEL II PILLAR 3 DISCLOSURES
for the financial year ended 31 December 2012

(i) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000)

Economic Entity/The Bank

31.12.2011

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						
Rated 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 2012

(ii) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000)
Economic Entity/The Bank
31.12.2012

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		-	5,069,362	-	-	-	-
Total		-	5,069,362	-	-	-	-

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		3,114	-	-	-	-	574,720
Total		3,114	-	-	-	-	574,720

BASEL II PILLAR 3 DISCLOSURES

for the financial year ended 31 December 2012

(ii) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000)

Economic Entity/The Bank

31.12.2011

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 2012

a) **Disclosures on Credit Risk Mitigation (RM'000)**
Economic Entity/The Bank
31.12.2012

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	5,021,400	-	-	-
Banks, Development Financial Institutions & MDBs	574,720	-	-	-
Insurance Cos, Securities Firms & Fund Managers	110,286	-	673	-
Corporates	2,243,072	3,200	94,219	-
Regulatory Retail	1,799,481	-	8,744	-
Residential Mortgages	1,115,133	-	2,469	-
Higher Risk Assets	31,459	-	17	-
Other Assets	297,875	-	-	-
Defaulted Exposures	95,029	-	18	-
Total for On-Balance Sheet Exposures	11,288,455	3,200	106,140	-
Off-Balance Sheet Exposures				
Off-Balance Sheet exposures other than OTC derivatives or credit derivatives	474,399	-	-	-
Defaulted Exposures	682	-	-	-
Total for Off-Balance Sheet Exposures	475,081	-	-	-
Total On and Off-Balance Sheet Exposures	11,763,536	3,200	106,140	-

BASEL II PILLAR 3 DISCLOSURES
for the financial year ended 31 December 2012

a) Disclosures on Credit Risk Mitigation (RM'000)
Economic Entity/The Bank
31.12.2011

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	-

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
31.12.2012

Description	Total Principle Amount	Positive Fair Value of Derivative Contracts	Total Credit Equivalent Amount	Total Risk Weighted Amount
Direct Credit Substitutes	9,374		9,374	7,732
Transaction related contingent Items	130,067		65,034	63,374
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	381,912		190,955	175,291
Short Term Self Liquidating trade related contingencies	237,199		47,440	11,535
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	811,391		162,278	139,768
Total	1,569,943	-	475,081	397,700

BASEL II PILLAR 3 DISCLOSURES
for the financial year ended 31 December 2012

b) Disclosure on Off-Balance Sheet and Counterparty Credit Risk (RM'000)

Economic Entity/The Bank
31.12.2011

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

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.

Type of Currency (RM million)	**Economic Entity/The Bank**		Economic Entity/The Bank	
	2012	**2012**	2011	2011
	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	**13.5**	**86.7**	8.0	(48.8)
US Dollar	**(0.5)**	**(0.1)**	(1.2)	(0.1)
Total	**13.0**	**86.6**	6.8	(48.9)

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