





At Bank Muamalat, we are committed to, and responsible for, the PEOPLE closest to us; OUR CUSTOMERS, OUR EMPLOYEES and OUR COMMUNITY.

We value our CUSTOMERS and strive to meet the financial needs by delivering timely and exemplary services in the most ethical and professional manner.

Our EMPLOYEES are our biggest asset. We value each employee's unique contribution to the growth of the bank. We are determined to create a rewarding and healthy working environment in support of both their professional as well as personal lives.

We believe in giving back to the COMMUNITY. We take our social responsibility seriously and committed to enhance the living standards of those around us through programmes and engagements that goes beyond our profit orientation.

This year's cover reflects our principal goal and ongoing commitment to unlock opportunities for the mutual of all our stakeholders and the ummah at large whilst continuing our journey to be the preferred Islamic financial services provider.

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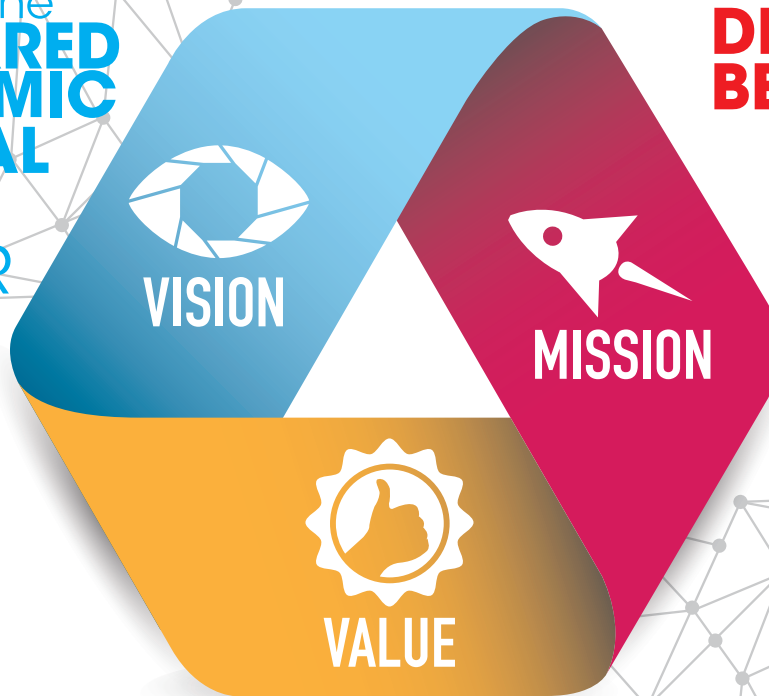
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To become the
**PREFERRED
ISLAMIC
FINANCIAL
SERVICES
PROVIDER**



To
**DELIVER
BEST VALUE**
to the
stakeholders

CARE
RESPECT
INTEGRITY
INNOVATIVE
SERVICE ORIENTED



Bank Muamalat's logo and identity are essentially formed by a dynamic line in a continuous motion. The principal objective of efficiency and dynamism are reflected by this single line. The single line signifies an efficient, clear and focused vision. This reflects the strong relationship between the bank and its customers.

The dome is a basic design element of Islamic architecture. It is used to signify the place for prayers and shelter. This represents the products and services that Bank Muamalat can offer to its customers. The five domes are representative of the five tenets of Islam and the five times Muslims are called to pray. The five points are also used in relation to the five principles of the Rukun Negara, giving a truly Malaysian objective to its existence. The linkage of the five domes with a single line signifies networking of Bank Muamalat and the relationship between Bank Muamalat, customers and its external environment. This networking and togetherness translate the very meaning of Muamalat itself, which is "relationship between mankind".

An hour glass embedded in the centre within the logo design stands for the time which is the essence of a bank. Investments grow over time. Two colours are used within the logo. Sultan blue, a royal colour is used to provide a feeling of strength and confidence. Orange is a warm and exciting colour. It gives light and signifies growth. The orange is used to signify the warmth of Bank Muamalat which is in continuous growth, never static but always dynamic.

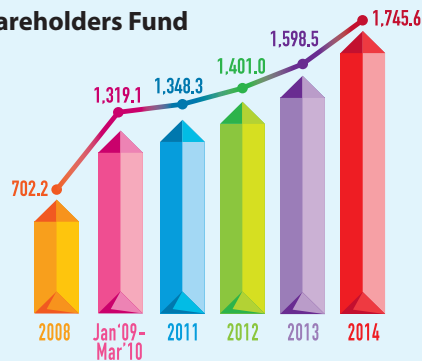
10 Years Financial Highlights

(2004-2014) – GROUP

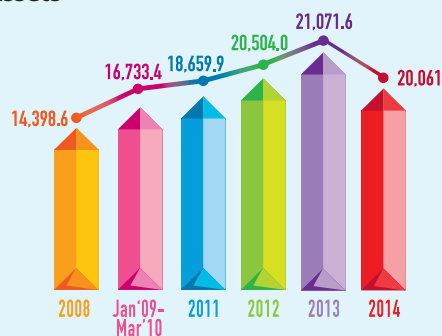
	2004	2005	2006	2007	2008	Jan 2009 - Mar 2010	2011 Restated	2012 Restated	2013	2014
Total Shareholders Fund (RM'000)	507,564	523,683	713,126	737,331	702,236	1,319,131	1,348,286	1,401,004	1,598,476	1,745,576
Profit/(Loss) Before Tax (RM'000)	(26,819)	41,251	103,409	64,238	44,068	142,061	186,785	103,006	235,963	208,284
Profit/(Loss) After Tax (RM'000)	(28,720)	32,328	72,520	48,138	31,951	98,834	120,433	69,244	167,936	151,564
Total Assets (RM'000)	8,070,831	10,269,647	13,450,636	13,808,090	14,398,645	16,733,420	18,659,940	20,504,037	21,071,590	20,061,690
Total Deposits (RM'000)	7,455,010	9,373,971	12,178,691	12,172,868	12,447,970	14,920,856	16,216,173	18,151,087	18,744,179	17,629,228
Total Financing (RM'000)	2,887,415	4,154,021	5,373,343	5,870,585	6,427,747	7,037,126	7,495,007	9,064,271	10,352,626	11,899,69
No of Branches	41	42	43	48	48	49	51	58	59	59
No of Service Centres/Kiosk	7	6	6	3	5	6	4	2	7	7
No of Offshore Branches/Labuan	1	1	1	1	1	1	1	1	1	1
No of Staff	1,241	1,145	1,380	1,454	1,419	1,584	1,763	1,929	2,099	2,135
Return on Asset (%)	(0.35)	0.45	0.87	0.47	0.31	0.73	1.06	0.53	1.14	1.01
Return on Equity (%)	(6.23)	8.00	16.72	8.86	6.12	11.24	15.24	7.49	15.73	12.46

Total Shareholders Fund

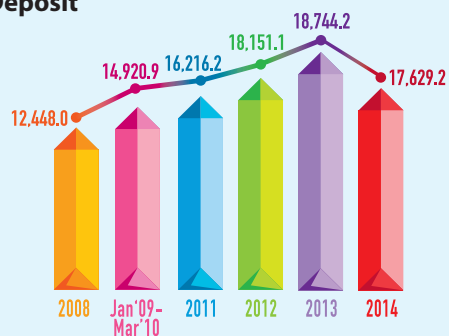
RM MILLION

**Total Assets**

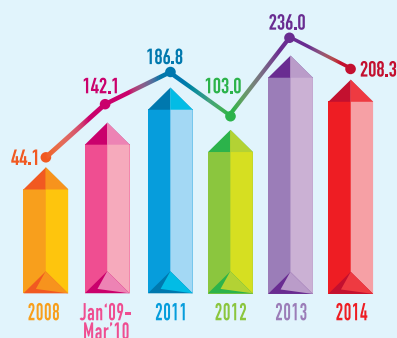
RM MILLION

**Total Deposit**

RM MILLION

**PBT**

RM MILLION



Corporate Information

BOARD OF DIRECTORS

Chairman

Tan Sri Dato' Dr. Mohd Munir Abdul Majid

Members

Dato' Sri' Che Khalib Mohamad Noh
 Dato' Mohamed Hazlan Mohamed Hussain
 Dato' Haji Mohd Redza Shah Abdul Wahid
 Haji Mohd Izani Ghani
 Haji Ismail Ibrahim
 (resigned w.e.f. 24 March 2014)
 Hisham Zainal Mokhtar
 (appointed w.e.f. 24 March 2014)
 (resigned w.e.f. 30 June 2014)
 Haji Abdul Jabbar Abdul Majid
 Tengku Dato' Seri Hasmuiddin Tengku Othman
 Dato' Azmi Abdullah
 Dato' Haji Kamil Khalid Ariff

COMPANY SECRETARY

Nora Shikhen Ramli (LS 01587)

REGISTERED OFFICE

20th Floor, Menara Bumiputra
 Jalan Melaka
 50100 Kuala Lumpur
 Tel: 603-2615 7069
 Fax: 603-2693 3367

AUDITORS

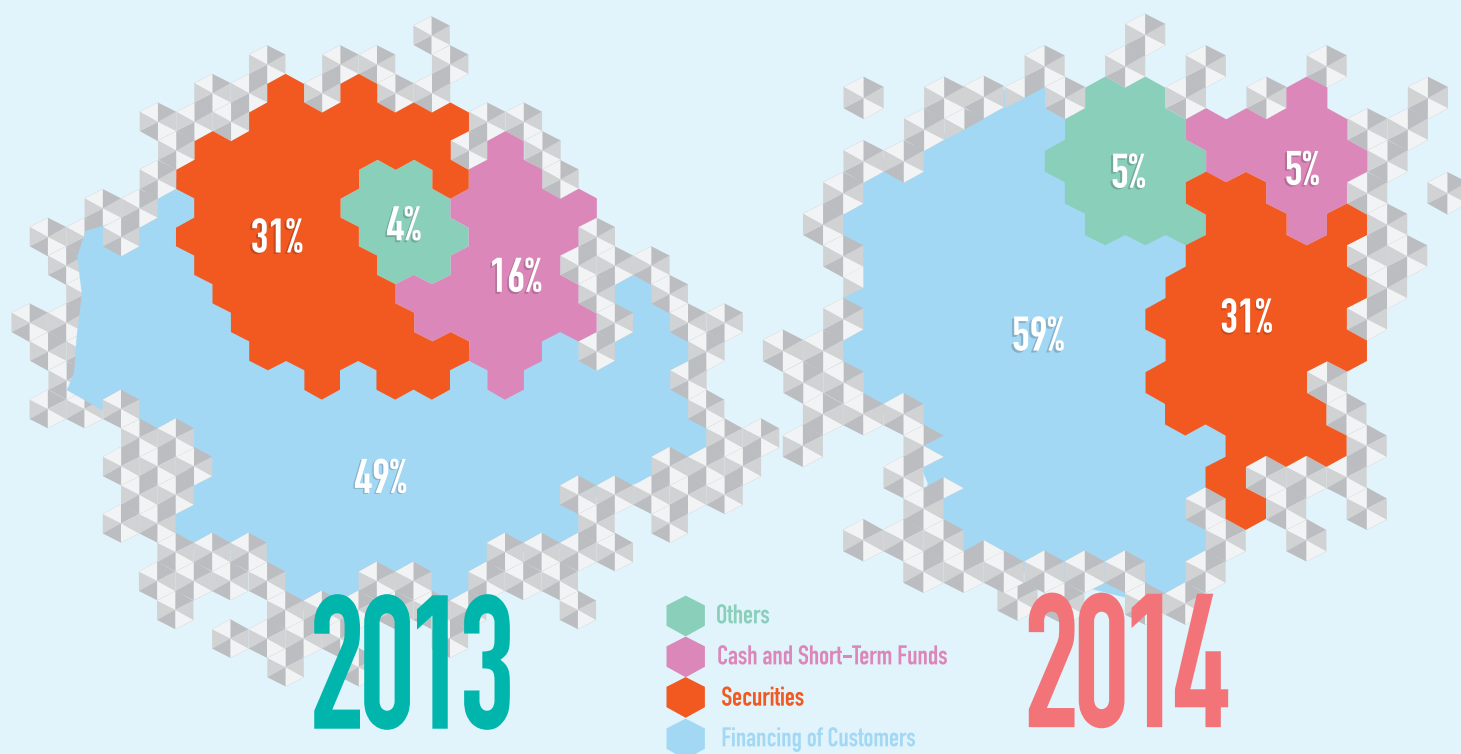
Ernst & Young
 Level 23A, Menara Milenium
 Jalan Damanlela
 Pusat Bandar Damansara
 50490 Kuala Lumpur

Asset Quality

TOTAL ASSETS

The group's total assets as at end of financial year (FY) 2014 declined to RM20.1 billion from RM21.1 billion as at end of FY 2103. The reduction in total assets was mainly due to the decrease in cash and short-term funds totaling RM2.3 billion offset by the increase in financing to customers totaling RM1.5 billion.

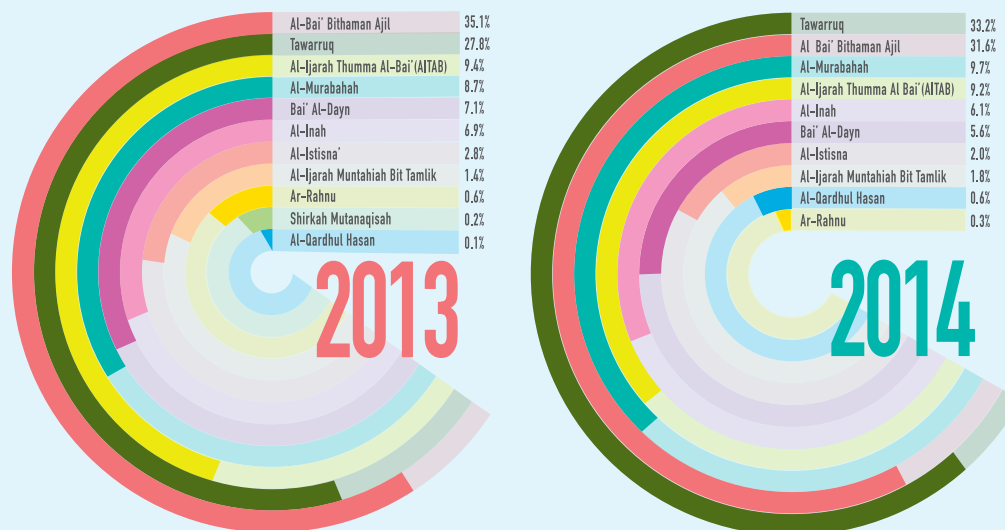
Cash and short term funds declined 70% to RM966 million as at end of FY 2014 from RM3.2 billion as at end of FY 2013 in line with the reduction in total deposits. The lower amount was mainly due to Bank Muamalat's asset-liability management strategy to manage the net profit margin by reducing acceptance of high cost wholesale deposits while ensuring compliance on the new liquidity requirement under Basel III regime.



COMPONENTS	Jan'09- Mar'10 RM million	2011 RM million	2012 RM million	2013 RM million	2014 RM million
Assets					
- Gross financing	7,037.1	7,501.3	9,447.9	10,642.3	12,180.5
- Financial investments	4,041.0	4,388.8	6,213.7	6,547.1	6,159.8
- Cash and short-term funds	5,775.4	6,451.0	4,501.5	3,341.7	1,087.0
Gross impaired financing	513.8	378.3	452.3	271.4	331.7
Gross impaired financing ratio	6.9%	4.8%	4.8%	2.5%	2.7%
Industry average*	3.6%	3.3%	2.4%	1.6%	1.5%
Financing loss reserve ratio	79.7%	89.0%	87.8%	1.6%	1.5%
Industry average*	75.0%	90.8%	105.9%	120.1%	113.8%

*Bank Negara Malaysia's March 2014 Monthly Statistical Bulletin

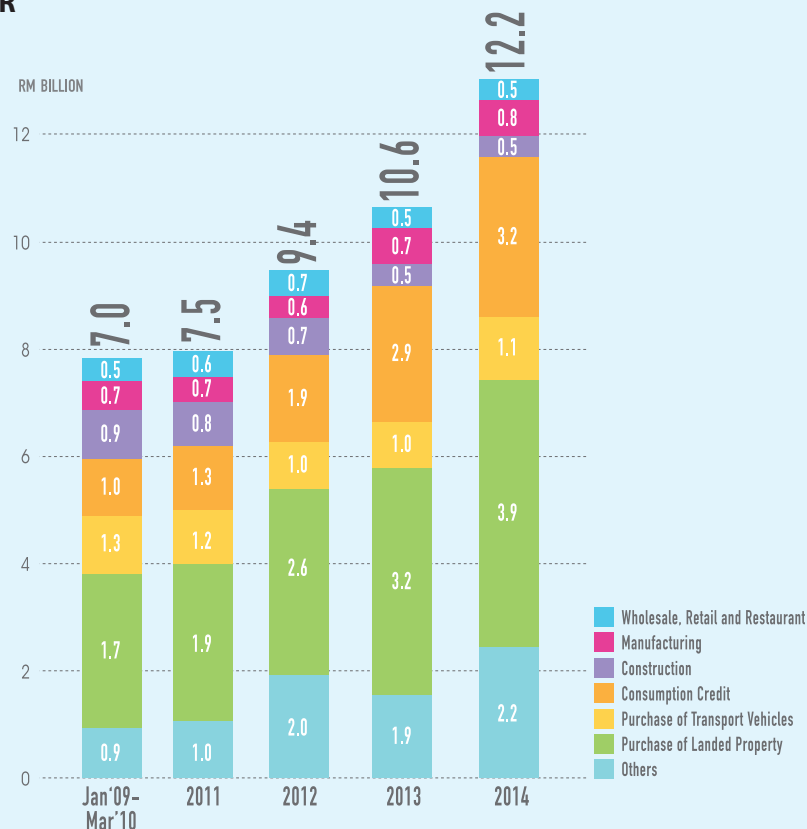
Bank Muamalat's gross impaired financing ratio increased to 2.7% as at end of FY 2014 as compared to 2.5% in the previous year due to the increase in gross impaired financing from RM271.4 million to RM331.7 million. Bank Muamalat will continue to improve its credit risk management practices by adopting aggressive recoveries and better management of delinquent accounts.



FINANCING BY CONTRACT

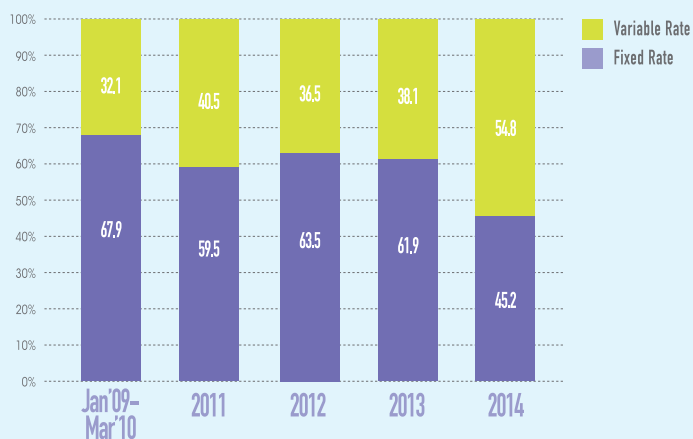
Bank Muamalat's financing assets are formulated based on approved Shariah principles. The composition of Bank Muamalat's current financing portfolio, largely comprised of Tawarruq (commodity murabahah), 33.2%, Al-Bai' Bithaman Ajil (deferred payment sale), 31.6%, Al-Murabahah (cost plus), 9.7%, while the balance is made up of other contracts such as Al-Ijarah Thumma Al-Bai' (AITAB) and Al-Ijarah Muntahiah Bit Tamlik. Comparison against the previous year saw a shift towards Tawarruq contract financing as reflected by its impressive yearly growth of 5.1%, where the composition increased from 27.8% in previous year to 33.2% of total outstanding financing as at end of FY 2014.

FINANCING BY SECTOR



Bank Muamalat's financing assets portfolio was dominated by variable rate financing which accounted for 54.8% of total outstanding financing as at end of FY 2014. This was an improvement from 38.1% in the previous year as Bank Muamalat continued to focus on variable rate financing in order to be more resilient in facing any future upward movement in market rates.

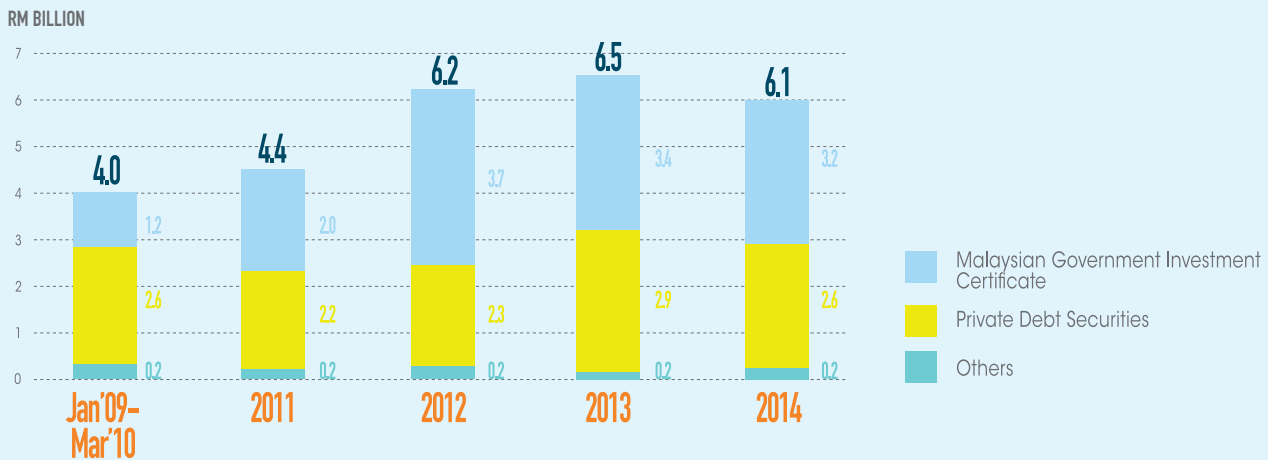
FIXED AND VARIABLE RATE FINANCING



FINANCIAL INVESTMENTS

The Bank has maintained to hold higher Malaysian Government Investment Certificate as compared to Private Debt Securities (PDS) in order to maintain liquidity. The proportion of Malaysian Government Investment Certificate to PDS as at end of FY 2014 was 55% to 44%.

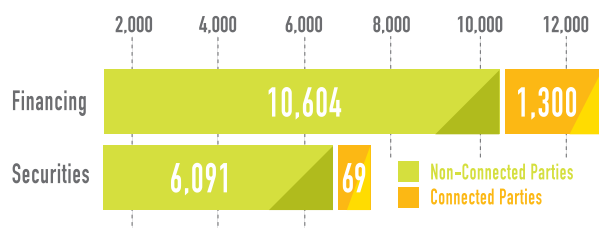
The lower PDS holding will reduce the Bank's exposure to credit defaults, price and profit rate movements and liquidity risk.



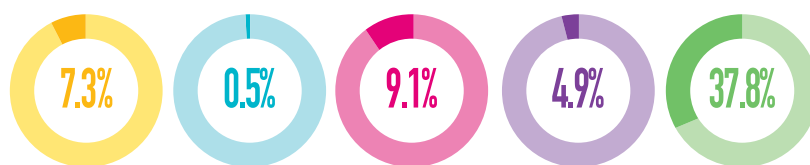
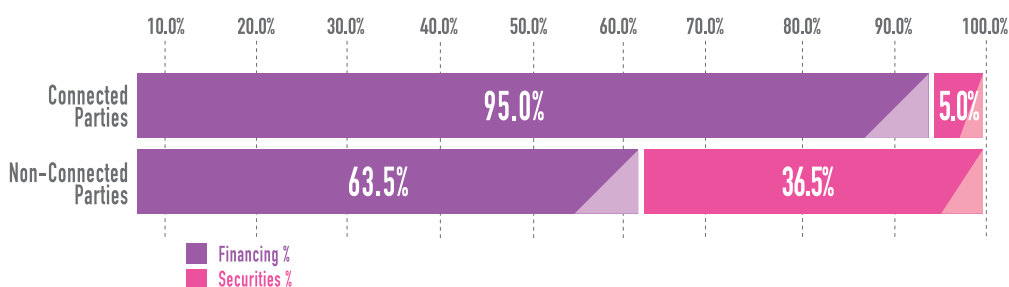
Connected Party

As at end of FY 2014, the outstanding credit exposures to connected parties accounted for 6.3% of the total outstanding credit exposures, RM21.70 billion. The amount stood at 64% against Bank Muamalat's capital base of RM2.14 billion. Both measurements were well below the threshold limit set by Bank Negara Malaysia (BNM).

Connected Parties Exposure by Financial Instrument as at FY 2014

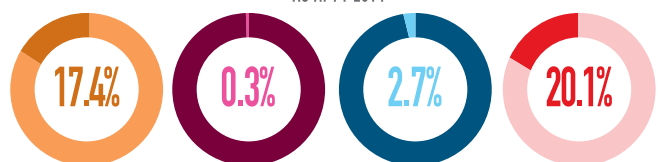


Connected Parties Vs Non-Connected Parties Exposure as at FY 2014



COMPOSITION OF CONNECTED PARTIES BY SECTOR

AS AT FY 2014



- Agriculture, Hunting, Forestry and Fishing
- Construction
- Financing, Insurance, Real Estate and Business
- Manufacturing
- Transport, Storage and Communication
- Community, Social and Personal Services
- Electricity, Gas and Water
- Others
- Wholesale and Retail Trade and Restaurants and Hotels

Media Highlights





We only
INVEST in real assets & services
which help to support
REAL ECONOMIC
growth



Board of Directors



Back (From Left to Right)

Hisham Zainal Mokhtar (resigned w.e.f. 30 June 2014), Haji Abdul Jabbar Abdul Majid, Dato' Haji Mohd Redza Shah Abdul Wahid, Tengku Dato' Seri Hasmuddin Tengku Othman, Dato' Haji Kamil Khalid Ariff, Nora Shikhen Ramli (Company Secretary) and Dato' Sri Che Khalib Mohamad Noh,

Front (From Left to Right)

Haji Mohd Izani Ghani, Tan Sri Dato' Dr. Mohd Munir Abdul Majid, Dato' Azmi Abdullah and Dato' Mohamed Hazlan Mohamed Hussain



Profile of Board of Directors



Tan Sri Dato' Dr. Mohd Munir Abdul Majid Chairman

Tan Sri Dato' Dr. Mohd Munir Abdul Majid is the Chairman of Bank Muamalat and was appointed to the Board of Bank Muamalat on 3 June 2008. He is also the Chairman of Veto Committee.

He obtained a B.Sc (Econ) from London School of Economics and Political Science (LSE) in 1971 where he also obtained his PhD in International Relations in 1978. He taught at the Department of International Relations in LSE from 1972-1975. He was a research analyst for Daiwa Europe NV in London from 1975-1978.

Dr. Munir joined the New Straits Times (NST) at the end of 1978 as a leader writer and progressed to become the Group Editor. During his time at NST, he published numerous articles on national and international politics, and economics. (He continues to write, now as a columnist for the Star, Malaysia's leading English language newspaper). He left NST in 1986 to become the CEO of a small merchant bank, Pertanian Baring Sanwa (PBS), whose name he changed to Commerce International Merchant Bankers (CIMB) which was then transformed into one of Malaysia's leading merchant banks. He was invited by the Government of Malaysia to establish and become the first and founding Executive Chairman of the Securities Commission in 1993, where he served for two terms until 1999.

As the founding executive chairman, he was instrumental in shaping the legal and regulatory framework of the

capital markets, as well as introducing the country's first code of corporate governance. During this time, he was the chairman of the emerging markets committee of the International Organisation of Securities Commissions (IOSCO). In 1997, he received the Cranfield Management Excellence award.

After leaving the Securities Commission, he served as a Senior Independent Non-Executive Director of Telekom Malaysia Berhad for 4 years until June 2004, and was the chairman of its mobile subsidiary Celcom (M) Berhad from 2002-2004. In June 2004, Dr. Munir joined Malaysia Airlines Board of Directors and in August he was appointed its Non-Executive Chairman until July 2011.

He became the Chairman of Bank Muamalat in 2008. In February 2014, Dr. Munir was appointed as the Chairman of CIMB Asean Research Institute and also joined the board of the Institute of Strategic and International Studies (ISIS) Malaysia. He is the Chairman of the Asean Business Advisory Council – Malaysia Chapter. He is the Co-chair of the Malaysia-America Foundation, which seeks to deepen relationship between the two countries.

Dr. Munir was the founder President of Kuala Lumpur Business Club (2003-2008) and is now the Chairman of its Advisory Council. In May 2004, he was appointed as a member of the Court of Fellows of Malaysian Institute of Management.

In December 2005, he was made an Honorary Fellow of the LSE and in 2008 he was appointed as a Visiting Senior Fellow at LSE IDEAS (Centre for International Affairs, Diplomacy and Strategy) where he started the Southeast Asia International Affairs Programme and led the programme until 2012. He has written for IDEAS publications and published them in *International Politics*, a British academic journal. A collection of his articles was published in a book, *9/11 and the Attack on Muslims*. He is also a member of the International Institute of Strategic Studies.

Dr. Munir received his early education at St Mark's Primary School in Butterworth and the Bukit Mertajam High School in the state of Penang. He received his upper secondary education at the Royal Military College in Sungai Besi, Kuala Lumpur where he was awarded the Commandant's Prize for being the best all-round student in 1967. He left for London the next year.

Profile of Board of Directors



Dato' Sri Che Khalib Mohamad Noh Non-Independent Non-Executive Director

Dato' Sri Che Khalib Mohamad Noh was appointed as a Non-Independent Non-Executive Director of Bank Muamalat, nominated by DRB-HICOM Berhad on 27 August 2012. He is a member of Remuneration, Nomination and Veto Committees.

Dato' Sri Che Khalib is currently the Group Managing Director of MMC Corporation Berhad. A qualified accountant, Dato' Sri Che Khalib is a member of the Malaysian Institute of Accountants (CA, M) and also a Fellow of the Association of Chartered Certified Accountants (FCCA, UK) United Kingdom.

Dato' Sri Che Khalib began his career with Messrs Ernst & Young in 1989 and later joined Bumiputra Merchant Bankers Berhad. Between 1992 and 1999, he served in several companies within the Renong Group. In June 1999, Dato' Sri Che Khalib joined Ranhill Utilities Berhad as Chief Executive Officer. He then assumed the position of Managing Director and Chief Executive Officer of KUB Malaysia Berhad. He was then appointed as the President/Chief Executive Officer of Tenaga Nasional Berhad (TNB) on 1 July 2004 where he served TNB for eight years until the completion of his contract on 30 June 2012. He later joined DRB-HICOM Berhad as Chief Operating Officer of Finance, Strategy and Planning in July 2012.

Dato' Sri Che Khalib was previously a member of the Board and the Executive Committee of Khazanah Nasional Berhad from year 2000 to 2004. He also served as a Board member within the United Engineers Malaysia (UEM) Group of companies and Bank Industri & Teknologi Malaysia Berhad.

He currently sits on the Board of Gas Malaysia Berhad, Zelan Berhad, Malakoff Corporation Berhad, Johor Port Berhad, MMC Engineering Group Berhad, Aliran Ihsan Resources Berhad, Pos Malaysia Berhad and several private limited companies.



Dato' Mohamed Hazlan Mohamed Hussain

Non-Independent Non-Executive Director

Dato' Mohamed Hazlan Mohamed Hussain was appointed as a Non-Independent Non-Executive Director of Bank Muamalat, nominated by DRB-HICOM Berhad on 27 August 2012. He is a member of Board Muamalat Banking Solutions Steering Committee.

He is currently the Group Director of Services and Education of DRB-Hicom Berhad. Prior to this appointment, he was the Group Director for Commercial Division, Prasarana Group since November 2011. Dato' Mohamed Hazlan has held various high ranking positions in diverse organisations including Group Director for Bus Division, Chief Operating Officer, RapidKL, Chief Corporate Strategist of Offshore Works Sdn. Bhd. and Chief Operating Officer of Posmel, Pos Malaysia Berhad from 2007 until 2009.

He started his career with Arnold Hill & Co Chartered Accountants in London, United Kingdom since 1988 until 1993. With extensive experience and expertise in trust management and audit, he returned and joined Projek Lebuhraya Utara Selatan Berhad (PLUS) where he led the establishment of Internal Audit Department in 1994. In 1998, he led the Toll Department before he was promoted to Regional Manager II managing Operations for Central Region in the same year. He later became the General Manager of Operations Division in September 1999 until 2003 and was promoted as a Senior General Manager in 2004.

He graduated from Imperial College of Science and Technology, University of London majoring in Civil Engineering leading to Bachelor of Engineering.

Profile of Board of Directors



Dato' Haji Mohd Redza Shah Abdul Wahid

Chief Executive Officer/Executive Director

Dato' Haji Mohd Redza Shah Abdul Wahid is the Chief Executive Officer (CEO) of Bank Muamalat. He was appointed to the Board of Bank Muamalat on 1 November 2008.

He holds a Bachelor of Science in Economics in Industry and Trade (Honours) from London School of Economics, University of London in 1986 and a Master of Science Economics in International Banking and Finance from University of Wales, Cardiff.

Dato' Haji Mohd Redza Shah became an Associate Chartered Accountant (ACA) whilst he started his career with Touche Ross & Co, London (now known as Deloitte & Touche) in 1988 as a Trainee Accountant. At the end of 1992 he joined Arab Malaysian Corporation Berhad as an Internal Audit Manager and progressed to become the Corporate Finance Manager.

He then joined Khazanah Nasional Berhad when it commenced operations in July 1994 as a Senior Finance Manager and later moved to Silterra Malaysia Sdn Bhd, a subsidiary of Khazanah Nasional Berhad as the Chief Financial Officer. He left Silterra Malaysia Sdn Bhd to spearhead Tradewinds Corporation Berhad as the Group CEO from September 2002 to November 2005 and Acting CEO of Tradewinds (M) Berhad where he served from May 2004 until November 2005, prior to his position as the Group Chief Operating Officer of DRB-HICOM Berhad.

He is a member of the Institute of Chartered Accountants in England and Wales (ICAEW) and the FSTEP Steering Committee. He also serves as a member in the Board of Accountants in Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI), the body which issues accounting and auditing policies on Islamic Banking.

Dato' Haji Mohd Redza Shah is the President of Association of Islamic Banking Institutions Malaysia (AIBIM) and also sits on the Board of Malaysian Electronic Payment System Sdn Bhd (MEPS), Islamic Banking & Finance Institute Malaysia (IBFIM) and Bank Muamalat's subsidiaries.



Haji Mohd Izani Ghani

Non-Independent Non-Executive Director

Haji Mohd Izani Ghani was appointed as a Non-Independent Non-Executive Director of Bank Muamalat, nominated by Khazanah Nasional Berhad (Khazanah), on 1 March 2009. He is a member of Remuneration, Nomination and Board Risk Management Committees of Bank Muamalat.

He graduated from the London School of Economics and Political Science (LSE) in 1991 with BSc (Economics) specialising in Accounting and Finance. After graduating from LSE, he pursued his professional accounting qualification from the Association of Chartered Certified Accountants and admitted to fellowship in 2000. He is also a member of Malaysian Institute of Accountants.

He is currently the Executive Director/Chief Financial Officer of Khazanah. On Islamic finance initiatives, he was deeply involved in the issuance of the world's first exchangeable sukuk for USD750 million in 2006, followed by other landmark sukuk transactions in SGD and Renminbi currencies in 2010 and 2011 respectively. In relation to RM funding, he was instrumental in setting up various sukuk programmes at Khazanah.

His first exposure to the corporate world was in 1993 when he joined the then Renong Group. In 1999, he joined the concession holder of Putrajaya township development, Putrajaya Holdings Sdn Bhd to assist in the financing for the construction of the Government office buildings and staff quarters. He left Putrajaya Holdings in 2005 to join Khazanah.

He is also a director of Malaysia Airports Holdings Berhad and Fajr Capital.

Profile of Board of Directors



Haji Abdul Jabbar Abdul Majid Non-Independent Non-Executive Director

Haji Abdul Jabbar Abdul Majid was appointed as an Independent Non-Executive Director of Bank Muamalat since 13 October 2004. Subsequently, he has been re-designated as a Non-Independent Non-Executive Director. He is a Fellow Member of the Institute of Chartered Accountants, Australia, as well as a member of the Malaysian Institute of Accountants. He was a member of the Executive Council of the Malaysian Institute of Certified Public Accountants (MICPA).

He is a member of Board Audit, Remuneration, Nomination, Board Risk Management and Veto Committees.

Haji Abdul Jabbar began his career in 1974 as a Senior Manager in the Internal Audit and Organisation Department of Bank Pertanian Malaysia. In 1977, he joined KPMG Malaysia as a Manager and was admitted to the partnership two years later. In 1993, he was promoted to Deputy Senior Partner and was made the Senior Partner in 1995, a position he held until his retirement in 2000.

Haji Abdul Jabbar then joined Malaysia Derivatives Exchange Berhad in 2001 and retired as Executive Chairman on 28 February 2004. He was a former president of MICPA. He was an Adjunct Professor of Faculty of Economics and Accounting of the International Islamic University and a member of the Senate of Open University Malaysia Board.

He also sits on the Board of Opcom Holdings Berhad.



Tengku Dato' Seri Hasmuddin Tengku Othman Independent Non-Executive Director

Tengku Dato' Seri Hasmuddin Tengku Othman was appointed as a Non-Independent Non-Executive Director of Bank Muamalat since 18 April 2006 and was subsequently redesignated to Independent Non-Executive Director by Bank Negara Malaysia on 16 February 2009.

He is the Chairman of Board Audit and Nomination Committees and is a member of Remuneration and Board Risk Management Committees.

Tengku Dato' Seri Hasmuddin holds a Bachelor of Laws (Hons) from University of Malaya and was admitted to the Bar in 1987. He is a practicing lawyer and is currently the principal partner of Messrs Hisham, Sobri & Kadir. His areas of expertise include the various aspects of Islamic banking and finance, corporate banking and project financing, Islamic banking and litigation as well as matters relating to Shariah.

He is a director of a number of companies including Aliran Ihsan Resources Berhad, Institut Jantung Negara Sdn Bhd, HSK Corporate Advisory & Consultancy and Rangkaian Hotel Seri Malaysia Sdn Bhd.

He is also the Chairman of the Task Force on AIBIM National Land Code Steering Committee and a member of Jawatankuasa Pemantauan dan Pengawasan Syarikat Jaminan Pembiayaan Perniagaan Berhad.

He is active in social and charitable activities and has been appointed as a trustee for Yayasan Munarah, Tuanku Najihah Foundation, Yayasan Institut Quran Kuala Lumpur, Tabung Amanah Pesakit Malaysia, Institut Quran Tuanku Jaafar and Yayasan Kolej Islam Sultan Alam Shah.

Profile of Board of Directors



Dato' Azmi Abdullah

Independent Non-Executive Director

Dato' Azmi Abdullah was appointed as an Independent Non-Executive Director of Bank Muamalat since 16 September 2009. He is the Chairman of Remuneration and Board Risk Management Committees and member of Nomination, Board Audit, Board Muamalat Banking Solutions Steering and Veto Committees.

Prior to joining Bank Muamalat, he was the First Managing Director/Chief Executive Officer of SME Bank and the Managing Director/Chief Executive Officer of Bumiputera-Commerce Bank Berhad, where he served for more than 26 years in various departments.

Dato' Azmi graduated with a BA (Hons) Degree in Economics from Universiti Kebangsaan Malaysia (UKM) in 1974. He was conferred an Honorary Doctorate in Business Administration from Universiti Kebangsaan Malaysia in 2006. He also sits as a director of Kumpulan Wang Persaraan (Diperbadankan), APFT Berhad, ECS Solution Sdn Bhd and a member of the Board and Investment Committee of Amanah Raya Berhad.



Dato' Haji Kamil Khalid Ariff Independent Non-Executive Director

Dato' Haji Kamil Khalid Ariff was appointed as an Independent Non-Executive Director of Bank Muamalat on 29 September 2011. He is the Chairman of Board Muamalat Banking Solutions Steering Committee and a member of Board Risk Management and Board Audit Committees.

He graduated with an MBA in International Business from Michigan, USA in 1979. Prior to this, he obtained a Bachelor in Management from Syracuse University, New York and a Diploma in Public Administration from ITM. His last position was as the Managing Director/Chief Executive Officer of Mahkota Technologies Sdn Bhd (formerly known as General Electric Company of the UK), dealing mainly in electrical engineering/supply Industry. Upon his recent retirement, he has been retained as an advisor to the Mahkota Group.

In the last 30 years, he has served in several large corporate entities namely The New Straits Times, Kumpulan Perangsang Bhd, Kumpulan Guthrie Bhd and Idris Hydraulic Bhd holding numerous Management and Board positions. During this time, he was exposed to various multi facet industries which were advertising and publishing, trading, manufacturing and engineering. He was also the founder Director of the Kuala Lumpur Tin Market, which he, as part of the Government Steering Committee, helped to set up in the mid 1980s.

Dato' Haji Kamil Khalid is also the Chairman of Uni.Asia General Insurance Berhad and a board member of Uni.Asia Life Assurance Berhad. He also sits on the Board of Pramerica BSN Holdings Sdn Bhd and Indah Water Konsortium and its several Board Committees as an Independent Director.

A young boy with dark hair is captured mid-jump, wearing a dark t-shirt, a plaid shirt, and jeans. He is smiling and has his arms outstretched. In the background, a building with a sign that reads 'e-muamalat' is visible. The scene is outdoors with some greenery and a paved area.

“Our future is still
a long journey
ahead. We believe
Muamalat will always
be with us...”



Shariah Committee



From Left to Right

Dr. Zulkifli Mohamad Al-Bakri, Ustaz Engku Ahmad Fadzil Engku Ali, Prof. Madya Dr. Mohamad Sabri Haron,
Dr. Ab Halim Muhammad , Ustaz Azizi Che Seman, Dr. Wan Marhaini Wan Ahmad

Profile of Shariah Committee



Ustaz Haji Azizi Che Seman
Chairman

Ustaz Haji Azizi Che Seman is currently a lecturer at the Islamic Studies Academy, University of Malaya, a position he has held since 2002. He has been with Bank Muamalat since 1 April 2005. Until now, he is entrusted to be the Chairman of Bank Muamalat's Shariah Committee. He has been appointed as the Shariah Advisor of AIBIM. In terms of qualification, he is now pursuing his studies in the field of Islamic capital market. He holds a Master's degree in Economics from International Islamic University of Malaysia in 2001 and a Bachelor of Islamic Studies from University of Malaya in 1996. His specialisation areas are in Islamic Capital Market, Islamic Economics, Fiqh Muamalat and Islamic Research Methodology. Besides his function in Shariah advisory, he also contributes his ideas and experiences in the development of the Bank's IT system.



Ustaz Engku Ahmad Fadzil Engku Ali

Ustaz Engku Ahmad Fadzil Engku Ali has obtained his early education at Malay College Kuala Kangsar until 1986. He has furthered his studies in a Bachelor's degree in Law (Second Class Honors Upper) from International Islamic University of Malaysia and graduated in 1993. In the subsequent year, he graduated from the same university with a Bachelor's degree in Shariah Law with First Class Honors. He was called to the Malaysian Bar, admitted and enrolled as an Advocate and Solicitor of the High Court of Malaya in 1995. He then pursued his studies at Jordan University and in the year 2000, he successfully obtained a Master's degree in Islamic Judiciary. Since then, he served as a lecturer at International Islamic University of Malaysia. Some of the subjects that he teaches are Islamic Law of Successions, Islamic Jurisprudence and Islamic Criminal Laws. He is now pursuing his PhD at University of Malaya in Multi-level Marketing from the perspective of the Islamic Law. He has been a member of Bank Muamalat's Shariah Committee since 2005.



Prof. Madya Dr. Mohamad Sabri Haron

Prof. Madya Dr. Mohamad Sabri Haron is a lecturer at the Centre of General Studies, National University of Malaysia. He is also an Associate Senior Fellow at the Institute of West Asian Studies. He obtained a Diploma in Islamic Studies from Kolej Sultan Zainal Abidin in 1985 and a Bachelor of Islamic Studies (al-Quran and al-Sunnah) from National University of Malaysia in 1988. He completed his Master's degree in Comparative Law at International Islamic University of Malaysia in 1993. He succeeded in obtaining his PhD in Islamic Law (Fiqh and Usul Fiqh) in 1998 from University of Jordan. He has been with Bank Muamalat since December 2003. His specialisation areas are in Islamic Economics and Islamic Civilisation. He has also been seconded to the Securities Commission as a Senior Manager in Islamic Capital market starting from 1 June 2009 until 31 May 2010.

Profile of Shariah Committee



Dr. Ab Halim Muhammad

Dr. Ab. Halim Muhammad graduated in 1972 with a Bachelor's degree of Shari'ah from Al-Azhar University, Cairo Egypt and completed his studies in PhD of Shari'ah at St. Andrews University Scotland in 1977. He served as a lecturer and became the Head of Department of Quran & Sunnah, Faculty of Islamic Studies Universiti Kebangsaan Malaysia. Some of the subjects that he taught were Islamic Jurisprudence (Muamalat, Islamic Banking & Islamic Finance and Takaful), Principles of Islamic Jurisprudence and Islamic Criminal Laws. He used to be the first Chairman of Shariah Committee of Bank Muamalat prior to joining National Shariah Advisory Council of BNM in 2004. He has been re-appointed as a member of Bank Muamalat Shariah Committee at on 30 November 2009. He was also a member of the Shariah Committee of Securities Commission and currently he is also one of the Shariah Committee of ASDI Unit Trust Terengganu, Apex Unit Trust and Reit Johor. Recently, he was appointed as one of the Ahli Jamaah Ulama' Majlis Agama Islam Negeri Kelantan.



Dr. Zulkifli Mohamad Al-Bakri

Dr. Zulkifli Mohamad Al-Bakri obtained his early education at Sek. Men. Agama (Atas) Sultan Zainal Abidin, Terengganu and furthered his studies in a Bachelor's degree at Universiti Islam Madinah, Arab Saudi prior to entering Universiti Ilmu-Ilmu Islam dan Arab, Syria to complete his Master's degree. He succeeded in obtaining his PhD at USM, Pulau Pinang in 2004. He served as a lecturer at Universiti Sains Islam Malaysia from 2006-2009. He is now focusing more on writing and has written many books in Fatwa, Islamic Law and Islamic Jurisprudence. He has a vast experience in Islamic Banking as he was formerly the Chairman of Shariah Committee of Bank Pertanian Malaysia prior to joining Bank Muamalat on 1 April 2011. He is also an expert and capable in providing fatwa, as he served as a member of Fatwa's Committee for state of Negeri Sembilan and the Chairman for Shariah Committee in World Fatwa Management and Research Institute (INFAD) at USIM. He was proclaimed as the Mufti of Wilayah Persekutuan effective from 20 June 2014.



Dr. Wan Marhaini Wan Ahmad

Dr. Wan Marhaini Wan Ahmad is currently a senior lecturer at Finance and Banking Department, University of Malaya, a position she has held since 2002. She completed her doctorate in Zakat Investment at the University of Edinburgh, United Kingdom in 2012. She received a Master's degree in Economics from International Islamic University of Malaysia in 2002 and has a Bachelor's degree in Shariah from the Academy of Islamic Studies University of Malaya in 1996. Her research interests lie in the area of Fiqh Muamalat, Islamic Economics, Islamic Finance and Banking. At University of Malaya, she has experiences in teaching both Islamic and conventional economics and finance for both undergraduate and Masters programmes (MBA and MM). Currently, she teaches principles of Islamic economics and Islamic finance as well as the applications of modern Islamic banking, takaful and Islamic capital market. Prior to joining Bank Muamalat, she has served as a Shariah Committee member for EONCAP Islamic Bank Berhad from April to November 2011.

“A journey of a thousand miles must begin with a single step. My first bank account is with BANK MUAMALAT.”



Terms of Reference

OBJECTIVE/PURPOSE

These terms of references were prepared to inform and notify the appointed Shariah Committee on all relevant matters pertaining to their duties, processes and procedures.

AUTHORITY

These Terms of reference are governed by the Islamic Financial Act 2013 (IFSA) (including any amendment that will be made from time to time)(Laws and Regulations).

DUTIES, RESPONSIBILITIES & ACCOUNTABILITIES OF THE SHARIAH COMMITTEE

The main duties and responsibilities of the Shariah Committee are as follows:-

1. Responsibility and accountability

The Shariah Committee is expected to understand that in the course of discharging the duties and responsibilities as a Shariah Committee member must be in accordance with Laws and Regulations in respect of duties and obligations of the Shariah Committee member, and must be responsible and accountable for all Shariah decisions, opinions and views provided by them.

2. Advise the Board of Directors (the Board) and Bank Muamalat including its subsidiaries

The Shariah Committee is expected to advise the Board, Management including Bank Muamalat's subsidiaries and provide input to Bank Muamalat on Shariah matters in order for Bank Muamalat to comply with Shariah principles at all times.

3. Endorse Shariah policies and procedures

The Shariah Committee is expected to endorse Shariah policies and procedures prepared by Bank Muamalat and to ensure that the contents are Shariah compliant.

4. Endorse and validate relevant documentations

To ensure that the products of Bank Muamalat comply with Shariah principles, the Shariah Committee must approve:-

- i. the terms and conditions contained in the forms, contracts, agreements or other legal documentations used in executing the transactions; and

- ii. the product manual, marketing advertisements, sales illustrations and brochures used to describe the product.

5. Assess work carried out by Shariah review and Shariah audit

To assess the work carried out by Shariah review and Shariah audit in order to ensure compliance with Shariah matters which forms part of their duties in providing their assessment of Shariah compliance and assurance information in the annual report.

6. Assist related parties on Shariah matters

The related parties of Bank Muamalat such as its legal counsel, auditor or consultant may seek advice on Shariah matters from the Shariah Committee and the Shariah Committee is expected to provide the necessary assistance to the requesting party.

7. Shariah Advisory Council, Bank Negara Malaysia

The Shariah Committee may advise Bank Muamalat to consult the Shariah Advisory Council of Bank Negara Malaysia (SAC) on Shariah matters that could not be resolved.

In cases where there are uncertainties and differences of opinions, Bank Muamalat may seek advice and refer to a ruling from the SAC. The request for advice shall be communicated through the Secretariat of the SAC.

Members of the Shariah Committee must not act in a manner that would undermine the rulings and decisions made by the SAC or the committee they represent. They are required to respect and observe the published Shariah rulings issued by the SAC and shall not go against the decisions of the committee that they represent in public.

In cases of dispute and court proceedings relating to Islamic financial business or any Shariah issues arising from Bank Muamalat's business operations, both the court and the arbitrator shall take into consideration the published rulings of the SAC or refer such issues to the SAC for its ruling. Any ruling made by the SAC arising from a reference made shall be binding to Bank Muamalat and the court or the arbitrator. In the event where the decision given by Bank Muamalat's Shariah Committee is different

from the ruling given by the SAC, the rulings of the SAC shall prevail. However, the Shariah Committee is allowed to adopt a more stringent Shariah decision.

8. Provide written Shariah opinions

The Shariah Committee is required to provide written Shariah opinions in circumstances where Bank Muamalat refers to SAC for further deliberation or submits applications for new product approval.

9. Provide Bank Muamalat with guidelines and advice on religious matters to ensure that the overall activities are Shariah compliant.

10. Make decisions on matters arising from existing and future activities of Bank Muamalat which have religious repercussions.

11. Report to the shareholders and the depositors that all Bank Muamalat's activities are Shariah compliant.

12. Provide Shariah advisory and consultancy services in all matters relating to Bank Muamalat's products, transactions and activities as well as other businesses involving Bank Muamalat.

13. Scrutinise and endorse the annual financial report of Bank Muamalat.

14. Provide training to the staff as well as notes or relevant materials for their reference.

15. Represent Bank Muamalat or to attend any meetings with the SAC or other relevant bodies concerning any Shariah issues relating to Bank Muamalat.

16. The Shariah Committee shall maintain the confidentiality of Bank Muamalat's internal information and shall be responsible to safeguard all confidential information. He or she should maintain all information in strict confidence, except when disclosure is authorised by Bank Muamalat or required by law.

17. The Shariah Committee shall ensure the quality and consistency of the Shariah decisions.



Statement from The Chairman of Shariah Committee

In line with its vision to become the preferred Islamic financial services provider, Bank Muamalat has set a distinguished example in the industry as one of the leading Islamic banks. The Committees' and Bank Muamalat's adherence to the Shariah Governance Framework for Islamic Financial Institutions (SGF) issued by BNM has placed us among the best Islamic Financial Institution (IFI) in terms of Shariah governance. Bank Muamalat has exemplified initiatives in promoting Shariah not only in the domain of its product offerings but encompassing all aspects of the organisation.

As the Shariah Committee of Bank Muamalat, we have given our utmost dedication to quality and demonstrated our commitment to ensure Shariah compliance in products, processes, documentations, marketing, IT systems and other related matters. With the assistance of other SGF organs within Bank Muamalat, we believe that we have played our role to oversee Shariah matters relating to Bank Muamalat's business operations and activities. Besides regular banking businesses, the Committee also support the development of other Shariah based products and services initiated by Bank Muamalat namely wakaf, rahn, zakat and qardh to fulfill the need of the Ummah at large. Bank Muamalat has increasingly involved in wakaf land projects and corporate social responsibility over the years and this is what differentiates us from other entities.

Now, we are challenged by the new law namely IFSA which has been enforced in June 2013. The IFSA has been characterised as an "omnibus" financial legislation, that repeals the Islamic Banking Act 1983 and the Takaful Act 1984; which combines the Islamic financial and takaful services under the aforementioned acts in a similar fashion. The IFSA provides the regulation and supervision for Islamic financial institutions, payment systems and other relevant entities. It also provides the oversight of the Islamic money market and Islamic foreign exchange market to promote financial stability and compliance with Shariah.

Pursuant to this IFSA, certain changes are to be made in Bank Muamalat such as the transition of savings based account and Mudharabah based account which challenges the operations of Bank Muamalat. However, the positive perspective has to be set in mind as the changes will enable to drive Islamic banking to progress further.

We would like to extend our warmest congratulations to the Board and the Management for their genuine concern and strong passion to ensure not only the productivity and profitability of Bank Muamalat, but also to assure the dictates and requirements of Shariah are properly observed and adhered. Indeed, we are very thankful and proud of such cooperation received, especially from the Management and generally from the staff, in providing the Committee with adequate information and materials in ensuring our deliberation of each issue would be resolved accordingly. We would also like to congratulate Bank Muamalat as the MBS project is near to become a reality and insyaAllah will support Bank Muamalat to achieve its vision of becoming the preferred Islamic financial services provider.

It is highly hoped and reasonably anticipated that Bank Muamalat becomes profitably successful in business while upholding the Shariah implementations and applications in the Islamic banking and business without undermining the never-ending quest for the ultimate goal of gaining Allah's blessings and pleasure.

Thank you

Regards

Ustaz Haji Azizi Che Seman
Chairman, Shariah Committee

Senior Management



Dato' Haji Mohd Redza Shah Abdul Wahid
Chief Executive Officer

Mohd Asri Awang
Chief Operating Officer
(resigned w.e.f. 5 Sept 2014)

Jamilah Abdul Sallam
EVP, Human Capital

Haji Ismail Ibrahim
EVP, Operations

Dato' Haji Salamat Haji Wahit
EVP, Strategic Liaison

Adinor Mohamed Yunus
Acting Chief Risk Officer

PeerMohamed Ibramsha
Chief Financial Officer

Lim Teck Gam
EVP, Credit Management

Syed Alwi Mohd Sultan
EVP, Corporate Services



Profile of Senior Management Team



Mohd Asri Awang
Chief Operating Officer

Asri is currently the Chief Operating Officer with direct oversight of Bank Muamalat's operations. He also serves as a member of the Management Committee, Executive Risk Management Committee, Investment Committee, IT Steering Committee and Asset Liability Committee (ALCO). He sits on the board of Muamalat Invest Sdn Bhd and Muamalat Venture Sdn Bhd, the asset management and venture capital subsidiaries of Bank Muamalat.

Asri's previous appointments include being the Chief Executive Officer of Malaysian Rating Corporation, a domestic rating agency; Head of Corporate Planning and Business Development of Amanah-MIDF Berhad; Country Treasurer of the then Chase Manhattan Bank Malaysia; General Manager of Treasury and Southern Region of BSN Commercial Bank and Chief Executive Officer of Kewangan Bersatu Berhad, a finance company.

He is an Economics graduate from Macquarie University, Sydney.



PeerMohamed Ibramsha
Chief Financial Officer

PeerMohamed Ibramsha is currently the Chief Financial Officer (CFO) and his current portfolio covers Finance, Information Communication & Technology, Project Management, Legal and Administration & Services. He holds a Bachelor's Degree in Accountancy and is also a member of Malaysian Institute of Accountant and a Fellow Certified Practising Accountant (FCPA) with CPA Australia. He has been with the Bank since November 2008. Prior to this, he was the CFO of Alam Flora Sdn Bhd for approximately 2 years and CFO of Glenmarie Properties Sdn Bhd Group of companies for approximately 10 years.



Haji Ismail Ibrahim

Executive Vice President, Operations

Haji Ismail Ibrahim joined Bank Muamalat as an Executive Vice President, CEO's Office in April 2012 and was subsequently redesignated to Executive Vice President, Operations on 1 February 2013 with direct oversight of Business Process & Transformation, Credit Operation, Document Management, Compliance, Treasury Processing & Settlement and Trade Finance Departments.

Prior to joining Bank Muamalat, Haji Ismail was on the Board of Kuwait Finance House (Malaysia) Berhad as an Independent Non-Executive Director. He started his career in Agro Bank Malaysia Berhad (formerly known as Bank Pertanian Malaysia Berhad), and later moved to United Overseas Bank (Malaysia) Berhad [formerly known as Chung Khiaw Bank (Malaysia) Berhad/Lee Wah Bank Limited] and Affin Bank Berhad (formerly known as Perwira Habib Bank Berhad).

In 1992, he joined Public Bank Berhad as the Director, Credit Operations overseeing credit evaluation, credit administration and loan recovery. He was also the pioneer staff in the development of Islamic banking in Public Bank Berhad and played a key role in the establishment of Public Islamic Bank Berhad, a wholly owned subsidiary of Public Bank Berhad.

He was appointed as the Chief Executive Officer of Public Islamic Bank and remained on the post until his retirement in January 2011. Haji Ismail brings with him a wealth of 41 years of banking experience in areas of credit evaluation, loan recovery, credit administration, branch management and Islamic banking operation.



Lim Teck Gam

Executive Vice President, Credit Management

Lim Teck Gam is currently the Executive Vice President of Credit Management Division. He joined the Bank in November 2008 as the Senior Vice President of Business Support Division. Teck Gam holds a Bachelor of Business from Royal Melbourne Institute of Technology University, Australia. He is a Chartered Accountant and a Certified Practising Accountant. Prior to joining Bank Muamalat, he has held various positions at DRB-HICOM Berhad (DRB-HICOM) Group, namely, the Chief Financial Officer of Edaran Otomobil Nasional Berhad and General Manager of DRB-HICOM. Teck Gam has also served in public listed companies and in an international accounting firm prior to joining DRB-HICOM.

Profile of Senior Management Team



Dato' Haji Salamat Haji Wahit Executive Vice President, Strategic Liaison

Dato' Haji Salamat Haji Wahit is the Executive Vice President of Strategic Liaison and is on secondment from DRB-HICOM Berhad Group. He graduated with a Bachelor of Mechanical Engineering (Hons.) from University of Technology Malaysia in 1981.

As a member of Bank Muamalat's Management Committee, he is involved in the management decision making. He also liaises with relevant public and private sectors to develop businesses and form strategic alliances in pursuit of enhancing the Bank's performance.

Dato' Haji Salamat brings with him a total of 33 years of working experience, 13 years in the public sector and 20 years in the private sector. Prior to his secondment to the Bank, he was the Head, Institutional Liaison & Business Development for DRB-HICOM Berhad Group. Prior to that he was the Chief Executive Officer, PUSPAKOM Sdn Bhd.

He has served as a Board Member in several companies namely Pos Ar-Rahnu Sdn Bhd, Feasible Services Sdn Bhd, Sagamat Sdn Bhd and Board of Examiners (BOE) for International College of Automotive (ICAM), Pekan, Pahang.



Adinor Mohamed Yunus Acting Chief Risk Officer & Head of Risk Management

Adinor Mohamed Yunus is currently the Acting Chief Risk Officer with direct oversight of Risk Management Department, Credit Assessment Department, and the Regional Approving Center which is the central approving unit for all consumer financings. He also serves as a member of the Management Committee, Executive Risk Management Committee, Investment Committee, IT Steering Committee and Asset Liability Committee.

He has spent more than 20 years in the Treasury and Capital Markets at various banks in Kuala Lumpur and Jakarta. His last appointment was the Head of Group Treasury at Bank Pembangunan Malaysia Berhad, prior to joining the Bank in 2011.

He holds a Bachelor of Business Administration (Accounting and Finance) and a Master of Business Administration from Loyola University, USA



Syed Alwi Mohamed Sultan Executive Vice President, Corporate Services

Syed Alwi is the Executive Vice President, Corporate Services Division at Bank Muamalat with direct oversight of Product Development and Marketing Department, Legal Department and Shariah Department. He also serves as a member of the Management Committee, Executive Risk Management Committee, Investment Committee and Asset Liability Committee.

Prior to joining Bank Muamalat, Syed Alwi was the Managing Director and Head of Islamic Banking, Asia Pacific at BNP Paribas, Director of Islamic Origination at Standard Chartered Saadiq Malaysia Berhad and Vice President, Corporate Banking-Asia at The Islamic Bank of Asia Limited, Singapore. Syed Alwi has more than sixteen (16) years of working experience in the Islamic financial services industry, both as a consultant and a banker. He has involved in arranging and structuring several syndicated Islamic facilities, Sukuk transactions and Islamic derivative transactions for clients in Asia Pacific and Middle East.

He is an Accounting graduate and also holds an MBA Islamic Finance (First Class) from the International Islamic University Malaysia.



Jamilah Abdul Sallam Executive Vice President, Human Capital

Jamilah Abdul Sallam is the Executive Vice President of Human Capital Division, Bank Muamalat. She holds a Master's degree of Arts in Human Resources Management from University of Lincolnshire & Humberside, United Kingdom.

With more than 27 years of experience as an HR practitioner in the financial services industry, Jamilah has in-depth knowledge in Human Resources Management. Her areas of expertise include Strategic HR Management, Organisational Development and Change Management, Compensation and Benefits Strategies, Performance Management, Employee Relations and Training & Development.

Prior to joining Bank Muamalat, Jamilah was the General Manager, Human Resources in Bank Islam Malaysia Berhad and Senior Vice President of Human Resources at RHB Investment Bank Berhad.



The background is a stylized landscape. At the top, a large yellow sun with triangular rays is in the upper right. To its left are white clouds on a blue sky. Below the sky are two large, rounded brown mountains. In the foreground, a light blue river flows from the right towards the left. The land is green, with several stylized green trees of different sizes. On the far left, a portion of a blue skyscraper with white windows is visible.

A portion of
OUR PROFIT is
channeled towards **SOCIAL &**
ENVIRONMENT
improvement



Chairman's Statement

TAN SRI DATO' DR. MOHD MUNIR ABDUL MAJID
Chairman

Dear Fellow Stakeholders,
The operating environment for banks has fundamentally changed and will continue to evolve in the coming years. We believe these changes are not cyclical but represent a structural shift.

Chairman's Statement



Dear Fellow Stakeholders,

The operating environment for the banks has fundamentally changed and will continue to evolve in the coming years. We believe these changes are not cyclical but represent a structural shift.

Global economic growth has faltered since the 2008 financial and economic crisis in the West. This has prompted unconventional and unprecedented monetary policies in many countries such as quantitative easing and near zero interest rates. Apart from having to respond to new challenges of compressed margins and weaker economic growth, banks also faced more intensive if not intrusive prudential reforms which will fundamentally change the way we manage capital, liquidity and risk.

Although the Malaysian economy remained relatively resilient in the face of continued global uncertainties, stricter regulatory expectations and continued margin squeeze were a challenge to the domestic banking industry. The curbs on personal financing early in 2013 had considerable impact on our financing asset strategy. Our mainstay personal financing portfolio faced an initial setback in its growth trajectory but after some innovative product repackaging we managed to recover by close of the financial year. Our business financing however fell well short of target. The compressed margins amidst intensifying competition for business financing led us to re-strategise our initial aggressive drive and to instead focus on more selective exposures that justify the risk-return trade-offs. A similar situation was evident in FX and trade finance business for corporates where income spreads were at times almost untenable. Our private equity initiatives did not generate as much expected returns as our investee companies faced equally challenging and changing market conditions and our fixed income portfolio could not emulate the lofty performance of the prior years following the gradual and intermittent shifts in the long term yield curve. The latter was instigated by the preemptive policy announcement to end the quantitative easing by the US Federal Reserve.

We weathered the challenges as we strived to serve our customers and business interest. We were committed to provide more financing to our consumer and business clients, to attract more deposits to diversify our funding base, to invest in new technology to better serve customers, improve our risk management practices and manage Bank Muamalat in a profitable manner while always maintaining a focus on longer term value creation.

FINANCIAL RESULTS

During FY 2014, our total financing base grew 15.1% from RM10.6 billion to RM12.2 billion, driven mainly by our consumer portfolio of personal and house financing. Our revenue surpassed the RM1.0 billion mark for the first time led by higher financing and fee income even if moderated somewhat by lower investment securities income. Though net writeback of impairment on financing registered an increased amount to RM55.3 million as compared to RM12.6 million in the previous year, it was offset by a net impairment charge of RM57.0 million due to deterioration in several sizeable remaining legacy accounts. Our fee income however showed a steady improvement of 3.0% supported significantly by our ancillary Ar-Rahnu operation following expansion in our tie-up with our musharakah partner, Permodalan Kelantan Berhad (PKB). Total Profit Before Tax for FY 2014 ended at RM208.3 million, exceeding the RM200 million mark for the second year in a row, albeit lower than the previous year's RM236.0 million.

Our capital remained well above regulatory minimum levels. Our Core Capital Ratio and Core Equity Tier 1 Ratio at the end of FY 2014 remained at 14.2% while Total Capital Ratio stood at 17.6%. These levels are well above industry figures of 12.3% and 14.6% respectively.

PROGRESS AND CHALLENGES

Throughout the financial year the Muamalat Banking Solution (MBS) transformation was a central focus of our management team. The target was to cut over from our legacy and disparate core banking systems by June 2014. Our new core banking system will be complemented by a new Treasury and Trade Finance system enabling fully integrated and comprehensive operations of our core banking business of financing and deposit taking, Treasury and trade finance for the first time in Bank Muamalat's history. Decommissioning our legacy system and replacing it with this new integrated system will undoubtedly improve efficiency in distribution and delivery. This massive undertaking, targeted for completion within a relatively short period of 18 months, faced its fair share of issues and setbacks. But it also demonstrated the resolve, commitment, teamwork and leadership that have become increasingly apparent in Bank Muamalat. On 16 June 2014, we opened for business based on our new core banking systems. Alhamdulillah, it was a smooth and successful switch over for which all those involved can be proud and are to be congratulated.

Whilst the project team was focused on the major IT transformation project, the business teams at Consumer Banking pursued with gusto our deposit drive. With the help of our Oh Yeah Campaign, efforts to increase our savings account deposits showed commendable results. The lure of cash prizes has never failed to generate wide interest. The year-long savings campaign accumulated total savings deposits of more than RM330 million with 76,000 new registered accounts. As a whole, during the last financial year, our savings account deposits grew strongly by 31% to RM1.27 billion while our current account deposits registered a more modest achievement of 4.0% growth to RM3.03 billion. In tandem with the growth of our CASA deposits as well as the welcomed relaxation in regulatory liquidity requirements, our reliance on wholesale funding through General Investment Accounts dropped 16% to RM10.33 billion.

Chairman's Statement

Following the encouraging results from our initial foray into the Ar-Rahnu business and the readiness of our new Ar-Rahnu system, we further expanded the services to an additional 10 branches during the last financial year as well as extended our musharakah mutanaqisah venture with PKB to cover another five locations, namely Pasir Mas, Tanah Merah, Guchil, Wakaf Che Yeh and Pasir Mas, all in the state of Kelantan. For the year ending March 2014, our collaboration with PKB contributed a profit of over RM2.8 million, a more than three-fold jump.

Our wealth management activities witnessed further expansion in our product range during the year. Our partnership with Great Eastern Takaful Berhad saw the introduction of a regular family takaful product (I-Great Bakti) and a car financing cover (HPRTT). Subsequent to our financial year close, in June 2014, we extended two new products namely a mortgage reducing term takaful and credit level term takaful designed for our SME customers. In September 2013, in partnership with an established domestic unit trust player, we launched three types of unit trust funds for the benefit of our retail customers. For FY 2014, the wealth management business further consolidated its fee based operation and contributed a total of RM3.85 million.

The growth of 60% in Assets under Management (AUM) registered by our asset management subsidiary, Muamalat Invest Sdn Bhd (MISB), was highly commendable. Our AUM as at end of FY 2014 stood at RM1.82 billion, achieved through the launch of a series of wholesale funds known as Muamalat Invest Dana Al-Ikhwan, the first series of which was initiated in December 2012. With those initiatives, MISB has successfully established a significant presence in the wholesale Islamic fund market.

Following the introduction of waqaf fund through our strategic collaboration with Perbadanan Wakaf Selangor, we have witnessed increased public awareness and participation, and managed to accumulate a total

contribution of RM6.0 million as at end of FY 2014, a hefty increase of RM4.5 million over the last one year period. In November 2013, an MOU was signed with UDA Holdings Berhad (UDA) to provide project and end financing for waqaf properties in Malaysia. Since then, we have identified a waqaf property in Seberang Jaya to be jointly developed with UDA into medium cost apartments with a gross development value (GDV) of RM21.6 million on a musharakah investment basis. In furtherance of this noble cause, we also entered into an agreement with Amanah Raya Berhad in early 2014 to jointly develop a mixed development project in Shah Alam with a GDV of more than RM340 million, similarly on a musharakah investment concept. We have elevated the waqaf concept from a mere charity contribution channel into a commercial musharakah venture that would enable further enrichment of the waqaf institutions in the country.

The synergy with the Group companies is starting to gain greater traction. With the strong support from our holding company, a number of sister companies have opened their operating accounts with Bank Muamalat. At the same time, their employee salaries are increasingly being channeled to Bank Muamalat.

With Bank Muamalat, Corporate Social Responsibility (CSR) has always been prominent. As an Islamic institution, social responsibility is second nature. Our Masih Ada Yang Sayang (MAYS) program with the support of our Tabung Mawaddah continued unabated with each of the six regions receiving RM50,000 to run activities that support or assist the communities where we operate. These include building housing for a Tahfiz and contribution to schools in remote areas or to the less fortunate school children. Also during the year, Bank Muamalat made contribution to under privileged students in Xinjin, China to assist them in getting a tertiary education. For our own staff, we have recently embarked on a healthy living program that runs twice a week exercise class which is gaining popularity.

PROSPECTS

We expect 2014 and 2015 to remain as competitive as this past year, and challenges will surface from a number of probable sources. Amid brighter recovery prospects from the US and UK economies, the global economy is expected to grow stronger at 3.6% in 2014 (3.0% in 2013). Asia however faces the prospect of moderating growth from China and India. Nonetheless, Malaysian economic growth is expected to be cushioned by relatively strong domestic demand despite rising inflationary expectations in the wake of subsidy rationalisation, higher tariffs on utilities and the implementation of the goods and services tax (GST).

The FY 2015 thus demands a disciplined implementation of our business and operational strategy and prudent balance sheet management. Businesses that garner higher margins and acquisition of low cost deposits will take priority. Cross selling of products and services will be intensified to protect if not increase margins. Personal and house financing will remain a central focus of Consumer Banking whilst the selling of fee-based products of wealth management, *takaful*, *wasiat* and transaction services is expected to enhance the margins. The new Bureau de Change recently opened in May 2014 at KLIA2 has started encouragingly and has the potential to increase its share of other income contribution. Business Banking will put greater efforts in marketing the SME/SMI customer segment to increase returns but will be challenged to maintain asset quality. Confronting the challenge of managing our liability profile, we have initiated a niche strategy of managing cash and payments for several government agencies and private bodies. A new Corporate Payment and Collection System (CPCS) is currently being developed for a government body which, if proven successful, has the potential of garnering substantial low cost deposit base that will greatly reduce our dependence on wholesale term deposits and ultimately drive our cost of funds markedly lower. The first implementation of CPCS is targeted to go live in August 2014. Our MISB is expected to gain further ground and gradually increase its income contribution to the group. Meanwhile, we have recently initiated a discussion with a UK based Islamic bank to

explore the viability of a private banking business for this region.

We foresee that our securities investment activities will be slightly curtailed in view of the rising yield curve whilst FX activities will be expanded further to target more SME customers. Our Investment banking activities will continue to concentrate on origination of private debt securities, our traditional area of strength, which have already seen several mandated deals, as well as expansion of our private equity (PE) initiatives at both domestic and regional levels. In view of the improved capital market sentiment, one of our preferred targets is structured pre-IPO transactions with companies with established track records or companies led by reputable parties. Our PE activities are expected to liquidate some investments and realise returns during this coming financial year. We are confident that our approach of pursuing a regional portfolio of PE centric investment banking transactions will, over the medium term, help to grow our fee based income.

The MBS now provides Bank Muamalat with a strategic tool to improve efficiency in all aspects of its business. It is critical that Bank Muamalat deploys it to offer better and faster service with seamless internal management and information systems. Bank Muamalat's management must now bring the institution to a new and higher level of doing business with the necessary cultural change.

We will therefore strive to make further progress on reconfiguring our businesses, strengthening our infrastructure and elevating our systems and controls. With the successful cut-over to the new core banking system, there is now a more urgent need to capitalise on our corporate and retail internet banking systems to capture more fee income as well as cheaper sources of funds. We foresee the potential to further strengthen our banking relationship with the Group companies and their employees through leveraging on the new systems. In addition to this, one of our major challenges is to craft and put into motion our new idea of mobility banking that will incorporate features of mobile and virtual banking functionalities combined with e-commerce capabilities. It

Chairman's Statement

is akin to building a new financial eco system that is able to transform our banking model moving forward. Currently a task force comprising several senior staff has been formed to oversee the development of this new banking model.

We have over the last few years consciously strengthened our risk management practices and instilled stronger risk management culture and we will continue to improve our tools and systems to enable us to make sound decisions that will inspire confidence from our stakeholders, namely our customers, shareholders and regulators. We will only take risks that we clearly understand, price our business to cover risk to capital and retain risk only if it provides sufficient risk adjusted return, grow our business in a way that supports our long term goals and does not compromise our ability to manage our risk and maintain operational excellence.

Moving forward, it is imperative that we manage our cost more strategically. Cost is a strategic battleground for banks. The success of an organisation requires more than just sound business strategy. Aside from generating revenue and profit, we need to ensure our expenses are aligned with our vision, values and objectives. This will ensure that we are spending money on the right resources, right training, investing in the right technologies and products and focusing on our customers.

ACKNOWLEDGEMENT

In March 2014, Tuan Haji Ismail Ibrahim retired after 13 years on the board. During his tenure, he had served as a member of the Board Audit, Remuneration, Nomination,

MBS Steering and Veto Committees. We like to put on record our deep appreciation for his long standing service and valuable contribution. We also welcomed Encik Hisham Zainal Mokhtar to our board in March 2014. Encik Hisham is a Director of the Investments Division at Khazanah Nasional and we are fortunate to benefit from his varied industry experience including insurance, investment management and financial consulting.

We also like to thank the management and staff at Bank Muamalat. We rely on them for their commitment and hard work. Our sincere gratitude also goes to our customers for their continued support and to our shareholders who have endured our struggles in seeking to realise the vision of a credible Islamic bank.

Last but not least, we wish to thank the relevant authorities, in particular BNM, the Securities Commission and the Ministry of Finance for their continuing guidance and assistance.

Yours Sincerely,

Tan Sri Dato' Dr Mohd Munir Abdul Majid



“If there is a will,
there is a way.
BANK MUAMALAT
will pave the way for
you and me...”



An interview with the CEO

Dato' Haji Mohd Redza Shah Abdul Wahid
Chief Executive Officer

The banking landscape has changed and evolved rapidly from the way it was **done 5 years ago**. Investment in technology and constant innovation helps banks to remain relevant and stay in the game. At the same time, there are also other pressing factors that banks need to address to meet the increasingly complex demand.

Dato Hj. Mohd Redza Shah Abd Wahid shares with us his experience at Bank Muamalat.

1. How has Bank Muamalat and the Islamic Banking industry reacted to these evolutions especially on changes that were driven by the new technology, to stay ahead?

Technology has changed the way we conduct our daily lives today and that includes the way we do banking. Places far away have become closer, communication is instantaneous and inexpensive; everything is becoming more convenient and faster. In banking, technology is fast becoming the enabler of growth. You no longer need a brick and mortar bank to perform banking transactions. Customers can now transfer their money and pay their financing by just a click of a mouse or by just pressing a few buttons on their mobile devices. It is that simple.

The rapid growth in Islamic Banking demands a robust IT platform to react to the demands of the market. It is essential to have technology that will not only cater to the uniqueness of each product but also at the same time, is effective and efficient enough to support Shariah requirements whilst satisfying the customers' needs. The challenge nowadays is to find market leaders that can provide IT solutions the way Islamic bankers want them to be. Whilst there are a few that are well-known in the industry, they are only good in certain areas, but not comprehensive in their solutions, particularly in meeting

the needs of a Shariah institution. Hence, a certain level of customisation is required.

Here in Bank Muamalat, we have just completed our core banking transformation, the MBS programme, aimed at improving Bank Muamalat's competitiveness in the market. It involves a total replacement of our previous core banking system and supporting applications with a single integrated and comprehensive Shariah compliant system. This new system aims to streamline business operations, improve customer satisfaction, offer a single customer view and improve product time to market. It will be the catalyst to all changes that will take place in Bank Muamalat in the future. We have also set up a team to look at mobility banking. It is not just mobile banking per se but it includes the whole spectrum of doing business, covering consumers, merchants and traders point of view. With the capabilities of our new system, Bank Muamalat is not just looking to improve its product and internet banking capabilities but the way we do our banking moving forward.

2. The concept of responsible banking is also high on the agenda for both local and international financial institutions. Islamic banks are expected to play a greater role in this area. What is your view?

The community has long viewed the banks solely as financial institutions where morality has played a small role. However, with changing social demands, banks have begun to feel pressures from their customers that would like to see them go beyond conventional management. Customers have demanded the banks to take on greater responsibility towards developing sustainable economic growth and enhancing social welfare. They demand a behavioral change; a move from being self-centric to being more socially and environmentally responsible and that includes ethical investment and financing, transparency, fair dealing and trading, breadth of financial access and services, and so on.

Islamic banks, taken as a whole is concerned with much more than just refraining from charging interest. As

institutions that are governed by the principles of Shariah, Islamic banks are expected to incorporate both profit and social responsibilities into their objectives. This is a unique distinguishing feature about Islamic Banking that people will find attractive. The element of ethics is not regarded as a limitation but rather a value added factor in Islamic Banking, which should be considered in every decision making process to strike a balance between profit and social objectives. A simple example is the way we treat our financing defaulters. If a borrower dies and his wife is not working then the Shariah council may pardon her. We are treating our customers in accordance with the principle of Ehsan, the Islamic sense of social responsibility.

At Bank Muamalat, we believe that it is not always about generating revenues or making profits but it is also about giving back to the community and fulfilling our responsibility as a socially responsible corporate citizen. We want our products/services to be competitive not only in terms of returns, but also to serve the needs of corporate social responsibility. Waqf services that we are currently running, is a unique example; a free-of-charge service offered to customers which in turn would contribute to the development of certain sectors in the country and in our case, the education and health sectors. In a recent development, we have worked with UDA Holdings Bhd to jointly develop waqf land across the country. Known as 'Bina Waqf', we will provide financing to the developer as well as financing to the buyer. Although we might have to sacrifice a little bit of extra return, it is profitable in the long term as we could win customers' loyalty through this kind of products. And yes, we want to be the champion of Ethical Banking.

3. What do you think of the establishment of ASEAN Community 2015 and its impact to Islamic Banking?

The idea behind the establishment of ASEAN Community is to create interconnectivity and strengthen the bond between Asian countries especially in terms of their economy, financial integration and political aspects. We want to create a regional integration that benefits the South East Asian economies as well as the political

cooperation. Yes, there will be challenges to achieving this regional integration as we are formed in varied regulations, cultural, economic and social backgrounds, but I believe with coordinated resources, we will be able to contribute to the prosperity of the ASEAN region.

Over the last few years Islamic Banking has been growing at a faster rate than conventional banking and is increasingly becoming an attractive alternative. With regionalisation in place, we see that greater integration with the broader financial system will not only allow Islamic banks to attract people who have not been exposed to this kind of services before but also provide a platform to generate greater trade and wealth creation. Islamic banking will have access to a broader client and asset base. In fact, with the establishment of this ASEAN Community, I believe Islamic banking can be positioned to be a key enabler towards increasing capital flows among member countries.

Some of the ASEAN countries have already started developing their Islamic Banking and Finance while others have expressed their interest in Islamic Finance. These markets offer huge potential in financing, capital raising or even waqf development especially in infrastructure, education and health as these sectors are crucial for economic development and are still lacking in this region. What is also important is how Islamic Banking can help in terms of expanding wealth distribution in the regional population of approximately 600 million via zakat, waqf and CSR activities. These are the 'ethical' elements that Islamic banks can offer. Yes, we may experience meagre returns in the short term especially when the landscape is very competitive but it is more of getting the 'Barakah' from being involved in these regionalisation activities.

What awaits us is the part to educate people on the difference between Islamic banking and the conventional ones. With a greater number of players and wider population to serve, public awareness of Shariah-compliant products will play a very crucial role. Even in many Muslim countries, the level of awareness and understanding of Shariah concept is very low. Another

challenge I believe what we have to face moving forward is to convince people that Islamic banking is not just for Muslims but also for all. Being multicultural with different religions and ethnicity, ASEAN regionalisation for Islamic banking will be challenging but can be highly rewarding.

4. What about the staff capability/availability to handle the changes in Islamic banking industry?

The scope of the industry, Islamic banking in particular has itself expanded largely from the normal financing and deposits engagements to Corporate financing, wealth management, Ar-Rahn services, Waqf, investments and advisory. With customers expectations vastly increasing, the banks are equally challenged to adapt to the heightened regulatory surveillance, rapid shifts in the IT environment as well as to uplift capabilities to compete on the international platform. But as we expand, the growing talent shortage is worrying and demands for more competent and efficient talent keep on increasing to support the growth. When that happens, banks start to pinch staff from each other. People move from one bank to another within a short period of time; turnaround within the industry itself is high and that pushes up the compensation scale for no reason. We need to have a structured approach to developing fresh talents for the industry. The industry now needs talent with more specialised skillsets and refined leadership attributes, especially at the senior and middle management level.

There is a need to address this issue urgently. Banks, regulators and educational institutions must get together to reconfigure the learning and development agenda for the industry. In the case of the Malaysian Islamic banking industry, the full and continuous support from the government via our Central Bank, Asian Institute of Chartered Bankers and other related agencies, have been the pillar of strength in encouraging the development of highly qualified professionals in the industry. For example, we have the International Centre for Education in Islamic Finance (INCEIF) that has attracted more than 2,000 students from 78 countries since its establishment to bring important diverse perspectives and dimensions into the

learning process. In addition to this, many Islamic banks nowadays work closely with local universities to ensure realignment between the education content and delivery to meet the industry requirements.

What we practice in Bank Muamalat is beyond the 'right person for the job' requirement. We provide room for them to grow. All staff are given equal opportunities to enhance their knowledge and skills via internal or external courses, depending on the need. There are some mandatory courses that they have to attend such as Shariah Application In Islamic Banking and Anti Money Laundering and Anti Terrorism Financing Act courses, to keep them abreast of changes that is happening in the industry. They are also encouraged to take part in public events to improve their knowledge and capability in Islamic banking related matters. We also have a specific talent development programme where our selected staff will be given their own individual development plans. We give them opportunities to attend seminars and Islamic conferences abroad. On top of that, we encourage our staff to continue their studies in crucial fields and even reward them once they have completed their courses. These initiatives also form part of our retention plans, besides periodical review of our remuneration package.

We have also established several focus groups to address current needs of the Gen-Y employees and also to look into different types of rewards besides monetary. Rewards can come in many forms including having a work-life balance and conducive working environment. A healthy employee is an effective employee and great mind comes from a healthy body! With that in mind we have provided a gym that is well equipped and also a health club which garnered positive response through high participation in their activities. These are all among the activities to ensure that Muamalatees have what it takes to compete at par with other players.







WE STRIVE
TO CREATE A WORKING
ENVIRONMENT
WHILST PROMOTING
PROFESSIONAL
DEVELOPMENT
WHICH OFFERS
HEALTHY AND
BALANCED
LIFESTYLE

Consumer Banking



The key portfolios—namely mortgage, personal financing and automobile financing on an aggregate basis registered a double digit growth surpassing the RM1 billion mark in net growth.

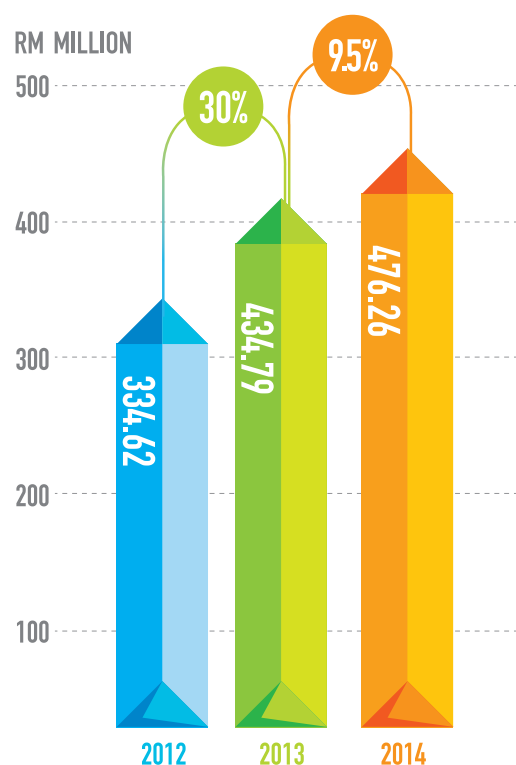
Attar Salleh
Head, Consumer Banking Division

CONSUMER BANKING: SUSTAINABLE GROWTH

Consumer Banking Division (CBD) forms the cornerstone of Bank Muamalat's banking business, contributing 48% of Bank Muamalat's total revenue. Bank Muamalat offers a diverse range of consumer products and services which continues to evolve in response to the changing customers' needs and market development. Key drivers of Bank Muamalat's consumers' portfolio remain mortgage, personal financing and automobile financing portfolios as well as current and savings account (CASA) deposits. With 59 dedicated branches, 8 kiosks and more than 200 ATM/CDM machines throughout the country, Bank Muamalat strives to stay in touch with the community and innovate the right financial solutions to meet the customers' needs.

During the year under review, CBD reported a revenue of RM476.26 million, 9.5% higher than RM434.79 a million a year ago, on the back of commendable growth in Bank

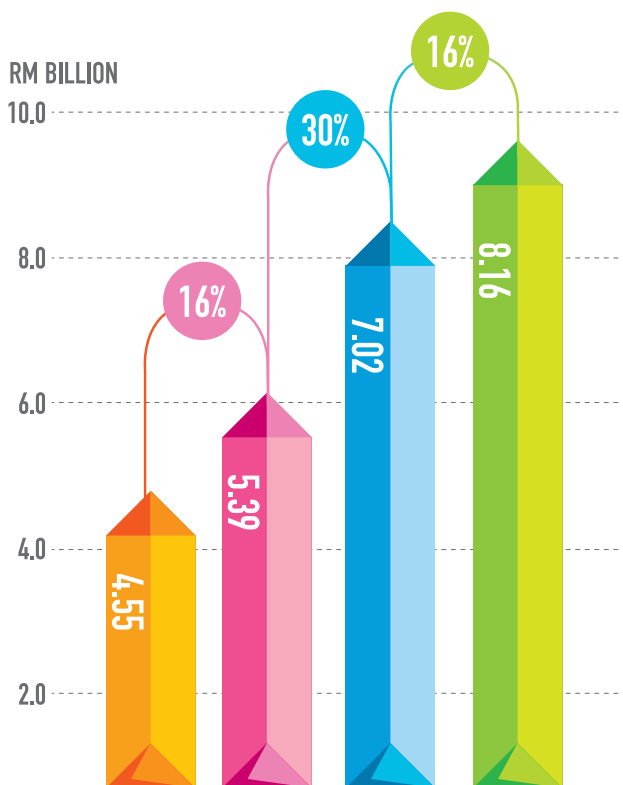
Consumer Banking - Revenue (Trend)



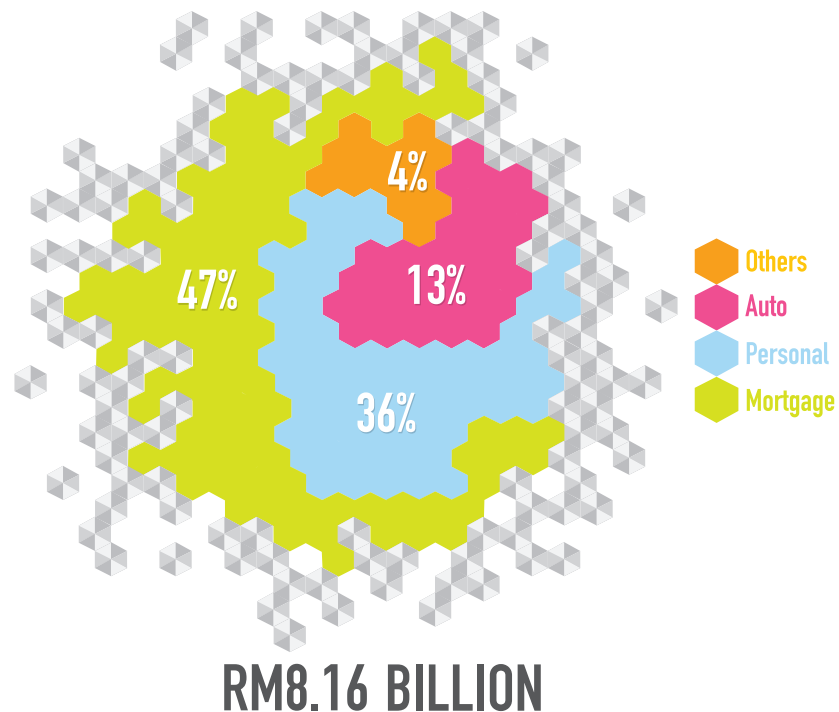
Muamalat's consumer financing segment and retail deposits business.

Consumer financing grew 16% despite operating in a competitive business environment, outstripping the industry growth of 13.8% thanks to effective strategic initiatives. The key portfolios – namely mortgage, personal financing and automobile financing on an aggregate basis registered a double digit growth surpassing the RM1 billion mark in net growth.

Consumer Banking - Financing Position (Trend)



Consumer Banking - Financing Composition



MORTGAGE FINANCING

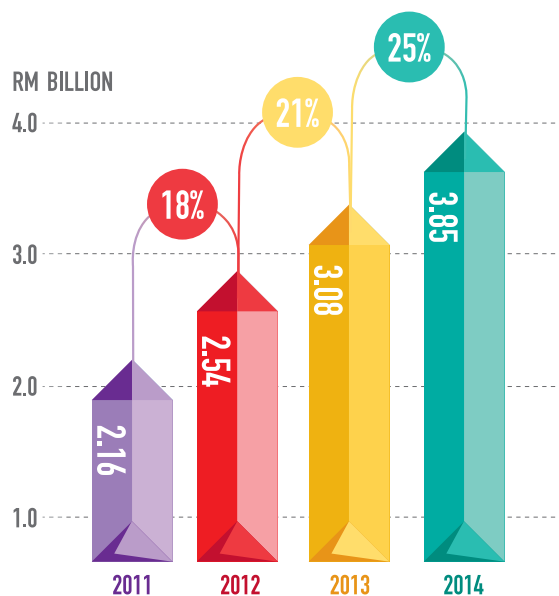
As at 31st March 2014, the portfolio stood at RM3.85 billion, an increase of 25% from RM3.08 billion closed in the previous year and accounted for 47% of the total consumer financing portfolio of RM8.16 billion. Notwithstanding the credit-tightening measures introduced by Bank Negara Malaysia ("BNM") to curb the rising household debts and

speculation on property prices, Bank Muamalat residential property financing continued to grow steadily in 2013 with the adoption of a new customer acquisition strategy. The growth accelerated faster than what Bank Muamalat anticipated and equally significant, asset quality has continued to further improve from 2.9% to 1.9%.

Consumer Banking

Bank Muamalat continued to strengthen our strategic alliances with key reputable developers for exclusivity and to leverage on corporate ties with proven track records in delivering quality homes. These strategic alliances positioned Bank Muamalat's Smart Mortgage campaign with its attractive financing packages, innovative and flexible features – as the preferred financial solutions for individuals who wanted to own a property of high quality.

Mortgage Financing Position (Trend)

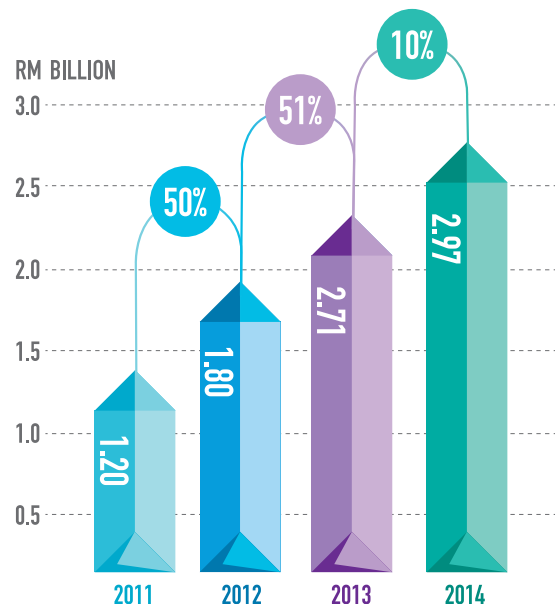


PERSONAL FINANCING

As of FY 2014, Bank Muamalat personal financing portfolio closed at RM2.97 billion, representing an increase of 10% from the previous year of RM2.71 billion, and has been on upward trend over the last four financial years.

In line with BNM's prudential measures to address concern on the increasing household indebtedness, Bank Muamalat adopted a more stringent criteria for this segment. This has resulted to a slower growth of 10% in the portfolio for the period under review as compared to the 51% growth a year ago. During the year under review, personal financing grew by RM643.6 million and contributed 44% to Consumer Banking's revenue. Continuous improvements

Personal Financing Position (Trend)



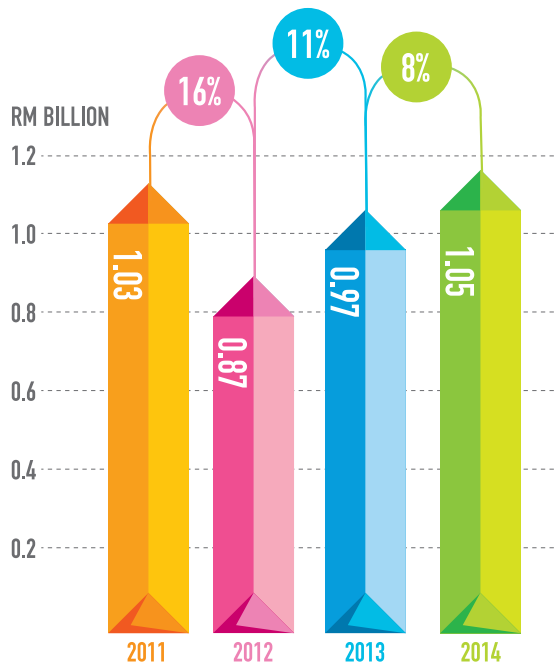
to credit risk framework have enabled Bank Muamalat to contain its personal financing impaired financing ratio below 1% as compared to the industry average of 2%.

AUTOMOBILE FINANCING

In 2013, the automobile industry registered a growth of 5% despite the "wait and see" stance adopted by the general public in anticipation of price reduction in passenger vehicles arising from the announcement during the General Election 2013 and the impending revised National Automotive Policy coupled with the introduction of the responsible lending guidelines by BNM.

Bank Muamalat's automobile financing segment registered a gross balance outstanding of RM1.05 billion, an increase of RM74 million or 8% from RM0.97 billion in the previous year, outpacing the industry's growth rate of 5%. During the year under review, aggressive marketing campaigns with dealers and distributors, strategic focus on Bank Muamalat core customer segments and continuous awareness programs on preferred models especially PROTON, contributed to the continued success of the automobile financing business.

Automobile Financing Position (Trend)

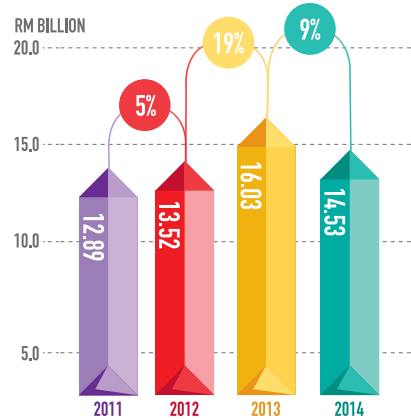


DEPOSITS

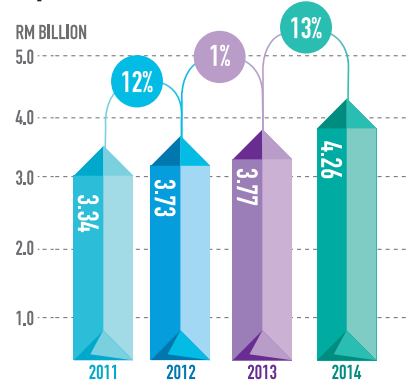
In FY 2014, Bank Muamalat continued to focus on its effort to build a long term core customer deposits base. CASA increased by RM304.6 million or 31% and RM180.3 or 6% year on year respectively. The Bank's CASA portfolio stood at RM4.26 billion as at the end of FY 2014 and accounted for 29% of the Bank's core customer deposit base. Meanwhile, general investment deposits dropped by RM1.97 billion equivalent to a 16% reduction from the previous year. As a result, total core deposits grew by only 9% year on year, but remained above the industry average of 7%.

Several key initiatives were lined up throughout the year to grow CASA focusing on dedicated promotions, product innovations and group synergies. A deposit campaign (Oh Yeah!) was launched in January 2013 and received good response nationwide resulting to an increase of RM331.4 million in savings accounts or 70,334 new accounts opened during the year.

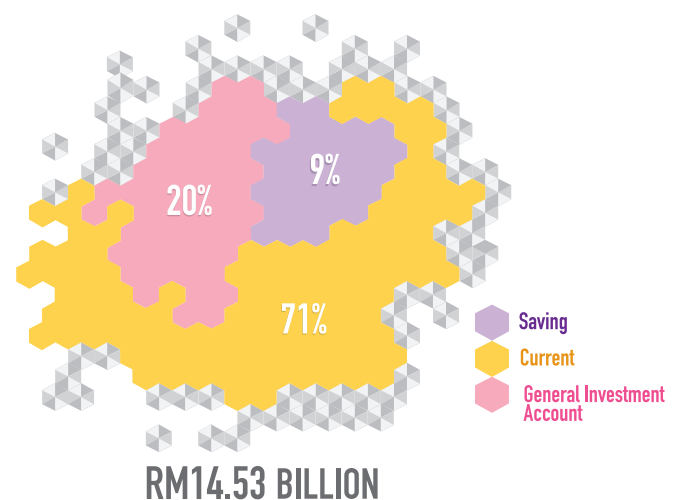
Core Deposit (Trend)



CASA Deposit Trend



CASA Deposit Composition



Consumer Banking

Deposits from individuals represented 11% of Bank Muamalat's core deposits as at the end of FY 2014. During the year, a total of 111,151 new retail deposit accounts were opened, representing a 15% growth of Bank Muamalat depositor base.

Moving forward, with the new core banking system, Bank Muamalat will be able to offer enhanced products, services and solutions to our customers.

AR-RAHNU BUSINESS

Currently, Ar-Rahnu business is offered at 21 of our branches. The Ar-Rahnu financing outstanding and safe keeping fee income as at FY 2014 stood at RM40.7 mil and RM8.07 mil as compared to FY 2013 of RM60.7mil and RM4.1 mil respectively.

The Ar-Rahnu business will be expanded to another 15 selected branches, and the income from this initiative is expected to contribute between 15% to 20% of Bank Muamalat's fee income. Eventually we expect to expand Ar-Rahnu business at all of our 60 branches nationwide.

WEALTH MANAGEMENT

Wealth Management is the manifestation of Bank Muamalat's aspiration in providing holistic Islamic financial solutions which addresses the basic financial needs (i.e. wealth protection, creation, accumulation, purification and distribution) of individuals or businesses. With that in mind, Wealth Management Department embarked on a number of strategic initiatives for FY 2014; namely establishing a preferred partnership with Great Eastern Takaful Berhad (GETB) to streamline and distribute Family Takaful products, launching of an in-house fund investment product called Muamalat Mutual-i and third party Unit Trust.

At the same time, initiatives on upgrading skills of the sales force is ongoing, resulting in marked improvements in Bank Muamalat sales performance. The plan going

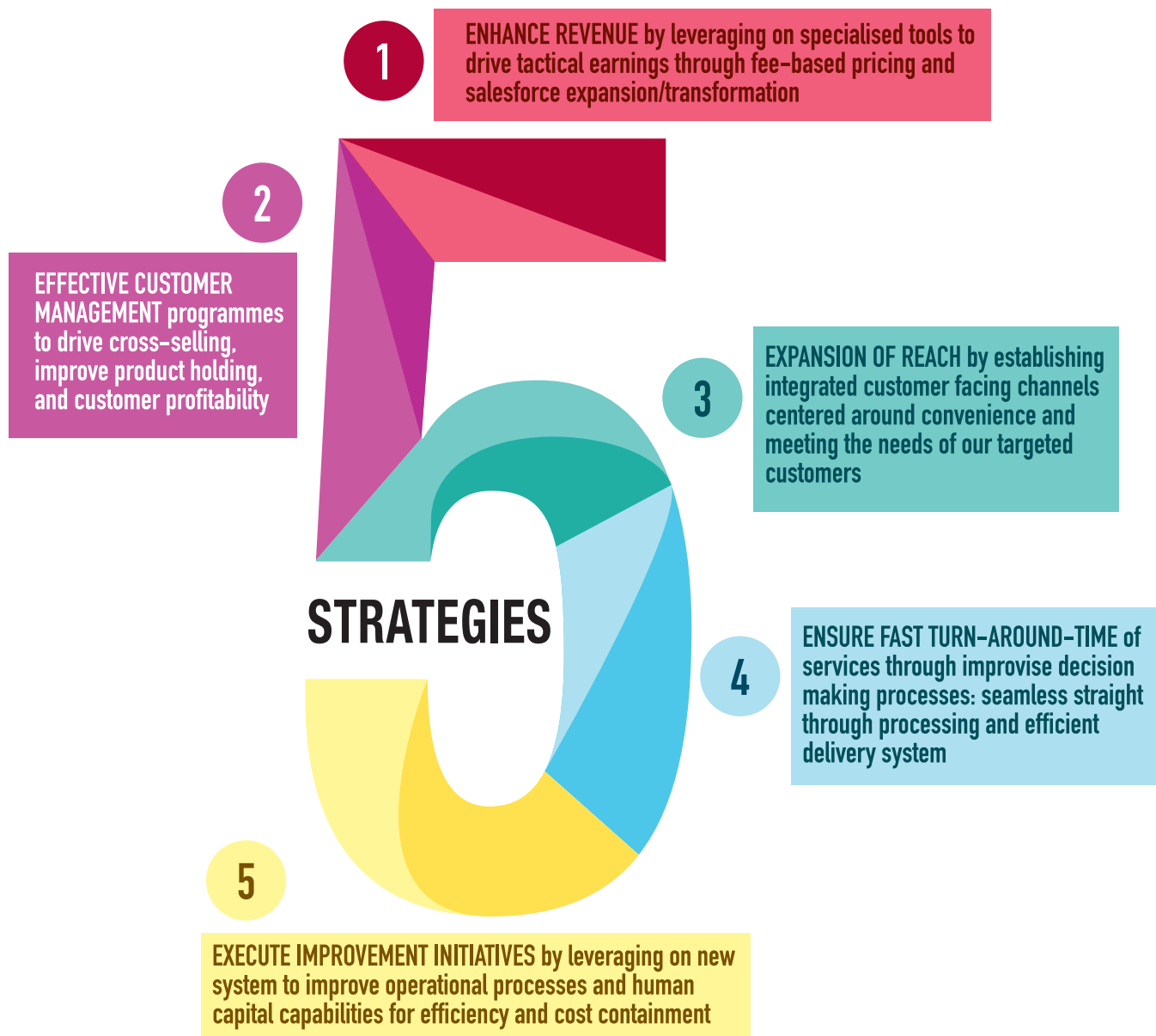
forward is to reinforce this segment of Consumer Business in order to enhance fee income contribution. This will be done through improvement in Bank Muamalat market positioning as the bank is inspired to be the preferred choice for wealth management professionals, in offering innovative products and competitive pricing.

MICRO FINANCING

As part of the effort towards promoting Corporate Social Responsibility, Bank Muamalat was actively engaged in providing Micro Financing Scheme to selected individuals for business purposes. The scheme was categorised by the followings:

- BNM Micro Financing Fund - eligible for Civil/Army pensioner, Army's wife and FELCRA settler; with the objective of helping customers who are about to start a new business after retirement or to expand their existing business with a very minimal document requirement. As at FY 2014, Bank Muamalat has disbursed 166 accounts amounting to RM4.76 million with less than 0.01% delinquent account.
- Tabung Mawaddah Micro Financing Fund – offered under the concept of Al-Qardul Hasan, which targeted to assist the needy or poor individuals who are about to start a new business or expand their existing business with a minimum of RM600 up to RM2,000 of funding amount. The repayment plan is based on their affordability and durability of tenure up to 3 years. As at FY 2014, Bank Muamalat has given a total of RM207,000 amount of financing to 116 individuals.

**MOVING FORWARD: TO BE COMPETITIVE
AND SUSTAINABLE IN RETAIL BANKING**



Business Banking



The FY 2014 was yet again a very challenging year for Business Banking. It was against a backdrop of increasing cost, margin compression, strong competition and full of economic uncertainties.

Rustam Apandi Jamaludin
Head, Business Banking Division

FINANCING ACTIVITIES

During FY 2014, financing assets grew by 7.7% as opposed to 19.5% in the preceding year. The year also saw the deterioration of some assets which led to the increase in NPF from 3.2% to 4.5%. These assets are currently undergoing restructuring exercises and it is expected that some 60% would be restructured in the coming financial year. In spite of the deterioration in some assets quality, the overall assets quality remains at above satisfactory level. This was achieved through the acquisition of quality assets, amongst others.

The commercial portfolio had again performed extremely well with another year of record high profit before tax (PBT) contributing approximately 40% of the Division's PBT despite the reduction of assets due to some unexpected prepayments. The impressive PBT was achieved through the acquisitions of new high yielding assets and good utilisation rate of trade financing facilities.

During the year, Business Banking had jointly led arranged five syndicated Islamic facilities totaling RM1.1 billion with two other financial institutions under the Private Financing Initiative (PFI) arrangement. The Division will continue to actively participate in other PFI arrangement in view of the good prospect.

On financing to small and medium enterprises (SME), during the FY 2014, Bank Muamalat has entered into two Memorandum of Understanding (MOU) with namely the Kuala Lumpur Malay Chamber of Commerce and the Kuala Lumpur & Selangor Indian Chamber of Commerce & Industry. These are part of the Business Banking Division's contribution to Bank Muamalat's Corporate Social Responsibility and Responsible Banking activities. The scope and responsibilities of the MOU apart from providing financing to suitable businesses also include providing the necessary knowledge in the preparation of proposal for financing and entrepreneur development activities such as joint training programs, workshops and business matching.

With the setting up of a Government and Deposit Desk, the Division had been actively promoting Bank Muamalat's Corporate Internet Banking with the objective of increasing current account. Apart from corporations, we have been fostering good relationships with the government ministries with the hope to assist them in their cash management.

In order for Bank Muamalat to be more active in the SME retail business sector, the Retail Business Banking Section has been detached and being absorbed into the Consumer Banking Division. With this move, Bank Muamalat could have better reach in servicing this sector.

MOVING FORWARD

For the new financial year, Business Banking will continue to be cautious and expects to record a moderate assets growth with the focus of increasing yield. The Division will embark aggressively on targeting commercial banking customers focusing on trade financing and the recently approved programmed property financing.



Treasury and Capital Markets



Pursuant to the requirement of the newly introduced Islamic Financial Services Act 2013, we have started preparation to shift from using the existing “Mudharabah” concept for deposit taking to using “Tawarruq” concept. We have also begun exploring the introduction of Investment Account products as an alternative investment avenue for depositors.

Adi Asri Baharom

Head, Treasury and Capital Markets
Division

Treasury & Capital Markets maintained a conservative stance in a year of high volatility in global financial markets. The FX and rates markets in particular underwent periods of uncertainty and volatility from the second half of the year onwards after the U.S. Federal Reserve hinted that it would start tapering. The prospect that the U.S. will move to a phase of higher interest rates led to a sell off in bonds and weaker emerging markets currencies due to capital outflows.

Global bond yields were under upward pressure for the most part of last year amid fears of the impact of Fed tapering on assets prices. The 10-year U.S. Treasury yield which was at a low of 1.60% in the middle of 2013 rose to close 2013 at 3.00%. The 10-year MGS yield was at 4.11% at the end of December 2013, from below 3.10% in May 2013. Against this backdrop, it was a difficult year as far as sukuk and FX trading activities were concerned. However, as we had maintained a short duration strategy on our investment portfolio, the financial impact of market corrections on our balance sheet was manageable. Rates on the funding side remained somewhat stable throughout the last financial year.

Pursuant to the requirement of the newly introduced Islamic Financial Services Act 2013, we have started preparation to shift from using the existing “Mudharabah” concept for deposit taking to using “Tawarruq” concept. We have also begun exploring the introduction of Investment Account products as an alternative investment avenue for depositors.

OUTLOOK FOR 2014/2015

As we expect the U.S. economy to grow at a firmer pace going forward, local interest rates will likely be under upward pressure and the Ringgit will remain vulnerable to funds outflows. Whether Bank Negara will eventually raise the OPR will be data dependent.



Our traders will remain vigilant and cautious to ride out this volatility and uncertainty in the FX and Fixed Income Markets. Our investment portfolio will be managed prudently given our outlook of profit rates.

We will continue with aggressive client acquisition and diversification strategies including coverage on Small & Medium Enterprises (SMEs). We also envisage offering more products to cater to a growing and more sophisticated customer base.

Investment Banking



Moving forward, we intend to focus more on our Private Equity business as we see opportunities to invest and diversify our source of revenue for the Bank.

Investment Banking Department

Despite the challenging capital markets environment throughout the year, Bank Muamalat's Investment Banking activities continue to grow and expand as it aspires to become the leading Islamic Investment Banking house in Malaysia.

For the year, the debt capital markets unit has successfully arranged a syndicated financing of up to RM895.4 million for the development of the nation's first Private Finance Initiative multi-varsity education hub in Pagoh, Johor. The team has also managed the inaugural issuance of the RM150.0 million Unrated Sukuk Programme issued by OCK Setia Engineering Sdn Bhd, a wholly owned subsidiary of OCK Group Berhad, one of Malaysia's leading telecommunication services company.

Moving forward, the strategic focus would be more on our Private Equity business as we see opportunities to invest and diversify our sources of revenue for Bank Muamalat. Furthermore, we aim to expand our services throughout the ASEAN region, i.e. Singapore, Indonesia, Thailand, Taiwan, Korea and also the Middle-Eastern region. We see a lot of potential in securing cross-border deals and based on our origination activities, we believe, these are very promising times for Investment Banking, and also for Bank Muamalat.

Musharakah

Property Investment Department (MPID)



Traditionally, Bank Muamalat has always been involved in providing financing for property developers, contractors and home buyers.

Zahrul Azmi Zakaria
Head, Musharakah Property
Investment Department

Bank Muamalat has been approached on several occasions by developers to co-develop and/or invest in property development projects, Bank Muamalat is of the opinion that this is an opportune moment to explore this new area of business in the form of Musharakah Investment or Financing.

On 26 July 2011, the Board Risk Management Committee approved the establishment of Musharakah Property Investment Department (MPID). MPID will be focusing mainly on direct property acquisition, property investment and property development activities under Musharakah arrangement (profit and loss sharing basis).

'Musharakah' is an Arabic word which literally means sharing. Musharakah is a contract between the partners to contribute capital to an enterprise or a venture, whether existing or new, or to an owner of a real estate. Profits generated by the venture or real estate or asset are shared in accordance with the terms of the Musharakah agreement, while losses are shared in proportion to each partner's share of capital.

The objectives of MPID are as follows:-

- To diversify income sources, optimise return on investment and cost to income ratio for Bank Muamalat;
- To tap business activities offered;
- To promote cross selling activities i.e. Project Financing and End-Financing facilities; and
- To provide synergy among other departments within Bank Muamalat.

MPID shall invest mainly to finance the following real estate properties:-

- High and mid-end residential property development; and/or
- Commercial properties; and/or
- Industrial properties; and/or
- Mixed development of the above.

To date, we have several potential property development and investment projects that will be executed within FY 2014.

Muamalat

Invest Sdn Bhd (MISB)



MISB through its series of Islamic wholesale funds namely the series of Muamalat Invest Dana Al-Ikhwan (launched since December 2012) has successfully established its presence in the wholesale Islamic markets.

Sharifatul Hanizah Said Ali
CEO, Muamalat Invest Sdn Bhd

Muamalat Invest Sdn Bhd (MISB) is a wholly owned subsidiary of Bank Muamalat. It was incorporated on 22 April 1999, licensed by the Securities Commission since 6 Dec 2005 as a Fund Management company and was accorded an Islamic Fund Management license in September 2010 with a paid up capital of RM10 million.

MISB provides shariah compliant investment management services which includes:-

- Management of discretionary investment mandates for asset classes covering equity and sukuk.
- Provision of wholesale fund products for investments in various asset classes i.e Islamic money market instruments, shariah compliant equities and sukuk.

To date, MISB has significantly grown its Assets under Management (AUM) to approximately RM1.8 billion from RM170 million in 2012. It has built present base, infra and resources and is placing itself to a higher level in the wholesale capital markets product with a view to expand to the retail market in the long term.

MISB through its series of Islamic wholesale funds namely the series of Muamalat Invest Dana Al-Ikhwan (launched since December 2012) has successfully established its presence in the wholesale Islamic markets (currently at circa 11% of total Islamic wholesale fund NAV based on Summary of Statistic-Wholesale Funds in Malaysia, Securities Commission published at 31 March 2014).

Muamalat

Venture Sdn Bhd (MVSB)



As of to date, there are six (6) PKB branches involved in Musharakah arrangement with MVSB namely Jelawat, Wakaf Che Yeh, Pasir Mas, Tanah Merah, Pasir Puteh and Guchil.

Dato' Haji Salamat Haji Wahit
Head, Strategic Liaison

Bank Muamalat through its subsidiary Muamalat Venture Sdn Bhd (MVSB) under the supervision of Strategic Liaison Management Office (SLMO) has started Musharakah Mutanaqisah venture with the first partner known as Permodalan Kelantan Berhad (PKB) in 2008. PKB is involved in Islamic Pawn Broking activity known as Ar-Rahnu. The arrangement was made through its first branch in Jelawat. As of to date, there are six (6) PKB branches involved in Musharakah arrangement with MVSB namely Jelawat, Wakaf Che Yeh, Pasir Mas, Tanah Merah, Pasir Puteh and Guchil. The positive achievement shown by this venture led to the further expansion of Ar-Rahnu venture with PKB by the inclusion of more branches for the new FY 2015. MVSB has also entered into a Musharakah arrangement with Metro Exchange Sdn Bhd (MEX) in September 2013 replicating the PKB Musharakah arrangement. MEX is involved in the wholesale money exchange business. The company supplies various currencies to most local banks, Bureau De Change (BDC)s and retail money exchange outlets.

The overall performance of the joint venture arrangement is growing with an average annualised return on investment (ROI) of 10 to 11%.

MOVING FORWARD

Moving forward, SLMO will strive to further improve Bank Muamalat's income through Musharakah JV arrangement between MVSB and venture partners.

The current year profit for the musharakah arrangement has improved to RM3.4 million from RM0.9 million previous year. Muamalat Venture is targeting to achieve RM6.1 million in FY 2015. The robust growth, which was shown by the venture arrangement has prompted MVSB to continue its Musharakah venture and looking forward for new potential business partners. One of the industries that is expanding rapidly in Malaysia is the franchise industry which generated RM23.6 billion in 2012. Other industries that generate high returns such as oil & gas, innovation, IT and manufacturing will also be explored.

Business

Process & Transformation



The CI programme is an effective tool for Bank Muamalat to generate cost savings, establish more efficient process without compromising the regulatory requirements.

Noor Hayati Abu Yaziz @ Mohamad
Head, Business Process & Transformation Department

In FY 2014, Bank Muamalat's Continuous Improvement (CI) programme's focus was mainly on the 'Transformation through People, Process & Technology' in which it expanded change and transformation beyond just processes.

The CI programme is an effective tool for Bank Muamalat to generate cost savings, establish more efficient process without compromising the regulatory requirements. This programme has also helped in developing hidden talents within Bank Muamalat by optimising their skills and knowledge throughout the transformation journey.

As of FY 2014, Lean Six Sigma and WorkSmart projects translated into a total financial savings of RM12.9 million and the soft benefits amounted to RM151 million. A total of 27 targeted departments, branches and regional offices participated in the programme.

On 7 February 2014, for the first time in Bank Muamalat's history, Continuous Improvement Programme Annual Award Ceremony was held at Sime Darby Convention Centre, which welcomed approximately 230 guests.

The CI Programme Annual Award event has marked another major milestone for Bank Muamalat in innovating, improving and bringing change to the company. This significant night celebrated and rewarded the top Champion and Agents of Change, which include winners of 5S Workplace Organisation, WorkSmart and Lean Six Sigma projects. Twenty four Lean Six Sigma belters received their certifications. This signified birth of newly breed-well trained agents of change for Bank Muamalat.

In the coming year, with the theme 'Infinite.Imagination. Innovation' the CI programme will continue to inculcate more interesting transformation initiatives. The new concept of the programme will take Bank Muamalat beyond business as usual. The initiatives centered at creating niche offering and proposition whilst at the same time promotes development of innovative products, services and technology that can be commercialised and be a trend setter in the market.



This significant night celebrated and rewarded the top Champion and Agents of Change, which include winners of 5S Workplace Organisation, WorkSmart and Lean Six Sigma projects.



Muamalat Banking Solution



‘Together we
make it Happen’

Halimah Johari
MBS Programme Director

Muamalat Banking Solution (MBS) Programme is the main transformation agenda of Bank Muamalat and poised to transform it into an innovative and competitive player in the financial market. It involves the replacement of the current core banking systems and supporting applications with a single integrated, comprehensive and complete suite of Shariah compliant banking solution.

MBS aims to meet the following objectives:-

- a) Single System Platform and Seamless Integration
- b) Streamlined Business Operation
- c) Improve Customer Service Satisfaction
- d) Single Customer View
- e) Improve Product Time to Market

MBS programme kicked off on 13 December 2012 and completed in June 2014.

The past years have not been ‘a walk in the park’ for the Project Team Members; it was full of challenges with exciting and successful outcome. To ensure the success of the programme, the team undertook several phases of activities. The team embarked on System Integration Testing (SIT) in August 2012 and completed in Nov 2013. With the completion of SIT, it made way for the team to conduct User Acceptance Testing (UAT), a very critical milestone for the project, to ensure the system readiness before it goes live and to ensure it meets Bank Muamalat’s business requirements.

Workshops and training sessions have been organised for all key staff, covering both process and technical aspects jointly conducted by Silverlake and the MBS team. The workshops and training sessions are followed by separate independent discussions between users and the module leads. Among the training conducted were:-

- a) Train The Trainer (TTT); and
- b) End User Training (EUT)

MBS Branch Engagement Programme has been organised since Jan 2013 to reach out to all 59 branches, as well as to all Regional Offices, Monitoring Collection and Recovery Centers and Business Centers. It was aimed at enhancing the level of understanding of the project and to address queries and doubts especially from the branches as they are the key stakeholders and prime users of the new banking system. This was critical in order to strengthen their buy-in, continuous commitment and support.

MBS-HOD Meet & Greet sessions, one to one sessions between the MBS team and Heads of Department were also conducted throughout the year. This exercise served as a platform for MBS project team to touch base with HODs of selected impacted departments.

Even though the team was busy with the system development and pre-deployment activities, they managed to take part in Bank Muamalat's CSR programme 'Masih Ada Yang Sayang (MAYS)' at Pusat Jagaan Nuri, Setapak which was organised by the Federal Territory Regional Office in collaboration with Tabung Mawaddah and Shariah Department. The team recognises the importance of giving back to society and developing ukhuwah with the residence as well as between departments.

Through diligent hard work and teamwork, MBS team is working in line with the motto -
"Together we make it Happen!"



Customer Service



Our effort to ensure customers are pleased with the service provided is not only limited to Bank Muamalat's personnel but manifested to every part of the organization and is reflective of the significance Bank Muamalat places on this subject.

Karim Mohammed Adnan
Head, Customer Service Department

It is our utmost priority at Bank Muamalat to deliver and provide consistently high standards of service to our customers because we know it is often the only way a business can differentiate itself from its competitors. Our effort to ensure customers are pleased with the services provided is not only limited to Bank Muamalat's personnel but manifested to every part of the organisation and is reflective of the significance Bank Muamalat places on this subject.

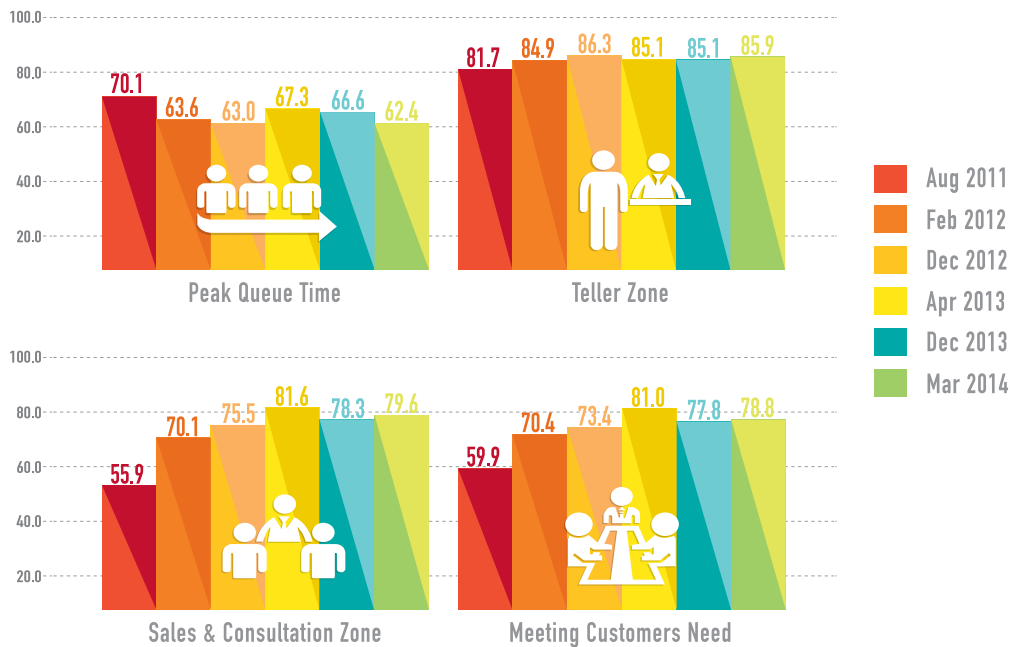
The passion to improve and compete in providing the best service and ultimately to be the preferred Islamic financial services provider was the driving force behind shaping the strategies to achieve this goal. Since 2011 we have embarked on a "Mystery Shopping Programme" to independently assess our service competencies by measuring customers' satisfaction and loyalty. We are pleased to note that the average bank wide service evaluation for FY 2014 has exceeded our set target for the year registering a commendable 86.1% achievement; thanks to consistent level of service from the frontline / teller zone achieving more than 80%. Equally impressive is the commitment from our sales and consultation personnel, these efforts drew affirmative feedback from the mystery shoppers.

"Overall the experience at this branch was great. Both the teller and the sales personnel did a wonderful job. Both of them delivered a WOW! experience." – Bank Muamalat Batu Caves, 29.01.2014.

We also took further ancillary measures in monitoring and assessing Bank Muamalat's performance and customer loyalty by benchmarking our service initiatives against other selected financing institutions. Bank Muamalat has again ranked highest in the Average Service Evaluation score. Consequently, Customer Experience Index which represents wonderful and good overall customer experience registered an exceptional result of 89%, indicating a strong connection with our customers.

Customer's Preception Indicator

Index Percentage



“Every great business is built on friendship.” - JC Penney

These days, customers are concerned with operational efficiency. Bank Muamalat has endeavoured to complement service excellence with operational excellence through improvement initiatives garnered from various feedbacks.

“Customers don’t expect you to be perfect. They do expect you to fix things when they go wrong.”

- Donald Porter

During the year, the customer’s opportunity to get in touch with our personnel was further amplified through the extended operating hours of our Contact Centre which is now open 7 days a week including Public Holidays from 6.00 am to 12.00 midnight. This further opens up the channels of communication and feedback, an important ingredient in our quest to excel.

A key consideration to customer’s satisfaction is the waiting time which has been highlighted by our consultant as an area for improvement. Though this area has been showing progress over the past year, the last result in FY 2014 recorded a drop to 62.4%. It was revealed that 31% of the shoppers has a waiting time of over 5 minutes which contributed towards the lower result. We shall ensure a step up in effort to elevate our service level in this area.

We are proud to note the consistent high satisfaction levels acknowledged by our customers. We believe providing good service is rooted within the foundation of our Islamic values.

Shariah



This is a platform to educate the public in understanding the Islamic banking and finance as well as part of the bank social obligation to the community.

Mohd Hafiz Fauzi
Head, Shariah Department

SHARIAH ADVISORY & SECRETARIAT SECTION

The section acts as a secretariat to the Shariah Committee (SC) and effectively provides Shariah advisory and consultancy to respective stakeholders.

The role of Shariah Secretariat in performing secretariat function to the SC comprises of providing input and supports to the SC which includes coordinating meetings, compiling proposal papers, disseminating Shariah decisions to relevant stakeholders, engaging with relevant parties who seek further deliberations on issues from the SC and ensuring the welfare of SC members is accordingly served.

In terms of Shariah advisory and consultancy roles, the functions are to assist and provide advice to the relevant parties based on the decision of the SC that includes pre-product approval, operation process, documentations, activities of business unit, support unit, Bank Muamalat's subsidiaries and external clients (upon request).

During the FY 2014, several initiatives have been conducted including the development of Share Point Portal which contains the Shariah Committee's decisions, and Shariah research materials for easy access by the Shariah Governance Organs and SC within the premise of Bank Muamalat, issuance of General Shariah Decision on selected topics to all staff, organising familiarisation programmes and zakat trainings to the SC, conducting Strategic Planning Sessions with the Bank's Shariah Governance Organs, enforcing the approach of Letter of Undertaking on SC's decision and report to the SC on quarterly basis and managing Training Needs Analysis for SC.

FY 2014 was a challenging year for the Shariah team. Besides the full commitment given to the MBS project, the Shariah team was also heavily engaged in accomodating to the new enforcement of IFSA 2013 that repealed the Islamic Banking Act 1983. The act highlighted new insights including the legislated duty of Islamic banks to ensure end to end Shariah compliance, transitioning of Islamic

Deposits as well as enabling the issuances of Shariah Standards & Practice Guides.

RESEARCH & DEVELOPMENT SECTION

The role of Shariah Research is to perform in-depth researches and studies on Shariah matters, including providing a day-to-day Shariah advice and consultancy to relevant parties, especially those involved in the product development process. For this financial year, a total of twenty seven (27) research papers were completed comprising Shariah issues, product development, Waqf and special request by Shariah Committee and other parties.

Apart from in-house research, Bank Muamalat went an extra mile with the establishment of strategic alliances with International Islamic University of Malaysia (IIUM) and University Sains Islam Malaysia (USIM) through research grants of which the details are as follows:-

University	Research Grant	Status
IIUM	1. Stakeholders Perception of Bank Muamalat Gratuity Financing	Completed
	2. Best Practices in Shariah Risk Management: Empirical Study of Malaysian Islamic Financial Institutions	In progress
USIM	3. Knowledge Transfer Program – Shariah Audit	In progress

Publication

For the FY 2014, Shariah Research & Publication Section managed to complete 5 handbooks and 4 al-Muamalat newsletters covering various topics but not limited to Islamic Banking and Finance. These publications serves as guidance and reference especially to the staff and the public to understand the basic contracts and issues in Islamic Banking and Finance. Other than that, the team also submitted more than 10 articles to be published in a local magazine i.e. Malaysian Business.

PUBLIC AWARENESS

Realising the serious need to educate the public on Islamic banking and finance, Bank Muamalat has taken the initiative to create dedicated awareness programmes aimed to further increase the level of understanding and stimulating change towards Islamic Banking and Finance nationwide. Among the programmes initiated by the bank were as follows:-

1. Sponsoring Radio and TV program such as Forum Perdana Hal Ehwal Islam in TV1, Tazkirah Ramadhan in TV3, 30 minutes with Ustaz Don in TV al-Hijrah and Bicara Muamalat in IKIM.
2. Public talk/briefing on Islamic Banking & Finance and waqf to government agencies, private companies, education centers and religious bodies of which several programs conducted were in collaborations with Association of Islamic Banking Institutions Malaysia (AIBIM) and Jabatan Kemajuan Islam Malaysia (JAKIM).
3. Friday sermon on Islamic Banking & Finance and waqf at various mosques in Malaysia.

For this financial year, Shariah Department managed to initiate and conduct 120 public awareness programs which received good response from the audience and well accepted by the community. They served as platforms to educate the public in understanding the Islamic banking and finance as well as part of the bank's social obligation to the community. Apart from that, they also act as a marketing tool for Bank Muamalat to the public.

Human Capital



A strong performance culture backed by our 5 core values – Care, Respect, Integrity, Innovative and Service Oriented, becomes our aspiration as we move forward in the most competitive era of the financial industry.

Jamilah Abdul Sallam
EVP, Human Capital Division

Our employees are our priceless assets and Bank Muamalat's growth and success comes from our talented employees. Their attitudes, skills and abilities contribute to organisational performance and productivity. They are the key drivers that have been responsible for Bank Muamalat's continuous achievements, and the prime movers that strive towards bringing Bank Muamalat to even greater heights.

HUMAN CAPITAL DIVISION

A Strong Performance Culture backed by our 5 core values – Care, Respect, Integrity, Innovative and Service Oriented becomes our aspiration as we move forward in an era of competitive financial industry. We have advanced from the traditional role of Human Resources into strategic business partners of Bank Muamalat.

It is vital for Bank Muamalat to always be well resourced, with the right people at the right job supporting the delivery of its strategic goals. It is equally important that focus is emphasis on a workforce that is motivated, well-trained and geared for success. We ensure that the pool of diverse staff cadres in Islamic Banking is continuously developed with the appropriate competencies and leadership skills and complemented by the solid commitment towards delivering their best. The current top three challenges faced by Human Capital are to sustain competitive advantage, attracting and retaining talented employees and developing future leaders of Bank Muamalat.

Bank Muamalat believe that our most important asset, our people are ready to face the challenges in this competitive banking environment.

With the entire staff highly energised, Bank Muamalat's transformation journey continues with further improvements in capability building and operational efficiency. Our commitment to cultivate performance drives us to place great diligence in developing Bank Muamalat's business and market presence.

STRATEGIC WORKFORCE PLANNING

In our pursuit to grow, we were not spared with the challenges of brain drain, changing workforce landscape as well as the rising cost of doing business. Managing these issues were some of our key priorities.

TALENT AND LEADERSHIP DEVELOPMENT

Business can be managed and a sustainable future can be created only when people are effective in confronting organisational challenges inherent in the industry. Bank Muamalat recognises that competencies provide an edge to business performance. To sustain encouraging performance, Bank Muamalat has attracted, searched, developed and retained the best employees within Bank Muamalat to deliver financial and operational success initiated in early 2013. Chally Talent Profiling was used as the tool to profile, review, analyse and assess the competencies and behaviors of our talent. Each talent will be developed with the required skill set and knowledge to best fit their personalities in our 5 identified job profiles. The development programs provided to each talent aimed to close the competency gaps and equip them with the required skill set and knowledge.

Developing staff and having depth in our leadership succession planning are vital in supporting our growth strategy. Emerging Leaders Program (ELP) is one of our internal talent development programmes designed in a holistic approach with structured development programmes, mentoring partnership and star projects. The overall programme focuses on providing a broader strategic understanding of business, leadership and management skills. Skills and knowledge gained will enable to transform potential talents into high performing leaders to cater for future talent requirement of Bank Muamalat.

In line with Bank Muamalat's ambition to accelerate growth and to become the preferred Islamic financial service provider, 100 staff holding leadership positions in Bank Muamalat underwent 360 degrees assessment. This assessment has provided them with better understanding

of their performance and personal development requirement. The evaluation questionnaires were based on the competency framework to ensure their relevance to Bank Muamalat's strategic business needs. The assessment lead to evaluation of a person's knowledge, skills and commitment by his superiors, peers and subordinates to provide a well-rounded and fair view of a person's leadership capabilities.

EMPLOYEE ENGAGEMENT

Strong employee engagement will result in superior business performance, increased profitability, productivity and employee retention. We take pride in our regular nationwide management road shows where we openly communicate and interact with all employees especially on our goals and aspirations. The management shares our performance, achievements and plans with the employee.

Our efforts towards gaining our employees engagement has shown encouraging results in the annual Employee Satisfaction Survey for FY 2014 with an impressive 93% participation from the overall employees. The survey was designed to create a connection that inspires employees to feel a sense of belonging and that their opinion matters to Bank Muamalat.

The establishment of our Sports and Recreational Club (SRC) in March 2014 strives to improve relationship and loyalty among the employees. Under SRC, a comprehensive programme in collaboration with Healthpro called *sihat@Muamalat* was launched to encourage all employees to have a healthy lifestyle and outstanding work-life balance. We are proud to announce that we are the first Shariah Compliant Bank to undertake such a commitment in providing structured health care activities throughout the year.

Human Capital



Strong employee engagement will result in superior business performance, increased profitability, productivity and employee retention.



Corporate Responsibility

Corporate Responsibility (CR) has always been a part of our philosophy and has played a prominent role in Bank Muamalat's activities. Deeply rooted in our value as an organisation that operates under the Shariah law, being highly socially responsible is what makes us different from other Islamic banks. While other organisations just started making social responsibility as their top priority, Bank Muamalat has already demonstrated the practice, in line with what has been stated in the Holy Qur'an.

"It is not righteousness that you turn your faces towards the East and the West, but righteous is the one who believes in Allah, and the Last Day, and the angels, and the Book and the prophets and gives away wealth out of love for Him (God) to the near of kin and the orphans and the needy and the wayfarer and to those who ask and sets slaves free... (Surah Al Baqarah:177)

Profitability is not the only thing we care about in doing business. It is also about how much of those profits we can contribute back to the community. Bank Muamalat together with its philanthropic arm Tabung Mawaddah, works closely with other organisations within the community and national level agencies to lend a helping hand for those in need nationwide.

Every year, each of our 6 regional offices will identify the recipients, be it individual or an organisation, who deserve to receive an aid of up to RM50,000 under a programme we call "Masih Ada Yang Sayang" (MAYS). Below are some of the initiatives that were implemented under the MAYS programme:

NORTHERN REGION

"Masih Ada Yang Sayang" programme with the support of Tabung Mawaddah and in collaboration with the northern region branches started the programme with Maahad Tahfiz Ibnu Sinar, Taman Kenari, Kulim. This school is a privately managed tahfiz school with 48 students. Through the programme, the basic amenities including the bathroom and canteen were upgraded. We also managed to build the quarters for the teachers. A part from that, through the programme, we also contributed 50 copies of Al Quran, book cabinets and donations to 48 students.

CENTRAL REGION

Central Region organised the programme through an event managed mainly by staff from central region branches for Pusat Jagaan Nuri Setapak, an orphanage and home for underprivileged children. Also present at the event was one of our Board of Directors, Dato' Kamil Khalid and our Chief Executive Officer, Dato' Hj. Mohd Redza Shah who presented the donations in terms of basic essential household items such as rice, sugar and cooking oil to the needy within the community. In addition to this, the staff from central region also organised a programme to improve certain basic home facilities i.e. upgrading of the washroom and toilet.

EAST MALAYSIA

A programme supported by Tabung Mawaddah was organised at Sekolah Kebangsaan Semerah Padi in Kuching, Sarawak to help the underprivileged students there. Present during the event was the Board and Senior Management members of Bank Muamalat, indicating their high commitment towards the programme. Apart from the contribution from Tabung Mawaddah, Bank Muamalat also provided another RM10,000 for the school to buy schooling essentials for the less fortunate children.

Profitability is not the only end goal for business nowadays as more interest is also apparent in socially responsible practices and organisations lately are keen to participate in enterprises that benefit the society. Companies that understand this link between business and community and their impact on the environment are most likely to prosper.

At Bank Muamalat, we know that consumers' decision grows in line with their awareness on social issues. We understand that Bank Muamalat has got to serve beyond the fundamental responsibilities to the stakeholder especially towards the people of community in which we operate. Consumers will want to engage with an organisation that reflects their values. At Bank Muamalat, we are inspired to be ethical, fair and transparent in our business dealings. Bank Muamalat will continue to only finance Shariah compliant activities, offer transparency

Corporate Responsibility

At Bank Muamalat, we know that consumers' decision grows in line with their awareness on social issues. We understand that Bank Muamalat has got to serve beyond the fundamental responsibilities to the stakeholder especially towards the people of community in which Bank Muamalat operates. Consumers will want to engage with an organisation that reflects their values. At Bank Muamalat, we are inspired to be ethical, fair and transparent in our business dealings.

in its transactions and dealings and provide services that benefits society as a whole.

“In the future the question will not be, are people credit-worthy, but rather, are banks people-worthy?”

CR @ THE WORKPLACE

In performing our CR programmes, we have not forgotten to look within the organisation. Providing a healthy and happy workforce has always been high on Bank Muamalat's agenda. Our goal is not just to benefit Bank Muamalat but essentially for the long term benefit of the staff themselves and their respective families. With that in mind, Bank Muamalat launched its “Healthy Living” campaign which included activities within the workplace. A health awareness week was organised consisting of the following activities:-

Anlene Bone Health Check

In conjunction with the Health Week, Bank Muamalat and Anlene collaborated to organise an Anlene Bone Health Check. Approximately 280 participants were involved in this event.

Health Screening (Diabetes and Blood Pressure Check)

Bank Muamalat collaborated with Assunta Hospital, Petaling Jaya, to organise a free health screening for the staff.

Rice Distribution to the staff of Bank Muamalat

During the month of Ramadan Al Mubarak, Bank Muamalat presented each of its staff with 3 types of rice and ketupat. The distribution was headed by the CEO, Dato' Haji Mohd Redza Shah Abdul Wahid.

Blood Donation Drive Programme

Bank Muamalat and the National Blood Centre of Malaysia again organised a blood donation campaign at Level 6, Menara Bumiputra. True to the spirit of giving, more than 170 kind hearted donors participated. This year's event again received an overwhelming response from the staff and some even had to be turned down due to time constraints.

CR @ COMMUNITY

Special Children: Bola Kampung The Movie

Bank Muamalat took 50 special children from Pusat Pemulihan Dalam Komuniti 4 (PPDK4) Wardieburn Camp to watch Bola Kampung The Movie at Berjaya Times Square. PPDK4 educates and cares for children with various disabilities such as Down Syndrome, Autism and physical disabilities amongst others.

The day was alive with laughter and excitement as the children anxiously waited for the movie to begin. Seeing the smiles on the children's faces was indeed priceless. Not only the children were happy, the teachers also enjoyed themselves.

Handing Over Medical Equipment by Wakaf Selangor Muamalat to Sg. Buluh Hospital

Wakaf Selangor Muamalat organised a medical equipment handing over ceremony to Sg. Buluh Hospital and the event was attended by over 200 guests. The medical equipment that were donated to the hospital included items such as wheel chairs, oxygen concentrators, portable suction pumps, ripple mattresses worth a total of RM37,030.

CR @ MARKETPLACE

ATV Adventure with the Media

Bank Muamalat organised an ATV Adventure with the media at ATV Kg. Kemensah, Hulu Kelang. This event was organised as an ongoing CSR programme targeting the media in particular for networking purposes and to strengthen the ukhwah. A total of 50 personnels representing various local media such as Bernama, New Straits Times, Berita Harian, Harian Metro, TV Al-Hijrah, and IKIM Radio were amongst the participants. This adventure

took the participants through the nature trails within Kampung Kemensah.

BEYOND BOUNDARIES AND MOVING FORWARD

During the year, Bank Muamalat made contributions to under privileged students in Xinin, China to assist them in getting a tertiary education. As a token of gratitude, the organisation presented to Bank Muamalat a beautiful Chinese calligraphy with the words "Sher Te" which translates quite simply as "Give, Receive". The calligraphy is an apt description of the philosophy that drives our commitment.

"So fear Allah as much as ye can; listen and obey and spend in charity for the benefit of your own soul and those saved from the covetousness of their own souls – they are the ones that achieve prosperity". (Surah At Taghabun:16)

As we move forward and grow, certain ideals will remain constant within ourselves, namely, fulfilling our responsibilities as corporate citizens. To develop into a sustainable business, we are dependent on the relationship we hold with our customers and consumers' at large; but by holding firm to our faith in Islam and its principles and taking a page from those two words "Sher Te", we shall continue to be a responsible and ethical business impacting positively on the community around us.

Corporate Responsibility

“So fear Allah as much as ye can; listen and obey and spend in charity for the benefit of your own soul and those saved from the covetousness of their own souls-they are the ones that achieve prosperity”.

(Surah At Taghabun:16)



Masih Ada Yang Sayang (MAYS) 2012/2013 – Northern Region



Masih Ada Yang Sayang (MAYS) 2012/2013 – East Malaysia



Rice Distribution to Bank Muamalat Malaysia Berhad Staff



Handing Over Medical Equipment by Wakaf Selangor Muamalat to Sg. B.



Masih Ada Yang Sayang (MAYS) 2012/2013 – Central Region



Friday Walk

Vitagen Healthy Digestion Programme



Special Children : Bola Kampung The Movie

Blood Donation Drive Programme



Buluh Hospital

ATV Adventure With the Media

- 3 April 2013 - Program bersama Anak Istimewa Menonton “Bola Kampung – The Movie”
- 25 April 2013 - Forum Perdana Hal Ehwal Islam (JAWI)
- 17 May 2013 - Branch Launch Kota Tinggi
- 18 – 19 May 2013 - Oh! YEAH Carnival @ Shah Alam
- 21 May 2013 - Waqf @ Sungai Besar
- 14 – 15 June 2013 - Oh! YEAH Carnival @ Kuala Terengganu
- 20 June 2013 - Forum Perdana Sempena Hari Tentera Darat Ke-80
- 21 – 22 June 2013 - Oh! YEAH Carnival @ Kota Bahru
- 23 June 2013 - Golf Muhibah BMMB bersama ATM
- 9 July 2013 - Mock Cheque presentation by MTA Takaful
- 13 July 2013 - Lambaian Kaabah
- 14 July 2013 - Iftar Bersama Staf BMMB
- 25 July 2013 - Bubur Lambuk Distribution
- 30 July 2013 - Iftar with Anak Yatim, Gelandangan & Maahad Tahfiz
- 1 August 2013 - Bubur Lambuk Distribution
- 1 August 2013 - Smart Green Mortgage
- 20 August 2013 - BMMB Corporate Raya
- 28 August 2013 - Raya International
- 20 September 2013 - “Preview Jejak Ulama” to media
- 23 – 26 September 2013 - Kuala Lumpur Islamic Finance Forum
- 7 October 2013 - Majlis Penyerahan Sumbangan Wakaf Selangor Muamalat ke Pusat Dialisis Nur Ain, Rawang
- 12 – 13 October 2013 - Oh! YEAH Carnival @ Melaka
- 7 November 2013 - Doa Selamat @ Taman Melawati
- 12 November 2013 - Bina Waqf Signing Ceremony
- 16 – 17 November 2013 - Oh! YEAH Carnival @ Alor Setar
- 21 November 2013 - Membimbing Ahli DPMML Ke puncak Kejayaan
- 21 November 2013 - Visit Institut Pertanian Bogor
- 28 November 2013 - Visit UITM Terengganu
- 12 December 2013 - Wealth Management Investment Talk
- 12 December 2013 - Forum Perdana di Nilai
- 15 December 2013 - ATV Adventure with Media @ Kemensah, Hulu Kelang
- 31 December 2013 - Kidzania Adventure with Keluarga Besar Norlina
- 23 December 2013 - Seminar Pembangunan Hartanah Wakaf
- 17 January – 23 January 2014 - RoadShow X 2014
- 23 January 2014 - MOU Signing Ceremony with Kuala Lumpur Indian and Malay Chambers
- 30 January 2014 - Doa Selamat @ Petaling Jaya Branch
- 7 February 2014 - CI Annual Ceremony Dinner
- 4 March 2014 - Majlis Penyerahan Sumbangan Wakaf ke Pusat Hemodialisis Islam Makmur, Kuantan, Pahang
- 8 March 2014 - Program Seminar Ibu Berdikari dan Berusaha 1 Malaysia
- 20 March 2014 - Forum Perdana di MRSM, Kuantan
- 27 March 2014 - Forum Perdana di Pulapol, Jalan Semarak

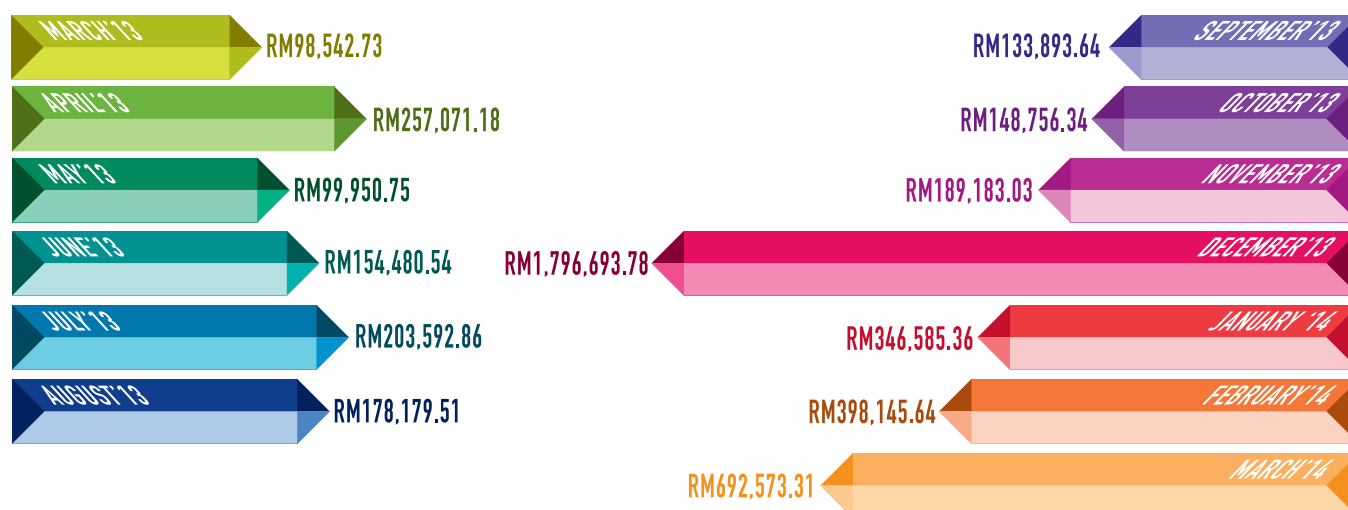


Calendar of Events



Wakaf Selangor Muamalat

Wakaf Selangor Muamalat (WSM) which was launched on 27th September 2012 has received good response from the public. The total waqf fund collected as at 31st March 2014 has reached RM5,687,238.39. Since WSM commencement, the WSM Joint Management Committee (JMC) between Bank Muamalat and Perbadanan Wakaf Selangor (PWS) has approved RM213,010.00 in waqf projects. During the reporting period, the waqf fund approved for disbursement was RM604,133.80



During this period, WSM in collaboration with Corporate Communications Department, selected regional office and branch of Bank Muamalat has organised 9 handover events as per detailed below:

No	Beneficiaries of WSM Aid	Type of Aid	Value in Ringgit (RM)
1	Maahad Tahfiz Al-Quran Wa Ulumuddin, Sg Besar	Hostel Equipments	25,860.00
2	Pusat Jagaan Al-Fikrah, Kajang	Medical Equipments	35,600.00
3	Pusat Dialisis Nur Ain, Rawang	2 Units Of Dialysis Machines	76,000.00
4	Persatuan Orang-orang Cacat Islam Malaysia (PERTIS), Gombak	Embosser Machine (Braille Printer) And Hood	14,633.80
5	Mobile Clinic		254,900.00

No	Beneficiaries of WSM Aid	Type of Aid	Value in Ringgit (RM)
6	Sekolah Rendah Agama Kampung Perepat, Klang	Al-Quran and Iqra' Books	4,500.00
7	Sekolah Rendah Islam Intergrasi As-Syakirin, Bangi	Hostel Equipments	17,240.00
8	Sekolah Rendah Darus Sa'adah, Ijok	Construction of 1 Classroom & Equipments	95,400.00
9	Pusat Dialisis Islam Makmur (PHIM), Kuantan	2 Units Of Dialysis Machines	80,000.00
Total contribution			604,133.80



Picture : WSM Aids Handover Events

1. Pusat Jagaan Al-Fikrah, Kajang
2. Sek. Ren. Agama Darus Sa'adah, Ijok
3. Sek. Ren. Agama Kampung Perepat, Klang
4. Pusat Dialisis Islam Makmur (PHIM), Kuantan
5. Sek. Ren. Islam Integrasi As-Syakirin, Bangi
6. Sek Keb. Manggol Bongor, Kodiang

Relative to the wakaf fund collected, the wakaf fund approved for disbursement was considerably small in view of the following factors:

1. JMC was very careful in approving the applications for wakaf aid, where only the applications which met the criteria set by JMC were approved.
2. A sizeable wakaf fund needs to be saved for bigger wakaf projects which have bigger impact to the communities. The wakaf projects planned for implementation in financial year 2014/15 are school and hospital that require bigger fund allocation.
3. Currently, a sizeable wakaf fund needs to be saved for investment purposes, where the objective is to expand the wakaf value contributed by the pewakaf. As a result, more wakaf projects and activities in education and health sectors could be implemented. The revenue from wakaf investment will be used to implement charitable activities which are not asset based for e.g. providing scholarship or sponsoring medical fee.

Tabung Mawaddah

Tabung Mawaddah (TM) Committee has been in operation since 2002, dedicated to aid and implement charitable activities to 8 Asnaf recipients (Fakir, Miskin, Amil, Muallaf, Riqab, Gharimin, Fisabillah and Musafir) and non-asnaf recipients. TM is funded by zakat and alms (sadaqah) sources contributed by Bank Muamalat and the staff.

The objectives of TM Committee's establishment are:

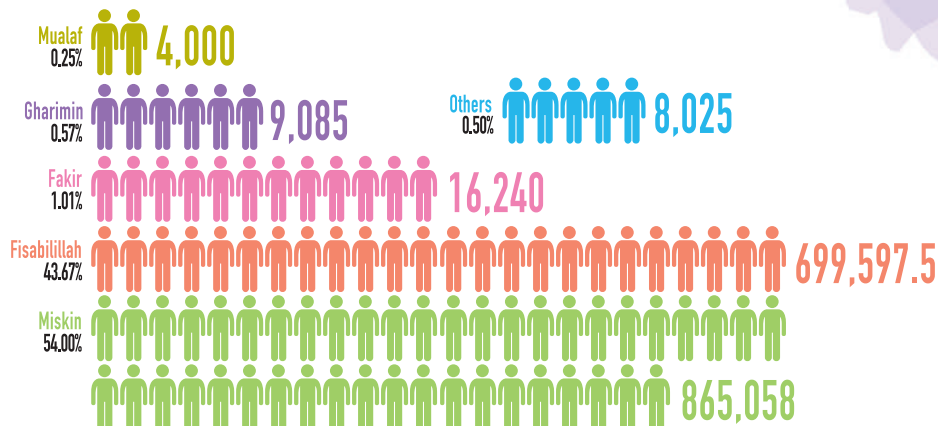
- to provide assistance and financial aid to the needy;
- to ensure that each donation, charity and alms reach the targeted groups;
- to carry out Bank Muamalat's corporate social responsibilities to the society on the basis of Maslahah Ammah;
- to instill the spirit and caring nature of Malaysian society in creation of a harmonious society; and
- to practice the teaching of Islam in helping the needy.

Besides a one off contribution, TM also provides monthly allocation for:

- Food for homeless programme;
- Micro credit scheme to aid small entrepreneur;
- Maahad Tahfiz Mawaddah, Lembah Beringin, Hulu Selangor;
- Masih Ada Yang Sayang (MAYs) community programmes;
- Programme Dakwah Serantau, Yayasan Amal Malaysia; and
- Nurkhadijah Bt Abdullah (School Fees).

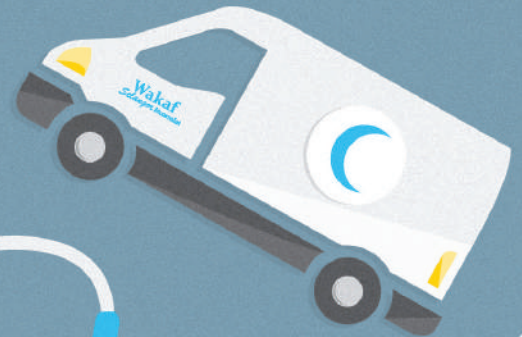
The size of TM fund distributed and the trend of TM aids applications for FY 2014 are described as below.

Contribution by Asnaf and Non Asnaf





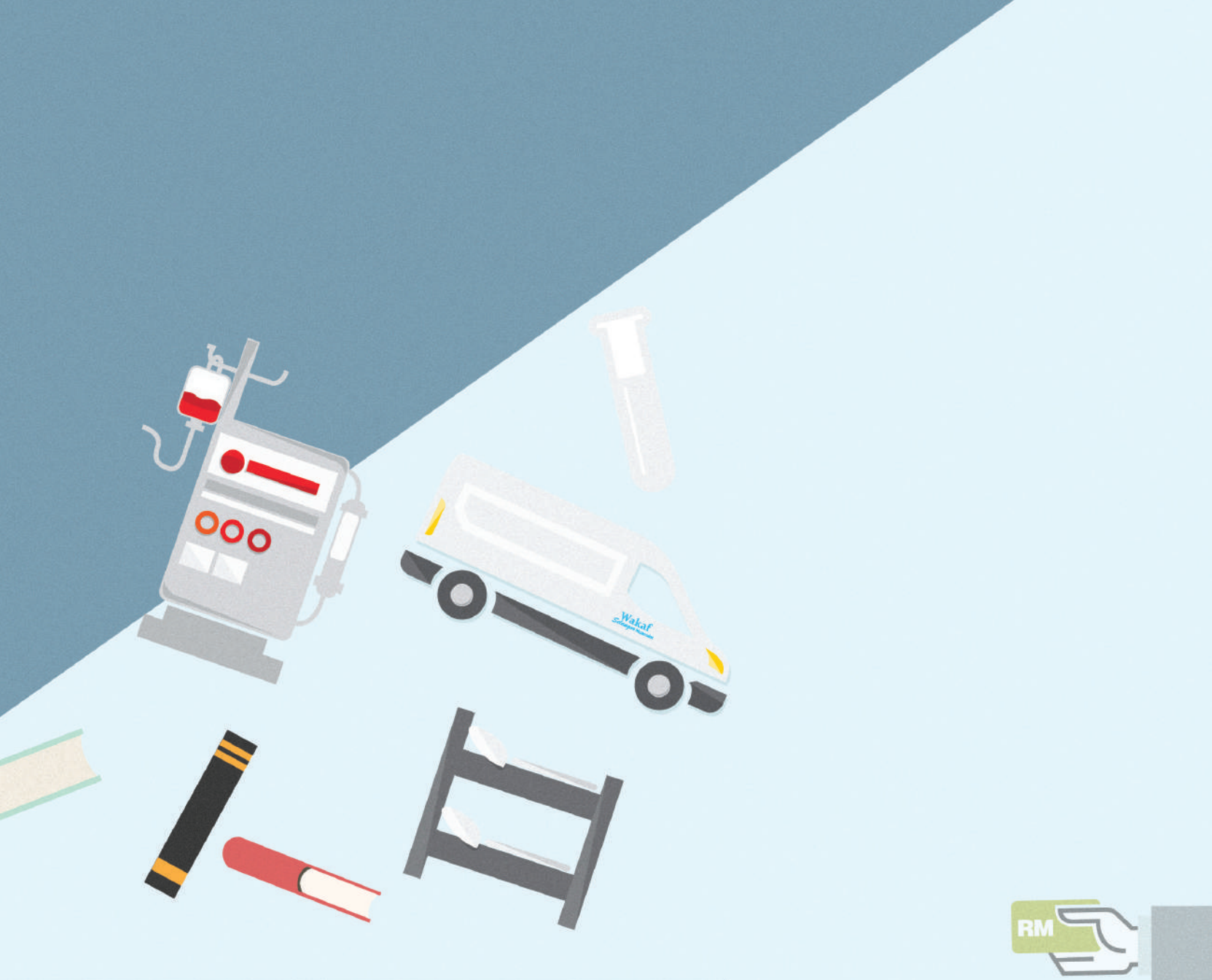
WE INVITE YOU to be part of us in improving our SOCIETY VIA WAQF



STANDING
INSTRUCTION



Wakaf
Selangor Muamalat



**INTERNET BANKING
FUND TRANSFER**



CASH & CHEQUE
Through counter and machine



Statement on Corporate Governance

The Board of Bank Muamalat acknowledges that good corporate governance practices form the cornerstone of an effective and responsible organisation. The Board is fully committed to the recommendations of the Malaysian Code of Corporate Governance (the Revised Code) as well as the Guidelines on Corporate Governance for Licensed Islamic Banks (Revised BNM/GP1-i) issued by BNM.

Therefore the Board continuously strives to ensure that best practices are adopted in establishing accountability and integrity of the Board and Management. Hence the Board will continue to ensure that the right leadership, policy, strategy and internal controls, are well in place in order to continuously deliver and sustain Bank Muamalat's value propositions for the benefit of its stakeholders generally and at the same time, ensure continuing momentum towards reaching its aspirations to become the preferred Islamic financial services provider.

BOARD OF DIRECTORS

Board Structure, Composition and Processes

The present size and composition of the Board is well balanced. As presently constituted, the Board has the stability, continuity and commitment as well as the capacity to discharge its responsibilities effectively.

The Board currently comprises of nine (9) members, one (1) CEO/Executive Director and eight (8) Non-Executive Directors, of which four (4) are Independent Directors. The Non-Independent Non-Executive Directors are the representatives of the shareholders namely DRB-HICOM Berhad and Khazanah Nasional Berhad. The current composition of the Board is in compliance with the Revised BNM/GP1-i as more than one-third of the Board members are Independent Directors.

The Non-Executive Directors do not participate in the day-to-day management of Bank Muamalat and do not engage in any business dealing or other relationship with Bank Muamalat in order that they are capable of exercising independent judgement and act in the best interests of Bank Muamalat and its shareholders.

A brief profile of each member of the Director is presented on pages 16 to 25 of this Annual Report.

Directors' Code of Ethics

The Directors continue to observe the code of ethics based on the code of conduct expected of Directors of financial institutions as set out in the BNM/GP7- Part 1 Code of Ethics: Guidelines on the Code of Conduct for Directors, Officers and Employees in the Banking Industry and the Company Directors' Code of Ethics established by the Companies Commission of Malaysia.

Roles & Responsibilities of the Board

The Board has the responsibility of ensuring the strategic guidance of Bank Muamalat, the effective monitoring of management, and accountability to Bank Muamalat and shareholders. In discharging their duties, the Board act on well-informed basis, in good faith, with due diligence and care, and in the best interest of Bank Muamalat and its stakeholders.

In discharging their duties and responsibilities, the Directors are constantly mindful of the public interests and concerns of the business community, particularly those of customers, shareholders and all other stakeholders.

The key duties of the Board include the following:-

- Review and approve strategies, business plans and significant policies and monitor management's performance in implementing them.
- Set corporate values and clear lines of responsibility and accountability that are communicated throughout the organisation.
- Ensure competent management.
- Ensure that the operation of Bank Muamalat is conducted prudently, and within the framework of relevant laws and policies.
- Ensures that Bank Muamalat establish as comprehensive risk management policies, process and infrastructure, to manage the various types of risks.

- Institute comprehensive policies, process and infrastructure to ensure Shariah compliance in all aspects of Bank Muamalat's operations, products and activities.
- Set up an effective internal audit department, staffed with qualified internal audit personnel to perform internal audit function, covering the financial, management and Shariah Audit.
- Establish procedure to avoid self-serving practices and conflicts of interest including dealings of any form with related entities.
- Ensure protection of the interests of the depositors, particularly investment account holders.
- Establish and ensure the effective functioning of various board committees.
- Ensure the Islamic bank has a beneficial influence on the economic well-being of its community.
- Ensure development, implementation and maintain an effective oversight over the Bank's Data Management and MIS Framework and ensure that the MIS Framework is aligned with business and risk strategies of Bank Muamalat.
- Ensure establishment and adherence to the internal policies governing risk concentrations by reviewing it annually. The independent review is to be conducted regularly to verify compliance to the prudential limit and standards set by the Bank as well as the established internal policies.
- Ensure approval and oversight of the bank's capital management framework and its related policies, processes and strategies.
- Ensure approval of capital allocation on risk-adjusted basis appropriate levels of capital is maintained in line with the approved Risk Appetite and risk profile.
- Ensure approval of proposed issuance, call or redemption of any capital instruments and ordinary shares and for proposed dividend payments and reinvestment.

Directors may also seek independent professional advice, at Bank Muamalat's expense, when deemed necessary for the proper discharge of their duties.

Board Meetings and Access to Information

Bank Muamalat's Board Meetings are scheduled in advance before the end of the financial year, specifically before the end of the calendar year, so as to allow members of the Board to plan ahead and fit the coming years' Board Committees meetings into their respective schedules.

The Board meets every month with additional meetings convened as and when urgent issues and/or important decisions are required to be taken between the scheduled meetings. Scheduled Board meetings are structured with a pre-set agenda.

The Directors are provided with the agenda and the meeting papers containing information relevant to the matters to be deliberated in advance of the meeting dates for their perusal. At each meeting, the Board receives updates from the respective Chairman/representative of the Board Audit Committee and Board Risk Management Committee on matters that have been deliberated at both committees, as well as on matters that require attention.

The Board has direct access to the information of Bank Muamalat through the Senior Management as well as the services of the Company Secretary. The Company Secretary also ensures that a quorum is present at the commencement of each Board and Committees meeting in order to constitute a valid meeting.

Statement on Corporate Governance

The Board convened 14 meetings for the FY 2014 and the attendance of each director in office is set out below:-

Directors	Number of meetings		
	Held	Attended	%
Tan Sri Dato' Dr Mohd Munir Abdul Majid (Chairman/Independent Non-Executive Director)	14	14	100
Dato' Sri Che Khalib Mohamad Noh (Non-Independent Non-Executive Director)	14	7	50
Dato' Mohamed Hazlan Mohamed Hussain (Non-Independent Non-Executive Director)	14	14	100
Dato' Haji Mohd Redza Shah Abdul Wahid (Executive Director/Chief Executive Officer)	14	14	100
Haji Mohd Izani Ghani (Non-Independent Non-Executive Director)	14	12	86
Haji Ismail Ibrahim (Non-Independent Non-Executive Director) *resigned w.e.f. 24 March 2014	14	14	100
Hisham Zainal Mokhtar (Non-Independent Non-Executive Director) *appointed w.e.f. 24 March 2014 *resigned w.e.f. 30 June 2014	-	-	-
Haji Abdul Jabbar Abdul Majid (Non-Independent Non-Executive Director) *re-designated as Non-Independent director w.e.f. 13 October 2013	14	14	100
Tengku Dato' Seri Hasmuiddin Tengku Othman (Independent Non-Executive Director)	14	13	93
Dato' Azmi Abdullah (Independent Non-Executive Director)	14	13	93
Dato' Haji Kamil Khalid Ariff (Independent Non-Executive Director)	14	13	93

Training Programme for Directors

The Board assumes the responsibility to further enhance the skills and knowledge of the members on the relevant new laws and regulations and changing commercial risks, as well as to keep abreast with developments in the financial services industry. Each director attends at least one training programme, which is to be specifically identified by Bank Muamalat for its directors during the financial year.

Board Appointment Process

Bank Muamalat is governed by the Revised BNM/GP1-i in respect of the appointment of new directors and the re-appointment of its existing directors upon the expiry of their respective tenures of office as approved by BNM. All appointment of directors is subject to the approval by BNM.

The primary responsibility of the directors' appointment/re-appointment has been delegated to the Board Nomination Committee. The Board Nomination Committee comprises exclusively of non-executive directors, with the Chairman and the majority of whom are independent. In line with the Revised BNM/GP1-i, the Board Nomination Committee recommends to the Board suitable candidates for directorships and appointment of key senior personnel of the Bank and relevant subsidiaries. The Board Nomination Committee also ensures candidates satisfy the relevant requirements on the skills and core competencies of a director and are deemed fit and proper to be appointed as director in accordance with the Fit and Proper criteria.

The Board Nomination Committee has, during the year under review evaluated and recommended the appointment of Hisham Zainal Mokhtar (nominee of Khazanah Nasional Berhad) to replace Haji Ismail Ibrahim as non-independent non executive director on the Board of the Bank.

Re-election of Directors

In accordance with Bank Muamalat's Articles of Association, all directors are subject to retirement by rotation at due intervals of rotation. Being eligible they may offer themselves for re-election, a process that enables the shareholders to vote them back into office.

Directors who are appointed as additional directors or to fill casual vacancies during the year are subject to re-election by the shareholders at the next Annual General Meeting following their appointment.

Annual Board Assessment

One of the broad responsibilities of the Board Nomination Committee is to provide a formal and transparent procedure for the assessment of effectiveness of individual directors and the Board as a whole. In line with the Revised BNM/GP1-i and for this purpose, the Board Nomination Committee has conducted and established clear selection criteria, processes and procedures to

assess each director's ability to contribute to the effective decision making of the Board. In addition, assessment would also be undertaken to gauge the effectiveness of the relevant Board Committees.

The annual board assessment exercise was primarily based upon the answers to a customised questionnaire which was prepared internally. The Board Nomination Committee upon its recent annual review carried out is satisfied that the size of the Bank Muamalat's Board is optimum and there is an appropriate mix of knowledge, aptitude and core competencies in the composition of the Board. All the Directors comply with the "fit and proper" criteria as established by BNM in the Revised BNM/GP1-i.

BOARD COMMITTEES

The Board has established several Board Committees whose compositions and terms of reference are in accordance with the Revised BNM/GP1-i as well as best practices prescribed by the Revised Code.

The Board Committees in the Bank are as follows:-

1. Board Audit Committee

The Board Audit Committee comprises exclusively of Non-Executive Directors of the Board, responsible to fulfill the oversight function in relation to the adequacy and integrity of system of internal controls and financial reporting, risk management and compliance with internal policies, procedures and external applicable rules and regulations.

The Board Audit Committee is authorised by the Board to investigate any activities within its Terms of Reference and has unrestricted access to both the internal and external auditors and Senior Management team of Bank Muamalat.

Statement on Corporate Governance

The composition of the Board Audit Committee and the attendance of the meetings held in FY 2014 are as follows:-

Directors	Number of meetings		
	Held	Attended	%
Tengku Dato' Seri Hasmuiddin Tengku Othman (Chairman/Independent Non-Executive Director) *appointed as Chairman w.e.f. 13 October 2013	17	14	82
Haji Abdul Jabbar Abdul Majid (Non-Independent Non-Executive Director) *resigned as Chairman w.e.f. 13 October 2013 *re-designated as Non-Independent director w.e.f. 13 October 2013	17	17	100
Haji Ismail Ibrahim (Non-Independent Non-Executive Director) *resigned w.e.f. 24 March 2014	17	16	94
Dato' Azmi Abdullah (Independent Non-Executive Director)	17	17	100
Dato' Haji Kamil Khalid Ariff (Independent Non-Executive Director)	17	17	100

The objectives and activities carried out by the Board Audit Committee during the year under review are summarised in the Statement of Internal Control as stated in pages 106 to 107 of this Annual Report.

2. Board Nomination Committee

The Board Nomination Committee provides a formal and transparent procedure for the appointment of directors, CEO and members of Shariah Committee as well as assessment of effectiveness of board as a whole, Shariah Committee members and performance of CEO and key senior management officers.

The Board Nomination Committee comprises on Non-Executive Directors and the Chairman who is independent. Meetings are held as and when required for the Board Nomination Committee to deliberate on related matters. The members of the Nomination Committee and the attendance for the year under review are as follows:-

Directors	Number of meetings		
	Held	Attended	%
Tengku Dato' Seri Hasmuddin Tengku Othman (Chairman/Independent Non-Executive Director)	7	6	86
Dato' Sri Che Khalib Mohamad Noh (Non-Independent Non-Executive Director)	7	1	14
Haji Mohd Izani Ghani (Non-Independent Non-Executive Director)	7	7	100
Haji Ismail Ibrahim (Non-Independent Non-Executive Director) *resigned w.e.f. 24 March 2014	7	7	100
Haji Abdul Jabbar Abdul Majid (Non-Independent Non-Executive Director) *re-designated as Non-Independent director w.e.f. 13 October 2013)	7	7	100
Dato' Azmi Abdullah (Independent Non-Executive Director)	7	7	100

The primary duties and responsibilities of the Nomination Committee are as follows:-

- Establishes minimum requirements for the Board that is, the required mix of skills, experience, qualification and other core competencies required of a director. The Board Nomination Committee is also responsible for establishing minimum requirements for the CEO.
- Recommends and assesses the nominees for directorship, board committee members, and Shariah Committee members as well as the CEO.
- Oversees the overall composition of the Board, in terms of the appropriate size and skills, and balance between executive directors, non-executive directors and independent directors through annual review.
- Recommends to the Board the removal of a director/CEO/Shariah Committee member from the Board/management/committee if the director/CEO/Shariah Committee member is ineffective, errant and negligent in discharging his responsibilities.
- Establishes a mechanism for the annual formal assessment on the effectiveness of the board as a whole, assessment of the performance individual directors, the performance of the CEO and other key senior management officers (Executive Vice President (EVP) and above).
- Oversees the appointment, management succession planning and performance evaluation of key senior management officers.
- Recommends to the board the removal of key senior management officers if they are ineffective, errant and negligent in discharging their responsibilities.

Statement on Corporate Governance

3. Board Remuneration Committee

The Board Remuneration Committee provides a formal and transparent procedure for developing a remuneration policy for Directors, CEO and key senior management officers and ensuring that Bank Muamalat's compensation package is competitive and consistent with its culture, objectives and strategies.

In addition, the Board Remuneration Committee is also responsible for developing remuneration policy for the Shariah Committee members that commensurate with their roles and responsibilities. The Board Remuneration Committee will then recommend the proposed remuneration package to the Board for its approval.

The composition and the attendance for the year under review of the Board Remuneration Committee are as follows:-

Directors	Number of meetings		
	Held	Attended	%
Dato' Azmi Abdullah (Chairman/Independent Non-Executive Director)	8	7	87.5
Dato' Sri Che Khalib Mohamad Noh (Non-Independent Non-Executive Director)	8	3	37.5
Haji Mohd Izani Ghani (Non-Independent Non-Executive Director)	8	7	87.5
Haji Ismail Ibrahim (Non-Independent Non-Executive Director) *resigned w.e.f. 24 March 2014	8	8	100
Haji Abdul Jabbar Abdul Majid (Non-Independent Non-Executive Director) *re-designated as Non-Independent director w.e.f. 13 October 2013	8	7	100
Tengku Dato' Seri Hasmuddin Tengku Othman (Independent Non-Executive Director)	8	8	100

The specific responsibilities of the Board Remuneration Committee include amongst others, the following:-

- Provide a formal and transparent procedure for developing the remuneration for directors, board committee members, CEO, Shariah committee and key senior management officers and to ensure that their compensation is competitive and consistent with Bank Muamalat's culture, objectives and strategy.
- Recommend to the Board on the policies, strategies and framework for Bank Muamalat in relation to the remuneration, rewards and benefits.
- Recommend the remuneration of the Shariah Committee members for the full board's approval. The remuneration shall commensurate and reflect the roles and responsibilities of the Shariah Committee.

4. Board Risk Management Committee

The Board Risk Management Committee is authorised to oversee Management's activities in managing credit, market,

liquidity, operational, legal and other risk and to ensure that the risk management process is in place and functioning. In addition, the Board Risk Management Committee is also responsible for ensuring that a comprehensive risk management infrastructure is in place for managing the risk associated with Mudharabah and Musharakah financing or investments.

The composition and the attendance for the year under review of the Board Risk Management Committee are as follows:-

Directors	Number of meetings		
	Held	Attended	%
Dato' Azmi Abdullah (Chairman/Independent Non-Executive Director)	11	11	100
Haji Mohd Izani Ghani (Non-Independent Non-Executive Director)	11	10	91
Haji Abdul Jabbar Abdul Majid (Non-Independent Non-Executive Director) *re-designated as Non-Independent director w.e.f. 13 October 2013	11	11	100
Tengku Dato' Seri Hasmuddin Tengku Othman (Independent Non-Executive Director)	11	10	91
Dato' Haji Kamil Khalid Ariff (Independent Non-Executive Director)	11	11	100

The objectives and activities carried out by the Board Risk Management Committee during the year under review are summarised in the Risk Management Statement as stated in pages 108 to 115 of this Annual Report.

5. Shariah Committee

The Shariah Committee was established in accordance with the requirements of the Islamic Financial Services Act 2013 as well as Bank Muamalat's Articles of Association, which prescribe the setting up a Shariah body to ensure that Bank Muamalat's conduct its affairs in accordance with the Shariah principles. Members of the Shariah Committee are scholars renowned for their knowledge and experience in Fiqh Muamalat.

Further details of this Shariah Committee are set out on Pages 28 to 35 of this Annual Report.

Statement on Corporate Governance

6. Board Muamalat Banking Solutions Committee

In addition to the above committees, the Board has also established a Board Muamalat Banking Solutions Committee (Board MBS Committee). The Special Board committee is formed to provide direction, guidance and oversight for IT solutions development, implementation and maintenance for Bank Muamalat and also to provide recommendation to the Board on the proposed solution.

The composition and the attendance for the year under review of the Board MBS Committee are as follows:-

Directors	Number of meetings		
	Held	Attended	%
Dato' Haji Kamil Khalid Ariff (Chairman/Independent Non-Executive Director)	15	15	100
Dato' Mohamed Hazlan Mohamed Hussain (Chairman/Non-Independent Non-Executive Director)	14	15	100
Haji Ismail Ibrahim (Non-Independent Non-Executive Director) *resigned w.e.f. 24 March 2014	15	12	86
Dato' Azmi Abdullah (Independent Non-Executive Director)	13	13	100

The specific responsibilities of the Board MBS Committee include amongst others, the following:-

- To ensure the MBS solution aligns in accordance to the business objectives and needs and to be implemented to the project schedule.
- To ensure proper project management including project organisation, kick-off, tracking and monitoring is carried out.
- To ensure the provision of adequate and competent resources in terms of manpower and financials for the implementation.

7. Internal Audit and Control Activities

The Board has the overall responsibility for maintaining a system of internal controls that provides reasonable assurance of effective and efficient operations and compliance with laws and regulations, as well as internal procedures and guidelines.

The Statement on Internal Control and activities of the Bank are summarised on page 106 of this Annual Report.

8. Related Party Transactions

The details of related party transactions of the Bank are disclosed on pages 215 to 216 under the Audited Financial Statement for FY 2014 of this Annual Report.

9. Management Reports

At every Board meeting, a progress report on on-going projects of Bank Muamalat pertaining to products and services, information technology, recruitment, human resource, policies and procedures, regulatory requirement as well as income and expenses are submitted to the Board for review.

10. Corporate Responsibility

As part of its shared values, Bank Muamalat is continuously developing and strengthening its relationship with the community. Through its Corporate Responsibility initiatives, Bank Muamalat willingly gives back to the community not just in monetary terms but also through the provision of products, services as well as educating the public on the importance of Islamic financial services through a series of 'ceramahs'.

Further details of the Corporate Responsibility Initiatives are set out on Pages 83 to 89 of this Annual Report.



Statement on Internal Control

A robust and dynamic risk management and internal controls are vital in ensuring stability of the business in facing rapid changes of business operations today. In view of that, the Board acknowledges the significance of maintaining a harmonised system of internal controls and risk management practices as well as good Islamic corporate governance. The Board exercises overall responsibility in ensuring that Bank Muamalat's system of internal controls is adequate and effective to manage the risk profiles within Bank Muamalat's risk appetite. However, such a system is designed to manage Bank Muamalat's key areas of risks within an acceptable risk appetite, rather than to guarantee total elimination of risk of failure to achieve Bank Muamalat's objectives and goals. As such, the system of internal controls can only provide a reasonable rather than an absolute assurance against risk of material misstatements on financial information and records or against fraud or losses.

The Board is of the opinion that, for the period under review up to the issuance date of the annual report and financial statements, the system of internal controls in place at Bank Muamalat is appropriate and adequate to safeguard the stakeholders' interest and Bank Muamalat's assets. The system of internal controls was reviewed and enhanced periodically as to match the changes in Bank Muamalat's environment and risk appetite. As at the date of approval of this statement, the improvement of the internal controls system remained in place.

BOARD AUDIT COMMITTEE (BAC)

The Board Audit Committee (BAC) has the authority and is empowered by the Board of Bank Muamalat to review the adequacy and effectiveness of the internal controls system and risk management framework implemented by Bank Muamalat and its subsidiary companies. During the financial year, the BAC consists of four (4) Independent Directors and one (1) Non-Independent Director. The roles of BAC include:-

- Convene meetings or meet with members of the management, internal auditors, external auditors, and officers of Bank Muamalat or outside counsel.

- Conduct or authorise investigations to be carried out into any matter within the scope of the BAC's duties.
- Appoint, employ, and oversee the work of public accounting firm in conducting the annual financial audit, whose partners subsequently would report directly on outcome of the work to the BAC.
- Review connected party transactions and related party transactions, as well as review any write off request from the management.
- Review and discuss with the management and the external auditors on results of the audits, and all matters required to be communicated to the BAC under generally accepted accounting standards.
- Review all significant findings, observations, recommendations, and action plans reported by the internal auditors, management, external auditors, and regulators. In addition, status of actions taken by the management on observations raised by the above-mentioned parties are being tracked by the Audit Resolution Monitoring Committee (ARMC), which minutes of the ARMC meetings are presented for BAC's deliberation.

INTERNAL AUDIT FUNCTION

The BAC is supported by the Internal Audit Department (IAD), which forms an integral part of the governance processes in Bank Muamalat. The Internal Auditors evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach. The IAD assists BAC by providing reasonable assurance and value-added recommendations on the adequacy, and effectiveness of the system of internal controls and financial reporting, and compliance with internal policies, procedures, and external applicable rules and regulations.

The IAD conducts independent risk-based audits based on annual audit plan approved by BAC. In preparation of the audit plan, IAD has taken the business strategy, objectives,

risk, and internal control environment of Bank Muamalat, and activities of its operating and support units into consideration.

The IAD evaluates the associated risks, internal controls, and compliance matters through a structured risk-based audit approach and periodic audit on units, branches, and key business processes of which, the frequency is determined by the level of risk assessed, and the IAD provides independent and objective reports for BAC's review and deliberation in their periodic meetings.

OTHER KEY ELEMENTS OF INTERNAL CONTROLS

The other key elements incorporated by the Board, which contributes to an effective internal controls system include:-

Organisation Structure

Establishment of a formalised organisation structure that provides clear demarcation of reporting and responsibility for ensuring proper assignment of authorities, segregation of duties, and accountability towards Bank Muamalat.

Policies and Procedures

Policies and procedures have been established and formalised to ensure compliance with internal controls and the relevant laws and regulations, which are set out in the respective manuals, guidelines, and directives issued by Bank Muamalat and the regulatory authorities that are updated from time to time.

Defined authority limits have been established for each level within Bank Muamalat to approve acquisition and disposals of assets, approval of credit items, writing off operational and credit items, as well as approving expenses.

In regards to Bank Muamalat's commitment towards its Whistle Blowing Policy, the Board has established the Muamalat Ethics Line to enable employees of Bank Muamalat to raise concerns in a responsible manner regarding any unprofessional or unethical conduct, and to have such concerns properly investigated. All disclosures under this Policy will be managed by a third party appointed by Bank Muamalat and will be treated as strictly confidential.

DISCLOSURE

This Statement on Internal Control is prepared in pursuant to recommendations made by Malaysian Code of Corporate Governance (2012), Bursa Malaysia Securities Berhad Listing Requirements, and Guidelines for Directors of Listed Company, that is, to include state of internal control in the annual report as a matter of establishing good corporate governance.

Statement on Risk Management

As a financial institution, the typical, risks that are inherent in Bank Muamalat's business activities would include credit, market, liquidity, operational and legal risks. Additionally, and perhaps the most primary and unique risk faced by Bank Muamalat as a full-fledged Islamic financial institution (IFI), is the risk of Shariah non-compliance. Failure to manage these risks effectively could lead to financial losses as well as negative publicity, hence giving rise to reputational risk.

Bank Muamalat's risk management strategy is therefore tailored towards managing the above risks in an integrated manner to ensure the interactions between these risks are fully recognised and sufficiently addressed.

BUSINESS CONDITIONS

Bank Muamalat has weathered through many challenges in 2013, both on the business front as well as from the risk management and governance perspective. Bank Muamalat saw the effects of rising costs and weaker consumer sentiment amidst global economic uncertainties and the growing impact of macro-economic and prudential measures undertaken to address the country's fiscal imbalances. All of these have impacted the performance and the industry as a whole.

Adding to the increasingly complex financial landscape is the new regulatory pressures in the form of tighter prudential guidelines and enhanced capital standards for financial institutions. As a result, there is a higher requirement for compliance and this necessitates the building up of substantial infrastructure and related capabilities in the form of system, processes and expertise.

In early 2013, BNM released the new guidelines for retail financing underwriting standards in a bid to curb rising household debts and property prices. The guidelines enforce tighter credit controls, leading to slower financing

asset growth for the financial industry, particularly for retail-based financial institutions.

Bank Muamalat also saw the introduction of a new capital and liquidity standards under the revised BNM's CAFIB¹ guidelines, which came into effect in January 2013. Modeled after the BCBS's revised capital and liquidity reform measures (generally referred to as the Basel III reform package²), implementation of the new standards began on 1 January 2013 under a gradual phase-in approach with transitional arrangements until the year 2019.

The new guidelines made significant changes to the definition of regulatory capital, which are aimed at enhancing the quality and ability of capital held by banks to support their business activities. Further, to maximise absorption of potential losses, banks are now required to hold higher amounts of capital buffers and high quality capital instruments. As these forms of capital generally incur higher cost, Bank Muamalat has accordingly formulated a strategic action plan to ensure regulatory compliance and to optimise capital utilisation while pursuing business targets.

In June 2013, the industry saw the IFSA³ coming into force. Aimed at strengthening and promoting the country as a major Islamic financial hub, the IFSA is a comprehensive legal framework that amalgamates the previous legislative acts and other related BNM guidelines on banking on takaful. It integrates corporate and Shariah governance, in alignment with global best practices, and enforces them as a substantive law.

Under the IFSA, IFIs are required to comply with the Shariah and operational standards issued by BNM and the International Shariah Research Academy, which essentially covers all facets of the IFIs' business objectives, operations

¹The Capital Adequacy Framework for Islamic Banks (CAFIB) issued on 27 June 2013 and its related documents.

²The rules are detailed out in the documents Basel III: A global regulatory framework for more resilient banks and banking systems, Basel III: International framework for liquidity risk measurement, standards and monitoring, and subsequent additional documents issued by the Basel Committee on Banking Supervision (BCBS).

³The Islamic Financial Services Act 2013 repeals the Islamic Banking Act 1983 and the Takaful Act 1984 and incorporates elements from the Payment System Act 2003 and the Exchange Control Act 1953.

and product offerings. One of the key elements of the IFSA is the enforcement of end-to-end Shariah compliance in every aspect of the IFIs' operations. In business dealings, IFIs are required to ensure that all Shariah contracts comply with the Shariah rules and principles and sufficiently reflect the underlying risks and rewards of the financial transactions.

MANAGING RISKS

Bank Muamalat manages risks on an enterprise-wide basis to ensure that they are addressed in a structured and integrated manner. Bank Muamalat's primary target is to ensure that the risk/return decisions are optimised and are derived through strong and independent review and challenge structures.

Bank Muamalat formulates the risk management strategies with the aim of balancing risks with business objectives and ensuring that Bank Muamalat's growth plans are well supported by a defined and effective risk infrastructure. Bank Muamalat has also in recent years strived to instill a strong risk culture through an ongoing process of awareness-building, educating, and open communication with the various stakeholders within the organisation.

Embedded in the risk infrastructure is the risk management approach and processes where Bank Muamalat actively monitors, evaluates and manages risks that Bank Muamalat assumes in its daily business activities. Through these processes, Bank Muamalat identifies and measures significant risks, define the risk appetite in regards to these risks, and finally, formulate appropriate strategies to manage and mitigate them. Constant engagement is maintained between the risk management team and the business units during these processes to facilitate and foster greater understanding and cooperation.

RISK GOVERNANCE

Bank Muamalat's risk management framework is built on formal governance processes and well-defined oversight functions and structures. It is supported by established policies, procedures, and reporting and monitoring mechanism.

The governance structure is based on a distributed function approach, where risk governance and management is taken under three distinct lines of defence. This is to ensure that the risk management function is kept independent from the business lines and operations.

The first line of defence in managing risks lies with the business units as risks are directly undertaken and assumed by them in the day-to-day business activities and operation. As the front-liners, they are responsible for carrying out the established processes for identifying, mitigating and managing risks within their respective environment in alignment with Bank Muamalat's strategic targets.

The second line of defence, which comprises the risk management control functions and committees, ensures the independent oversight and management of all material risks undertaken by Bank Muamalat. The risk management function provide the specialised resources for developing risk frameworks, policies, methodologies and tools for risk identification, measurement and control. It also provides the control function, which monitors the risks by using various key indicators and reports, guided by the established risk appetite and tolerance limits.

Statement on Risk Management

Finally, the third line of defence, which involves internal audit and compliance, provides the independent review and assurance on the adequacy of the risk management processes and effectiveness of the first two lines of defence in fulfilling their mandates.

RISK MANAGEMENT ORGANISATION STRUCTURE

Bank Muamalat's risk governance structure comprises of board and management level committees as well as risk control units, which are guided by a reporting hierarchy to enforce the overall governance and oversight of Bank Muamalat's risks. Each committee and control unit has its own defined responsibilities and delegated authorities.

The Board holds the ultimate responsibility for the overall risk governance and management. This includes determination of risk strategies, defining the risk appetite and ensuring effective of control and monitoring of risks. The Board is also responsible for ensuring the risk management structure is clearly defined and performs effectively.

The Board is supported by two board-level committees, namely the Board Risk Management Committee (BRMC) and the Shariah Committee (SC), each with distinct roles and responsibilities.

The BRMC is a board-level forum that focuses and deliberates on all risk management issues. The committee acts under the delegated authority of the Board to oversee and ensure the effective management of risks and enforcement of the approved risk tolerances and limits. It is also responsible for the review and assessment of the existing risk management framework for its adequacy and for ensuring that a robust infrastructure and systems as well as resources are in place to monitor risk and capital positions.

Shariah compliance management is enforced by the Board through the SC. The SC functions independently from the Board and is tasked with the responsibility of understanding Shariah issues in all activities assumed by Bank Muamalat. The SC also serves as advisory to the Board and the management team on all Shariah matters. Shariah management and compliance has to be closely aligned to ensure Bank Muamalat has a full view of all risks and is able to put in place an integrated and end-to-end Shariah compliance management.

At the management level, several risk committees have been set up to oversee specific risk areas and perform the control functions. These cover the asset-liability management, credit evaluation and management,

RISK GOVERNANCE

RISK MANAGEMENT ORGANISATION STRUCTURE



investment management, and operational risk management. To support the above committees, a dedicated Risk Management Department has been formed to carry out the day-to-day risk management functions, independent from business lines and targets.

RISK APPETITE

Bank Muamalat's risk appetite framework comprises a governance structure and a set of risk appetite statements ('RAS') which was outlined based on the stakeholders' expectation. It serves as a foundation for Bank Muamalat's risk culture and sets out the principles and policies to guide business activities and decision making process towards achieving an optimal balance between risk and return.

The risk appetite is regarded as a key cornerstone of Bank Muamalat's risk management framework. Guided by the Board-approved risk appetite statements, Bank Muamalat is able to formulate the strategic and business plans in alignment with the Board's expectation. The RAS is jointly developed with the business lines and the actual performance is measured and monitored against the risk appetite on a regular basis.

Aside for the business and strategic planning, the RAS is also applied in developing strategies to manage the identified risks. As it provides the basis for Bank Muamalat's risk-taking boundaries, Bank Muamalat formulates the risk tolerance limits and measures based on the approved risk appetite. It serves as a reference point to monitor all risk-taking activities and to trigger actions as and when the boundaries are approached or breached.

The RAS incorporates Bank Muamalat's key performance indicators such as earnings volatility, liquidity and capital ratios. At the strategic level, Bank Muamalat's tolerance for earnings volatility and liquidity are clearly stated to facilitate appropriate governance and oversight. Tolerance on liquidity is set based on thresholds on key liquidity ratios. The risk appetite also defines Bank Muamalat's risk capacity in terms of the capital levels required to support its business activities as well as the capital buffers deemed adequate to meet regulatory and strategic requirements.

CAPITAL MANAGEMENT

Bank Muamalat's capital strategies and approach in managing capital risk is embedded in Bank Muamalat's capital management framework. Developed based on the capital standards outlined in the BNM's CAFIB guidelines, Bank Muamalat's capital management framework adopts forward-looking and risk-based approaches and principles.

Bank Muamalat's main capital management objective is to ensure that Bank Muamalat's capital resources are efficiently used while striving for business and strategic targets. To achieve this, Bank Muamalat has developed an annual capital plan and a capital forecast covering a three-year planning cycle to ensure that sufficient capital is maintained to meet the business needs and to support the risks associated with these activities.

To assess the capital requirement, Bank Muamalat applies the regulatory Standardised Approach for credit and market risks and the Basic Indicator Approach for operational risk to measure and quantify its risk-weighted assets. Bank Muamalat also assess other major risks that are not covered under these measurement approaches to determine further capital requirement, if any, as prescribed under the ICAAP.

Bank Muamalat's capital plans and capital positions are closely monitored against internal capital targets to ensure that they remain appropriate or to trigger preemptive or remedial actions, if deemed necessary. Bank Muamalat also undertakes regular stress tests to evaluate the impact of specific macro-economic and risk factors on capital adequacy levels and to formulate appropriate capital management strategy.

CREDIT RISK MANAGEMENT

Credit risk is the risk of Bank Muamalat suffering financial loss if any of its customers or counterparties fails to meet its obligations to Bank Muamalat as they fall due.

Credit risk is a primary source of risk to Bank Muamalat arising mainly from the retail and wholesale financing exposures. It covers all financing exposures, including guarantees and irrevocable undrawn facilities, and

Statement on Risk Management

financial assets, such as investment securities held in Bank Muamalat's banking book. To a lesser degree, Bank Muamalat is also exposed to other forms of credit risk, such as those arising from settlement balances with market counterparties.

To manage credit risk, Bank Muamalat has in place an established and comprehensive framework comprising policies, processes, measurement methodologies, and an oversight structure. It is governed by a set of credit-related policies, namely the Credit Risk Policy (CRP) and Guidelines to Credit Risk Policy (GCRP), and other related operating procedures. They outline Bank Muamalat's policies on credit risk such as the financing underwriting standards, pricing policy, risk rating, approving authority limits, prudential limits, risk mitigation, review process, rehabilitation and restructuring, and provisioning for impaired financing. The policies are reviewed regularly and updated to ensure its continued relevance and effectiveness.

Bank Muamalat measures, mitigates and manages credit risk exposures at every stage of the credit process. At credit origination, the business units are guided by the underwriting standards, credit rating models and the pricing policy. Credit underwriting proposals are then subjected to independent evaluation and risk assessment prior to approval. At the approval stage, the approving authority levels and limits are clearly defined to ensure that credit decision making are undertaken under a prudent and proper governance structure. These authority limits are approved by the Board and are subject to periodic review to ensure its effectiveness and compliance.

Bank Muamalat monitors and manages credit exposures based on concentration and portfolio segments to ensure that they are kept within the approved risk appetite and risk tolerance levels. Monthly exposure review and analytical reports are produced and tabled to the risk management committees for deliberation. The reports also provide the basis for formulation of risk management strategies and policies.

Exposures to delinquent and problematic financing are managed by an independent department that focuses and specialises on restructuring and recovery activities. A set

of early warning triggers are used to identify potentially distressed financing accounts and to facilitate initiation of remedial actions. The exposure is actively monitored to ensure delinquency is kept within tolerable limits.

MARKET RISK & ASSET-LIABILITY MANAGEMENT

Market risk is the risk of losses resulting from movements in profit rates, foreign exchange rates, and equity and commodity prices, which adversely impact Bank Muamalat's earnings and capital positions. Bank Muamalat's exposure to market risk arises from both trading and non-trading activities. Bank Muamalat's risk management framework manages both market risk and asset-liability management, whereby risks exposures are controlled in order to optimise returns, consistent with Bank Muamalat's strategic plan.

The framework covers key risk management practices such as risk governance and oversight structure and risk identification, measurement, mitigation, control and monitoring processes. An independent risk control function is responsible for monitoring risk exposures according to the established policies and guidelines and the outcome is reported to the ALCO Working Committee on a monthly basis. Strategic balance sheet management and capital management strategies are discussed at the ALCO and later escalated with recommendations to the ERM, BRMC and Board respectively.

The above market risk and ALM management processes are governed by the Market Risk & ALM Policies and Guidelines (MRAPG) and Trading Book Policy Statement (TBPS).

RATE OF RETURN RISK

Rate of return risk refers to the variability of Bank Muamalat assets and liabilities resulting from the volatility of the market benchmark rates, both in the trading and banking books. Such changes can adversely affect both Bank Muamalat's earnings and its economic value of equity.

Various measurement tools are used to assess and analyse the impact of market rate changes on Bank Muamalat's earnings and balance sheet profile. Among these are the economic value of equity (EVE) and re-pricing gap analysis.

Risk tolerance limits are then built along these sensitivity measurements to manage and mitigate the related risk exposures. Bank Muamalat actively manages the following risks:

Risks	Definition
Repricing Risk	Timing differences in the maturity and re-pricing of Bank Muamalat's assets and liabilities
Yield Curve Risk	Unanticipated yield curve shifts that has adverse impact on Bank Muamalat's income and economic values
Basis Risk	Arises from imperfect correlation in the adjustment of rates earned and paid on different instruments with otherwise similar re-pricing characteristics
Optionality/ Embedded Option Risk	The risk arising from options embedded in Bank Muamalat's assets, liabilities and off-balance sheet portfolio

LIQUIDITY RISK

Liquidity risk is the risk of Bank Muamalat's failure to provide adequate financial resources to fund increases in its assets or to meet payment obligations as they fall due. This leads to a failure to support normal business activity, thus as a consequence, a failure to meet regulatory liquidity requirements.

The primary focus of Bank Muamalat's liquidity management is to assess all of its cash inflows against its outflows to identify the potential net shortfall going forward. This includes funding requirements arising from off-balance sheet commitments. It is imperative for Bank Muamalat to ensure that there is sufficient cash and liquid assets to meet these short-term and long-term obligations.

Bank Muamalat pays particular attention to its ability to cover any shortfall in liquidity for up to 1-month time period followed by a medium-term assessment of liquidity of up to one year. The measurement and limits used to monitor and manage the liquidity risk are as prescribed under the BNM's liquidity framework, namely the New Liquidity Framework (NLF), Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

To mitigate the risk, Bank Muamalat employs a funding diversification strategy and establishes a liquidity contingency plan in the event of liquidity crisis. Bank Muamalat has set up a pre-crisis management framework which allows it to quickly identify potential liquidity crisis before it occurs and has a build-in and structured crisis response mechanism. The process involves a continuous monitoring of various indicators which acts as early-warning signals.

OPERATIONAL RISK MANAGEMENT

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems, and/or from various external events. The objective of Operational Risk Management (ORM) is to safeguard Bank Muamalat's bottom line by managing operational risks effectively.

Bank Muamalat has established an Incident Management Data Collection (IMDC) reporting system where all material loss incidents, potential loss or near miss incidents are reported immediately. The IMDC report is designed as a tool to report and capture information on all incidents that may give rise to operational losses, including Shariah and regulatory non-compliances.

Bank Muamalat has also instituted the Risk and Control Self Assessment (RCSA) process, which is a forward looking approach in identifying and assessing operational risks and controls with active involvement of the business and support units. In addition, Key Risk Indicators (KRIs) are built into the business processes to facilitate the monitoring and tracking of operational risk exposures over time.

The management of operational risks is targeted at preventing risk events and damages (by in-process and managerial controls), handling critical situations (via contingency plans and business continuity management (BCM) and mitigating potential losses (collaterals). The applied risk management system and controls are in line with Bank Muamalat's level of operational risks and internal standard operating procedures. By establishing and operating a system of control procedures that commensurate with its risks, Bank Muamalat limits its

Statement on Risk Management

exposure to an acceptable level, in accordance with Bank Muamalat's risk appetite.

In relation to operational risk management, the key risk organs which play a critical role in the overall integrated risk management framework are the Operational Risk Management unit, Operational Risk Management Committee (ORMC), Internal Audit, Compliance and the business lines.

OPERATIONAL RISK MANAGEMENT COMMITTEE (ORMC)

The ORMC comprises heads of department of respective business/support units, who are collectively responsible for the effective implementation of the ORM Framework within Bank Muamalat. The ORMC meets on a monthly basis to deliberate, review and recommend policies pertaining to ORM. Among the responsibilities of the ORMC are to:-

- Evaluate and recommend operational risk appetite.
- Report material operational risk and loss incidents to Board and Management committees for their oversight and decision making.
- Supervise the adequacy of Bank Muamalat's operational risk mitigation strategies.
- Ensure that periodic risk reporting of business/support units are timely done and in accordance with the operational risk management framework.
- Review periodically the adequacy of ORM policies, controls and systems in place within Bank Muamalat.

SHARIAH RISK MANAGEMENT

Shariah risk is defined as the risk that arises from Bank Muamalat's failure to comply with the Shariah rules and principles as determined by the Shariah Committee (SC) of BMMB and relevant Shariah Authorities (SA), such as Shariah Advisory Council (SAC) of BNM and SAC of Securities of Commission Malaysia.

In accordance to BNM's regulatory requirement as outlined under the Shariah Governance Framework (SGF) for Islamic Financial Institutions, Bank Muamalat has in May 2011 established the Shariah Risk Management Section

(SRMS) within its integrated risk management framework. Responsible for the management of Shariah risk, the SRMS has to ensure that the Shariah risk areas, which may interrelate with operational risk, credit risk and market risk, are proactively identified, assessed and controlled, and subsequently reported to the Management and Board of Directors on a timely basis.

The general responsibilities of the SRMS are:-

- Formulate policies and guidelines on Shariah Risk management.
- Identify and assess Shariah risks in business operations and activities as well as in products and services.
- Assess the effectiveness of the existing controls and recommend appropriate controls or mitigation plan.
- Monitor Shariah risk and periodically report the risk to the Board, Shariah Committee and Management.
- Identify any potential profit arising from business operations and activities that could not be recognised as profit to Bank Muamalat due to non-adherence with Shariah principles and requirements.
- Formulate procedures on cleansing of Shariah non-compliant income and monitor the de-recognition process.
- Conduct training and awareness programme on Shariah risk to inculcate a Shariah compliance risk culture.
- Assess new products and new/existing operating procedures from Shariah risk perspective.

Risk mitigation for Shariah risks covers efforts taken to reduce the probability/likelihood or consequences of a threat. Shariah risk may be avoided when Bank Muamalat refuses to accept the risk event by not engaging in the Shariah non-compliance activities that would lead to financial loss due to Shariah non-compliant income.

Broadly, the management and mitigation of Shariah risk is undertaken and governed by the internal Shariah policies, namely the Shariah Governance Policy, General Shariah Decision, Shariah Risk Management Policy, and other related relevant policies, procedures and circular issued by Bank Muamalat.

REPUTATIONAL RISK MANAGEMENT

Reputational risk is defined as the risk of loss arising from negative perception of Bank Muamalat's image by the public and its stakeholders.

Bank Muamalat acknowledges that reputational risk, which could adversely impact its shareholder value, arises from the failure to effectively manage all other types of risks. Bank Muamalat therefore places high importance on its overall risk governance and in particular on ensuring compliance to the Shariah tenets. As a full-fledged Islamic financial institution, negative perception on the part of its customers and other stakeholders could lead to sustained brand damage and other adverse consequences.

Managing reputational risk is therefore the responsibility of all individuals within the organisation, particularly those who are directly involved in making commercial decisions in their respective functions or business lines.



Statement on Compliance

Bank Muamalat, as a licensed Islamic financial institution under the IFSA, recognises legal and regulatory requirements imposed by various regulators such as BNM, Perbadanan Insurans Deposit Malaysia (PIDM), Securities Commission (SC) and etc are to be complied, managed proactively and effectively with compliance culture embedded across all business activities of Bank Muamalat.

Managing the ever evolving regulatory compliance requirements and ensuring Bank Muamalat's compliance to these requirements have been done strategically and systematically, as the impact of non-compliance is not limited to just legal or regulatory sanctions, but also potential financial losses or loss of reputation to the Bank. As the regulators strive to improve governance and build a robust and resilience financial system, they would from time to time, introduce or vary various regulatory requirements and guidelines imposed on financial institutions.

Compliance is defined as adherence to regulatory requirements, internal policies and procedures including the code of conduct of Bank Muamalat, Shariah rulings and standards applicable to the banking operation and activities of Bank Muamalat.

To better manage the risk, Compliance Framework and Compliance Charter (Framework) that deal with Bank Muamalat's strategy, approach and processes to ensure adherence to applicable regulatory, operational and shariah requirements have been developed and adopted by the Board, CEO and Senior Management.

The objectives of the Framework are to:-

- Identify and manage compliance risk and obligations;
- Prevent incidences of non-compliances;
- Detect non-compliance incidences on a timely manner;
- Respond and resolve non-compliances incidences effectively and expeditiously; and
- Embed a compliance culture across Bank Muamalat.

The Framework was built based on the following principles:-

- Commitment to comply with relevant regulatory and Shariah requirements and ensuring that Bank Muamalat's operations, internal policies and procedures, code of conduct and standards, applicable to its banking activities are conducted in line with regulatory and Shariah requirements;
- Shared responsibility for regulatory compliance premised on the following concept of 3 lines of defense:-
 - **1st line of defense** – the management, business units and support units are the primary party responsible for managing compliance risk and obligations, and the delivery of compliant outcomes;
 - **2nd line of defense** – the Compliance Department will provide oversight, coordination, consultation and validation of the Bank's state of compliance against various standards; and
 - **3rd line of defense** – Internal Audit Department will provide an independent assurance to the Board that the overall Compliance Framework operates as intended.
- Dedicated compliance function coordinates the management of Bank Muamalat's compliance risk;
- Implement a compliance programme across Bank Muamalat to ensure effective operationalisation of the Compliance Framework; and
- Embedding the Compliance Framework within the operations of Bank Muamalat, thus making compliance risk management an integral part of Bank Muamalat's business activities.

The Board and management of Bank Muamalat further pledge to ensure the implementation of the following key elements and processes for effective compliance culture:

Key Elements

a) Compliance Leadership principle

- The Board, SC and Senior Management are fully committed to ensure compliance risk and obligations are managed effectively;
- Management at all levels are engaged in building and maintaining a compliance culture; and
- Allocating adequate and appropriate resources for the compliance programme.

b) Compliance Culture principle:-

- A culture of compliance is consciously promoted Bank-wide; and
- Behaviours that create and support compliance are encouraged and behaviours that compromise compliance are not tolerated.

c) Compliance Training and Communication Principle:-

- Compliance competency and training needs (Bank-wide) are identified and addressed; and
- Compliance knowledge and awareness are continuously reinforced and communicated to all.

Key Processes

a) Compliance Risk Identification & Assessment Principle:-

- Compliance risks and obligations are proactively identified; and
- Early warning system is in place to identify new or changing compliance obligations.

b) Compliance Management and Mitigation Principle:-

- Effective policies, processes and internal controls are in place to mitigate non-compliance risk;
- Policies and procedures are communicated to ensure that they are understood; and
- There is management oversight over control operation and overall compliance.

c) Compliance Monitoring Principle:-

- Performance of compliance controls and compliance programme is monitored, measured and reported; and
- The compliance programme is regularly reviewed and continuously improved.

d) Compliance Reporting and Resolution Principle:-

- Appropriate mechanisms are established and maintained to identify, capture, escalate, analyse and respond to issues or breaches associated with compliance obligations.

ANTI-MONEY LAUNDERING AND COUNTER FINANCING OF TERRORISM (AML/CFT) COMPLIANCE

Money Laundering has become an increasing matter of concern in a number of jurisdictions particularly in many emerging financial services sector, where criminals take advantage of the vulnerability of the financial systems in attempt to conceal the true origin and ownership of the proceeds of their criminal activities or unlawful activities. Nonetheless, not all terrorist activities are financed through illegal sources, but the methods used to cipher their funds are of similar nature. Hence, governments and other authorities in various jurisdictions have sought to strengthen existing legislations and regulations to eliminate or reduce money laundering and terrorist financing. Conversely, if this is left unchecked, it will continuously encourage criminal activities and ultimately weaken the social fabric and collective ethical standards of society.

Bank Muamalat also explicitly recognises the importance of maintaining continuous efforts and initiatives in assisting the Government and BNM in combating illicit and money laundering activities as well as the financing of terrorist activities through the use of the banking system.

Statement on Compliance

With infrastructure and processes in place, Bank Muamalat has demonstrated its full commitment and support in ensuring compliance with Anti-Money Laundering and Terrorist Financing Act, 2001 (AMLATFA) as one of the responsible Reporting Institution (RI). The building blocks of the infrastructure are the AML/CFT Policy and the Standard Operating Procedure that sets out the following:-

- Roles, responsibilities and accountabilities of all employees in combating money laundering and terrorist financing activities;
- Regular education and training to instill staff awareness on the importance of AML/CFT so as to assist in preventing and detecting suspicious activities;
- Customer Due Diligence and Transaction Due Diligence process to proactively identify and profile the customers based on selected key criteria;
- Use of subscribed database and systematic management information system for on-going screening of customers transactions to facilitate timely detection and reporting of the suspicious activities to Financial Intelligence and Enforcement Department (FIED) and BNM;
- Assist the enforcement agencies in providing required information and suspicious transaction in a timely manner;
- Maintain record keeping of all identification and transaction details in accordance with statutory requirements;
- Avenue to escalate and deliberate issues surrounding AML/CFT on monthly basis with Senior Management and the Board to reaffirm the commitment and enhance the oversight function;
- Regular independent review by internal and external parties to assess the adequacy, effectiveness of the internal controls and state of compliance with the policy and standard operating procedures; and
- Strict enforcement of appropriate disciplinary action based on established disciplinary procedures on employees who are found to have contravened with such policy and standard operating procedures.

All entities, business units and branches within Bank Muamalat are strongly committed in complying with the AML/CFT Policy and Standard Operating Procedures as well as the applicable regulations and legislation.



Code of Conduct & Ethical Principles

The Code and Ethic/Conduct reflects and reinforces Bank Muamalat's values as an Islamic Bank and it is designed to assist the stakeholders in understanding the ethical principals :

- Uphold good reputation and public confidence by providing 100% Shariah Compliant products and services as a preferred Islamic financier service provider;
- Treat all stakeholders which includes the employees, business partners, customers and communities with full respect and dignity and appreciate the diversity of our workforce;
- Adhere to all rules and regulation including Statutory Regulatory Requirements, Shariah Principles as well as Bank Muamalat's internal policy and guidelines;
- Protects all customers' information from improper disclosure, abuse or loss. However, the customer information may be made available to third parties with the written consent of the respective customer or when disclosure is authorised by Governmental or judicial bodies or agencies or our regulators, but Bank Muamalat will only do so under proper authority;
- Work in a professional manner for the benefit of customers during the relationship, whereby Bank Muamalat is responsible for the protection of the financial interests of the customer; and
- Do the right thing at all times without compromise and as a preferred Islamic financing provider, Bank Muamalat is very clear, truthful and accurate in what we say and do.

As a custodian of public fund, Bank Muamalat is committed to protect and monitor consumer deposits/savings and other similar financial assets through the development of control systems with high level of efficiency and effectiveness to reduce fraud, embezzlement or misuse. In view of that, Bank Muamalat has invested in a more efficient core banking system to replace the existing platform where the bank-wide migration has been launched in the middle of June 2014.

At
MUAMALAT
we want to make a
MEANINGFUL
difference to
YOUR
LIFE..





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Directors' Report

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

The directors have pleasure in submitting their report together with the audited financial statements of the Group and the Bank for the financial year ended 31 March 2014.

Principal activities

The principal activities of the Bank are Islamic banking business and related financial services.

The principal activities of the subsidiaries are as disclosed in Note 11 to the financial statements.

There have been no significant changes in these activities during the financial year.

Results

	Group RM'000	Bank RM'000
Profit before zakat and taxation	208,284	205,483
Zakat	(5,137)	(5,137)
Taxation	<u>(51,583)</u>	<u>(50,892)</u>
Profit for the year	<u>151,564</u>	<u>149,454</u>

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

In the opinion of the directors, the results of the operations of the Group and the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

Dividend

The amounts of dividends paid by the Bank since 31 March 2013 (as disclosed in Note 39 to the financial statements) were as follows:

In respect of the financial year ended 31 March 2013 as reported in the directors' report of that year:

	RM
Final dividend of 26.0 sen per share, less taxation of 25% on 1,000,000,000 ordinary shares, declared on 18 July 2013 and paid on 25 July 2013	195,000,000

The final dividends paid in respect of financial year ended 31 March 2013 was reinvested into the Bank via the subscription of newly issued and paid up ordinary shares of RM195,000,000 at RM1 per share in accordance with respective shareholdings.

The directors do not recommend any dividend to be paid in respect of the current financial year.

Issue of share capital

During the current financial year ended 31 March 2014, the Bank increased its issued and paid-up share capital from RM1,000,000,000 to RM1,195,000,000 via issuance of 195,000,000 new ordinary shares of RM1.00 each arising from the reinvestment of the dividend paid on 25 July 2013 into ordinary shares, as disclosed in Note 39 to the financial statements.

The new ordinary shares issued during the current financial year ended 31 March 2014 rank pari passu in all respects with the existing ordinary shares of the Bank.

Directors

The names of the directors of the Bank in office since the date of the last report and at the date of this report are:

Tan Sri Dato' Dr. Mohd Munir Abdul Majid
Tuan Haji Abdul Jabbar Abdul Majid
Tengku Dato' Seri Hasmuddin Tengku Othman
Dato' Haji Mohd Redza Shah Abdul Wahid
Tuan Haji Mohd Izani Ghani
Dato' Azmi Abdullah
Dato' Haji Kamil Khalid Ariff
Dato' Sri Che Khalib Mohamad Noh
Dato' Mohamed Hazlan Mohamed Hussain
Encik Hisham Zainal Mokhtar

(appointed on 24 March 2014)
(resigned on 30 June 2014)
(resigned on 24 March 2014)

Tuan Haji Ismail Ibrahim

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Directors' interests

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares in the Bank and its related corporations were as follows:

	Number of ordinary shares of RM1.00 each			As at 31.3.2014
	As at 1.4.2013	Acquired	Disposal	
Interest in DRB-HICOM Berhad, holding company:				
Dato' Sri Che Khalib Mohamad Noh	3,500	-	-	3,500

Other than as disclosed above, none of the other directors who held office at the end of the financial year had, according to the register required to be kept under Section 134 of the Companies Act, 1965, any interest in shares of the Bank or its related corporations during the financial year.

Directors' benefits

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Bank was a party, whereby directors might acquire benefits by means of the acquisition of shares in, or debentures of the Bank or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors or the fixed salary of a full-time employee of the Bank as shown in Note 32 to the financial statements) by reason of a contract made by the Bank or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except for certain directors who received remuneration from a subsidiary company of the holding company.

Other statutory information

- (a) Before the income statements, statements of comprehensive income and statements of financial position of the Group and of the Bank were made out, the directors took reasonable steps:
 - (i) to ascertain that proper action has been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts has been written off and that adequate allowance had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) As at the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render:
 - (i) the amount written off for bad debts, or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Bank inadequate to any substantial extent; and
 - (ii) the values attributed to current assets in the financial statements of the Group and of the Bank misleading.
- (c) As at the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate.
- (d) As at the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Bank which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
 - (i) any charge on the assets of the Group or of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Group and of the Bank which has arisen since the end of the financial year other than those arising in the normal course of business of the Group and of the Bank.

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Other statutory information (cont'd.)

(f) In the opinion of the directors:

- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Bank to meet their obligations when they fall due; and
- (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Bank for the financial year in which this report is made.

Compliance with Bank Negara Malaysia's Guidelines on Financial Reporting

The directors have taken reasonable steps to ensure that the preparation of the financial statements of the Group and of the Bank are in compliance with the Bank Negara Malaysia's policy document on Financial Reporting for Islamic Financial Institutions and the Guidelines on Classification and Impairment Provision for Financing.

Significant and subsequent events

Apart from the event as mentioned in Notes 50, there are no other significant events during the year and subsequent events after the reporting date up to the date when the financial statements are authorised for issuance.

Business review 2013/2014

The Group recorded a profit before zakat and taxation of RM208.3 million, a decline of 12%, as compared to the RM236.0 million posted in the previous corresponding year. Its twelve months revenue surpassed RM1.0 billion with the total net income moderately increased by 3% to RM611.0 million.

The increase in total net income is primarily attributable to higher financing income by 2%, as a result of 15% increase in total gross financing assets coupled with substantially higher writeback for impairment on financial assets.

Personnel expenses, other overheads and expenditure registered at RM381.9 million as a result of the Group's continuous initiative to enhance business and to support the implementation of the new core banking system.

The overall financing of customer has expanded to RM11.9 billion from RM10.4 billion, or 15% although the Group's total assets as at March 2014 slightly reduced to RM20.1 billion from RM21.1 billion last year.

Prospects

Global economic conditions remain on the mend amidst continuous concern over China's vulnerable growth and the upcoming sales tax hike in Japan. Growth is expected to be at a moderate pace, supported by improvements in major global indicators to reflect recovery momentum in US and European economy which we believe will provide the main support to the global economic growth.

In the meantime, Malaysian economy is also expected to moderate on the back of slower growth in the private consumption, induced by softer consumer spending in the wake of higher prices as well as tightened credit lending policies to accommodate the responsible financing requirements. We believe that positive contribution from the private investment will be the catalyst to the growth in domestic economy, supported by the ongoing mega projects in Malaysia.

Growth of Islamic banking sector continued to be healthy and further strengthened anchored by the introduction of the new Islamic Financial Services Act that serve to enhance the regulations of Islamic financial institutions. The Islamic banking industry is expected to facilitate the Malaysian banking growth as the Group believes the demand for these financial services will continue to be robust.

Looking ahead, the Group will further strengthen its efforts to increase its deposits base with current and savings account remain the priority. Focus to enhance non-financing income contribution will also continue to be in the areas of trade finance, treasury activities, investment banking and Ar-rahnu.

In line with the government's aspiration to develop Small and Medium Enterprises' sector, the Group has placed a few initiatives to tap opportunities from this market segment as we believe this sector will be one of the major factors in spurring the domestic economic growth. The Group also aims to increase its operational efficiency and improve service delivery via its enhanced and integrated system that will be introduced soon.

Rating by external rating agencies

Details of the Bank's ratings are as follows:

Rating Agency	Date	Classification	Received
Rating Agency Malaysia Berhad	May 2014	Long term	A2
		Short term	P1
		Subordinated Bond	A3
		Outlook	Stable

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Disclosure of Shariah Committee

The Bank's business activities are required to be in full compliance with the Shariah requirements, as governed by the Shariah Committee consisting of a minimum of 6 members appointed by the Board for a 2-year term. The duties and responsibilities of the Shariah Committee are prescribed by the Shariah Governance Framework for the Islamic Financial Institutions issued by the Bank Negara Malaysia (BNM). The main duties and responsibilities of the Shariah Committee are as follows:

- (a) To advise the Board and the management including the Bank's subsidiaries and provide input to the Bank on Shariah matters in order for the Bank to comply with Shariah principles at all times.
- (b) To endorse Shariah policies and procedures prepared by the Bank and to ensure that the contents do not contain any elements which are not in line with Shariah.
- (c) To ensure that the products of the Bank comply with Shariah principles, the Shariah Committee must approve:
 - (i) the terms and conditions contained in the forms, contracts, agreements or other legal documentations used in executing the transactions; and
 - (ii) the product manual, marketing advertisements, sales illustrations and brochures used to describe the product.
- (d) To assess the work carried out by Shariah review and Shariah audit in order to ensure compliance with Shariah matters which forms part of their duties in providing their assessment of Shariah compliance and assurance information in the annual report.
- (e) To provide the necessary assistance to the related parties of the Bank such as its legal counsel, auditor or consultant who may seek advice on Shariah matters from the Shariah Committee.
- (f) To advise the Bank to consult the Shariah Advisory Council of Bank Negara Malaysia (SAC of BNM) on Shariah matters that could not be resolved.
- (g) To provide written Shariah opinions in circumstances where the Bank makes reference to the SAC of BNM for further deliberation, or where the Bank submits applications to the Shariah Committee for new product approval.
- (h) To provide the Bank with guidelines and advice on Shariah matters to ensure that the Bank's overall activities are in line with Shariah.
- (i) To make decisions on matters arising from existing and future activities of the Bank which have religious repercussions.

Disclosure of Shariah Committee (cont'd.)

- (j) To report to the shareholders and the depositors that all the Bank's activities are in accordance with Shariah.
- (k) To provide Shariah advisory and consultancy services in all matters relating to Bank's products, transactions and activities as well as other businesses involving the Bank.
- (l) To scrutinise and endorse the annual financial report of the Bank.
- (m) To provide training to the staff of the Bank as well as provide note or relevant materials for their reference.
- (n) To represent the Bank or to attend any meetings with the SAC of BNM or other relevant bodies concerning any Shariah issues relating to the Bank.
- (o) To maintain the confidentiality of the Bank's internal information and shall be responsible for the safe guarding of confidential information. He or she should maintain all information in strict confidence, except when disclosure is authorised by the Bank or required by law.
- (p) To ensure the quality and consistency of the Shariah decision.

Zakat obligations

The Bank pays zakat on its business.

For the year ended 31 March 2014, the Bank has allocated an amount of RM5.4 million as provision for zakat.

Auditors

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 28 May 2014.

Tan Sri Dato' Dr. Mohd Munir Abdul Majid
Chairman
Kuala Lumpur, Malaysia

Dato' Haji Mohd Redza Shah Abdul Wahid
Director

Financial Statements

Statement by directors

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

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

We, Tan Sri Dato' Dr. Mohd Munir Abdul Majid and Dato' Haji Mohd Redza Shah Abdul Wahid, being two of the directors of Bank Muamalat Malaysia Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 13 to 190 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 March 2014 and of the results and the cash flows of the Group and of the Bank for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 28 May 2014.

Tan Sri Dato' Dr. Mohd Munir Abdul Majid
Chairman
Kuala Lumpur, Malaysia

Dato' Haji Mohd Redza Shah Abdul Wahid
Director

Statutory declaration

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

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

I, Tuan Haji PeerMohamed Ibramsha, being the officer primarily responsible for the financial management of Bank Muamalat Malaysia Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 13 to 190 are in my opinion correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
above named Tuan Haji PeerMohamed Ibramsha
at Kuala Lumpur in Federal Territory
on 28 May 2014.

Tuan Haji PeerMohamed Ibramsha

Before me,

Commissioner for Oaths

Report of the Shariah committee

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

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

We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Bank during the year ended 31 March 2014. We have also conducted our review to form an opinion as to whether Bank 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 the Bank is primarily responsible to ensure that the financial institution conducts its business in accordance with Shariah principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank's and to report to you.

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

To the best of our knowledge based on the information provided to us and discussions and decisions transpired and made in the meetings of or attended by the Shariah Committee of the Bank as been detailed out in the relevant minutes of meetings and taking into account the advices and opinions given by the relevant experts, bodies and authorities, we are of the opinion that:

1. the contracts, transactions and dealings entered into by the Bank during the year ended 31 March 2014 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 has 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 identified and excluded from the bank's income and set aside for disposal to charitable causes; and
4. the calculation and distribution of zakat is in compliance with Shariah principles.

We, the members of the Shariah Committee of Bank Muamalat Malaysia Berhad, to the best of our knowledge, do hereby confirm that the operations of the Bank for the year ended 31 March 2014 have been conducted in conformity with the Shariah principles.

Signed on behalf of the Shariah Committee of Bank Muamalat Malaysia Berhad,

Azizi Che Seman
Chairman of Shariah Committee

Engku Ahmad Fadzil Engku Ali
Member of Shariah Committee

Kuala Lumpur, Malaysia
28 May 2014

Financial Statements

Independent auditors' report to the members of Bank Muamalat Malaysia Berhad (Incorporated in Malaysia)

Report on the financial statements

We have audited the financial statements of Bank Muamalat Malaysia Berhad, which comprise the statements of financial position as at 31 March 2014 of the Group and of the Bank, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 13 to 190.

Directors' responsibility for the financial statements

The directors of the Bank are also responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

**Independent auditors' report to the members of
Bank Muamalat Malaysia Berhad (cont'd.)
(Incorporated in Malaysia)**

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 March 2014 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on other legal and regulatory requirements

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

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

Ernst & Young
AF: 0039
Chartered Accountants

Wan Daneena Liza binti Wan Abdul Rahman
No. 2978/03/16(J)
Chartered Accountant

Kuala Lumpur, Malaysia
28 May 2014

Financial Statements

Consolidated statement of financial position as at 31 March 2014 (29 Jamadil Awal 1435H)

	Note	Group	
		2014 RM'000	2013 RM'000
Assets			
Cash and short-term funds	4 (a)	966,260	3,236,505
Cash and placements with financial institutions	4 (b)	120,787	105,189
Financial investments designated at fair value through profit or loss	5 (a)	98,710	84,373
Financial investments available-for-sale	5 (b)	6,065,247	6,467,566
Islamic derivative financial assets	6	20,035	4,488
Financing of customers	7	11,899,691	10,352,626
Other assets	9	87,300	90,024
Statutory deposit with Bank Negara Malaysia	10	648,721	612,721
Investment in associate	12	-	580
Intangible assets	13	82,259	34,546
Property, plant and equipment	14	59,651	65,698
Prepaid land lease payment	15	243	247
Deferred tax assets	16	12,786	17,027
Total assets		20,061,690	21,071,590
Liabilities			
Deposits from customers	17	17,629,228	18,744,179
Deposits and placements of banks and other financial institutions	18	101,074	10,774
Bills and acceptances payable	19	105,004	132,750
Islamic derivative financial liabilities	6	4,145	8,905
Other liabilities	20	57,761	94,267
Provision for zakat and taxation	21	12,847	14,505
Recourse obligation on financing sold to Cagamas	22	-	61,679
Subordinated sukuk	23	406,055	406,055
Total liabilities		18,316,114	19,473,114
Shareholders' equity			
Share capital	24	1,195,000	1,000,000
Reserves	25	550,576	598,476
Total shareholders' equity		1,745,576	1,598,476
Total liabilities and shareholders' equity		20,061,690	21,071,590
Commitments and contingencies	42	7,063,350	4,300,031
Capital adequacy *	46		
CET 1 Capital Ratio		14.2%	14.7%
Total capital ratio		17.6%	19.2%

* Capital adequacy ratios are computed after taking into account the credit, market and operational risks.
The accompanying notes form an integral part of the financial statements.

Statement of financial position as at 31 March 2014 (29 Jamadil Awal 1435H)

		Bank	
	Note	2014 RM'000	2013 RM'000
Assets			
Cash and short-term funds	4 (a)	966,260	3,236,505
Cash and placements with financial institutions	4 (b)	120,787	105,189
Financial investments designated at fair value through profit or loss	5 (a)	94,610	79,573
Financial investments available-for-sale	5 (b)	6,065,247	6,467,566
Islamic derivative financial assets	6	20,035	4,488
Financing of customers	7	11,904,074	10,365,020
Other assets	9	86,734	80,493
Statutory deposit with Bank Negara Malaysia	10	648,721	612,721
Investment in subsidiaries	11	6,384	6,384
Investment in associate	12	-	1,000
Intangible assets	13	81,406	34,546
Property, plant and equipment	14	59,514	65,642
Prepaid land lease payment	15	243	247
Deferred tax assets	16	12,786	17,027
Total assets		20,066,801	21,076,401
Liabilities			
Deposits from customers	17	17,638,660	18,750,255
Deposits and placements of banks and other financial institutions	18	101,074	10,774
Bills and acceptances payable	19	105,004	132,750
Islamic derivative financial liabilities	6	4,145	8,905
Other liabilities	20	57,793	95,112
Provision for zakat and taxation	21	12,707	14,498
Recourse obligation on financing sold to Cagamas	22	-	61,679
Subordinated sukuk	23	406,055	406,055
Total liabilities		18,325,438	19,480,028
Shareholders' equity			
Share capital	24	1,195,000	1,000,000
Reserves	25	546,363	596,373
Total shareholders' equity		1,741,363	1,596,373
Total liabilities and shareholders' equity		20,066,801	21,076,401
Commitments and contingencies	42	7,063,350	4,300,031
Capital adequacy *	46		
CET 1 Capital Ratio		14.1%	14.6%
Total capital ratio		17.6%	19.1%

* Capital adequacy ratios are computed after taking into account the credit, market and operational risks.
The accompanying notes form an integral part of the financial statements.

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Income statements

For the year ended 31 March 2014 (29 Jamadil Awal 1435H)

	Note	Group		Bank	
		2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Income derived from investment					
of depositors' funds and others	26	914,086	916,569	914,086	916,569
Income derived from investment of shareholders' funds	27	90,303	82,770	84,409	81,692
Writeback of impairment on financing	28	55,290	12,554	55,290	12,554
Writeback of provision for					
commitments and contingencies	20(a)	6,000	14,845	6,000	14,845
Impairment writeback/(loss) on investments	29	4,843	(7,243)	5,543	(7,243)
Share of loss of an associate	12	(580)	(420)	-	-
Other expenses directly attributable to the investment					
of the depositors and shareholders' funds		(12,245)	(9,369)	(12,245)	(9,369)
Total distributable income		1,057,697	1,009,706	1,053,083	1,009,048
Income attributable to depositors	30	(446,867)	(416,544)	(447,026)	(416,713)
Total net income		610,830	593,162	606,057	592,335
Personnel expenses	31	(207,109)	(197,008)	(205,076)	(195,499)
Other overheads and expenditures	34	(174,837)	(138,892)	(174,898)	(141,281)
Finance cost	35	(20,600)	(21,299)	(20,600)	(20,577)
Profit before zakat and taxation		208,284	235,963	205,483	234,978
Zakat	36	(5,137)	(6,149)	(5,137)	(6,149)
Taxation	37	(51,583)	(61,878)	(50,892)	(61,643)
Profit for the year		151,564	167,936	149,454	167,186
Earnings per share attributable to shareholders					
of the Bank (sen) (basic and diluted):	38	13.4	16.8		

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

Statements of comprehensive income

For the year ended 31 March 2014 (29 Jamadil Awal 1435H)

	Note	Group		Bank	
		2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Profit for the year		151,564	167,936	149,454	167,186
Other comprehensive (loss)/ income:					
Items that may be reclassified subsequently to profit or loss					
Net unrealised (loss)/gain on revaluation of financial investments available-for-sale		(5,103)	39,476	(5,103)	39,476
Income tax relating to net loss/ (gain) on financial investments available-for-sale	16	816	(9,247)	816	(9,247)
Exchange fluctuation reserve		(177)	(693)	(177)	(693)
Other comprehensive (loss)/ income for the year, net of tax		(4,464)	29,536	(4,464)	29,536
Total comprehensive income for the year		147,100	197,472	144,990	196,722

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

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Consolidated statement of changes in equity

For the year ended 31 March 2014 (29 Jamadil Awal 1435H)

Group	Non-distributable			Distributable		Total equity RM'000
	Ordinary shares RM'000	Statutory reserve* RM'000	Exchange fluctuation reserve RM'000	Available- for-sale reserve RM'000	Retained profits RM'000	
At 1 April 2013	1,000,000	398,978	(610)	(25,940)	226,048	1,598,476
Profit for the year	-	-	-	-	151,564	151,564
Other comprehensive (loss)/income for the year	-	-	(177)	(4,287)	-	(4,464)
Total comprehensive income for the year	-	-	(177)	(4,287)	151,564	147,100
Dividend paid during the year (Note 39)	-	-	-	-	(195,000)	(195,000)
Transfer to statutory reserve	-	74,727	-	-	(74,727)	-
Issued during the year	195,000	-	-	-	-	195,000
At 31 March 2014	1,195,000	473,705	(787)	(30,227)	107,885	1,745,576
At 1 April 2012	1,000,000	315,385	83	(56,169)	141,705	1,401,004
Profit for the year	-	-	-	-	167,936	167,936
Other comprehensive (loss)/income for the year	-	-	(693)	30,229	-	29,536
Total comprehensive income for the year	-	-	(693)	30,229	167,936	197,472
Transfer to statutory reserve	-	83,593	-	-	(83,593)	-
At 31 March 2013	1,000,000	398,978	(610)	(25,940)	226,048	1,598,476

* The statutory reserve is maintained in compliance with BNM Guideline of Capital Funds for Islamic Banks and is not distributable as dividends.

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

Statement of changes in equity

For the year ended 31 March 2014 (29 Jamadil Awal 1435H)

	Non-distributable			Distributable		Total equity RM'000
	Ordinary shares RM'000	Statutory reserve* RM'000	Exchange fluctuation reserve RM'000	Available-for-sale reserve RM'000	Retained profits RM'000	
Bank						
At 1 April 2013	1,000,000	397,381	(610)	(25,940)	225,542	1,596,373
Profit for the period	-	-	-	-	149,454	149,454
Other comprehensive (loss)/income for the the year	-	-	(177)	(4,287)	-	(4,464)
Total comprehensive income for the year	-	-	(177)	(4,287)	149,454	144,990
Dividend paid during the year (Note 39)	-	-	-	-	(195,000)	(195,000)
Transfer to statutory reserve	-	74,727	-	-	(74,727)	-
Issued during the year	195,000	-	-	-	-	195,000
At 31 March 2014	1,195,000	472,108	(787)	(30,227)	105,269	1,741,363
At 1 April 2012	1,000,000	313,788	83	(56,169)	141,949	1,399,651
Profit for the period	-	-	-	-	167,186	167,186
Other comprehensive (loss)/income for the the year	-	-	(693)	30,229	-	29,536
Total comprehensive income for the year	-	-	(693)	30,229	167,186	196,722
Transfer to statutory reserve	-	83,593	-	-	(83,593)	-
At 31 March 2013	1,000,000	397,381	(610)	(25,940)	225,542	1,596,373

* The statutory reserve is maintained in compliance with BNM Guideline of Capital Funds for Islamic Banks and is not distributable as dividends.

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

Financial Statements

Statements of cash flows

For the year ended 31 March 2014 (29 Jamadil Awal 1435H)

	Note	Group		Bank	
		2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Cash flows from operating activities					
Profit before zakat and taxation		208,284	235,963	205,483	234,978
Adjustment for :					
Amortisation of prepaid land lease payment	34	4	4	4	4
Amortisation of intangible assets	34	7,490	4,545	7,450	4,545
Depreciation of property, plant and equipment	34	17,032	16,851	17,000	16,847
Gain on disposal of property, plant and equipment	27	(7,912)	(339)	(7,912)	(339)
Gain on sale of foreclosed properties	27	(8,744)	-	(8,744)	-
Property, plant and equipment written off	34	-	72	-	72
Intangible assets written off	34	-	40	-	40
Amortisation/ (accretion of discount) of premium, net	26 & 27	1,326	(2,763)	1,326	(2,763)
Net gain from redemption of financial investments held-to-maturity	26	-	(13,494)	-	(13,494)
Net gain from sale of financial investments available-for-sale	26 & 27	(12,511)	(9,768)	(12,511)	(9,768)
Net gain from sale of financial investments designated at fair value through profit or loss	27	(6,604)	-	(6,604)	-
Net gain from sale of financial investments held-for-trading	26	(1,000)	(632)	(1,000)	(632)
Net gain on revaluation of foreign exchange transaction	27	(23,511)	(21,049)	(23,511)	(21,049)
Net loss/(gain) from foreign exchange derivatives	27	5,043	(899)	5,043	(899)
Unrealised (gain)/loss on revaluation of islamic profit rate swap	27	(25,350)	3,837	(25,350)	3,837
Unrealised loss/(gain) on revaluation of hedged items	27	21,708	(7,363)	21,708	(7,363)
Gain from disposal of associate	27	(1,000)	-	-	-
Impairment (writeback)/loss on investment securities	29	(4,843)	7,243	(5,543)	7,243
Loss from derecognition of investment securities	27	4,522	-	4,522	-
Allowance for/(writeback of) impairment on financing	28	16,630	(6,397)	16,630	(6,397)
Financing written off	28	5,381	12,767	5,381	12,767
Writeback of provision for commitments and contingencies	20(a)	(6,000)	(14,845)	(6,000)	(14,845)
Share of loss of an associate	12	580	420	-	-
Finance cost	35	20,600	21,299	20,600	20,577
Gross dividend income	27	(3,223)	(1,935)	(3,223)	(1,935)
Operating profit before working capital changes		207,902	223,557	204,749	221,426

Statements of cash flows

For the year ended 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

		Group		Bank	
	Note	2014	2013	2014	2013
		RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities (cont'd.)					
(Increase)/decrease in operating assets:					
Islamic derivative financial assets		(20,590)	561	(20,590)	561
Financial investment portfolio		(13,360)	(25,689)	(13,360)	(25,689)
Financing of customers		(1,574,817)	(1,287,362)	(1,566,804)	(1,287,435)
Statutory deposit with Bank Negara Malaysia		(36,000)	(85,000)	(36,000)	(85,000)
Other assets		33,989	(16,047)	25,024	(13,496)
Increase/(decrease) in operating liabilities:					
Deposits from customers		(1,114,951)	593,092	(1,111,595)	591,508
Deposits and placements of banks and other financial institutions		90,300	(1,122)	90,300	(1,122)
Islamic derivative financial liabilities		10,180	(562)	10,180	(562)
Bills and acceptances payable		(27,746)	(177,574)	(27,746)	(177,574)
Other liabilities		(30,737)	(24,501)	(31,488)	(23,372)
Payment made to Cagamas	22	-	(3,231)	-	(3,231)
Recourse obligation on financing sold to Cagamas	22	(61,679)	-	(61,679)	-
Cash used in operations		(2,537,509)	(803,878)	(2,539,009)	(803,986)
Zakat paid		(5,874)	(3,087)	(5,874)	(3,087)
Tax paid		(47,385)	(34,907)	(46,890)	(34,859)
Net cash used in operating activities		(2,590,768)	(841,872)	(2,591,773)	(841,932)
Cash flows from investing activities					
Proceeds from disposal of financial investment in securities		8,158,839	6,667,330	8,158,839	6,667,330
Purchase of financial investment in securities		(7,748,235)	(6,925,426)	(7,748,235)	(6,925,426)
Proceeds from disposal of property, plant and equipment		9,271	833	9,271	833
Purchase of property, plant and equipment	14	(12,343)	(21,176)	(12,231)	(21,116)
Purchase of intangible assets	13	(55,203)	(19,998)	(54,310)	(19,998)
Acquisition of associate		-	(1,000)	-	(1,000)
Disposal of investment in associate		1,000	-	1,000	-
Dividend income		3,223	1,934	3,223	1,934
Net cash generated from/(used in) investing activities		356,552	(297,503)	357,557	(297,443)
Cash flows from financing activities					
Dividend paid on Islamic subordinated sukuk		(20,431)	(20,487)	(20,431)	(20,487)
Dividend paid to shareholders		(195,000)	-	(195,000)	-
Proceed from shares issuance		195,000	-	195,000	-
Net cash used in financing activities		(20,431)	(20,487)	(20,431)	(20,487)
Net decrease in cash and cash equivalents		(2,254,647)	(1,159,862)	(2,254,647)	(1,159,862)
Cash and cash equivalents at beginning of year		3,341,694	4,501,556	3,341,694	4,501,556
Cash and cash equivalents at end of year		1,087,047	3,341,694	1,087,047	3,341,694
Cash and cash equivalents consist of:					
Cash and short term funds	4 (a)	966,260	3,236,505	966,260	3,236,505
Cash and placements with financial institutions	4 (b)	120,787	105,189	120,787	105,189
		1,087,047	3,341,694	1,087,047	3,341,694

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

Financial Statements

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H)

1. Corporate information

Bank Muamalat Malaysia Berhad (the "Bank") is principally engaged in all aspects of Islamic banking business and related financial services in accordance with Shariah principles.

The principal activities of the subsidiaries are as disclosed in Note 11.

There have been no significant changes in the nature of these activities during the financial year.

The Bank is a licensed Islamic Bank under the Islamic Financial Service Act 2013 ("IFSA"), incorporated and domiciled in Malaysia. The registered office of the Bank is located at 20th Floor, Menara Bumiputra, Jalan Melaka, 50100 Kuala Lumpur.

The holding and ultimate holding companies of the Bank are DRB-HICOM Berhad and Etika Strategi Sdn. Bhd. respectively, both of which are incorporated in Malaysia. DRB-HICOM Berhad, is a public limited liability company listed on the Main Market of Bursa Malaysia Securities Berhad.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 28 May 2014.

2. Significant accounting policies

2.1 Basis of preparation

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

The financial statements are presented in Ringgit Malaysia ("RM") and rounded to the nearest thousand (RM'000) except when otherwise indicated.

The financial statements of the Group and of the Bank are prepared under the historical cost basis, unless otherwise indicated in the respective accounting policies below.

The Group and the Bank present the statements of financial position in order of liquidity.

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries including the equity accounting of interest in associates as at 31 March 2014. Further details on the accounting policies for interest in associates is disclosed in Note 2.3(b).

The financial statements of the Bank's subsidiaries and associates are prepared for the same reporting date as the Bank, using consistent accounting policies for transactions and events in similar circumstances.

Subsidiaries are consolidated from the date of acquisition or date of incorporation, being the date on which the Bank obtains control and continue to be consolidated until the date that such control effectively ceases. Control is achieved when the Group 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. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests ("NCI") represent the portion of profit or loss and net assets in subsidiaries not wholly-owned, directly or indirectly by the Bank. NCI are presented separately in the consolidated income statement, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, but separate from parent shareholders' equity. Total comprehensive income is allocated against the interest of NCI, even if this results in a deficit balance. Acquisition of NCI are accounted for using the parent entity extension method, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognised as equity.

Financial Statements

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.2 Basis of consolidation (cont'd.)

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts;
- Derecognises the carrying amount of any non-controlling interest in the former subsidiary;
- Derecognises the cumulative foreign exchange translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained in the former subsidiary;
- Recognises any surplus or deficit in the profit or loss; and
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, if required in accordance with other MFRSs.

All of the above will be accounted for on the date when control is lost.

2.3 Summary of significant accounting policies

(a) Investment in subsidiaries

Subsidiaries are entities, including structured entities, controlled by the Bank, as defined in Note 2.2.

In the Bank's separate financial statements, investments in subsidiaries are stated at cost less accumulated impairment losses. On disposal of such investments, the difference between the net disposal proceeds and their carrying amounts is recognised as gain or loss on disposal in the income statements.

(b) Investment in associates

Associates are entities in which the Group and the Bank have significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not in control or joint control over those policies.

In the Bank's separate financial statements, investment in associates are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is recognised in profit and loss.

Investment in associates are accounted for in the consolidated financial statements of the Group using the equity method. The associate is equity accounted for from the date the Group gains significant influence until the date the Group ceases to have significant influence over the associate.

In applying the equity method, the investment in associate is carried at cost adjusted for post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(b) Investment in associates (cont'd.)

The consolidated income statement reflects the Group's share of the results of operations of the associates. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes and disclose this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate. The Group's share of profit or loss of an associate is shown on the face of the consolidated income statement and represents profit or loss after taxation and non-controlling interests in the subsidiaries of the associate.

(c) Financial assets

(i) Initial recognition and subsequent measurement

Financial assets are classified as financial assets at fair value through profit or loss ("FVTPL"), financing and receivables, financial investments held-to-maturity ("HTM") and financial investments available-for-sale ("AFS").

The classification of financial assets at initial recognition depends on the purpose and the management's intention for which the financial assets were acquired and their characteristics. All financial assets are recognised initially at fair value plus directly attributable transaction costs, except in the case of financial assets recorded at FVTPL.

The Group and Bank determine the classification of financial assets at initial recognition, in which the details are disclosed below.

1) Financial assets at FVTPL

Financial assets at FVTPL include financial assets held-for-trading ("HFT") and financial investments designated upon initial recognition at FVTPL. Financial assets classified as held-for-trading are derivatives (including separated embedded derivatives) or if they are acquired for the purpose of selling in the near term.

For financial investments designated at FVTPL, upon initial recognition the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different bases, or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy and information about the Group is provided internally on that basis to the entity's key management personnel.

Financial Statements

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(c) Financial assets (cont'd.)

(i) Initial recognition and subsequent measurement (cont'd.)

1) Financial assets at FVTPL (cont'd)

Subsequent to initial recognition, financial assets held-for-trading and financial investments designated at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recognised in profit or loss. Net gain or net losses on financial assets at fair value through profit or loss do not include exchange differences, profit and dividend income. Exchange differences, profit and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other losses or other income.

2) Financing and receivables

Financing and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financing assets classified in this category includes both cash and balances with banks, financing, advances and certain other receivables. These financial assets are initially recognised at fair value, including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective profit method.

3) Financial investments HTM

Financial investments HTM are non-derivatives financial assets with fixed or determinable payments and fixed maturity, which the Bank has the intention and ability to hold to maturity.

Subsequent to initial recognition, financial investments HTM are measured at amortised cost using effective profit method less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective profit rate. The amortisation, losses arising from impairment and gain or loss arising from derecognition of such investments are recognised in profit or loss.

4) Financial investments AFS

Financial investments AFS are financial assets that are designated as available for sale or are not classified in any of the three (3) preceding categories.

Financial investments AFS include equity and debt securities, which are intended to be held for an indefinite period of time and which may be sold in response to liquidity needs or changes in market condition.

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(c) Financial assets (cont'd.)

(i) Initial recognition and subsequent measurement (cont'd.)

4) Financial investments AFS (cont'd.)

After initial recognition, financial investments AFS are subsequently measured at fair value. Any gain or loss arising from a change in fair value after applying amortised cost method are recognised directly in other comprehensive income, except impairment losses, foreign exchange gains and losses on monetary instruments and profit calculated using the effective yield method which are recognised in the profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial investments AFS is derecognised in profit or loss.

Investment in equity instruments where fair value cannot be reliably measured are recorded at cost less impairment loss.

Dividends on an equity AFS instruments are recognised in the income statement when the Group's and Bank's right to receive payment are established.

(ii) Derecognition

A financial asset is derecognised when:

- The rights to receive cash flows from asset have expired
- The Group and the Bank have transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cashflows in full without material delay to a third party under a "pass through" arrangement; and either:
 - The Group and the Bank have transferred substantially all the risks and rewards of the asset, or
 - The Group and the Bank have neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the financial asset

When the Group and the Bank have transferred its rights to receive cash flows from a financial asset or has entered into a pass through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the financial asset, the financial asset is recognised to the extent of the Bank's continuing involvement in the financial asset. In that case, the Group and the Bank also recognise an associated liability. The transferred asset and associated liability are measured on a basis that reflects the rights and obligations that the Group and the Bank have retained.

Financial Statements

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(c) Financial assets (cont'd.)

(iii) Impairment of financial assets

The Group and the Bank assess at each reporting date whether there is any objective evidence that a financial asset is impaired. 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 financial asset (an incurred loss event) and that loss event(s) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the customer or a group of customers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in profit or principal payments and where observable data indicates that there is a measureable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

1) Financing and receivables

Classification of financing and receivable as impaired

Financing and receivable are classified as impaired when:

- principal or profit or both are past due for three (3) months or more;
- where financing in arrears for less than three (3) months exhibit indications of credit weaknesses, whether or not impairment loss has been provided for; or
- where an impaired financing has been rescheduled or restructured, the financing will continue to be classified as impaired until payments based on the revised and/or restructured terms have been observed continuously for a period of six (6) months.

Impairment Process – Individual Assessment

The Group and the Bank assess if objective evidence of impairment exist for financing and receiving which are deemed to be individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financing's carrying amount and the present value of the estimated future cash flows discounted at the financings' 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 profit or loss.

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(c) Financial assets (cont'd.)

(iii) Impairment of financial assets (cont'd.)

1) Financing and receivables (cont'd.)

Impairment Process – Collective Assessment

Financings which are not individually significant and financings that have been individually assessed with no evidence of impairment loss are grouped together for collective impairment assessment. These financings are grouped within similar credit risk characteristics for collective assessment, whereby data from the financing portfolio (such as credit quality, levels of arrears, credit utilisation, financing to collateral ratios etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups) are taken into consideration.

Future cash flows in a group of financing that are collectively evaluated for impairment are estimated based on the historical loss experience of the Group and of 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 financial assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group and the Bank to reduce any differences between loss estimates and actual loss experience.

Impairment Process – Written off accounts

Where a financing is uncollectible, it is written off against the related allowances for financing impairment. Such financing are written off after the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off are recognised in the income statement.

Financial Statements

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(c) Financial assets (cont'd.)

(iii) Impairment of financial assets (cont'd.)

2) Financial investments AFS

For financial investments AFS, the Group and the Bank assess at each reporting date whether there is objective evidence that a financial investment AFS is impaired.

In the case of debt instruments classified as AFS, the Group and the Bank assess individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

In the case of equity investments classified as AFS investment, the objective evidence would also include a "significant" or "prolonged" decline in the fair value of the investment below its cost. The Group and the Bank treat "significant" generally as 25% and "prolonged" generally as 12 months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss is removed from equity and recognised in profit or loss.

Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

For unquoted equity securities carried at cost, impairment loss is measured as the difference between the securities' carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. The amount of impairment loss is recognised in the profit or loss and such impairment losses are not reversed subsequent to its recognition.

3) Financial investments HTM

For investments carried at amortised cost in which there are objective evidence of impairment, impairment loss is measured as the difference between the securities' carrying amount and the present value of the estimated future cash flows discounted at the securities' original effective profit rate. The amount of the impairment loss is recognised in profit or loss.

Subsequent reversals in the impairment loss is recognised when the decrease can be objectively related to an event occurring after the impairment was recognised, to the extent that the financial assets carrying amount does not exceed its amortised cost at the reversal date. The reversal is recognised in the profit or loss.

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(c) Financial assets (cont'd.)

(iv) Determination of fair value

All financial instruments are recognised initially at fair value. At initial recognition, the fair value of a financial instrument is the transaction price, i.e. the fair value of the consideration given or received.

Subsequent to initial recognition, the fair value of financial instruments measured at fair value are measured in accordance with the valuation methodologies as set out in Note 44.

Investments in unquoted equity instruments whose fair value cannot be reliably measured are measured at cost and assessed for impairment at each reporting date.

(d) Financial liabilities

(i) Date of recognition

All financial liabilities are initially recognised on the trade date i.e. the date that the Group and the Bank become a party to the contractual provision of the instruments.

(ii) Initial recognition and subsequent measurement

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, are recognised in the statement of financial position when and only when, the Group and the Bank become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

1) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities held-for-trading include derivatives entered into by the Group and the Bank that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in profit and loss. Net gains or losses on derivatives include exchange differences.

Financial Statements

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(d) Financial liabilities (cont'd.)

(ii) Initial recognition and subsequent measurement (cont'd.)

2) Other financial liabilities

The Group's and the Bank's other financial liabilities include deposits from customers, deposits and placements of banks and financial institutions, debt securities, payables, bills and acceptances payable and other liabilities.

(a) *Deposits from customers, deposits and placements of banks and financial institutions*

Deposits from customers, deposits and placements of banks and financial institutions are stated at placement values.

(b) *Islamic Debt securities*

Islamic Debt securities issued are classified as financial liabilities or equity in accordance with the substance of the contractual terms of the instruments. The Group's Islamic debt securities consist of subordinated sukuk.

These Islamic debt securities are classified as liabilities in the statement of financial position as there is a contractual obligation by the Group and the Bank to make cash payments of either principal or profit or both to holders of the debt securities and that the Group and the Bank are contractually obliged to settle the financial instrument in cash or another financial instrument.

Subsequent to initial recognition, Islamic debt securities issued are recognised at amortised cost, with any difference between proceeds net of transaction costs and the redemption value being recognised in the income statement over the period of the financings on an effective profit method.

(c) *Payables*

Payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective profit method.

(d) *Bills and acceptances payable*

Bills and acceptances are recognised at amortised cost using effective profit method. Payable represent the Group's and the Bank's own bills and acceptances rediscounted and outstanding in the market.

(e) *Other liabilities*

Other liabilities are stated at cost which is the fair value of the consideration expected to be paid in the future for goods and services received.

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(d) Financial liabilities (cont'd.)

(iii) Derecognition

A financial liability is derecognised when the obligation under the liability is redeemed or otherwise extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in the income statement.

(e) Derivative instruments and hedge accounting

(i) Derivative instruments

The Group and the Bank use derivatives such as profit rate swap, cross currency swaps and forward foreign exchange contracts.

Derivative instruments are initially recognised at fair value, which is normally zero or negligible at inception for non-option derivatives and equivalent to the market premium paid or received for purchased or written options. The derivatives are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques that include discounted cash flow models and option pricing models, as appropriate.

All derivative financial instruments are measured at fair value and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gain or loss arising from a change in the fair value of the derivatives is recognised in the profit or loss unless these form part of a hedging relationship.

(ii) Hedge accounting

The Group and the Bank use derivative instruments to manage exposures to profit rate, foreign currency and credit risks. In order to manage particular risks, the Group and the Bank apply hedge accounting for transactions which meet specified criteria.

At the inception of the hedge relationship, the Group and the Bank formally document the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Financial Statements

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(e) Derivative instruments and hedge accounting (cont'd.)

(ii) Hedge accounting (cont'd.)

1) Fair value hedge

Where a derivative financial instrument hedges the changes in fair value of a recognised asset or liability, any gain or loss on the hedging instrument is recognised in the profit and loss. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the profit or loss.

If the hedging instrument expires or is sold, terminated or exercised or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective profit rate. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the profit or loss.

The Group and the Bank did not apply fair value hedge relationship as at the financial year end.

2) Cash flow hedge

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in other comprehensive income into cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in non-profit income. When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument previously recognised in other comprehensive income are reclassified from equity and is recorded in the corresponding income or expense line of the income statement.

When a hedging instrument expires, or is sold, terminated, exercised or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the profit or loss.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the profit or loss.

The Group and the Bank did not apply cash flow hedge relationship as at the financial year end.

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(f) Embedded derivatives

Derivatives embedded in other financial instruments are accounted for separately as derivatives if the economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not carried at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the income statement.

(g) Foreclosed properties

Foreclosed properties are those acquired in full or partial satisfaction of financings and are stated at the lower of cost and net realisable value.

(h) Intangible assets

Intangible assets include computer software and software under development.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group and the Bank. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses, except for software-in-development which are not subject to amortisation.

The useful lives of intangible assets are assessed as either finite or infinite. Intangible assets with finite lives are amortised over the useful economic life. Intangibles with finite lives or not yet available for use are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the intangible asset are accounted for by changing the amortisation period or method, as appropriate and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statements in the expense category consistent with the function of the intangible asset.

Intangible assets are amortised over their estimated finite useful lives as follows:

Computer software	3-10 years
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Financial Statements

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(i) Property, plant and equipment and depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Bank and the cost of the item can be measured reliably. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred.

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land has unlimited useful life and therefore is not depreciated. Renovation work-in-progress are also not depreciated as these assets are not available for use.

Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful lives of the assets as follows:

Buildings on freehold land	33 years
Building on leasehold land and leasehold land	33 years or remaining life of the lease, whichever is shorter
Office furniture and equipment	6-7 years
Buildings improvements and renovations	5 years
Motor vehicles	5 years
Computer equipment	3-5 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss.

(j) Prepaid land lease payment

(i) Classification

A lease is recognised as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the leased item to the Group. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. All leases that do not transfer substantially all the risks and rewards are classified as operating leases, with the following exceptions:

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(j) Prepaid land lease payment (cont'd.)

(i) Classification (cont'd.)

Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of the building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease.

(ii) Finance lease

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the statement of financial position as financings. In calculating the present value of the minimum lease payments, the discount factor used is the profit rate implicit in the lease, when it is practical to determine; otherwise, the Bank's incremental financing rate is used. Any initial direct costs are also added to the carrying amount of such assets.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the income statements over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2.3(i).

(iii) Operating lease

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

In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and building element of the lease at the inception of the lease.

The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

Financial Statements

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(k) Foreign currencies

(i) Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Bank's functional currency.

(ii) Foreign currency transactions and balances

Transactions in foreign currencies are measured in the respective functional currencies of the Bank and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity.

The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

(iii) Foreign operations

The results and financial position of the Group's foreign operations, whose functional currencies are not the presentation currency, are translated into the presentation currency at average exchange rates for the year, which approximates the exchange rates at the date of the transaction, and at the closing exchange rate as at reporting date respectively. All resulting exchange differences are taken directly to other comprehensive income and are subsequently recognised in the income statement upon disposal of the foreign operation.

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(l) Provision for liabilities

Provisions are recognised when the Group and the Bank have a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

(m) Impairment of non-financial assets

The Group and the Bank assess at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group and the Bank makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGU")).

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss. Impairment loss on goodwill is not reversed in a subsequent period.

(n) Cash and cash equivalent

Cash and cash equivalent consist of cash and bank balances with banks and other financial institutions, and short term deposits that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

Financial Statements

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(o) Contingent liabilities and contingent assets

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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 Group and the Bank. The Group and the Bank do not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

(p) Employee benefits

(i) Short term benefits

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

(ii) Defined contribution plan

Defined contribution plans are post-employment benefit plans under which the Group and the Bank pay fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF").

(q) Income recognition

Income is recognised to the extent that it is probable that the economic benefits will flow to the Group and the Bank and the income can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Profit and income from financing

For all financial instruments measured at amortised cost, profit bearing financial assets classified as AFS and financial instruments designated at FVTPL, profit income or expense is recorded using the effective profit rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, payment options) 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.

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(q) Income recognition (cont'd.)

(i) Profit and income from financing (cont'd.)

For impaired financial assets, profit/financing income continues to be recognised using the effective profit rate, to the extent that it is probable that the profit can be recovered.

(ii) Fee and other income recognition

Financing arrangement, management and participation fees, underwriting commissions, guarantee fees and brokerage fees are recognised as income based on accrual on time apportionment method. Fees from advisory and corporate finance activities are recognised net of service taxes and discounts on completion of each stage of the assignment.

Dividend income from securities is recognised when the Bank's right to receive payment is established.

(r) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the reporting date.

Deferred tax is provided for using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the financial position date. Deferred tax is recognised as income or expense and included in the statement of comprehensive income for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

(s) Zakat

This represents business zakat. It is an obligatory amount payable by the Bank to comply with the principles of Shariah. Zakat provision is calculated based on 2.5% of the shareholders' funds growth method.

Financial Statements

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.3 Summary of significant accounting policies (cont'd.)

(t) Fair value measurement

The Group and the Bank measures financial instruments such as financial assets at FVTPL, financial investments AFS and derivatives at fair value at each statement of financial position date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group and the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group and the Bank use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - quoted market prices: quoted prices (unadjusted) in active markets for identical instruments;

Level 2 - valuation techniques based on observable inputs: inputs other than quoted prices included within Level 1 that are observable for the instrument, whether directly (ie. prices) or indirectly (ie. derived from prices), are used; and

Level 3 - valuation techniques using significant unobservable inputs: inputs used are not based on observable market data and the unobservable inputs have a significant impact on the instrument's valuation.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group and the Bank determines whether transfers have occurred between fair value hierarchy levels by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The fair value of financial instruments and further details are disclosed in Note 44.

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.4 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 April 2013, the Group and the Bank adopted the following new and amended MFRS and IC Interpretations mandatory for annual financial periods beginning on or after 1 April 2013.

Description	Effective for annual periods beginning on or after
Amendments to MFRS 101: Presentation of Items of Other Comprehensive Income	1 July 2012
MFRS 3 Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)	1 January 2013
MFRS 127 Consolidated and Separate Financial Statements (IAS 27 revised by IASB in December 2003)	1 January 2013
MFRS 10 Consolidated Financial Statements	1 January 2013
MFRS 11 Joint Arrangements	1 January 2013
MFRS 12 Disclosure of Interests in Other Entities	1 January 2013
MFRS 13 Fair Value Measurement	1 January 2013
MFRS 119 Employee Benefits (IAS 19 as amended by IASB in June 2011)	1 January 2013
MFRS 127 Separate Financial Statements (IAS 27 as amended by IASB in May 2011)	1 January 2013
MFRS 128 Investment in Associate and Joint Ventures (IAS 28 as amended by IASB in May 2011)	1 January 2013
Amendments to MFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Annual Improvements 2009-2011 Cycle	1 January 2013
Amendments to MFRS 10, MFRS 11 and MFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	1 January 2013

Financial Statements

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.4 Changes in accounting policies and disclosures (cont'd.)

Adoption of the above standards and interpretations did not have any effect on the financial performance or position of the Group and the Company except for those discussed below:

MFRS 10 Consolidated Financial Statements

MFRS 10 replaces part of MFRS 127 Consolidated and Separate Financial Statements that deals with consolidated financial statements and IC Interpretation 112 Consolidation – Special Purpose Entities.

Under MFRS 10, an investor controls an investee when (a) the investor has power over an investee, (b) the investor has exposure, or rights, to variable returns from its investment with the investee, and (c) the investor has ability to use its power over the investee to affect the amount of the investor's returns. Under MFRS 127 Consolidated and Separate Financial Statements, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

MFRS 10 includes detailed guidance to explain when an investor that owns less than 50 per cent of the voting shares in an investee has control over the investee. MFRS 10 requires the investor to take into account all relevant facts and circumstances, particularly the size of the investor's holding of voting rights relative to the size and dispersion of holdings of the other vote holders.

This standard affects disclosures only and has no impact on the Group and the Bank financial position or performance.

MFRS 11 Joint Arrangements

MFRS 11 replaces MFRS 131 Interests in Joint Ventures and IC Interpretation 113 Jointly-Controlled Entities – Non-monetary Contributions by Venturers.

The classification of joint arrangements under MFRS 11 is determined based on the rights and obligations of the parties to the joint arrangements by considering the structure, the legal form, the contractual terms agreed by the parties to the arrangement and when relevant, other facts and circumstances. Under MFRS 11, joint arrangements are classified as either joint operations or joint ventures.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

MFRS 11 removes the option to account for jointly controlled entities ("JCE") using proportionate consolidation. Instead, JCE that meet the definition of a joint venture must be accounted for using the equity method.

This standard affects disclosures only and has no impact on the Group and the Bank financial position or performance.

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.4 Changes in accounting policies and disclosures (cont'd.)

MFRS 12 Disclosures of Interests in Other Entities

MFRS 12 includes all disclosure requirements for interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are required. This standard affects disclosures only and has no impact on the Group and the Bank financial position or performance.

MFRS 13 Fair Value Measurement

MFRS 13 establishes a single source of guidance under MFRS for all fair value measurements. MFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under MFRS. MFRS 13 defines fair value as an exit price. As a result of the guidance in MFRS 13, the Group and the Bank re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. MFRS 13 also requires additional disclosures as disclosed in Notes 44.

Application of MFRS 13 has not materially impacted the fair value measurement of the Group and the Bank. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

Amendments to MFRS 101: Presentation of Items of Other Comprehensive Income

The amendments to MFRS 101 introduce a grouping of items presented in other comprehensive income. Items that will be reclassified ("recycled") to profit or loss at a future point in time (eg. net loss or gain on available-for-sale financial assets) have to be presented separately from items that will not be reclassified (eg. revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's and the Bank's financial position or performance.

MFRS 127 Separate Financial Statements

As a consequence of the new MFRS 10 and MFRS 12, MFRS 127 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements.

MFRS 128 Investments in Associates and Joint Ventures

As a consequence of the new MFRS 11 and MFRS 12, MFRS 128 is renamed as MFRS 128 Investments in Associates and Joint Ventures. This new standard describes the application of the equity method to investments in joint ventures in addition to associates.

Financial Statements

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.4 Changes in accounting policies and disclosures (cont'd.)

New policy documents on Financial Reporting issued by Bank Negara Malaysia ("BNM")

The Islamic Financial Service Act 2013 ("IFSA") came into force on 30 June 2013. The IFSA amalgamate several separate laws to govern the financial sector under a single legislative framework for the Islamic financial sectors respectively, namely, the Islamic Banking Act 1983, Insurance Act 1996, Takaful Act 1984, Payment Systems Act 2003 and Exchange Control Act 1953 which are repealed on 30 June 2013.

Key objectives of the new legislation include the following:

- Greater clarity and transparency in the implementation and administration of the law;
- A clear focus on Shariah compliance and governance in the Islamic financial sector;
- Provisions for differentiated regulatory requirements that reflect the nature of financial intermediation activities and their risks to the overall financial system;
- Provisions to regulate financial holding companies and non-regulated entities to take account of systemic risks that can emerge from the interaction between regulated and unregulated institutions, activities and markets;
- Strengthened business conduct and consumer protection requirements to promote consumer confidence in the use of financial services and products; and
- Strengthened provisions for effective and early enforcement and supervisory intervention.

Pursuant to the Islamic Financial Services Act 2013, BNM has issued a new policy document on Financial Reporting for Islamic Banking Institutions which set out the financial reporting requirements for Islamic banking institutions. An Islamic banking institution is required to comply with the new policy document effective on 30 June 2013.

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

2. Significant accounting policies (cont'd.)

2.5 Standards and interpretations issued but not yet effective

The Group and the Bank have not applied the following accounting standards that have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective for the Group and the Bank. The Group and the Bank intend to adopt these standards, if applicable, when they become effective.

Description	Effective for annual periods beginning on or after
Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities	1 January 2014
Amendments to MFRS 136: Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IC Interpretation 21 Levies	1 January 2014
Amendments to MFRS 119: Defined Benefit Plans: Employee Contributions	1 July 2014
Annual Improvements to MFRSs 2010–2012 Cycle	1 July 2014
Annual Improvements to MFRSs 2011–2013 Cycle	1 July 2014
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2009)	To be announced
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2010)	To be announced
MFRS 9 Financial Instruments Hedge Accounting and amendments to MFRS 9, MFRS 7 and MFRS 139	To be announced

The Group and the Bank expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application except as discussed below:

MFRS 9 Financial Instruments

MFRS 9 reflects the first phase of work on the replacement of MFRS 139 and applies to classification and measurement of financial assets and financial liabilities as defined in MFRS 139. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to MFRS 9: Mandatory Effective Date of MFRS 9 and Transition Disclosures, issued in March 2012, moved the mandatory effective date to 1 January 2015. Subsequently, on 14 February 2014, it was announced that the new effective date will be decided when the project is closer to completion. The adoption of the first phase of MFRS 9 will have an effect on the classification and measurement of the Group's and the Bank's financial assets, but will not have an impact on classification and measurements of the Group and the Bank financial liabilities. The Group and the Bank will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novation.

Financial Statements

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)

3. Significant accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial statements and areas involving higher degree of judgement and complexity, are as follows:

3.1 Fair value estimation of financial investments available-for-sale (Note 5(b)) and derivative financial instruments (Note 6)

For financial instruments measured at fair value, where the fair values cannot be derived from active markets, these fair values are determined using a variety of valuation techniques, including the use of mathematical models. Whilst the Group and the Bank generally use widely recognised valuation models with market observable inputs, judgement is required where market observable data are not available. Such judgement normally incorporate assumptions that other market participants would use in their valuations, including assumptions about profit rate yield curves, exchange rates, volatilities and prepayment and default rates.

3.2 Impairment of financial investments held-to-maturity and available-for-sale (Note 5(b), 5(c) and 29)

The Group and the Bank review financial investments classified as HTM and AFS at each reporting date to assess whether these are impaired. This requires similar judgement as applied to the individual assessment of financing.

The Group and the Bank also record impairment charges on AFS equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group and the Bank evaluate, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

3.3 Impairment losses on financing of customers (Note 8 and 28)

The Group and the Bank review its individually significant financing at each reporting date to assess whether an impairment loss should be recorded in profit or loss. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group and the Bank make judgements about the customer's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowances.

Financing that have been assessed individually but for which no impairment is required and all individually insignificant financing are then assessed collectively, in groups of assets with similar credit risk characteristics, to determine whether impairment should be made due to incurred loss events for which there is objective evidence but whose effects of which are not yet evident. The collective assessment takes account of data from the financing portfolio (such as credit quality, levels of arrears, credit utilisation, financing to collateral ratios etc.) and judgements on the effect of concentrations of risks (such as the performance of different individual groups).

Notes to the financial statements - 31 March 2014 (29 Jamadil Awal 1435H) (cont'd.)**3. Significant accounting estimates and judgements (cont'd.)****3.4 Taxation (Note 37)**

Significant management judgement is required in estimating the provision for income taxes, as there may be differing interpretations of tax law for which the final outcome will not be established until a later date. Liabilities for taxation are recognised based on estimates of whether additional taxes will be payable. The estimation process may involve seeking the advice of experts, where appropriate. Where the final liability for taxation assessed by the Inland Revenue Board is different from the amounts that were initially recorded, these differences will affect the income tax expense and deferred tax provisions in the period in which the estimate is revised or when the final tax liability is established.

3.5 Deferred tax (Note 16)

Deferred tax assets are recognised for all unutilised tax losses to the extent that it is probable that taxable profit will be available against which the tax losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Financial Statements

4. (a) Cash and short-term funds

	Group and Bank	
	2014	2013
	RM'000	RM'000
Cash and balances with banks and other financial institutions	179,038	240,226
Money at call and interbank placements with remaining maturity not exceeding one month	787,222	2,996,279
	<u>966,260</u>	<u>3,236,505</u>

(b) Cash and placements with financial institutions

	2014	2013
	RM'000	RM'000
Licensed Islamic banks	<u>120,787</u>	<u>105,189</u>

5. Financial investments

(a) Financial investments designated at fair value through profit and loss

	2014	2013
	RM'000	RM'000
Unquoted securities in Malaysia:		
Group		
Private equity funds	<u>98,710</u>	<u>84,373</u>
Bank		
Private equity fund	<u>94,610</u>	<u>79,573</u>

(b) Available-for-sale

At fair value, or at cost less impairment losses for certain financial investments:

	2014	2013
	RM'000	RM'000
<u>At fair value</u>		
Government securities and treasury bills:		
Malaysian government investment certificates	<u>3,227,134</u>	<u>3,383,061</u>
Quoted securities in Malaysia:		
Quoted shares	<u>66,671</u>	<u>44,182</u>
Unquoted securities:		
Islamic private debt securities in Malaysia	2,675,680	2,942,983
Cagamas bonds	148,884	120,938
Foreign Islamic private debt securities and sukuk	<u>27,572</u>	<u>62,460</u>
	<u>2,852,136</u>	<u>3,126,381</u>
Accumulated impairment loss	<u>(85,900)</u>	<u>(91,264)</u>
	<u>6,060,041</u>	<u>6,462,360</u>
<u>At cost</u>		
Unquoted securities:		
Shares in Malaysia	5,206	5,206
Total available-for-sale securities	<u>6,065,247</u>	<u>6,467,566</u>

6. Islamic derivative financial instruments

The table below shows the fair values of Islamic derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amounts, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

Group and Bank	2014			2013		
	Contract/ notional amount RM'000	Fair value		Contract/ notional amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
Trading derivatives:						
Foreign exchange contracts						
- Currency forwards						
Less than one year	209,588	1,948	(162)	54,230	2,862	(24)
- Currency swaps						
Less than one year	461,620	430	(3,876)	213,422	1,500	(1,021)
- Currency spot						
Less than one year	40,313	33	(107)	127,472	126	(134)
- Islamic profit rate swap (IPRS) More than one year	2,800,000	17,624	-	-	-	-
	3,511,521	20,035	(4,145)	395,124	4,488	(1,179)
Hedging derivatives:						
Islamic profit rate swap (IPRS) More than one year	-	-	-	875,000	-	(7,726)
Total	3,511,521	20,035	(4,145)	1,270,124	4,488	(8,905)

Included within hedging derivatives is a derivative where the Group and the Bank apply hedge accounting. The principal amount and fair value of derivative where hedge accounting is applied by the Group and Bank are as follows:

	2014			2013		
	Contract/ notional amount RM'000	Fair value		Contract/ notional amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
Islamic profit rate swap (IPRS)	-	-	-	575,000	-	(3,837)

Fair Value hedges

Fair value hedges are used by the Group and the Bank to protect them against changes in the fair value of financial assets due to movements in profit rates. The financial instruments hedged for profit rate risk include the Group's and the Bank's financing of customers.

For the financial year ended 31 March 2014, the Group and the Bank has recognised a net profit of RM8,100,827 (2013: net loss of RM3,837,303) on the hedging instrument. The accumulated net loss on the hedged item attributable to the hedged risk since the inception of the hedge accounting amounted to RM21,707,927 (2013: net gain of RM7,363,236).

Financial Statements

7. Financing of customers

(i) By type

	Group	
	2014	2013
	RM'000	RM'000
Cash line	245,997	208,538
Term financing		
- Home financing	11,034,279	8,398,544
- Syndicated financing	181,105	141,177
- Hire purchase receivables	1,295,113	1,153,637
- Leasing receivables	128,843	146,559
- Other term financing	8,351,003	7,398,353
Trust receipts	52,714	107,256
Claims on customers under acceptance credits	675,932	742,214
Staff financing	127,402	120,362
Revolving credit	947,921	616,204
Sukuk	141,960	50,488
Ar- Rahnu	40,697	60,656
	23,222,966	19,143,988
Less : Unearned income	(11,052,832)	(8,520,066)
Gross financing	12,170,134	10,623,922
Less : Allowance for impaired financing:		
- Collective assessment	(195,951)	(242,843)
- Individual assessment	(74,492)	(28,453)
Total net financing	11,899,691	10,352,626

	Bank	
	2014	2013
	RM'000	RM'000
Cash line	245,997	208,538
Term financing		
- Home financing	11,034,279	8,398,544
- Syndicated financing	181,105	141,177
- Hire purchase receivables	1,295,113	1,153,637
- Leasing receivables	128,843	146,559
- Other term financing	8,361,386	7,416,747
Trust receipts	52,714	107,256
Claims on customers under acceptance credits	675,932	742,214
Staff financing	127,402	120,362
Revolving credit	947,921	616,204
Sukuk	141,960	50,488
Ar- Rahnu	40,697	60,656
	23,233,349	19,162,382
Less : Unearned income	(11,052,832)	(8,520,066)
Gross financing	12,180,517	10,642,316
Less : Allowance for impaired financing:		
- Collective assessment	(195,951)	(242,843)
- Individual assessment	(80,492)	(34,453)
Total net financing	11,904,074	10,365,020

7. Financing of customers (cont'd.)

(ii) By contract

	Group	
	2014	2013
	RM'000	RM'000
Bai' Bithaman Ajil (deferred payment sale)	3,843,080	3,737,413
Ijarah (lease)	220,758	147,550
Ijarah Thumma Al-Bai (lease ended with purchase)	1,115,632	1,001,324
Inah (sale and buyback)	746,141	738,175
Tawarruq (commodity murabahah)	4,044,360	2,961,096
Bai' Al Dayn (purchase of debt)	678,021	753,857
Murabahah (cost-plus)	1,175,415	922,188
Istisna' (sale order)	248,038	295,890
Qard (loan)	2,059	5,537
Shirkah Mutanaqisah (diminishing partnership)/ Musharakah (profit sharing)	55,933	236
Rahnu (Trustee)	40,697	60,656
	12,170,134	10,623,922

	Bank	
	2014	2013
	RM'000	RM'000
Bai' Bithaman Ajil (deferred payment sale)	3,843,080	3,737,413
Ijarah (lease)	220,758	147,550
Ijarah Thumma Al-Bai (lease ended with purchase)	1,115,632	1,001,324
Inah (sale and buyback)	746,141	738,175
Tawarruq (commodity murabahah)	4,044,360	2,961,096
Bai' Al Dayn (purchase of debt)	678,021	753,857
Murabahah (cost-plus)	1,175,415	922,188
Istisna' (sale order)	248,038	295,890
Qard (loan)	68,375	5,537
Shirkah Mutanaqisah (diminishing partnership)/ Musharakah (profit sharing)	-	18,630
Rahnu (Trustee)	40,697	60,656
	12,180,517	10,642,316

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7. Financing of customers (cont'd.)

(iii) By type of customer

	Group	
	2014	2013
	RM'000	RM'000
Domestic non-banking institutions	553,765	438,890
Domestic business enterprises		
- Small business enterprises	332,203	269,238
- Others	2,643,185	2,449,268
Government and statutory bodies	561,020	608,510
Individuals	7,984,731	6,841,465
Other domestic entities	1,324	2,885
Foreign entities	93,906	13,666
	12,170,134	10,623,922

	Bank	
	2014	2013
	RM'000	RM'000
Domestic non-banking institutions	553,765	438,890
Domestic business enterprises		
- Small business enterprises	332,203	269,238
- Others	2,653,568	2,453,832
Government and statutory bodies	561,020	622,340
Individuals	7,984,731	6,841,465
Other domestic entities	1,324	2,885
Foreign entities	93,906	13,666
	12,180,517	10,642,316

7. Financing of customers (cont'd.)

(iv) By profit rate sensitivity

	Group	
	2014	2013
	RM'000	RM'000
Fixed rate:		
Home financing	529,438	999,855
Hire purchase receivables	1,118,844	1,003,454
Others	3,863,022	4,580,985
Variable rate:		
Home financing	2,963,879	1,810,632
Others	3,694,951	2,228,996
	12,170,134	10,623,922

	Bank	
	2014	2013
	RM'000	RM'000
Fixed rate:		
Home financing	529,438	999,855
Hire purchase receivables	1,118,844	1,003,454
Others	3,863,022	4,585,549
Variable rate:		
Home financing	2,963,879	1,810,632
Others	3,705,334	2,242,826
	12,180,517	10,642,316

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7. Financing of customers (cont'd.)

(v) By sector

	Group	
	2014	2013
	RM'000	RM'000
Agriculture	101,793	51,001
Mining and quarrying	2,533	2,381
Manufacturing	787,079	707,878
Electricity, gas and water	123,043	134,743
Construction	487,010	488,928
Purchase of landed property:		
- Residential	3,589,711	2,890,830
- Non-residential	336,572	269,340
Real estate	281,332	129,267
Wholesale, retail and restaurant	524,853	475,284
Transport, storage and communication	233,665	336,166
Finance, takaful and business services	739,290	491,216
Purchase of securities	92	92
Purchase of transport vehicles	1,127,374	1,010,295
Consumption credit	3,167,428	2,909,624
Community, social and personal service	107,339	104,537
Government and statutory bodies	561,020	622,340
	12,170,134	10,623,922

	Bank	
	2014	2013
	RM'000	RM'000
Agriculture	101,793	51,001
Mining and quarrying	2,533	2,381
Manufacturing	787,079	712,442
Electricity, gas and water	123,043	134,743
Construction	487,010	494,928
Purchase of landed property:		
- Residential	3,589,711	2,890,830
- Non-residential	336,572	269,340
Real estate	281,332	129,267
Wholesale, retail and restaurant	535,653	475,284
Transport, storage and communication	233,665	336,166
Finance, takaful and business services	698,357	491,216
Purchase of securities	92	92
Purchase of transport vehicles	1,127,374	1,010,295
Consumption credit	3,167,428	2,909,624
Community, social and personal service	147,855	112,367
Government and statutory bodies	561,020	622,340
	12,180,517	10,642,316

7. Financing of customers (cont'd.)

(vi) By residual contractual maturity

	Group	
	2014	2013
	RM'000	RM'000
Maturity		
within one year	3,559,880	2,360,594
more than one to five years	4,124,544	3,852,107
more than five years	4,485,710	4,411,221
	<u>12,170,134</u>	<u>10,623,922</u>

	Bank	
	2014	2013
	RM'000	RM'000
Maturity		
within one year	3,559,880	2,360,594
more than one to five years	4,135,344	3,852,107
more than five years	4,485,293	4,429,615
	<u>12,180,517</u>	<u>10,642,316</u>

(vii) By geographical area

	Group	
	2014	2013
	RM'000	RM'000
Domestic	12,087,732	10,602,355
Labuan Offshore	82,402	21,567
	<u>12,170,134</u>	<u>10,623,922</u>

	Bank	
	2014	2013
	RM'000	RM'000
Domestic	12,098,115	10,620,749
Labuan Offshore	82,402	21,567
	<u>12,180,517</u>	<u>10,642,316</u>

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7. Financing of customers (cont'd.)

(viii) By economic purpose

	Group	
	2014	2013
	RM'000	RM'000
Purchase of securities	92	92
Purchase of transport vehicles	1,128,710	1,010,295
Purchase of landed properties of which:		
– residential	3,590,688	2,892,026
– non-residential	336,572	269,341
Purchase of fixed assets (excluding landed properties)	1,146,720	1,061,774
Personal use	3,167,428	2,909,624
Construction	516,326	526,512
Working capital	833,031	500,543
Other purposes	1,450,567	1,453,715
	12,170,134	10,623,922

	Bank	
	2014	2013
	RM'000	RM'000
Purchase of securities	92	92
Purchase of transport vehicles	1,128,710	1,010,295
Purchase of landed properties of which:		
– residential	3,590,688	2,892,026
– non-residential	336,572	269,341
Purchase of fixed assets (excluding landed properties)	1,146,720	1,061,774
Personal use	3,167,428	2,909,624
Construction	516,326	526,512
Working capital	833,031	500,543
Other purposes	1,460,950	1,472,109
	12,180,517	10,642,316

8. Impaired financing

(i) Movements in the impaired financing

	Group RM'000	Bank RM'000
As at 31 March 2013		
As at 1 April 2012	446,344	452,344
Classified as impaired during the year	271,605	271,605
Reclassified as performing during the year	(143,533)	(143,533)
Recovered during the year	(155,741)	(155,741)
Written off during the year	(153,307)	(153,307)
As at 31 March 2013	<u>265,368</u>	<u>271,368</u>
Ratio of gross impaired financing to total financing	<u>2.5%</u>	<u>2.5%</u>
As at 31 March 2014		
As at 1 April 2013	265,368	271,368
Classified as impaired during the year	468,131	468,131
Reclassified as performing during the year	(222,303)	(222,303)
Recovered during the year	(169,037)	(169,037)
Written off during the year	(16,453)	(16,453)
As at 31 March 2014	<u>325,706</u>	<u>331,706</u>
Ratio of gross impaired financing to total financing	<u>2.7%</u>	<u>2.7%</u>

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8. Impaired financing (cont'd.)

(ii) Movements in the allowance for impaired financing

Collective assessment allowance

	Group RM'000	Bank RM'000
As at 31 March 2013		
As at 1 April 2012	268,297	268,297
Allowance made during the year (Note 28)	368,321	368,321
Amount written-back (Note 28)	(366,720)	(366,720)
Amount written-off	(27,055)	(27,055)
As at 31 March 2013	<u>242,843</u>	<u>242,843</u>
As % of gross financing, less individual assessment allowance	<u>2.3%</u>	<u>2.3%</u>

As at 31 March 2014

As at 1 April 2013	242,843	242,843
Allowance made during the year (Note 28)	374,131	374,131
Amount written-back (Note 28)	(406,525)	(406,525)
Amount written-off	(14,498)	(14,498)
As at 31 March 2014	<u>195,951</u>	<u>195,951</u>
As % of gross financing, less individual assessment allowance	<u>1.6%</u>	<u>1.6%</u>

Individual assessment allowance

	Group RM'000	Bank RM'000
As at 31 March 2013		
As at 1 April 2012	161,904	167,904
Allowance made during the year (Note 28)	21,876	21,876
Amount written-back (Note 28)	(29,874)	(29,874)
Amount written-off	(125,453)	(125,453)
As at 31 March 2013	<u>28,453</u>	<u>34,453</u>

8. Impaired financing (cont'd.)

(ii) Movements in the allowance for impaired financing (cont'd.)

Individual assessment allowance

	Group RM'000	Bank RM'000
As at 31 March 2014		
As at 1 April 2013	28,453	34,453
Allowance made during the year (Note 28)	81,350	81,350
Amount written-back (Note 28)	(32,326)	(32,326)
Amount written-off	(2,985)	(2,985)
As at 31 March 2014	<u>74,492</u>	<u>80,492</u>

(iii) Impaired financing by geographical area

	Group	
	2014 RM'000	2013 RM'000
Domestic	318,687	243,801
Labuan Offshore	7,019	21,567
	<u>325,706</u>	<u>265,368</u>

	Bank	
	2014 RM'000	2013 RM'000
Domestic	324,687	249,801
Labuan Offshore	7,019	21,567
	<u>331,706</u>	<u>271,368</u>

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8. Impaired financing (cont'd.)

(iv) Impaired financing by sector

	Group	
	2014	2013
	RM'000	RM'000
Agriculture	214	-
Manufacturing	61,381	10,220
Construction	60,672	57,083
Purchase of landed property:		
- Residential	67,693	84,590
- Non-residential	5,456	10,313
Wholesale and retail and restaurant	36,912	15,620
Transport, storage and communication	141	137
Finance, takaful and business services	15,410	31,020
Purchase of securities	14	18
Purchase of transport vehicles	32,151	29,306
Consumption credit	36,059	26,086
Community, social and personal service	9,603	975
	325,706	265,368

	Bank	
	2014	2013
	RM'000	RM'000
Agriculture	214	-
Manufacturing	61,381	10,220
Construction	60,672	63,083
Purchase of landed property:		
- Residential	67,693	84,590
- Non-residential	5,456	10,313
Wholesale and retail and restaurant	42,912	15,620
Transport, storage and communication	141	137
Finance, takaful and business services	15,410	31,020
Purchase of securities	14	18
Purchase of transport vehicles	32,151	29,306
Consumption credit	36,059	26,086
Community, social and personal service	9,603	975
	331,706	271,368

8. Impaired financing (cont'd.)

(v) Impaired financing by economic purpose

	Group	
	2014	2013
	RM'000	RM'000
Purchase of securities	14	18
Purchase of transport vehicles	32,151	29,306
Purchase of landed properties of which:		
– residential	67,693	84,590
– non-residential	5,456	10,313
Purchase of fixed assets (excluding landed properties)	10,663	3,171
Personal use	36,059	26,086
Construction	60,672	57,083
Working capital	32,654	7,000
Other purposes	80,344	47,801
	325,706	265,368

	Bank	
	2014	2013
	RM'000	RM'000
Purchase of securities	14	18
Purchase of transport vehicles	32,151	29,306
Purchase of landed properties of which:		
– residential	67,693	84,590
– non-residential	5,456	10,313
Purchase of fixed assets (excluding landed properties)	10,663	3,171
Personal use	36,059	26,086
Construction	60,672	63,083
Working capital	32,654	7,000
Other purposes	86,344	47,801
	331,706	271,368

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9. Other assets

	Group	
	2014	2013
	RM'000	RM'000
Deposits	18,612	6,193
Prepayments	4,037	2,662
Tax prepayment	-	61
Clearing accounts	26,000	40,992
Foreclosed properties	7,244	14,000
Golf club membership	600	900
Other debtors	30,807	25,216
	87,300	90,024

	Bank	
	2014	2013
	RM'000	RM'000
Deposits	18,610	6,041
Prepayments	3,934	2,660
Amount due from subsidiaries	6	91
Clearing accounts	26,000	40,992
Foreclosed properties	7,244	14,000
Golf club membership	600	900
Other debtors	30,340	15,809
	86,734	80,493

10. Statutory deposit with Bank Negara Malaysia

The Statutory deposit are maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) and Section 26(3) of the Central Bank of Malaysia Act, 2009, the amounts of which are determined at set percentages of total eligible liabilities.

11. Investment in subsidiaries

	Bank	
	2014	2013
	RM'000	RM'000
Unquoted shares at cost		
- in Malaysia	10,823	10,823
Less: Accumulated impairment loss	(4,439)	(4,439)
	<u>6,384</u>	<u>6,384</u>

Details of the subsidiary companies that are all incorporated in Malaysia are as follows:

Name	Principal activities	Percentage of equity held		Paid up capital	
		2014 %	2013 %	2014 RM	2013 RM
Muamalat Invest Sdn. Bhd.	Provision of Islamic Fund Management Services	100	100	10,000,000	10,000,000
Muamalat Venture Sdn. Bhd.	Islamic Venture Capital	100	100	100,002	100,002
Muamalat Nominees (Tempatan) Sdn. Bhd.	Dormant	100	100	2	2
Muamalat Nominees (Asing) Sdn. Bhd.	Dormant	100	100	2	2

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12. Investment in associate

	Group	
	31 March 2014 RM'000	31 March 2013 RM'000
Unquoted shares at cost	580	1,000
Share of loss of the associate	(580)	(420)
	<u>-</u>	<u>580</u>

	Bank	
	31 March 2014 RM'000	31 March 2013 RM'000
Unquoted shares at cost		
As at 1 April 2013	1,000	-
Acquired during the year	-	1,000
Disposed during the year	(1,000)	-
As at 31 March 2014	<u>-</u>	<u>1,000</u>

Details of the associate which is incorporated in Malaysia are as follows:-

Name	Principal activity	Percentage of equity held		Paid up capital
		31 March 2014 %	31 March 2013 %	31 March 2014 RM
Pos Ar-Rahnu Sdn. Bhd.	Islamic Pawn broking	-	20	5,000,000

During the year, the associate company was disposed at cost on 30 September 2013, resulting in a gain on disposal for the Group of RM1,000,000.

The summarised financial information of the associate as at the disposal date and comparatives as at 31 March 2013 is as follows:

	Unaudited 30 September 2013 RM'000	31 March 2013 RM'000
Statement of financial position		
Total assets	52,169	26,466
Total liabilities	<u>54,420</u>	<u>23,563</u>
Income Statement		
Revenue	1,230	782
Loss after taxation	<u>(4,739)</u>	<u>(2,098)</u>

13. Intangible assets

Group	Computer Software RM'000	Software under Development RM'000	Total RM'000
As at 31 March 2014			
Cost			
At 1 April 2013	44,161	23,967	68,128
Additions	3,818	51,385	55,203
Reclassification	693	(693)	-
As at 31 March 2014	48,672	74,659	123,331
Accumulated amortisation			
At 1 April 2013	33,582	-	33,582
Charge for the year	7,490	-	7,490
As at 31 March 2014	41,072	-	41,072
Carrying amount as at 31 March 2014	7,600	74,659	82,259
At as 31 March 2013			
Cost			
At 1 April 2012	42,220	5,950	48,170
Additions	780	19,218	19,998
Write off	-	(40)	(40)
Reclassification	1,161	(1,161)	-
As at 31 March 2013	44,161	23,967	68,128
Accumulated amortisation			
At 1 April 2012	29,037	-	29,037
Charge for the year	4,545	-	4,545
As at 31 March 2013	33,582	-	33,582
Carrying amount as at 31 March 2013	10,579	23,967	34,546

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13. Intangible assets

Bank	Computer Software RM'000	Software under Development RM'000	Total RM'000
As at 31 March 2014			
Cost			
At 1 April 2013	44,161	23,967	68,128
Additions	2,925	51,385	54,310
Reclassification	693	(693)	-
As at 31 March 2014	<u>47,779</u>	<u>74,659</u>	<u>122,438</u>
Accumulated amortisation			
At 1 April 2013	33,582	-	33,582
Charge for the year	7,450	-	7,450
As at 31 March 2014	<u>41,032</u>	<u>-</u>	<u>41,032</u>
Carrying amount as at 31 March 2014	<u>6,747</u>	<u>74,659</u>	<u>81,406</u>
At as 31 March 2013			
Cost			
At 1 April 2012	42,220	5,950	48,170
Additions	780	19,218	19,998
Write off	-	(40)	(40)
Reclassification	1,161	(1,161)	-
As at 31 March 2013	<u>44,161</u>	<u>23,967</u>	<u>68,128</u>
Accumulated amortisation			
At 1 April 2012	29,037	-	29,037
Charge for the year	4,545	-	4,545
As at 31 March 2013	<u>33,582</u>	<u>-</u>	<u>33,582</u>
Carrying amount as at 31 March 2013	<u>10,579</u>	<u>23,967</u>	<u>34,546</u>

14. Property, plant and equipment

Group	Freehold land and building RM'000	Office building RM'000	Furniture, fixtures, fittings, motor vehicle, equipment & renovation RM'000	Capital work in progress RM'000	Total RM'000
As at 31 March 2014					
Cost					
As at 1 April 2013	2,299	16,049	183,161	7,587	209,096
Additions	-	-	10,763	1,580	12,343
Disposals	(996)	(1,092)	(97)	-	(2,185)
Reclassification	-	-	3,338	(3,338)	-
As at 31 March 2014	1,303	14,957	197,165	5,829	219,254
Accumulated depreciation					
As at 1 April 2013	839	4,946	137,613	-	143,398
Charge for the year	49	381	16,602	-	17,032
Disposals	(353)	(376)	(98)	-	(827)
As at 31 March 2014	535	4,951	154,117	-	159,603
Carrying amount as at 31 March 2014	768	10,006	43,048	5,829	59,651
At as 31 March 2013					
Cost					
At as 1 April 2012	2,958	16,049	159,200	11,131	189,338
Additions	-	-	14,372	6,804	21,176
Disposals	(659)	-	(687)	-	(1,346)
Write off	-	-	-	(72)	(72)
Reclassification	-	-	10,276	(10,276)	-
As at 31 March 2013	2,299	16,049	183,161	7,587	209,096
Accumulated depreciation					
At as 1 April 2012	988	4,545	121,866	-	127,399
Charge for the year	71	401	16,379	-	16,851
Disposals	(220)	-	(632)	-	(852)
As at 31 March 2013	839	4,946	137,613	-	143,398
Carrying amount as at 31 March 2013	1,460	11,103	45,548	7,587	65,698

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14. Property, plant and equipment (cont'd.)

Bank	Freehold land and building RM'000	Office building RM'000	Furniture, fixtures, fittings, motor vehicle, equipment & renovation RM'000	Capital work in progress RM'000	Total RM'000
As at 31 March 2014					
Cost					
As at 1 April 2013	2,299	16,049	182,980	7,587	208,915
Additions	-	-	10,651	1,580	12,231
Disposals	(996)	(1,092)	(97)	-	(2,185)
Reclassification	-	-	3,338	(3,338)	-
As at 31 March 2014	1,303	14,957	196,872	5,829	218,961
Accumulated depreciation					
As at 1 April 2013	839	4,946	137,488	-	143,273
Charge for the year	49	381	16,570	-	17,000
Disposals	(353)	(376)	(97)	-	(826)
As at 31 March 2014	535	4,951	153,961	-	159,447
Carrying amount as at 31 March 2014	768	10,006	42,911	5,829	59,514
At as 31 March 2013					
Cost					
At as 1 April 2012	2,958	16,049	159,079	11,131	189,217
Additions	-	-	14,312	6,804	21,116
Disposals	(659)	-	(687)	-	(1,346)
Write off	-	-	-	(72)	(72)
Reclassification	-	-	10,276	(10,276)	-
As at 31 March 2013	2,299	16,049	182,980	7,587	208,915
Accumulated depreciation					
At as 1 April 2012	988	4,545	121,745	-	127,278
Charge for the year	71	401	16,375	-	16,847
Disposals	(220)	-	(632)	-	(852)
As at 31 March 2013	839	4,946	137,488	-	143,273
Carrying amount as at 31 March 2013	1,460	11,103	45,492	7,587	65,642

15. Prepaid land lease payments

	Group and Bank	
	31 March	31 March
	2014	2013
	RM'000	RM'000
At 1 April	247	251
Amortisation	(4)	(4)
As at 31 March	<u>243</u>	<u>247</u>
Analysed as:		
Long term leasehold land	<u>243</u>	<u>247</u>

16. Deferred tax assets

	Group and Bank	
	31 March	31 March
	2014	2013
	RM'000	RM'000
At beginning of the year	17,027	62,133
Recognised in the income statement (Note 37)	(5,057)	(35,859)
Recognised in the equity	816	(9,247)
At end of the year	<u>12,786</u>	<u>17,027</u>

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 income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the statement of financial position as follows:

	Group and Bank	
	31 March	31 March
	2014	2013
	RM'000	RM'000
Deferred tax assets	<u>12,786</u>	<u>17,027</u>

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16. Deferred tax assets (cont'd.)

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred tax assets of the Group and the Bank:

	Allowance for impaired financing RM'000	Provision for liabilities RM'000	Other temporary differences RM'000	Total RM'000
At 1 April 2012	39,436	12,314	18,546	70,296
Recognised in income statements	(39,436)	2,027	(32)	(37,441)
Recognised in the equity	-	-	(9,247)	(9,247)
At 31 March 2013	-	14,341	9,267	23,608
At 1 April 2013	-	14,341	9,267	23,608
Recognised in income statements	-	(8,078)	118	(7,960)
Recognised in the equity	-	-	816	816
At 31 March 2014	-	6,263	10,201	16,464

Deferred tax liability of the Group and the Bank:

	Property, plant and equipment RM'000	Total RM'000
At 1 April 2012	(8,163)	(8,163)
Recognised in the income statement	1,582	1,582
At 31 March 2013	(6,581)	(6,581)
At 1 April 2013	(6,581)	(6,581)
Recognised in the income statement	2,903	2,903
At 31 March 2014	(3,678)	(3,678)

17. Deposits from customers

(i) By type of deposits

	Group	
	31 March 2014 RM'000	31 March 2013 RM'000
Non-Mudharabah Fund		
Demand deposits	2,342,082	2,576,108
Savings deposits	471,825	499,571
Negotiable Islamic debt certificate	1,715,087	856,478
Others	467,661	481,664
	4,996,655	4,413,821
Mudharabah Fund		
Demand deposits	685,940	325,814
Savings deposits	799,994	467,662
General investment deposits	10,329,673	12,299,161
Special general investment deposits	816,966	1,237,721
	12,632,573	14,330,358
	17,629,228	18,744,179
	Bank	
	31 March 2014 RM'000	31 March 2013 RM'000
Non-Mudharabah Fund		
Demand deposits	2,346,214	2,576,587
Savings deposits	471,825	499,571
Negotiable Islamic debt certificate	1,715,087	856,478
Others	467,661	481,664
	5,000,787	4,414,300
Mudharabah Fund		
Demand deposits	685,940	325,814
Savings deposits	799,994	467,662
General investment deposits	10,334,973	12,304,758
Special general investment deposits	816,966	1,237,721
	12,637,873	14,335,955
	17,638,660	18,750,255

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17. Deposits from customers (cont'd.)

(ii) By type of customer

	Group	
	31 March	31 March
	2014	2013
	RM'000	RM'000
Government and statutory bodies	4,199,543	3,102,500
Business enterprises	8,410,546	9,380,933
Individuals	1,607,533	1,318,928
Others	3,411,606	4,941,818
	17,629,228	18,744,179

	Bank	
	31 March	31 March
	2014	2013
	RM'000	RM'000
Government and statutory bodies	4,199,543	3,102,500
Business enterprises	8,419,979	9,380,933
Individuals	1,607,533	1,318,928
Others	3,411,605	4,947,894
	17,638,660	18,750,255

The maturity structure of negotiable instruments of deposit and mudharabah general and special investment deposit are as follows:

	Group	
	31 March	31 March
	2014	2013
	RM'000	RM'000
Due within six months	11,615,918	11,706,967
More than six months to one year	1,240,835	2,671,003
More than one year to three years	4,973	15,390
	12,861,726	14,393,360

	Bank	
	31 March	31 March
	2014	2013
	RM'000	RM'000
Due within six months	11,621,218	11,712,564
More than six months to one year	1,240,835	2,671,003
More than one year to three years	4,973	15,390
	12,867,026	14,398,957

18. Deposits and placements of banks and other financial institutions

	Group and Bank	
	31 March	31 March
	2014	2013
	RM'000	RM'000
Non-Mudharabah		
Bank Negara Malaysia	6,831	10,774
Others financial institutions	94,243	-
	101,074	10,774

19. Bills and acceptances payable

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

20. Other liabilities

	Group	
	31 March	31 March
	2014	2013
	RM'000	RM'000
Sundry creditors	729	672
Provision for commitments and contingencies (Note (a))	7,412	25,428
Accrual for bonus	17,960	32,102
Accrued expenses	23,071	15,560
Accrual for directors' fees	672	658
Accrual for audit fees	219	323
Other liabilities	7,698	19,524
	57,761	94,267

	Bank	
	31 March	31 March
	2014	2013
	RM'000	RM'000
Sundry creditors	1,172	1,750
Provision for commitments and contingencies (Note (a))	7,412	25,428
Accrual for bonus	17,642	31,937
Accrued expenses	22,989	15,505
Accrual for directors' fees	672	658
Accrual for audit fees	205	310
Other liabilities	7,701	19,524
	57,793	95,112

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20. Other liabilities (cont'd.)

(a) Movement in provision for commitments and contingencies:

	Group and Bank	
	31 March 2014 RM'000	31 March 2013 RM'000
At beginning of the year	25,428	40,273
Provision made during the year	-	-
Provision written back during the year	(6,000)	(14,845)
Settlement during the year	(12,016)	-
At end of the year	<u>7,412</u>	<u>25,428</u>

The provision relates to bank guarantees issued by the Group and the Bank that have a high likelihood to result in claims from the beneficiaries.

21. Provision for zakat and taxation

	Group	
	31 March 2014 RM'000	31 March 2013 RM'000
Zakat	5,412	6,149
Taxation	7,435	8,356
	<u>12,847</u>	<u>14,505</u>

	Bank	
	31 March 2014 RM'000	31 March 2013 RM'000
Zakat	5,412	6,149
Taxation	7,295	8,349
	<u>12,707</u>	<u>14,498</u>

22. Recourse obligation on financing sold to Cagamas

	Group and Bank	
	31 March 2014 RM'000	31 March 2013 RM'000
At beginning of the year	61,679	64,910
Amount sold during the year	-	-
Payment during the year	(61,679)	(3,231)
At end of the year	<u>-</u>	<u>61,679</u>

Recourse obligation on financing sold to Cagamas represents those financing acquired from the originators and sold to Cagamas Berhad with recourse. Under the agreement, the Bank undertakes to administer the financing on behalf of Cagamas Berhad and to buy back any financing which are regarded as defective based on pre-determined and agreed-upon prudential criteria with recourse against the originators.

23. Subordinated sukuk

Subordinated sukuk as at 31 March 2014 relates to a RM400 million Tier-2 Capital Islamic Subordinated Sukuk issued on 15 June 2011. The sukuk carries a tenure of 10 years from the issue date on a 10 non-callable 5 basis feature with a profit rate of 5.15% per annum.

Should the Bank decide not to exercise its option to redeem the sukuk, the sukuk holders will be entitled to a replacement of other capital instrument of the same or better quality and such replacement of capital shall be done prior to or concurrent with the redemption of the sukuk. Subject to the gradual phase out treatment in accordance with BNM's Capital Adequacy Framework for Islamic Bank (Capital Components) issued on 28 November 2012, the RM400 million sukuk qualifies as Tier-2 capital for the purpose of Bank Negara Malaysia capital adequacy requirement.

24. Share capital

	Amount			
	31 March 2014 '000	31 March 2013 '000	31 March 2014 RM'000	31 March 2013 RM'000
Authorised:				
Ordinary shares	3,000,000	3,000,000	3,000,000	3,000,000
Musharakah Irredeemable Non-Cumulative Convertible Preference Shares				
	1,000,000	1,000,000	1,000,000	1,000,000
Total	4,000,000	4,000,000	4,000,000	4,000,000
Issued and fully paid:				
Ordinary shares				
At 1 January	1,000,000	1,000,000	1,000,000	1,000,000
Issued during the year	195,000	-	195,000	-
At 1 April/31 March	1,195,000	1,000,000	1,195,000	1,000,000

During the current financial year ended 31 March 2014, the Bank increased its issued and paid-up share capital from RM1,000,000,000 to RM1,195,000,000 via issuance of 195,000,000 new ordinary shares of RM1.00 each arising from the reinvestment of the dividend paid on 25 July 2013 into ordinary shares.

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25. Reserves

		Group	
		31 March 2014	31 March 2013
	Note	RM'000	RM'000
Statutory reserve	(a)	473,705	398,978
Retained profit	(b)	107,885	226,048
Exchange fluctuation reserve	(c)	(787)	(610)
Net unrealised losses on financial investment available-for-sale	(d)	(30,227)	(25,940)
		<u>550,576</u>	<u>598,476</u>

		Bank	
		31 March 2014	31 March 2013
	Note	RM'000	RM'000
Statutory reserve	(a)	472,108	397,381
Retained profit	(b)	105,269	225,542
Exchange fluctuation reserve	(c)	(787)	(610)
Net unrealised losses on financial investment available-for-sale	(d)	(30,227)	(25,940)
		<u>546,363</u>	<u>596,373</u>

(a) Statutory reserve

The statutory reserve is maintained in compliance with Section 57 (2)(1) of the Islamic Financial Service Act 2013 and is not distributable as cash dividends.

(b) Retained profit

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

The Bank did not elect for the irrevocable option to disregard the 108 balance. Accordingly, during the transitional period, the Bank may utilise the credit in the 108 balance to distribute cash dividend payments to ordinary shareholders as defined under the Finance Act 2007. As at 31 December 2013, the Bank has sufficient credit in the 108 balance to pay franked dividends out of its entire retained earnings. Any 108 balance which has not been utilised as at 31 December 2013 is disregarded. Thereafter, the Bank may distribute dividends out of its entire retained earnings under the single tier system.

25. Reserves (cont'd.)**(c) Exchange fluctuation reserves**

The exchange fluctuation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

(d) Net unrealised losses on financial investment available-for-sale

This represent the cumulative fair value changes, net of tax, of available-for-sale financial assets until they are disposed or impaired.

26. Income derived from investment of depositors' funds and others

	Group and Bank	
	2014	2013
	RM'000	RM'000
Income derived from investment of:		
(i) General investment deposits	576,954	661,453
(ii) Other deposits	337,132	255,116
	<u>914,086</u>	<u>916,569</u>

(i) Income derived from investment of general investment deposits

	Group and Bank	
	2014	2013
	RM'000	RM'000
Finance income and hibah:		
Income from financing	397,055	444,879
Financial investment held-for-trading	13	13
Financial investment held-for-maturity	-	860
Financial investment available-for-sale	133,091	144,458
Money at call and deposit with financial institutions	24,024	37,683
	<u>554,183</u>	<u>627,893</u>
(Amortisation of premium)/accretion of discounts, net	(2,520)	811
Total finance income and hibah	<u>551,663</u>	<u>628,704</u>

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26. Income derived from investment of depositors' funds and others (cont'd.)

(i) Income derived from investment of general investment deposits (cont'd.)

	Group and Bank	
	2014	2013
	RM'000	RM'000
Other operating income:		
Net gain/(loss) from sale/redemption of:		
- financial investment held-for-trading	631	456
- financial investment available-for-sale	3,946	2,526
- financial investment held-to-maturity	-	9,738
- financing to customer	-	(2,220)
	<u>4,577</u>	<u>10,500</u>
Fees and commission		
Guarantee fees	1,962	2,740
Safekeeping fees	5,092	2,562
Processing fees	2,925	1,330
Service charges and fees	6,185	6,535
Commission	4,550	9,082
	<u>20,714</u>	<u>22,249</u>
Total	<u>576,954</u>	<u>661,453</u>
Of which:		
Financing income earned on impaired financing	<u>71</u>	<u>1,725</u>

(ii) Income derived from investment of other deposits

	Group and Bank	
	2014	2013
	RM'000	RM'000
Finance income and hibah		
Income from financing	232,013	171,585
Financial investment held-for-trading	7	5
Financial investment held-for-maturity	-	332
Financial investment available-for-sale	77,769	55,716
Money at call and deposit with financial institutions	14,038	14,534
	<u>323,827</u>	<u>242,172</u>
(Amortisation of premium)/accretion of discounts, net	(1,473)	313
Total finance income and hibah	<u>322,354</u>	<u>242,485</u>

26. Income derived from investment of depositors' funds and others (cont'd.)

(ii) Income derived from investment of other deposits (cont'd.)

	Group and Bank	
	2014	2013
	RM'000	RM'000
Other operating income		
Net gain/(loss) from sale/redemption of:		
- financial investment held-for-trading	369	176
- financial investment available-for-sale	2,306	974
- financial investment held-to-maturity	-	3,756
- financing to customer	-	(856)
	<u>2,675</u>	<u>4,050</u>
Fees and commission		
Guarantee fees	1,146	1,057
Safekeeping fees	2,975	1,497
Processing fees	1,709	4
Service charges and fees	3,614	2,521
Commission	2,659	3,502
	<u>12,103</u>	<u>8,581</u>
Total	<u>337,132</u>	<u>255,116</u>
Of which :		
Financing income earned on impaired financing	<u>42</u>	<u>665</u>

27. Income derived from investment of shareholders' funds

	Group		Bank	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Finance income and hibah				
Financial investment				
available-for-sale	24,437	31,782	24,437	31,782
Accretion of discounts, net	2,667	1,639	2,667	1,639
Total finance income and hibah	<u>27,104</u>	<u>33,421</u>	<u>27,104</u>	<u>33,421</u>

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27. Income derived from investment of shareholders' funds (cont'd.)

	Group		Bank	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Other operating income				
Net gain on revaluation of foreign exchange transactions	23,511	21,049	23,511	21,049
Net (loss)/gain from foreign exchange derivatives	(5,043)	899	(5,043)	899
Net gain from sale of financial investment available-for-sale	6,259	6,268	6,259	6,268
Net gain from sale of fair value through profit and loss securities	6,604	-	6,604	-
Loss from derecognition of investment securities	(4,522)	-	(4,522)	-
Gain from disposal of associate	1,000	-	-	-
Gross dividend income				
-unquoted in Malaysia	3,223	1,935	3,223	1,935
Net dividend paid for Islamic profit rate swap	(4,062)	(1,302)	(4,062)	(1,302)
Unrealised gain/(loss) on revaluation of Islamic profit rate swap	25,350	(3,837)	25,350	(3,837)
Unrealised (loss)/gain on revaluation from hedged items	(21,708)	7,363	(21,708)	7,363
	30,612	32,375	29,612	32,375

* In January 2011, the Bank recovered RM10.7 million pursuant to a court order in favour of the Plaintiffs for a previously written-off sukuk.

In a recent Federal Court judgement, the liability of the Issuer and the judgement sum was re-estimated and reduced to RM6.2 million, requiring the Bank to reimburse RM4.5million to the issuer.

Fees and commission

Processing fees	32	1,825	32	1,825
Corporate advisory fees	3,837	3,016	1,542	3,035
Service charges and fees	3,089	1,601	490	504
Commission	8,366	9,495	8,366	9,495
Others	62	87	62	87
	15,386	16,024	10,492	14,946

27. Income derived from investment of shareholders' funds (cont'd.)

	Group		Bank	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Other income				
Rental income	545	611	545	611
Gain from sale of property plant and equipment	7,912	339	7,912	339
Gain from sale of foreclosed properties	8,744	-	8,744	-
	<u>17,201</u>	<u>950</u>	<u>17,201</u>	<u>950</u>
Total	90,303	82,770	84,409	81,692

28. (Writeback of)/allowance for impairment on financing

	Group		Bank	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
(Writeback of)/allowance for impairment on financing				
(a) Individual assessment allowance (Note 8(ii)):				
Made during the year	81,350	21,876	81,350	21,876
Written back during the year	(32,326)	(29,874)	(32,326)	(29,874)
	<u>49,024</u>	<u>(7,998)</u>	<u>49,024</u>	<u>(7,998)</u>
(b) Collective assessment allowance (Note 8(ii)):				
Made during the year	374,131	368,321	374,131	368,321
Written back during the year	(406,525)	(366,720)	(406,525)	(366,720)
	<u>(32,394)</u>	<u>1,601</u>	<u>(32,394)</u>	<u>1,601</u>
Bad debts on financing:				
Written off	5,381	12,767	5,381	12,767
Recovered	(77,301)	(18,924)	(77,301)	(18,924)
	<u>(71,920)</u>	<u>(6,157)</u>	<u>(71,920)</u>	<u>(6,157)</u>
Total	(55,290)	(12,554)	(55,290)	(12,554)

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29. Impairment (writeback)/loss on investments

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Impairment (writeback)/loss on Islamic private debt securities included under available-for-sale	(5,543)	9,304	(5,543)	9,304
Impairment writeback on Islamic private debt securities included under held-to-maturity	-	(2,061)	-	(2,061)
Impairment loss on Islamic private debt securities included under fair value through profit	700	-	-	-
	(4,843)	7,243	(5,543)	7,243

30. Income attributable to depositors

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Deposits from customers				
- Mudharabah funds	384,010	336,202	384,166	336,370
- Non-Mudharabah funds	55,555	74,426	55,558	74,427
Deposits and placements of banks and other financial institutions				
- Mudharabah funds	3,309	99	3,309	99
- Non-Mudharabah funds	3,993	5,817	3,993	5,817
	446,867	416,544	447,026	416,713

31. Personnel expenses

	Group		Bank	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Salary and wages	127,189	115,662	125,875	114,692
Contribution to defined contribution plan	23,686	22,799	23,529	22,652
Social security contributions	1,193	1,098	1,193	1,098
Allowances and bonuses	29,538	34,872	30,466	34,563
Others	25,503	22,577	24,013	22,494
	207,109	197,008	205,076	195,499

32. Directors and Shariah Committee Members' remuneration

	Group		Bank	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
(a) Executive Directors/Chief Executive Officer				
Salaries and wages	1,741	1,369	1,247	1,134
Other emoluments	630	385	463	318
Bonuses	1,483	630	1,323	630
Benefits-in-kind	62	95	60	90
	3,916	2,479	3,093	2,172
(b) Non-Executive Directors				
Fees	934	910	894	902
Benefits-in-kind	-	28	-	28
Other emoluments	545	533	537	531
	1,479	1,471	1,431	1,461
(c) Shariah Committee Members				
Allowance	399	340	399	340
	399	340	399	340
Total	5,794	4,290	4,923	3,973
Total (excluding benefits-in-kind)	5,732	4,167	4,863	3,855

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32. Directors and Shariah Committee Members' remuneration (cont'd.)

The total remuneration (including benefits-in-kind) of the Directors of the Group are as follows:

<=====Remuneration received from the Group=====>

Group 2014	Salary RM'000	Fees RM'000	Bonus RM'000	Other emoluments RM'000	Benefits- in-kind RM'000	Total RM'000
Note 32(a):						
Executive Director:						
Dato' Haji Mohd Redza Shah Abdul Wahid	1,247	-	1,323	463	60	3,093
Executive Director of the subsidiaries:						
Sharifatul Hanizah Binti Said Ali	494	-	160	167	2	823
	1,741	-	1,483	630	62	3,916
Note 32(b) :						
Non-Executive Directors:						
Tan Sri Dato' Dr Mohd Munir Abdul Majid	-	222	-	35	-	257
Tuan Haji Ismail Ibrahim *	-	84	-	79	-	163
Tuan Haji Abdul Jabbar Abdul Majid	-	84	-	72	-	156
Tengku Dato' Seri Hasmuddin Tengku Othman	-	84	-	73	-	157
Tuan Haji Mohd Izani Ghani *	-	84	-	42	-	126
Dato' Azmi Abdullah	-	84	-	103	-	187
Dato' Hj Kamil Khalid Ariff	-	84	-	74	-	158
Dato' Sri Che Khalib Mohamad Noh	-	84	-	23	-	107
Dato' Mohamed Hazlan Mohamed Hussain	-	84	-	36	-	120
Dato' Sri Haji Mohd Khamil Jamil	-	-	-	-	-	-
Dato' Lukman Ibrahim	-	-	-	-	-	-
Director -subsidiaries:						
Shariah Committee:						
Fakihah binti Azahari	-	20	-	3	-	23
Dato' Adnan bin Alias	-	20	-	5	-	25
	-	934	-	545	-	1,479
Total Directors' remuneration	1,741	934	1,483	1,175	62	5,395

* Director's fees payable to Khazanah Nasional Berhad

Group and Bank 2014	Salary RM'000	Allowance RM'000	Bonus RM'000	Other emoluments RM'000	Benefits- in-kind RM'000	Total RM'000
Note 32(c):						
Shariah Committee:						
En Azizi Che Seman	-	48	-	28	-	76
Dr Mohamad Sabri Haron	-	42	-	22	-	64
Engku Ahmad Fadzil Engku Ali	-	42	-	26	-	68
Dr Ab Halim Muhammad	-	42	-	23	-	65
Dr Zulkifli Mohamad	-	42	-	18	-	60
Dr Wan Marhaini Wan Ahmad	-	42	-	24	-	66
	-	258	-	141	-	399

32. Directors and Shariah Committee Members' remuneration (cont'd.)

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

<=====Remuneration received from the Group=====>

Group 2013	Salary RM'000	Fees RM'000	Bonus RM'000	Other emoluments RM'000	Benefits- in-kind RM'000	Total RM'000
Note 32(a):						
Executive Director:						
Dato' Haji Mohd Redza Shah Abdul Wahid	1,134	-	630	318	90	2,172
Executive Director of the subsidiaries:						
Sharifatul Hanizah Binti Said Ali	235	-	-	67	5	307
	1,369	-	630	385	95	2,479
Note 32(b):						
Non-Executive Directors:						
Tan Sri Dato' Dr Mohd Munir Abdul Majid	-	244	-	35	28	307
Tuan Haji Ismail Ibrahim *	-	84	-	74	-	158
Tuan Haji Abdul Jabbar Abdul Majid	-	84	-	72	-	156
Tengku Dato' Seri Hasmuiddin Tengku Othman	-	84	-	80	-	164
Tuan Haji Mohd Izani Ghani *	-	84	-	41	-	125
Dato' Azmi Abdullah	-	84	-	105	-	189
Dato' Hj Kamil Khalid Ariff	-	84	-	72	-	156
Dato' Sri Che Khalib Mohamad Noh	-	49	-	17	-	66
Dato' Mohamed Hazlan Mohamed Hussain	-	49	-	21	-	70
Dato' Sri Haji Mohd Khamil Jamil	-	21	-	6	-	27
Dato' Lukman Ibrahim	-	35	-	8	-	43
Director -subsidiaries:						
Fakihah binti Azahari	-	8	-	2	-	10
	-	910	-	533	28	1,471
Total Directors' remuneration	1,369	910	630	918	123	3,950

* Director's fees payable to Khazanah Nasional Berhad

Group and Bank 2013	Salary RM'000	Allowance RM'000	Bonus RM'000	Other emoluments RM'000	Benefits- in-kind RM'000	Total RM'000
Note 32(c):						
Shariah Committee:						
En Azizi Che Seman	-	46	-	17	-	63
Dr Mohamad Sabri Haron	-	40	-	17	-	57
Engku Ahmad Fadzil Engku Ali	-	40	-	17	-	57
Dr Ab Halim Muhammad	-	40	-	16	-	56
Dr Zulkifli Mohamad	-	40	-	13	-	53
Dr Wan Marhaini Wan Ahmad	-	40	-	14	-	54
	-	246	-	94	-	340

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32. Directors and Shariah Committee Members' remuneration (cont'd.)

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

<=====Remuneration received from the Bank=====>						
Bank 2014	Salary RM'000	Fees RM'000	Bonus RM'000	Other emoluments RM'000	Benefits- in-kind RM'000	Total RM'000
Note 32(a):						
Executive Director:						
Dato' Haji Mohd Redza Shah Abdul Wahid	1,247	-	1,323	463	60	3,093
	1,247	-	1,323	463	60	3,093
Note 32(b):						
Non-Executive Directors:						
Tan Sri Dato' Dr Mohd Munir Abdul Majid	-	222	-	35	-	257
Tuan Haji Ismail Ibrahim *	-	84	-	79	-	163
Tuan Haji Abdul Jabbar Abdul Majid	-	84	-	72	-	156
Tengku Dato' Seri Hasmuddin Tengku Othman	-	84	-	73	-	157
Tuan Haji Mohd Izani Ghani *	-	84	-	42	-	126
Dato' Azmi Abdullah	-	84	-	103	-	187
Dato' Hj Kamil Khalid Ariff	-	84	-	74	-	158
Dato' Sri Che Khalib Mohamad Noh	-	84	-	23	-	107
Dato' Mohamed Hazlan Mohamed Hussain	-	84	-	36	-	120
Dato' Sri Haji Mohd Khamil Jamil	-	-	-	-	-	-
Dato' Lukman Ibrahim	-	-	-	-	-	-
	-	894	-	537	-	1,431
Total Directors' remuneration	1,247	894	1,323	1,000	60	4,524

* Director's fees payable to Khazanah Nasional Berhad

32. Directors and Shariah Committee Members' remuneration (cont'd.)

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

<=====Remuneration received from the Bank=====>

Bank 2013	Salary RM'000	Fees RM'000	Bonus RM'000	Other emoluments RM'000	Benefits- in-kind RM'000	Total RM'000
Note 32(a):						
Executive Director:						
Dato' Haji Mohd Redza Shah Abdul Wahid	1,134	-	630	318	90	2,172
	1,134	-	630	318	90	2,172
Note 32(b):						
Non-Executive Directors:						
Tan Sri Dato' Dr Mohd Munir Abdul Majid	-	244	-	35	28	307
Tuan Haji Ismail Ibrahim *	-	84	-	74	-	158
Tuan Haji Abdul Jabbar Abdul Majid	-	84	-	72	-	156
Tengku Dato' Seri Hasmuddin Tengku Othman	-	84	-	80	-	164
Tuan Haji Mohd Izani Ghani *	-	84	-	41	-	125
Dato' Azmi Abdullah	-	84	-	105	-	189
Dato' Hj Kamil Khalid Ariff	-	84	-	72	-	156
Dato' Sri Che Khalib Mohamad Noh	-	49	-	17	-	66
Dato' Mohamed Hazlan Mohamed Hussain	-	49	-	21	-	70
Dato' Sri Haji Mohd Khamil Jamil	-	21	-	6	-	27
Dato' Lukman Ibrahim	-	35	-	8	-	43
	-	902	-	531	28	1,461
Total Directors' remuneration	1,134	902	630	849	118	3,633

* Director's fees payable to Khazanah Nasional Berhad

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33. Key management personnel remuneration

The remuneration of directors and other members of key management during the year was as follows:

	Group	
	2014 RM'000	2013 RM'000
Short-term employees benefits (salary, bonus and allowances)	8,513	5,970

Included in the total key management personnel are:

Executive directors' remuneration (Note 32(a))	3,916	2,479
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	Bank	
	2014 RM'000	2013 RM'000
Short-term employees benefits (salary, bonus, allowances)	7,690	5,664

Included in the total key management personnel are:

Executive directors' remuneration (Note 32(a))	3,093	2,172
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34. Other overheads and expenditures

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Marketing				
Advertisement and publicity	17,557	7,478	17,527	7,478
Donation and sponsorship	22,897	7,662	22,897	7,662
Others	2,683	3,960	2,649	3,953
	43,137	19,100	43,073	19,093

Establishment

Rental	8,636	8,244	8,636	8,244
Depreciation	17,032	16,851	17,000	16,847
Amortisation of intangible assets	7,490	4,545	7,450	4,545
Amortisation of prepaid land lease payment	4	4	4	4
Information technology expenses	35,839	35,534	35,839	35,534
Repair and maintenance	2,135	3,225	2,125	3,223
Hire of equipment	5,052	4,590	4,630	4,584
Takaful	3,961	5,410	3,961	5,410
Utilities expenses	5,181	5,105	5,151	5,087
Security expenses	8,312	7,091	8,312	7,091
Others	3,347	3,829	3,339	3,823
	96,989	94,428	96,447	94,392

34. Other overheads and expenditures (cont'd.)

	Group		Bank	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
General expenses				
Auditors' fees				
- statutory audit	360	325	344	310
- regulatory related services	359	252	341	225
- others	100	89	92	80
Professional fees	3,789	1,468	3,663	1,367
Legal expenses	2,857	1,862	2,857	1,862
Telephone	2,250	2,169	2,242	2,161
Stationery and printing	2,594	2,490	2,580	2,485
Postage and courier	1,691	1,991	1,691	1,991
Travelling	3,767	3,785	3,762	3,784
Directors remuneration and Shariah Committee allowance (Note 32)	5,732	4,167	4,863	3,855
Impairment of Golf Club membership	300	-	300	-
Property, plant and equipment written off	-	72	-	72
Intangible assets written off	-	40	-	40
Others	10,912	6,654	12,643	9,564
	34,711	25,364	35,378	27,796
	174,837	138,892	174,898	141,281

35. Finance cost

	Group		Bank	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Dividend paid on subordinated sukuk	20,600	20,577	20,600	20,577
Subordinated sukuk charges paid to subsidiary company	-	722	-	-
	20,600	21,299	20,600	20,577

36. Zakat

	Group and Bank	
	2014	2013
	RM'000	RM'000
Provision of zakat for the year	5,412	6,149
Overprovision in prior year	(275)	-
	5,137	6,149

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37. Taxation

	Group		Bank	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Current income tax	47,017	54,597	46,293	54,348
In respect of changes in tax treatment for collective assessment allowance	-	(29,656)	-	(29,656)
(Over)/Under provision in prior years	(491)	1,078	(458)	1,092
	46,526	26,019	45,835	25,784
Deferred tax:				
Relating to origination and reversal of temporary differences	5,056	(1,725)	5,056	(1,725)
In respect of changes in tax treatment for collective assessment allowance	-	39,436	-	39,436
Under/(Over) provision in prior years	1	(1,852)	1	(1,852)
	5,057	35,859	5,057	35,859
	51,583	61,878	50,892	61,643

Domestic current income tax is calculated at the statutory tax rate of 25% (2013: 25%) of the estimated assessable profit for the year.

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

	Group		Bank	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Profit before taxation	208,284	235,963	205,483	234,978
Taxation at Malaysian statutory tax rate 25% (2014: 25%)	52,071	58,991	51,371	58,745
Income not subject to tax	(5,127)	(9,942)	(4,468)	(9,942)
Expenses not deductible for tax purposes	5,129	3,823	4,446	3,820
Over provision of income tax in prior years	(491)	(28,578)	(458)	(28,564)
Under provision of deferred tax in prior years	1	37,584	1	37,584
Income tax expense for the year	51,583	61,878	50,892	61,643

The Group has not recognised the following unused tax losses and unabsorbed capital allowances of subsidiary for the Group:

	Group	
	2014	2013
	RM'000	RM'000
Unused tax losses	2,153	2,445

The unused tax losses of the Group amounting to RM2,153,095 (2013: RM2,445,000) are available indefinitely for offsetting against future taxable profits of the respective entities within the Group, subject to no substantial change in shareholdings of those entities under the Income Tax Act, 1967 and guidelines issued by the tax authority.

38. Earnings per share

Basic and diluted	Group	
	2014 RM'000	2013 RM'000
Profit attributable to ordinary equity holders of the Bank (RM'000)	151,564	167,936
Weighted average number of ordinary shares in issue ('000)	1,130,000	1,000,000
Basic earnings per share (sen)	13.4	16.8

39. Dividends

During the Annual General Meeting held on 18 July 2013, a final dividend in respect of the financial year ended 31 March 2013 of 26.0 sen per share, less taxation of 25% on 1,000,000,000 ordinary shares, amounting to RM195 million was approved by the shareholders.

Arising from the dividend payout, it was agreed that the shareholders to reinvest the dividend as a capital contribution and subscribe to the newly issued and paid up ordinary shares of RM195 million in accordance to the shareholders respective shareholdings.

The payment of cash dividends and crediting of shares under the dividend reinvestment plan ("DRP") was completed on 25 July 2013.

The director did not recommend any final dividend for the financial year ended 31 March 2014.

40. Significant related party transactions

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

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40. Significant related party transactions (cont'd.)

The Group has related party relationships with its substantial shareholders, subsidiaries, associates and key management personnel. The Bank's significant transactions and balances with related parties are as follows:

	Group and Bank	
	2014	2013
	RM'000	RM'000
Holding company		
Expenditure		
- hibah on deposit	553	86
- sponsorship	19,513	5,501
Amounts due to		
- deposits	63,200	50,000
	Bank	
	2014	2013
	RM'000	RM'000
Subsidiaries		
Income		
- management income	1,484	1,048
- profit sharing incentive	444	1,040
Expenditure		
- hibah on deposit	160	169
Amounts due from		
- financing	66,316	18,448
Amounts due to		
- deposits	9,432	6,075
	Group and Bank	
	2014	2013
	RM'000	RM'000
Key management personnel		
Amounts due from		
- financing	268	36
Other related companies		
Income		
- profit on financing	14,009	13,739
Expenditure		
- hibah on deposit	6,843	1,387
- seconded staff salary and related expenses	1,356	702
- mailing & courier service	355	301
- rental (Offsite ATM Machine & branch)	231	91
- others	668	791
Amounts due to		
- deposits	233,184	208,116
- derivatives	1,645	2,770
Amounts due from		
- financing	289,122	308,090

41. Credit exposures arising from credit transactions with connected parties

	Group and Bank	
	2014	2013
	RM'000	RM'000
Outstanding credit exposures with connected parties	1,368,359	1,218,329
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	6.3%	6.0%
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	-	-

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

Credit transactions and exposures to connected parties as disclosed above includes the extension of credit facilities and/or off-balance sheet credit exposures such as guarantees, trade-related facilities and financing commitments. It also includes holdings of equities and private debt securities issued by the connected parties.

The credit transactions with connected parties above are all transacted on an arm's length basis and on terms and conditions no more favourable than those entered into with other counterparties with similar circumstances and credit worthiness. Due care has been taken to ensure that the credit worthiness of the connected party is not less than that normally required of other persons.

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42. Commitments and contingencies

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

Risk weighted exposures of the Group and the Bank are as follows:

	Group and Bank					
	2014			2013		
	Principal	Credit	Total risk	Principal	Credit	Total risk
	amount	equivalent	weighted	amount	equivalent	weighted
	RM'000	amount	amount	RM'000	amount	amount
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
The commitments and contingencies constitute the following:						
Contingent liabilities						
Direct credit substitutes	15,880	15,880	15,707	16,362	16,362	8,362
Trade-related contingencies	34,424	6,885	4,284	73,372	14,674	4,904
Transaction related contingencies	344,838	172,419	168,699	501,061	250,531	191,325
Obligations under an on-going underwriting agreement	7,500	3,750	750	25,000	12,500	2,500
Commitments						
Credit extension commitment:						
- Maturity within one year	705,115	141,023	124,981	450,046	90,009	76,294
- Maturity exceeding one year	2,433,060	1,216,529	420,255	1,944,354	972,177	256,626
Bills of collection	11,012	-	-	19,712	-	-
Islamic derivative financial instruments						
Foreign exchange related contracts	711,521	9,528	4,558	395,124	6,670	4,341
Profit rate related contract	2,800,000	89,624	17,925	875,000	37,250	7,450
	7,063,350	1,655,638	757,159	4,300,031	1,400,173	551,802

43. Financial risk management objectives and policies

Overview

The integrated risk management system enables the Group and Bank to achieve a single view of risks across its various business operations and in order to gain strategic competitive advantage from its capabilities. It can be described as the strategy and technique of managing risks by taking a holistic approach towards risk management process, which includes risk identification, measurement and management. It also aims at integrating the control and optimisation of the principal risk areas of Market Risk ("MR"), Asset and Liability Management ("ALM"), Credit Risk ("CR"), Operational Risk ("OR") and Shariah Compliance Risk; and building the requisite risk management organisation, infrastructure, process and technology with the objective of advancing the Group and Bank towards value protection and creation.

Generally, the objectives of the Group and Bank integrated risk management system include the following:

- Identifying all the risks exposures and their impact;
- Establishment of sound policies and procedures in line with the Group and Bank strategy, lines of business and nature of operations;
- Set out an enterprise-wide organisation structure and defining the appropriate roles and responsibilities; and
- Instill the risk culture within the Group and Bank.

Risk governance

A stable enterprise-level organisation structure for risk management is necessary to ensure a uniform view of risks across the Group and Bank and form strong risk governance.

The Board of Directors has the overall responsibility for understanding the risks undertaken by the Group and Bank and ensuring that these risks are properly managed. While the Board of Directors is ultimately responsible for risk management of the Group and Bank, it has entrusted the Board Risk Management Committee ("BRMC") to carry out its functions. BRMC, which is chaired by an independent director of the Board, oversees the overall management of risks.

The execution of the Board's risk strategies and policies is the responsibility of the Group's and Bank's management and the conduct of these functions are being exercised under a committee structure, namely the Executive Risk Management Committee ("ERMC"), which is chaired by the Chief Executive Officer ("CEO"). The Committee focuses on the overall business strategies and day-to-day business operations of the Group and Bank in respect of risk management.

In addition, as an Islamic Bank, a Shariah Committee ("SC") is set up as an independent external body to decide on Shariah issues and simultaneously to assist towards risk mitigation and compliance with the Shariah principles.

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43. Financial risk management objectives and policies (cont'd.)

Risk governance (cont'd.)

There are other risk committees at the management level to oversee specific risk areas and control function the following is the detail:

Committee	Objective
Asset & Liability Working Committee ("ALCO")	To ensure that all strategies conform to the Bank's risk appetite and levels of exposure as determined by BRMC. These include areas of capital management, funding and liquidity management and market risk.
Credit Committee ("CC")	To manage the direction of the Bank's large financing exposure (business and consumer). These include authority to decide on new and/or additional exposures and review the direction of existing exposure.
Investment Committee ("IC")	To manage the Bank's investments and decides on new and/or additional increases of existing investment securities and/or other Treasury investment-related activities.
Operational Risk Management Committee ("ORMC")	To ensure effective implementation of Operational Risk Management Framework.

To carry out the day-to-day risk management functions, a dedicated Risk Management Department ("RMD") that is independent of profit and volume target, supports the above committees.

(a) Credit risk

Credit Risk is defined as the potential loss to the Group and Bank as a result of defaults in payment by counter parties via financing and investment activities. The Group and Bank comprehend that credit risk is inherent in its credit products activities such as credit financing facilities activities (funded/non-funded facilities); treasury activities (including inter-bank money market, money and capital trading, foreign exchange); and investment banking activities (including underwriting of private debt securities issuance).

The Group and Bank's RMD and Senior Management via ERM implement and execute the strategies and policies in managing credit risk to ensure that the Bank's exposure to credit are always kept within the Group and Bank risk appetite parameters and the Group and Bank will be able to identify its risk tolerance levels. The administration of credit risk is governed by a full set of credit related policies such as Credit Risk Policy ("CRP"), and Guidelines to Credit Risk Policies ("GCRP"), product manuals and standard operating procedures.

43. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

Credit exposures are controlled via a thorough credit assessment process which include (among others) assessing the adequacy of the identified source of payments and/or income generation from the customer, as well as determining the appropriate structure for financing.

As a supporting tool for the assessment, the Group and Bank adopt credit risk rating (internal / external) mechanisms. The internal risk rating/grading mechanism is consistent with the nature, size and complexity of the Group and Bank activities. It is also in compliance with the regulatory authority's requirements. Where applicable, the external rating assessment will be applied. This is provided by more than one of the selected reputable External Credit Assessment Institutions ("ECAI").

To mitigate credit concentration risks, the Group and Bank set exposure limits to individual/single customer, groups of related customers, connected parties, global counterparty, industry/sector and other various funded and non-funded exposures. This is monitored and enforced throughout the credit delivery process.

The Group and Bank also introduced the Credit Risk Mitigation Techniques ("CRMT") to ascertain the strength of collaterals and securities pledged for financing. The technique outlines the criteria for the eligibility and valuation as well as the monitoring process of the collaterals and securities pledged.

The Group and Bank credit risk disclosures also cover past due and impaired financing including the approaches in determining the individual and collective impairment provisions.

(i) Maximum credit risk exposures and credit risk concentration

The following tables presents the Group's and the Bank's maximum exposure to credit risk (without taking account of any collateral held or other credit enhancements) for each class of financial assets, including derivatives with positive fair values, and commitments and contingencies. Where financial assets are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values. Included in commitments and contingencies are contingent liabilities and credit commitments. For contingent liabilities, the maximum exposures to credit risk is the maximum amount that the Group or the Bank would have to pay if the obligations for which the instruments are issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of undrawn credit granted to customers and derivative financial instruments.

A concentration credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions.

By sector analysis

The analysis of credit risk concentration presented relates to financial assets, including derivatives with positive fair values, and commitments and contingencies, subject to credit risk and are based on the sector in which the counterparties are engaged (for non-individual counterparties) or the economic purpose of the credit exposure (for individuals). The exposures to credit risk are presented without taking into account of any collateral held or other credit enhancements.

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43. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(i) Maximum credit risk exposures and credit risk concentration (cont'd.)

By sector analysis

Group 2014	Government and statutory bodies RM'000	Finance, takaful and business services RM'000	Agriculture, manufacturing, wholesale, retail and restaurant RM'000	Construction and real estate RM'000	Purchase of transport vehicles RM'000	Others RM'000	Total RM'000
On balance sheet exposures							
Cash and short-term funds	-	966,260	-	-	-	-	966,260
Cash and placements with financial institutions	-	120,787	-	-	-	-	120,787
Financial investments designated at fair value through profit and loss	-	94,610	4,100	-	-	-	98,710
Financial investment available-for-sale	3,573,987	503,681	780,253	-	-	1,207,326	6,065,247
Islamic derivative financial assets	-	20,035	-	-	-	-	20,035
Financing of customers	560,164	728,528	1,356,244	736,609	1,085,553	7,432,593	11,899,691
Statutory deposit with Bank Negara Malaysia	648,721	-	-	-	-	-	648,721
Other financial assets	-	-	-	-	-	66,099	66,099
	4,782,872	2,433,901	2,140,597	736,609	1,085,553	8,706,018	19,885,550
Commitments and contingencies							
Contingent liabilities	7,478	7,500	59,292	227,589	-	100,783	402,642
Commitments	1,492,522	-	572,031	297,490	7,100	780,044	3,149,187
Derivative financial instruments	-	3,511,521	-	-	-	-	3,511,521
	1,500,000	3,519,021	631,323	525,079	7,100	880,827	7,063,350
Total credit exposures	6,282,872	5,952,922	2,771,920	1,261,688	1,092,653	9,586,845	26,948,900

43. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(i) Maximum credit risk exposures and credit risk concentration (cont'd.)

By sector analysis (cont'd.)

Group 2013	Government and statutory bodies RM'000	Finance, takaful and business services RM'000	Agriculture, manufacturing, wholesale, retail and restaurant RM'000	Construction and real estate RM'000	Purchase of transport vehicles RM'000	Others RM'000	Total RM'000
On balance sheet exposures							
Cash and short-term funds	-	3,236,505	-	-	-	-	3,236,505
Cash and placements with financial institutions	-	105,189	-	-	-	-	105,189
Financial investments designated at fair value through profit and loss	-	79,573	4,800	-	-	-	84,373
Financial investment available-for-sale	4,398,695	368,717	482,340	257,340	-	960,474	6,467,566
Islamic derivative financial assets	-	4,488	-	-	-	-	4,488
Financing of customers	621,076	481,993	1,205,013	588,866	971,027	6,484,651	10,352,626
Statutory deposit with Bank Negara Malaysia	612,721	-	-	-	-	-	612,721
Other financial assets	-	-	-	-	-	22,959	22,959
	5,632,492	4,276,465	1,692,153	846,206	971,027	7,468,084	20,886,427
Commitments and contingencies							
Contingent liabilities	139,872	25,000	73,259	260,811	-	116,853	615,795
Commitments	1,360,128	-	304,007	279,623	14,036	456,318	2,414,112
Derivative financial instruments	-	1,270,124	-	-	-	-	1,270,124
	1,500,000	1,295,124	377,266	540,434	14,036	573,171	4,300,031
Total credit exposures	7,132,492	5,571,589	2,069,419	1,386,640	985,063	8,041,255	25,186,458

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43. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(i) Maximum credit risk exposures and credit risk concentration (cont'd.)

By sector analysis (cont'd.)

Bank 2014	Government and statutory bodies RM'000	Finance, takaful and business services RM'000	Agriculture, manufacturing, wholesale, retail and restaurant RM'000	Construction and real estate RM'000	Purchase of transport vehicles RM'000	Others RM'000	Total RM'000
On balance sheet exposures							
Cash and short-term funds	-	966,260	-	-	-	-	966,260
Cash and placements with financial institutions	-	120,787	-	-	-	-	120,787
Financial investments designated at fair value through profit and loss	-	94,610	-	-	-	-	94,610
Financial investment available-for-sale	3,573,987	503,681	780,253	-	-	1,207,326	6,065,247
Islamic derivative financial assets	-	20,035	-	-	-	-	20,035
Financing of customers	560,164	687,595	1,367,044	730,609	1,085,553	7,473,109	11,904,074
Statutory deposit with Bank Negara Malaysia	648,721	-	-	-	-	-	648,721
Other financial assets	-	-	-	-	-	65,638	65,638
	4,782,872	2,392,968	2,147,297	730,609	1,085,553	8,746,073	19,885,372
Commitments and contingencies							
Contingent liabilities	7,478	7,500	59,292	227,589	-	100,783	402,642
Commitments	1,492,522	-	572,031	297,490	7,100	780,044	3,149,187
Derivative financial instruments	-	3,511,521	-	-	-	-	3,511,521
	1,500,000	3,519,021	631,323	525,079	7,100	880,827	7,063,350
Total credit exposures	6,282,872	5,911,989	2,778,620	1,255,688	1,092,653	9,626,900	26,948,722

43. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(i) Maximum credit risk exposures and credit risk concentration (cont'd.)

By sector analysis (cont'd.)

Bank 2013	Government and statutory bodies RM'000	Finance, takaful and business services RM'000	Agriculture, manufacturing, wholesale, retail and restaurant RM'000	Construction and real estate RM'000	Purchase of transport vehicles RM'000	Others RM'000	Total RM'000
On balance sheet exposures							
Cash and short-term funds	-	3,236,505	-	-	-	-	3,236,505
Cash and placements with financial institutions	-	105,189	-	-	-	-	105,189
Financial investments designated at fair value through profit and loss	-	79,573	-	-	-	-	79,573
Financial investment available-for-sale	4,398,695	368,717	482,340	257,340	-	960,474	6,467,566
Islamic derivative financial assets	-	4,488	-	-	-	-	4,488
Financing of customers	621,076	481,993	1,209,577	588,866	971,027	6,492,481	10,365,020
Statutory deposit with Bank Negara Malaysia	612,721	-	-	-	-	-	612,721
Other financial assets	-	-	-	-	-	13,488	13,488
	5,632,492	4,276,465	1,691,917	846,206	971,027	7,466,443	20,884,550
Commitments and contingencies							
Contingent liabilities	139,872	25,000	73,259	260,811	-	116,853	615,795
Commitments	1,360,128	-	304,007	279,623	14,036	456,318	2,414,112
Derivative financial instruments	-	1,270,124	-	-	-	-	1,270,124
	1,500,000	1,295,124	377,266	540,434	14,036	573,171	4,300,031
Total credit exposures	7,132,492	5,571,589	2,069,183	1,386,640	985,063	8,039,614	25,184,581

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43. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(i) Credit risk exposures and credit risk concentration (cont'd.)

By geographical analysis

The analysis of credit concentration risk of financial assets and commitments and contingencies of the Group and the Bank categorised by geographical distribution (based on the geographical location where the credit risk resides) are as follows:

	Group		Bank	
	Domestic RM'000	Labuan RM'000	Domestic RM'000	Labuan RM'000
2014				
On Balance Sheet Exposures				
Cash and short-term funds	907,021	59,239	907,021	59,239
Cash and placements with financial institutions	120,787	-	120,787	-
Financial investment designated at fair value through profit and loss	4,100	94,610	-	94,610
Financial investment available-for-sale	6,043,271	21,976	6,043,271	21,976
Islamic derivative financial assets	20,034	1	20,034	1
Financing of customers	11,824,128	75,563	11,828,511	75,563
Statutory deposit with Bank Negara Malaysia	648,721	-	648,721	-
Other financial assets	66,095	4	65,634	4
	19,634,157	251,393	19,633,979	251,393
Commitments and contingencies				
Contingent liabilities	402,642	-	402,642	-
Commitments	3,149,187	-	3,149,187	-
Derivative financial instruments	3,511,521	-	3,511,521	-
	7,063,350	-	7,063,350	-
Total credit exposures	26,697,507	251,393	26,697,329	251,393

43. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(i) Credit risk exposures and credit risk concentration (cont'd.)

By geographical analysis (cont'd.)

	Group		Bank	
	Domestic RM'000	Labuan RM'000	Domestic RM'000	Labuan RM'000
2013				
On Balance Sheet Exposures				
Cash and short-term funds	3,232,160	4,345	3,232,160	4,345
Cash and placements with financial institutions	105,189	-	105,189	-
Financial investment designated at fair value through profit and loss	4,800	79,573	-	79,573
Financial investment available-for-sale	6,409,947	57,044	6,409,947	57,044
Islamic derivative financial assets	4,487	1	4,487	1
Financing of customers	10,337,627	14,999	10,350,021	14,999
Statutory deposit with Bank Negara Malaysia	612,721	-	612,721	-
Other financial assets	22,955	4	13,484	4
	<u>20,729,886</u>	<u>155,966</u>	<u>20,728,009</u>	<u>155,966</u>
Commitments and contingencies				
Contingent liabilities	615,795	-	615,795	-
Commitments	2,414,112	-	2,414,112	-
Derivative financial instruments	1,270,124	-	1,270,124	-
	<u>4,300,031</u>	<u>-</u>	<u>4,300,031</u>	<u>-</u>
Total credit exposures	<u>25,029,917</u>	<u>155,966</u>	<u>25,028,040</u>	<u>155,966</u>

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43. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(ii) Credit quality financing of customers

The credit quality for financing of customers is managed by the Group and the Bank using the internal credit ratings. The table below shows the credit quality for financing of customers exposed to credit risk, based on the Group's and the Bank's internal credit ratings.

Financing of customers are analysed as follows:

Group	Neither past due nor impaired		Past due but not impaired	Impaired financing	Total
2014	Good RM'000	Satisfactory RM'000	RM'000	RM'000	RM'000
Term financing					
- Home financing	3,054,655	253,077	130,201	68,307	3,506,240
- Syndicated financing	93,914	-	-	7,019	100,933
- Hire purchase receivables	1,032,037	36,518	26,863	32,151	1,127,569
- Leasing receivables	67,360	-	-	14,493	81,853
- Other term financing	5,129,946	137,032	30,952	94,107	5,392,037
Other financing	1,830,320	9,164	12,389	109,629	1,961,502
	11,208,232	435,791	200,405	325,706	12,170,134
Less:					
- Collective assesment allowance	-	-	-	-	(195,951)
- Individual assesment allowance	-	-	-	(74,492)	(74,492)
Total net financing	11,208,232	435,791	200,405	251,214	11,899,691

Group	Neither past due nor impaired		Past due but not impaired	Impaired financing	Total
2013	Good RM'000	Satisfactory RM'000	RM'000	RM'000	RM'000
Term financing					
- Home financing	2,291,366	307,003	128,490	83,628	2,810,487
- Syndicated financing	33,220	-	-	21,567	54,787
- Hire purchase receivables	855,491	78,021	40,738	29,204	1,003,454
- Leasing receivables	75,381	-	-	21,681	97,062
- Other term financing	4,468,744	224,994	87,720	75,681	4,857,139
Other financing	1,097,361	667,430	2,595	33,607	1,800,993
	8,821,563	1,277,448	259,543	265,368	10,623,922
Less:					
- Collective assesment allowance	-	-	-	-	(242,843)
- Individual assesment allowance	-	-	-	(28,453)	(28,453)
Total net financing	8,821,563	1,277,448	259,543	236,915	10,352,626

43. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(ii) Credit quality financing of customers (cont'd.)

Financing of customers are analysed as follows: (cont'd.)

Bank 2014	Neither past due nor impaired		Past due but not impaired	Impaired financing	Total
	Good	Satisfactory			
	RM'000	RM'000	RM'000	RM'000	RM'000
Term financing					
- Home financing	3,054,655	313,393	130,201	68,307	3,566,556
- Syndicated financing	93,914	-	-	7,019	100,933
- Hire purchase receivables	1,032,037	36,518	26,863	32,151	1,127,569
- Leasing receivables	67,360	-	-	14,493	81,853
- Other term financing	5,074,011	137,032	30,952	100,107	5,342,102
Other financing	1,830,320	9,166	12,389	109,629	1,961,504
	11,152,297	496,109	200,405	331,706	12,180,517
Less:					
- Collective assesment allowance	-	-	-	-	(195,951)
- Individual assesment allowance	-	-	-	(80,492)	(80,492)
Total net financing	11,152,297	496,109	200,405	251,214	11,904,074

Bank 2013	Neither past due nor impaired		Past due but not impaired	Impaired financing	Total
	Good	Satisfactory			
	RM'000	RM'000	RM'000	RM'000	RM'000
Term financing					
- Home financing	2,291,366	307,003	128,490	83,628	2,810,487
- Syndicated financing	33,220	-	-	21,567	54,787
- Hire purchase receivables	855,491	78,021	40,738	29,204	1,003,454
- Leasing receivables	75,381	-	-	21,681	97,062
- Other term financing	4,481,138	224,994	87,720	81,681	4,875,533
Other financing	1,097,361	667,430	2,595	33,607	1,800,993
	8,833,957	1,277,448	259,543	271,368	10,642,316
Less:					
- Collective assesment allowance	-	-	-	-	(242,843)
- Individual assesment allowance	-	-	-	(34,453)	(34,453)
Total net financing	8,833,957	1,277,448	259,543	236,915	10,365,020

Neither past due nor impaired

Financing of customers which are neither past due nor impaired are identified into the following grades:

- "Good grade" refers to financing of customers which are neither past due nor impaired in the last six months and have never undergone any rescheduling or restructuring exercise previously.
- "Satisfactory grade" refers to financing of customers which may have been past due but not impaired or impaired during the last six months or have undergone a rescheduling or restructuring exercise previously.

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43. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(ii) Credit quality financing of customers (cont'd.)

Past due but not impaired

Past due but not impaired financing of customers refers to where the customer has failed to make principal or profit payment or both after the contractual due date for more than one day but less than three (3) months.

Aging analysis of past due but not impaired is as follows:

Group and Bank 2014	Less than 1 month RM'000	1 - 2 months RM'000	>2 - 3 months RM'000	Total RM'000
Term financing				
- Home financing	-	94,326	35,875	130,201
- Hire purchase receivables	-	22,510	4,352	26,862
- Other term financing	-	22,785	8,168	30,953
Other financing	4,690	3,705	3,994	12,389
Total	4,690	143,326	52,389	200,405
Group and Bank 2013	Less than 1 month RM'000	1 - 2 months RM'000	>2 - 3 months RM'000	Total RM'000
Term financing				
- Home financing	-	93,161	35,329	128,490
- Hire purchase receivables	-	34,658	6,080	40,738
- Other term financing	-	80,769	6,951	87,720
Other financing	614	531	1,450	2,595
Total	614	209,119	49,810	259,543

43. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(ii) Credit quality financing of customers (cont'd.)

Past due but not impaired (cont'd.)

The following tables present an analysis of the past due but not impaired financing by economic purpose.

Group and Bank	2014 RM'000	2013 RM'000
Purchase of transport vehicles	26,863	40,838
Purchase of landed properties of which:		
– residential	130,585	130,116
– non-residential	10,416	14,518
Personal use	25,080	13,253
Construction	1,255	24,734
Working capital	-	-
Other purpose	6,206	36,084
	<u>200,405</u>	<u>259,543</u>

Impaired financing

Classification of impaired financing and provisioning is made on the Group's and Bank's financing assets upon determination of the existence of "objective evidence of impairment" and categorisation into individual and collective assessment.

Individual assessment allowance

Financing are classified as individually impaired when they fulfill either of the following criteria:

- (a) principal or profit or both are past due for more than three (3) months or more;
- (b) where financing in arrears for less than three (3) months exhibits indications of credit weaknesses whether or not impairment loss had been provided for; or
- (c) where an impaired financing has been rescheduled or restructured, the financing will continue to be classified as impaired until payment based on the revised and/or restructured terms have been observed continuously for a period of six (6) months.

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43. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(ii) Credit quality financing of customers (cont'd.)

Impaired financing (cont'd.)

Individual assessment allowance (cont'd.)

In addition, for all financing that are considered individually significant, the Group and the Bank assesses the financing at each reporting date whether there is any objective evidence that a financing is impaired. The criteria that the Group uses to determine that there is objective evidence of impairment include:

1. Bankruptcy petition filed against the customer
2. Customer resorting to Section 176 Companies Act 1965 (and alike)
3. Other banks calling their lines (revealed through publicised news, market rumours, etc)
4. Customer involved in material fraud
5. Excess drawing or unpaid profit / principal
6. 90 days past due
7. Abandoned project
8. Future cashflows barely covers profit
9. Distressed debt restructuring
10. Improper use of credit lines
11. Legal action by other creditors

Collective assessment allowance for financing of customers

Following the adoption of MFRS, exposures not individually considered 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 yet identified. The required financing loss allowance is estimated on the basis of historical loss experience of the Bank for assets with credit risk characteristics similar to those in the collective pool.

43. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(ii) Credit quality financing of customers (cont'd.)

Impaired financing (cont'd.)

Collective assessment allowance for financing of customers (cont'd.)

Collateral and other credit enhancements

The amount and type of collateral required depends on assessment of credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types and collateral and valuation parameters.

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

- For home financing - mortgages over residential properties;
- For syndicated financing - charges over the properties being financed;
- For hire purchase financing - charges over the vehicles financed;
- For share margin financing - pledges over securities from listed exchange; and
- For other financing - charges over business assets such as premises, inventories, trade receivables or deposits.

The financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for financing of customer for the Group and the Bank is at 44% as at 31 March 2014, (31 March 2013 of 40% for the Group and the Bank). The financial effect of collateral held for other financial assets is not significant.

Reposessed collateral

Group and Bank

	2014 RM'000	2013 RM'000
Residential properties	<u>7,244</u>	<u>14,000</u>

It is the Group's and the Bank's policy to dispose of reposessed collateral in an orderly manner. The proceeds are used to reduce or repay the outstanding balance of financing and securities. Collateral reposessed are subject to disposal as soon as practicable. Foreclosed properties are recognised in other assets on the statement of financial position. The Group and the Bank does not occupy reposessed properties for its own business use.

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43. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(iii) Reconciliation of allowance for impaired financial assets:

Group 2014	Financing of customers RM'000	Financial investments at fair value through profit or loss RM'000	Financial investments available -for-sale RM'000	Financial investments held-to- maturity RM'000	Total RM'000
<u>Individual assessment allowance</u>					
At 1 April 2013	28,453	-	91,264	-	119,717
Allowance made during the year	81,350	700	11,655	-	93,705
Amount written back	(32,326)	-	(17,198)	-	(49,524)
Amount written off	(2,985)	-	-	-	(2,985)
Foreign exchange differences	-	-	179	-	179
As at 31 March 2014	74,492	700	85,900	-	161,092

Group 2013	Financing of customers RM'000	Financial investments at fair value through profit or loss RM'000	Financial investments available -for-sale RM'000	Financial investments held-to- maturity RM'000	Total RM'000
<u>Individual assessment allowance</u>					
At 1 April 2012	161,904	-	65,448	2,061	229,413
Allowance made during the year	21,876	-	19,118	-	40,994
Amount written back	(29,874)	-	(9,711)	(2,061)	(41,646)
Amount written off	(125,453)	-	-	-	(125,453)
Reclassification	-	-	16,546	-	16,546
Foreign exchange differences	-	-	(137)	-	(137)
As at 31 March 2013	28,453	-	91,264	-	119,717

43. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(iii) Reconciliation of allowance for impaired financial assets: (cont'd.)

Bank 2014	Financing of customers RM'000	Financial investments at fair value through profit or loss RM'000	Financial investments available -for-sale RM'000	Financial investments held-to- maturity RM'000	Total RM'000
<u>Individual assessment allowance</u>					
At 1 April 2013	34,453	-	91,264	-	125,717
Allowance made during the year	81,350	-	11,655	-	93,005
Amount written back	(32,326)	-	(17,198)	-	(49,524)
Amount written off	(2,985)	-	-	-	(2,985)
Foreign exchange differences	-	-	179	-	179
As at 31 March 2014	80,492	-	85,900	-	166,392

Bank 2013	Financing of customers RM'000	Financial investments at fair value through profit or loss RM'000	Financial investments available -for-sale RM'000	Financial investments held-to- maturity RM'000	Total RM'000
<u>Individual assessment allowance</u>					
At 1 April 2012	167,904	-	65,448	2,061	235,413
Allowance made during the year	21,876	-	19,118	-	40,994
Amount written back	(29,874)	-	(9,711)	(2,061)	(41,646)
Amount written off	(125,453)	-	-	-	(125,453)
Reclassification	-	-	16,546	-	16,546
Foreign exchange differences	-	-	(137)	-	(137)
As at 31 March 2013	34,453	-	91,264	-	125,717

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43. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(iv) Credit quality of financial investments and other financial assets

Set out below are the credit quality of financial investments (money market instruments and non-money market instruments-Islamic debt securities) and other financial assets analysed by ratings from external credit ratings agencies:

Financial investment available-for-sale							
Group	Money Market Instruments			Non Money Market Instruments - Islamic Debt Securities			Other financial assets RM'000
	International	Domestic	Total	International	Domestic	Total	
	Ratings	Ratings		Ratings	Ratings		
	RM'000	RM'000		RM'000	RM'000		
2014							
AAA+ to AA-	-	-	-	-	2,064,969	2,064,969	-
A+ to A-	-	-	-	9,309	10,137	19,446	-
BBB+ to BB-	-	-	-	-	-	-	-
Unrated	-	-	-	-	266,379	266,379	66,099
Defaulted	-	-	-	5,842	17,528	23,370	-
Sovereign	-	-	-	6,826	3,684,257	3,691,083	-
Total	-	-	-	21,977	6,043,270	6,065,247	66,099
2013							
AAA+ to AA-	-	-	-	-	1,610,783	1,610,783	-
A+ to A-	-	-	-	15,765	165,945	181,710	-
BBB+ to BB-	-	-	-	-	257,340	257,340	-
Unrated	-	-	-	-	49,387	49,387	22,959
Defaulted	-	-	-	5,423	-	5,423	-
Sovereign	-	-	-	35,856	4,327,067	4,362,923	-
Total	-	-	-	57,044	6,410,522	6,467,566	22,959

43. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(iv) Credit quality of financial investments and other financial assets (cont'd.)

Set out below are the credit quality of financial investments (money market instruments and non-money market instruments-Islamic debt securities) and other financial assets analysed by ratings from external credit ratings agencies:

Financial investment available-for-sale							
Bank	Money Market Instruments			Non Money Market Instruments - Islamic Debt Securities			Other financial assets
	International	Domestic	Total	International	Domestic	Total	
	Ratings	Ratings		Ratings	Ratings		
	RM'000	RM'000		RM'000	RM'000		
2014							
AAA+ to AA-	-	-	-	-	2,064,969	2,064,969	-
A+ to A-	-	-	-	9,309	10,137	19,446	-
BBB+ to BB-	-	-	-	-	-	-	-
Unrated	-	-	-	-	266,379	266,379	65,638
Defaulted	-	-	-	5,842	17,528	23,370	-
Sovereign	-	-	-	6,826	3,684,257	3,691,083	-
Total	-	-	-	21,977	6,043,270	6,065,247	65,638
2013							
AAA+ to AA-	-	-	-	-	1,610,783	1,610,783	-
A+ to A-	-	-	-	15,765	165,945	181,710	-
BBB+ to BB-	-	-	-	-	257,340	257,340	-
Unrated	-	-	-	-	49,387	49,387	13,488
Defaulted	-	-	-	5,423	-	5,423	-
Sovereign	-	-	-	35,856	4,327,067	4,362,923	-
Total	-	-	-	57,044	6,410,522	6,467,566	13,488

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43. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(iv) Credit quality of financial investment (cont'd.)

The ratings shown for debt securities are based on the ratings assigned to the specific debt issuance. As at the reporting date, none of the financial investment above are past due, except for defaulted private debt securities of the Group and the Bank held under financial investments available-for-sale with carrying value of RM131,335,000 (31 March 2013: RM5,423,000), which has been classified as impaired.

(b) Market risk

Market risk is the potential loss arising from adverse movements in market variables such as rate of return, foreign exchange rate, equity prices and commodity prices.

Types of market risk

(i) Traded market risk

Traded market risk, primarily rate of return risk and credit spread risk, exists in the Group's and Bank's trading positions held for the purpose of benefiting from short-term price movements, which are conducted primarily by the treasury operations.

Risk measurement approach

The Group's and Bank's traded market risk framework comprises market risk policies and practices, delegation of authority, market risk limits and valuation methodologies. The Group's and Bank's traded market risk for its profit-sensitive fixed income instruments is measured by the present value of a one basis point change ("PV01") and is monitored independently by the Compliance Unit on a daily basis against approved market risk limits. In addition, the Compliance Unit is also responsible to monitor and report on limit excesses and the daily mark-to-market valuation of fixed income securities. The market risk limits are determined after taking into account the risk appetite and the risk-return relationship and are periodically reviewed by Risk Management Division. Changes to market risk limits must be approved by the Board. The trading positions and limits are regularly reported to the ALCO. The Group's and Bank's maintains its policy of prohibiting exposures in trading financial derivative positions unless with the prior specific approval of the Board of Directors.

43. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

(ii) Non-traded market risk

The Group's and Bank's core non-traded market risks is the rate of return risk in the Group's Islamic banking business, foreign exchange risk and equity risk.

Rate of return risk

Rate of return risk is the potential loss of income arising from changes in market rates on the return on assets and on the returns payable on funding. The risk arises from option embedded in many Group's and Bank's assets, liabilities and off-balance-sheet portfolio.

Rate of return risk emanates from the re-pricing mismatches of the Group's and Bank's banking assets and liabilities and also from the Group's and Bank's investment of its surplus funds.

Risk measurement approach

The primary objective in managing the rate of return risk is to manage the volatility in the Group's net profit income ("NPI") and economic value of equity ("EVE"), whilst balancing the cost of such hedging activities on the current revenue streams. This is achieved in a variety of ways that involve the offsetting of positions against each other for any matching assets and liabilities, the acquisition of new financial assets and liabilities to narrow the mismatch in profit rate sensitive assets and liabilities and entering into derivative financial instruments which have the opposite effects.

The Group uses various tools including re-pricing gap reports, sensitivity analysis and income scenario simulations to measure its rate of return risk. The impact on earnings and EVE is considered at all times in measuring the rate of return risk and is subject to limits approved by the Board.

The following tables indicate the effective profit rates at the reporting date and the Group's and the Bank's sensitivity to profit rates by time band based on the earlier of contractual repricing date and maturity date. Actual repricing dates may differ from contractual repricing dates due to prepayment of financings or early withdrawal of deposits.

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43. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

Types of market risk (cont'd.)

(ii) Non-traded market risk (cont'd.)

Rate of return risk (cont'd.)

Group 2014	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-2 years RM'000
ASSETS				
Cash and short-term funds	872,243	23,644	-	-
Cash and placements with financial institutions	-	120,787	-	-
Financial investment designated at fair value through profit and loss	-	-	-	-
Financial investment available-for-sale	29,669	10,254	406,544	1,180,121
Financial investment held-to-maturity	-	-	-	-
Islamic derivative financial assets	-	-	-	-
Financing of customers:				
- non-impaired	6,070,682	138,899	477,273	556,368
- impaired*	-	-	-	-
- collective assessment allowance	-	-	-	-
Other non-profit sensitive balances	-	-	-	-
TOTAL ASSETS	6,972,594	293,584	883,817	1,736,489
LIABILITIES AND EQUITY				
Deposits from customers	6,248,738	5,679,745	2,284,378	2,891,841
Deposits and placements of banks and other financial institutions	40,000	-	-	614
Bills and acceptances payable	-	-	-	-
Islamic derivative financial liabilities	-	-	-	-
Recourse obligation on financing sold to Cagamas	-	-	-	-
Subordinated sukuk	-	6,055	-	-
Other non-profit sensitive balances	-	-	-	-
Total Liabilities	6,288,738	5,685,800	2,284,378	2,892,455
Equity attributable to shareholders of the Bank	-	-	-	-
TOTAL LIABILITIES AND EQUITY	6,288,738	5,685,800	2,284,378	2,892,455
On-balance sheet profit sensitivity gap	683,856	(5,392,216)	(1,400,561)	(1,155,966)
Off-balance sheet profit sensitivity gap (profit rate swaps)	-	-	-	-
TOTAL PROFIT SENSITIVITY GAP	683,856	(5,392,216)	(1,400,561)	(1,155,966)

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

>2-3 years RM'000	>3-4 years RM'000	>4-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading books RM'000	Total RM'000	Effective profit rate %
-	-	-	-	70,373	-	966,260	3.0%
-	-	-	-	-	-	120,787	3.0%
-	-	-	-	98,710	-	98,710	-
676,803	1,125,598	1,129,942	1,386,627	119,689	-	6,065,247	3.8%
-	-	-	-	-	-	-	-
-	-	-	-	-	20,035	20,035	-
436,027	320,318	1,099,316	2,626,880	118,665	-	11,844,428	5.9%
-	-	-	-	251,214	-	251,214	-
-	-	-	-	(195,951)	-	(195,951)	-
-	-	-	-	890,960	-	890,960	-
1,112,830	1,445,916	2,229,258	4,013,507	1,353,660	20,035	20,061,690	
1,137	271	244	-	522,874	-	17,629,228	2.6%
803	2,058	3,311	-	54,288	-	101,074	3.1%
-	-	-	-	105,004	-	105,004	-
-	-	-	-	-	4,145	4,145	-
-	-	-	-	-	-	-	-
400,000	-	-	-	-	-	406,055	5.2%
-	-	-	-	70,608	-	70,608	-
401,940	2,329	3,555	-	752,774	4,145	18,316,114	
-	-	-	-	1,745,576	-	1,745,576	-
401,940	2,329	3,555	-	2,498,350	4,145	20,061,690	
710,890	1,443,587	2,225,703	4,013,507	(1,144,690)	15,890	-	-
-	-	-	-	-	2,800,000	2,800,000	-
710,890	1,443,587	2,225,703	4,013,507	(1,144,690)	2,815,890	2,800,000	

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43. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

Types of market risk (cont'd.)

(ii) Non-traded market risk (cont'd.)

Rate of return risk (cont'd.)

Group 2013	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-2 years RM'000
ASSETS				
Cash and short-term funds	2,996,279	-	-	-
Cash and placements with financial institutions	-	105,189	-	-
Financial investment designated at fair value through profit and loss	-	-	-	-
Financial investment available-for-sale	597,903	170,538	576,955	1,089,807
Financial investment held-to-maturity	-	-	-	-
Islamic derivative financial assets	-	-	-	-
Financing of customers:				
- non-impaired	410,207	203,713	208,516	557,063
- impaired*	-	-	-	-
- collective assessment allowance	-	-	-	-
Other non-profit sensitive balances	-	-	-	-
TOTAL ASSETS	4,004,389	479,440	785,471	1,646,870
LIABILITIES AND EQUITY				
Deposits from customers	10,542,127	5,204,983	2,509,808	4,577
Deposits and placements of banks and other financial institutions	(46)	2,820	4,390	-
Bills and acceptances payable	-	-	-	-
Islamic derivative financial liabilities	-	-	-	7,726
Recourse obligation on financing sold to Cagamas	-	-	61,679	-
Subordinated sukuk	-	6,055	-	-
Other non-profit sensitive balances	-	-	-	-
Total Liabilities	10,542,081	5,213,858	2,575,877	12,303
Equity attributable to shareholders of the Bank	-	-	-	-
TOTAL LIABILITIES AND EQUITY	10,542,081	5,213,858	2,575,877	12,303
On-balance sheet profit sensitivity gap	(6,537,692)	(4,734,418)	(1,790,406)	1,634,567
Off-balance sheet profit sensitivity gap (profit rate swaps)	-	-	-	-
TOTAL PROFIT SENSITIVITY GAP	(6,537,692)	(4,734,418)	(1,790,406)	1,634,567

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

>2-3 years RM'000	>3-4 years RM'000	>4-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading books RM'000	Total RM'000	Effective profit rate %
-	-	-	-	240,226	-	3,236,505	3.1%
-	-	-	-	-	-	105,189	3.1%
-	-	-	-	84,373	-	84,373	-
1,226,056	774,564	889,424	1,088,406	53,913	-	6,467,566	3.9%
-	-	-	-	-	-	-	-
-	-	-	-	-	4,488	4,488	-
572,897	614,915	376,064	7,415,179	-	-	10,358,554	6.2%
-	-	-	-	236,915	-	236,915	-
-	-	-	-	(242,843)	-	(242,843)	-
-	-	-	-	820,843	-	820,843	-
1,798,953	1,389,479	1,265,488	8,503,585	1,193,427	4,488	21,071,590	
376	599	296	-	481,413	-	18,744,179	2.6%
650	850	2,110	-	-	-	10,774	1.5%
-	-	-	-	132,750	-	132,750	-
-	-	-	-	-	1,179	8,905	-
-	-	-	-	-	-	61,679	-
-	400,000	-	-	-	-	406,055	5.2%
-	-	-	-	108,772	-	108,772	-
1,026	401,449	2,406	-	722,935	1,179	19,473,114	
-	-	-	-	1,598,476	-	1,598,476	-
1,026	401,449	2,406	-	2,321,411	1,179	21,071,590	
1,797,927	988,030	1,263,082	8,503,585	(1,127,984)	3,309	-	-
-	-	-	-	-	875,000	875,000	-
1,797,927	988,030	1,263,082	8,503,585	(1,127,984)	878,309	875,000	

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43. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

Types of market risk (cont'd.)

(ii) Non-traded market risk (cont'd.)

Rate of return risk (cont'd.)

Bank 2014	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-2 years RM'000
ASSETS				
Cash and short-term funds	872,243	23,644	-	-
Cash and placements with financial institutions	-	120,787	-	-
Financial investment designated at fair value through profit and loss	-	-	-	-
Financial investment available-for-sale	29,669	10,254	406,544	1,180,121
Financial investment held-to-maturity	-	-	-	-
Islamic derivative financial assets	-	-	-	-
Financing of customers:				
- non-impaired	6,070,682	138,899	477,273	556,368
- impaired*	-	-	-	-
- collective assessment allowance	-	-	-	-
Other non-profit sensitive balances	-	-	-	-
TOTAL ASSETS	6,972,594	293,584	883,817	1,736,489
LIABILITIES AND EQUITY				
Deposits from customers	6,252,025	5,679,745	2,284,378	2,886,984
Deposits and placements of banks and other financial institutions	40,000	-	-	614
Bills and acceptances payable	-	-	-	-
Islamic derivative financial liabilities	-	-	-	-
Recourse obligation on financing sold to Cagamas	-	-	-	-
Subordinated sukuk	-	6,055	-	-
Other non-profit sensitive balances	-	-	-	-
Total Liabilities	6,292,025	5,685,800	2,284,378	2,887,598
Equity attributable to shareholders of the Bank	-	-	-	-
TOTAL LIABILITIES AND EQUITY	6,292,025	5,685,800	2,284,378	2,887,598
On-balance sheet profit sensitivity gap	680,569	(5,392,216)	(1,400,561)	(1,151,109)
Off-balance sheet profit sensitivity gap (profit rate swaps)	-	-	-	-
TOTAL PROFIT SENSITIVITY GAP	680,569	(5,392,216)	(1,400,561)	(1,151,109)

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

>2-3 years RM'000	>3-4 years RM'000	>4-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading books RM'000	Total RM'000	Effective profit rate %
-	-	-	-	70,373	-	966,260	3.0%
-	-	-	-	-	-	120,787	3.0%
-	-	-	-	94,610	-	94,610	-
666,803	1,125,598	1,109,942	1,326,627	209,689	-	6,065,247	3.8%
-	-	-	-	-	-	-	-
-	-	-	-	-	20,035	20,035	-
436,027	320,318	1,099,316	2,570,948	178,980	-	11,848,811	5.9%
-	-	-	-	251,214	-	251,214	-
-	-	-	-	(195,951)	-	(195,951)	-
-	-	-	-	895,788	-	895,788	-
1,102,830	1,445,916	2,209,258	3,897,575	1,504,703	20,035	20,066,801	
1,137	271	244	-	533,876	-	17,638,660	2.6%
803	2,058	3,311	-	54,288	-	101,074	3.1%
-	-	-	-	105,004	-	105,004	-
-	-	-	-	-	4,145	4,145	-
-	-	-	-	-	-	-	-
400,000	-	-	-	-	-	406,055	5.2%
-	-	-	-	70,500	-	70,500	-
401,940	2,329	3,555	-	763,668	4,145	18,325,438	
-	-	-	-	1,741,363	-	1,741,363	-
401,940	2,329	3,555	-	2,505,031	4,145	20,066,801	
700,890	1,443,587	2,205,703	3,897,575	(1,000,328)	15,890	-	-
-	-	-	-	-	2,800,000	2,800,000	-
700,890	1,443,587	2,205,703	3,897,575	(1,000,328)	2,815,890	2,800,000	

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43. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

Types of market risk (cont'd.)

(ii) Non-traded market risk (cont'd.)

Rate of return risk (cont'd.)

Bank 2013	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-2 years RM'000
ASSETS				
Cash and short-term funds	2,996,279	-	-	-
Cash and placements with financial institutions	-	105,189	-	-
Financial investment designated at fair value through profit and loss	-	-	-	-
Financial investment available-for-sale	597,903	170,538	576,955	1,089,807
Financial investment held-to-maturity	-	-	-	-
Islamic derivative financial assets	-	-	-	-
Financing of customers:				
- non-impaired	410,207	203,713	208,516	569,457
- impaired*	-	-	-	-
- collective assessment allowance	-	-	-	-
Other non-profit sensitive balances	-	-	-	-
TOTAL ASSETS	4,004,389	479,440	785,471	1,659,264
LIABILITIES AND EQUITY				
Deposits from customers	10,542,603	5,204,983	2,515,408	4,577
Deposits and placements of banks and other financial institutions	(46)	2,820	4,390	-
Bills and acceptances payable	-	-	-	-
Islamic derivative financial liabilities	-	-	-	7,726
Recourse obligation on financing sold to Cagamas	-	-	61,679	-
Subordinated sukuk	-	6,055	-	-
Other non-profit sensitive balances	-	-	-	-
Total Liabilities	10,542,557	5,213,858	2,581,477	12,303
Equity attributable to shareholders of the Bank	-	-	-	-
TOTAL LIABILITIES AND EQUITY	10,542,557	5,213,858	2,581,477	12,303
On-balance sheet profit sensitivity gap	(6,538,168)	(4,734,418)	(1,796,006)	1,646,961
Off-balance sheet profit sensitivity gap (profit rate swaps)	-	-	-	-
TOTAL PROFIT SENSITIVITY GAP	(6,538,168)	(4,734,418)	(1,796,006)	1,646,961

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

>2-3 years RM'000	>3-4 years RM'000	>4-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading books RM'000	Total RM'000	Effective profit rate %
-	-	-	-	240,226	-	3,236,505	3.1%
-	-	-	-	-	-	105,189	3.1%
-	-	-	-	79,573	-	79,573	-
1,226,056	774,564	889,424	1,088,406	53,913	-	6,467,566	3.9%
-	-	-	-	-	-	-	-
-	-	-	-	-	4,488	4,488	-
572,897	614,915	376,064	7,415,179	-	-	10,370,948	6.2%
-	-	-	-	236,915	-	236,915	-
-	-	-	-	(242,843)	-	(242,843)	-
-	-	-	-	818,060	-	818,060	-
1,798,953	1,389,479	1,265,488	8,503,585	1,185,844	4,488	21,076,401	
376	599	296	-	481,413	-	18,750,255	2.6%
650	850	2,110	-	-	-	10,774	1.5%
-	-	-	-	132,750	-	132,750	-
-	-	-	-	-	1,179	8,905	-
-	-	-	-	-	-	61,679	-
-	400,000	-	-	-	-	406,055	5.2%
-	-	-	-	109,610	-	109,610	-
1,026	401,449	2,406	-	723,773	1,179	19,480,028	
-	-	-	-	1,596,373	-	1,596,373	-
1,026	401,449	2,406	-	2,320,146	1,179	21,076,401	
1,797,927	988,030	1,263,082	8,503,585	(1,134,302)	3,309	-	-
-	-	-	-	-	875,000	875,000	-
1,797,927	988,030	1,263,082	8,503,585	(1,134,302)	878,309	875,000	

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43. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

Types of market risk (cont'd.)

(ii) Non-traded market risk (cont'd.)

Rate of return risk (cont'd.)

Effects of rate of return risk

- Earnings perspective ("EAR")

The focus of analysis is more on the impact of changes in rate of return on accrual or reported earnings. Variation in earnings such as reduced earnings or outright losses can threaten the financial stability of the Group and Bank by undermining its capital adequacy and reducing market confidence.

- Economic value perspective ("EVE")

Economic value of an instrument represents an assessment of present value of its expected net cash flows, discounted to reflect market rates. Economic value of a bank can be viewed as the present value of the Group's and Bank's expected net cash flows, which can be defined as the expected cash flows on assets minus the expected cash flows on liabilities plus the expected net cash flows on off-balance-sheet position. The sensitivity of the Group's and Bank's economic value to fluctuation in rate of return is particularly an important consideration of shareholders and management.

Rate of return risk measurement

- Gap analysis

Repricing gap analysis measures the difference or gap between the absolute value of rate of return sensitive assets and rate of return sensitive liabilities, which are expected to experience changes in contractual rates (repriced) over the residual maturity period or on maturity.

A rate sensitive gap greater than one implies that the rate of return in sensitive assets is greater than the rate of return in sensitive liabilities. As rate of returns rise, the income on assets will increase faster than the funding costs, resulting in higher spread income and vice versa.

43. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

Types of market risk (cont'd.)

(ii) Non-traded market risk (cont'd.)

Rate of return risk (cont'd.)

Rate of return risk measurement (cont'd.)

- Gap analysis (cont'd.)

A rate sensitive gap less than one suggests a higher ratio of rate of return in sensitive liabilities than in sensitive assets. If rate of returns rises, funding costs will grow at a faster rate than the income on assets, resulting in a fall in spread income (net rate of return income) and vice versa.

- Simulation analysis

Detail assessments of the potential effects of changes in rate of return on the Group and Bank earning by simulating future path of rate of returns and also their impact on cash flows.

Simulation analysis will also be used to evaluate the impact of possible decisions on the following:

- Product pricing changes;
- New product introduction;
- Derivatives and hedging strategies; and
- Changes in the asset-liability mix.

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43. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

Types of market risk (cont'd.)

(ii) Non-traded market risk (cont'd.)

Rate of return risk (cont'd.)

Sensitivity analysis for rate of return risk

The increase or decline in earnings and economic value for upwards and downward rate shocks which are consistent with shocks applied in the stress test for measuring:

Increase/(decrease) in basis points	Tax rate %	Group		Bank	
		-50 Basis Points RM'000	+50 Basis Points RM'000	-50 Basis Points RM'000	+50 Basis Points RM'000
2014					
Effect on profit after tax	25%	6,800	(6,800)	6,591	(6,591)
Effect on other comprehensive income, net of tax	25%	79,163	(79,163)	77,263	(77,263)
Effect on equity		118,327	(118,327)	115,812	(115,812)
2013					
Effect on profit after tax	25%	29,815	(29,815)	29,837	(29,837)
Effect on other comprehensive income, net of tax	25%	68,650	(68,650)	68,650	(68,650)
Effect on equity		159,855	(159,855)	159,854	(159,854)

43. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

Types of market risk (cont'd.)

(ii) Non-traded market risk (cont'd.)

Foreign exchange risk

Foreign exchange ("FX") risk arises as a result of movements in relative currencies due to the Group's operating business activities, trading activities and structural foreign exchange exposures from foreign investments and capital management activities.

Generally, the Group is exposed to three types of foreign exchange risk such as translation risk, transactional risk and economic risk which are managed in accordance with the market risk policy and limits. The FX translation risks are mitigated as the assets are funded in the same currency. The Group controls its FX exposures by transacting in permissible currencies. It has an internal Foreign Exchange Net Open Position ("FX NOP") to measure, control and monitor its FX risk and implements FX Hedging strategies to minimise FX exposures. Stress Testing is conducted periodically to ensure sufficient capital to buffer the FX risk.

The following tables analyses the net foreign exchange positions of the Group and the Bank by major currencies, which are mainly in Ringgit Malaysia, US Dollar, Australian Dollar, Swiss Franc, Euro, the Great Britain Pound and Japan Yen. The "others" foreign exchange risk include mainly exposure to Canadian Dollar and Singapore Dollar.

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43. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

Types of market risk (cont'd.)

(ii) Non-traded market risk (cont'd.)

Foreign exchange risk (cont'd.)

Group 2014	Malaysian Ringgit RM'000	United States Dollar RM'000	Australian Dollar RM'000
Assets			
Cash and short-term funds	865,961	20,515	1,591
Cash and placements with financial institutions	-	120,787	-
Financial investment designated at fair value through profit and loss	4,100	94,610	-
Financial investment available-for-sale	6,043,271	21,976	-
Financial investment held-to-maturity	-	-	-
Islamic derivative financial assets	17,624	594	-
Financing of customers	11,824,128	75,563	-
Other assets	87,208	92	-
Statutory deposit with Bank Negara Malaysia	648,721	-	-
Investment in subsidiaries	-	-	-
Interest in associates	-	-	-
Intangible assets	82,259	-	-
Property, plant and equipment	59,651	-	-
Prepaid land lease payment	243	-	-
Deferred tax assets	12,786	-	-
Total Assets	19,645,952	334,137	1,591
Liabilities			
Deposits from customers	17,158,691	468,229	-
Deposits and placements of banks and other financial institutions	101,074	-	-
Bills and acceptances payable	105,004	-	-
Islamic derivative financial liabilities	-	3,741	8
Other liabilities	57,750	11	-
Provision for taxation and zakat	12,827	20	-
Recourse obligation on financing sold to Cagamas	-	-	-
Subordinated sukuk	406,055	-	-
Total Liabilities	17,841,401	472,001	8
On-balance sheet open position	1,804,551	(137,864)	1,583
Less: Islamic derivative financial assets	(17,624)	(594)	-
Add: Islamic derivative financial liabilities	-	3,741	8
Net open position	1,786,927	(134,717)	1,591

Swiss Franc RM'000	Euro RM'000	Great Britain Pound RM'000	Japan Yen RM'000	Others RM'000	Total RM'000
124	6,121	2,955	63,506	5,487	966,260
-	-	-	-	-	120,787
-	-	-	-	-	98,710
-	-	-	-	-	6,065,247
-	-	-	-	-	-
-	3	127	1,680	7	20,035
-	-	-	-	-	11,899,691
-	-	-	-	-	87,300
-	-	-	-	-	648,721
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	82,259
-	-	-	-	-	59,651
-	-	-	-	-	243
-	-	-	-	-	12,786
124	6,124	3,082	65,186	5,494	20,061,690
-	2,308	-	-	-	17,629,228
-	-	-	-	-	101,074
-	-	-	-	-	105,004
-	12	279	42	63	4,145
-	-	-	-	-	57,761
-	-	-	-	-	12,847
-	-	-	-	-	-
-	-	-	-	-	406,055
-	2,320	279	42	63	18,316,114
124	3,804	2,803	65,144	5,431	1,745,576
-	(3)	(127)	(1,680)	(7)	(20,035)
-	12	279	42	63	4,145
124	3,813	2,955	63,506	5,487	1,729,686

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43. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

Types of market risk (cont'd.)

(ii) Non-traded market risk (cont'd.)

Foreign exchange risk (cont'd.)

Group 2013	Malaysian Ringgit RM'000	United States Dollar RM'000	Australian Dollar RM'000
Assets			
Cash and short-term funds	2,982,432	139,426	-
Cash and placements with financial institutions	-	105,189	-
Financial investment designated at fair value through profit and loss	4,800	79,573	-
Financial investment available-for-sale	6,410,522	57,044	-
Financial investment held-to-maturity	-	-	-
Islamic derivative financial assets	-	1,676	-
Financing of customers	10,337,627	14,999	-
Other assets	89,958	66	-
Statutory deposit with Bank Negara Malaysia	612,721	-	-
Interest in associates	580	-	-
Intangible assets	34,546	-	-
Property, plant and equipment	65,698	-	-
Prepaid land lease payment	247	-	-
Deferred tax assets	17,027	-	-
Total Assets	20,556,158	397,973	-
Liabilities			
Deposits from customers	18,193,755	448,661	-
Deposits and placements of banks and other financial institutions	10,774	-	-
Bills and acceptances payable	132,750	-	-
Islamic derivative financial liabilities	7,726	363	24
Other liabilities	94,267	-	-
Provision for taxation and zakat	14,505	-	-
Recourse obligation on financing sold to Cagamas	61,679	-	-
Subordinated sukuk	406,055	-	-
Total Liabilities	18,921,511	449,024	24
On-balance sheet open position	1,634,647	(51,051)	(24)
Less: Islamic derivative financial assets	-	(1,676)	-
Add: Islamic derivative financial liabilities	7,726	363	24
Net open position	1,642,373	(52,364)	-

Swiss Franc RM'000	Euro RM'000	Great Britain Pound RM'000	Japan Yen RM'000	Others RM'000	Total RM'000
59	75,886	111	38,262	329	3,236,505
-	-	-	-	-	105,189
-	-	-	-	-	84,373
-	-	-	-	-	6,467,566
-	-	-	-	-	-
-	6	12	2,794	-	4,488
-	-	-	-	-	10,352,626
-	-	-	-	-	90,024
-	-	-	-	-	612,721
-	-	-	-	-	580
-	-	-	-	-	34,546
-	-	-	-	-	65,698
-	-	-	-	-	247
-	-	-	-	-	17,027
59	75,892	123	41,056	329	21,071,590
-	101,763	-	-	-	18,744,179
-	-	-	-	-	10,774
-	-	-	-	-	132,750
-	756	11	25	-	8,905
-	-	-	-	-	94,267
-	-	-	-	-	14,505
-	-	-	-	-	61,679
-	-	-	-	-	406,055
-	102,519	11	25	-	19,473,114
59	(26,627)	112	41,031	329	1,598,476
-	(6)	(12)	(2,794)	-	(4,488)
-	756	11	25	-	8,905
59	(25,877)	111	38,262	329	1,602,893

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43. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

Types of market risk (cont'd.)

(ii) Non-traded market risk (cont'd.)

Foreign exchange risk (cont'd.)

Bank 2014	Malaysian Ringgit RM'000	United States Dollar RM'000	Australian Dollar RM'000
Assets			
Cash and short-term funds	865,961	20,515	1,591
Cash and placements with financial institutions	-	120,787	-
Financial investment designated at fair value through profit and loss	-	94,610	-
Financial investment available-for-sale	6,043,271	21,976	-
Financial investment held-to-maturity	-	-	-
Islamic derivative financial assets	17,624	594	-
Financing of customers	11,828,511	75,563	-
Other assets	86,642	92	-
Statutory deposit with Bank Negara Malaysia	648,721	-	-
Investment in subsidiaries	6,384	-	-
Interest in associates	-	-	-
Intangible assets	81,406	-	-
Property, plant and equipment	59,514	-	-
Prepaid land lease payment	243	-	-
Deferred tax assets	12,786	-	-
Total Assets	19,651,063	334,137	1,591
Liabilities			
Deposits from customers	17,168,123	468,229	-
Deposits and placements of banks and other financial institutions	101,074	-	-
Bills and acceptances payable	105,004	-	-
Islamic derivative financial liabilities	-	3,741	8
Other liabilities	57,782	11	-
Provision for taxation and zakat	12,687	20	-
Recourse obligation on financing sold to Cagamas	-	-	-
Subordinated sukuk	406,055	-	-
Total Liabilities	17,850,725	472,001	8
On-balance sheet open position	1,800,338	(137,864)	1,583
Less: Islamic derivative financial assets	(17,624)	(594)	-
Add: Islamic derivative financial liabilities	-	3,741	8
Net open position	1,782,714	(134,717)	1,591

Swiss Franc RM'000	Euro RM'000	Great Britain Pound RM'000	Japan Yen RM'000	Others RM'000	Total RM'000
124	6,121	2,955	63,506	5,487	966,260
-	-	-	-	-	120,787
-	-	-	-	-	94,610
-	-	-	-	-	6,065,247
-	-	-	-	-	-
-	3	127	1,680	7	20,035
-	-	-	-	-	11,904,074
-	-	-	-	-	86,734
-	-	-	-	-	648,721
-	-	-	-	-	6,384
-	-	-	-	-	-
-	-	-	-	-	81,406
-	-	-	-	-	59,514
-	-	-	-	-	243
-	-	-	-	-	12,786
124	6,124	3,082	65,186	5,494	20,066,801
-	2,308	-	-	-	17,638,660
-	-	-	-	-	101,074
-	-	-	-	-	105,004
-	12	279	42	63	4,145
-	-	-	-	-	57,793
-	-	-	-	-	12,707
-	-	-	-	-	-
-	-	-	-	-	406,055
-	2,320	279	42	63	18,325,438
124	3,804	2,803	65,144	5,431	1,741,363
-	(3)	(127)	(1,680)	(7)	(20,035)
-	12	279	42	63	4,145
124	3,813	2,955	63,506	5,487	1,725,473

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43. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

Types of market risk (cont'd.)

(ii) Non-traded market risk (cont'd.)

Foreign exchange risk (cont'd.)

Bank 2013	Malaysian Ringgit RM'000	United States Dollar RM'000	Australian Dollar RM'000
Assets			
Cash and short-term funds	2,982,432	139,426	-
Cash and placements with financial institutions	-	105,189	-
Financial investment designated at fair value through profit and loss	-	79,573	-
Financial investment available-for-sale	6,410,522	57,044	-
Islamic derivative financial assets	-	1,676	-
Financing of customers	10,350,021	14,999	-
Other assets	80,427	66	-
Statutory deposit with Bank Negara Malaysia	612,721	-	-
Investment in subsidiaries	6,384	-	-
Interest in associates	1,000	-	-
Intangible assets	34,546	-	-
Property, plant and equipment	65,642	-	-
Prepaid land lease payment	247	-	-
Deferred tax assets	17,027	-	-
Total Assets	20,560,969	397,973	-
Liabilities			
Deposits from customers	18,199,831	448,661	-
Deposits and placements of banks and other financial institutions	10,774	-	-
Bills and acceptances payable	132,750	-	-
Islamic derivative financial liabilities	7,726	363	24
Other liabilities	95,112	-	-
Provision for taxation and zakat	14,498	-	-
Recourse obligation on financing sold to Cagamas	61,679	-	-
Subordinated sukuk	406,055	-	-
Total Liabilities	18,928,425	449,024	24
On-balance sheet open position	1,632,544	(51,051)	(24)
Less: Islamic derivative financial assets	-	(1,676)	-
Add: Islamic derivative financial liabilities	7,726	363	24
Net open position	1,640,270	(52,364)	-

Swiss Franc RM'000	Euro RM'000	Great Britain Pound RM'000	Japan Yen RM'000	Others RM'000	Total RM'000
59	75,886	111	38,262	329	3,236,505
-	-	-	-	-	105,189
-	-	-	-	-	79,573
-	-	-	-	-	6,467,566
-	6	12	2,794	-	4,488
-	-	-	-	-	10,365,020
-	-	-	-	-	80,493
-	-	-	-	-	612,721
-	-	-	-	-	6,384
-	-	-	-	-	1,000
-	-	-	-	-	34,546
-	-	-	-	-	65,642
-	-	-	-	-	247
-	-	-	-	-	17,027
59	75,892	123	41,056	329	21,076,401
-	101,763	-	-	-	18,750,255
-	-	-	-	-	10,774
-	-	-	-	-	132,750
-	756	11	25	-	8,905
-	-	-	-	-	95,112
-	-	-	-	-	14,498
-	-	-	-	-	61,679
-	-	-	-	-	406,055
-	102,519	11	25	-	19,480,028
59	(26,627)	112	41,031	329	1,596,373
-	(6)	(12)	(2,794)	-	(4,488)
-	756	11	25	-	8,905
59	(25,877)	111	38,262	329	1,600,790

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43. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

No sensitivity has been performed for foreign exchange risk as the Group and the Bank do not have significant exposures denominated in foreign currencies.

(c) Liquidity and funding risk

Liquidity and funding risk is the potential inability of the Group and Bank to meet its funding requirements arising from cash flow mismatches at a reasonable cost while Market liquidity risk refers to the Group and Bank potential inability to liquidate positions quickly and insufficient volumes, at a reasonable price.

The Bank monitors the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times. The Group and Bank ability to maintain a stable liquidity profile is primarily on account of its success in retaining and growing its customer deposit base.

The marketing strategy of the Group and Bank have ensured a balanced mix of deposits. Stability of the deposits base thus minimises the Group and Bank dependence on volatile short-term receiving. Considering the effective maturities of deposits based on retention history (behavioral method) and in view of the ready availability of liquidity investments, the Group and Bank are able to ensure that sufficient liquidity is always available whenever is necessary.

The Asset Liability Committee (ALCO) chaired by the Chief Operating Officer-Business, will be conducted on monthly basis purposely to review the Liquidity Gap Profile of the bank. In addition the Group and Bank apply the liquidity stress test which addresses strategic issues concerning liquidity risk.

The table below is the analysis of assets and liabilities of the Group and Bank as at 31 March 2014 based on remaining contractual maturities.

43. Financial risk management objectives and policies (cont'd.)

(c) Liquidity and funding risk (cont'd.)

(i) Maturity analysis of assets and liabilities based on remaining contractual maturity:

Group	Up to	>7 Days -	>1-3	>3-6	>6-12		
2014	7 Days	1 Month	Months	Months	Months	>1 Year	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS							
Cash and short-term funds	614,000	352,260	-	-	-	-	966,260
Cash and placements							
with financial institutions	-	-	97,935	22,852	-	-	120,787
Financial investment							
designated at fair value							
through profit and loss	-	-	-	-	-	98,710	98,710
Financial investment							
available-for-sale	10,277	19,392	10,254	90,318	326,266	5,608,740	6,065,247
Islamic derivative							
financial assets	180	865	1,115	215	36	17,624	20,035
Financing of customers	-	1,324,639	736,984	585,898	841,799	8,410,371	11,899,691
Other assets	-	-	-	-	86,700	804,260	890,960
TOTAL ASSETS	624,457	1,697,156	846,288	699,283	1,254,801	14,939,705	20,061,690
LIABILITIES AND EQUITY							
Deposits from customers	1,345,621	7,969,321	5,648,711	1,792,847	826,752	45,976	17,629,228
Deposits and placements of							
banks and other							
financial institutions	67,142	27,100	-	-	-	6,832	101,074
Islamic derivative							
financial liabilities	470	296	71	3,308	-	-	4,145
Other liabilities	-	137,824	10,738	-	33,105	400,000	581,667
Total Liabilities	1,413,233	8,134,541	5,659,520	1,796,155	859,857	452,808	18,316,114
Equity attributable to							
shareholders of the Bank	-	-	-	-	-	1,745,576	1,745,576
NET MATURITY MISMATCH	(788,776)	(6,437,385)	(4,813,232)	(1,096,872)	394,944	12,741,321	-

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43. Financial risk management objectives and policies (cont'd.)

(c) Liquidity and funding risk (cont'd.)

(i) Maturity analysis of assets and liabilities based on remaining contractual maturity: (cont'd.)

Group 2013	Up to 7 Days RM'000	>7 Days - 1 Month RM'000	>1-3 Months RM'000	>3-6 Months RM'000	>6-12 Months RM'000	>1 Year RM'000	Total RM'000
ASSETS							
Cash and short-term funds	2,913,226	323,279	-	-	-	-	3,236,505
Cash and placements							
with financial institutions	-	-	105,189	-	-	-	105,189
Financial investment							
designated at fair value							
through profit and loss	-	-	-	-	-	84,373	84,373
Financial investment							
available-for-sale	130,708	467,195	185,850	282,741	294,214	5,106,858	6,467,566
Islamic derivative							
financial assets	340	2,529	789	728	102	-	4,488
Financing of customers	-	675,133	416,540	438,304	766,336	8,056,313	10,352,626
Other assets	-	-	-	-	90,024	730,819	820,843
TOTAL ASSETS	3,044,274	1,468,136	708,368	721,773	1,150,676	13,978,363	21,071,590
LIABILITIES AND EQUITY							
Deposits from customers	1,848,030	8,925,947	5,365,877	1,582,461	990,359	31,505	18,744,179
Deposits and placements of							
banks and other							
financial institutions	-	-	2,820	-	3,152	4,802	10,774
Islamic derivative							
financial liabilities	938	-	230	-	11	7,726	8,905
Other liabilities	-	168,743	6,517	703	133,293	400,000	709,256
Total Liabilities	1,848,968	9,094,690	5,375,444	1,583,164	1,126,815	444,033	19,473,114
Equity attributable to							
shareholders of the Bank	-	-	-	-	-	1,598,476	1,598,476
NET MATURITY MISMATCH	1,195,306	(7,626,554)	(4,667,076)	(861,391)	23,861	11,935,854	-

43. Financial risk management objectives and policies (cont'd.)

(c) Liquidity and funding risk (cont'd.)

(i) Maturity analysis of assets and liabilities based on remaining contractual maturity: (cont'd.)

Bank 2014	Up to 7 Days RM'000	>7 Days - 1 Month RM'000	>1-3 Months RM'000	>3-6 Months RM'000	>6-12 Months RM'000	>1 Year RM'000	Total RM'000
ASSETS							
Cash and short-term funds	614,000	352,260	-	-	-	-	966,260
Cash and placements with financial institutions	-	-	97,935	22,852	-	-	120,787
Financial investment designated at fair value through profit and loss	-	-	-	-	-	94,610	94,610
Financial investment available-for-sale	10,277	19,392	10,254	90,318	326,266	5,608,740	6,065,247
Islamic derivative financial assets	180	865	1,115	215	36	17,624	20,035
Financing of customers	-	1,324,639	736,984	585,898	841,799	8,414,754	11,904,074
Other assets	-	-	-	-	86,134	809,654	895,788
TOTAL ASSETS	624,457	1,697,156	846,288	699,283	1,254,235	14,945,382	20,066,801
LIABILITIES AND EQUITY							
Deposits from customers	1,349,753	7,974,621	5,648,711	1,792,847	826,752	45,976	17,638,660
Deposits and placements of banks and other financial institutions	67,142	27,100	-	-	-	6,832	101,074
Islamic derivative financial liabilities	470	296	71	3,308	-	-	4,145
Other liabilities	-	138,185	10,739	-	32,635	400,000	581,559
Total Liabilities	1,417,365	8,140,202	5,659,521	1,796,155	859,387	452,808	18,325,438
Equity attributable to shareholders of the Bank	-	-	-	-	-	1,741,363	1,741,363
NET MATURITY MISMATCH	(792,908)	(6,443,046)	(4,813,233)	(1,096,872)	394,848	12,751,211	-

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43. Financial risk management objectives and policies (cont'd.)

(c) Liquidity and funding risk (cont'd.)

(i) Maturity analysis of assets and liabilities based on remaining contractual maturity: (cont'd.)

Bank 2013	Up to 7 Days RM'000	>7 Days - 1 Month RM'000	>1-3 Months RM'000	>3-6 Months RM'000	>6-12 Months RM'000	>1 Year RM'000	Total RM'000
ASSETS							
Cash and short-term funds	2,913,226	323,279	-	-	-	-	3,236,505
Cash and placements with financial institutions	-	-	105,189	-	-	-	105,189
Financial investment designated at fair value through profit and loss	-	-	-	-	-	79,573	79,573
Financial investment available-for-sale	130,708	467,195	185,850	282,741	294,214	5,106,858	6,467,566
Islamic derivative financial assets	340	2,529	789	728	102	-	4,488
Financing of customers	-	675,133	416,540	438,304	766,336	8,068,707	10,365,020
Other assets	-	-	-	-	80,492	737,568	818,060
TOTAL ASSETS	3,044,274	1,468,136	708,368	721,773	1,141,144	13,992,706	21,076,401
LIABILITIES AND EQUITY							
Deposits from customers	1,848,506	8,931,547	5,365,877	1,582,461	990,359	31,505	18,750,255
Deposits and placements of banks and other financial institutions	-	-	2,820	-	3,152	4,802	10,774
Islamic derivative financial liabilities	938	-	230	-	11	7,726	8,905
Other liabilities	-	169,765	6,517	703	133,109	400,000	710,094
Total Liabilities	1,849,444	9,101,312	5,375,444	1,583,164	1,126,631	444,033	19,480,028
Equity attributable to shareholders of the Bank	-	-	-	-	-	1,596,373	1,596,373
NET MATURITY MISMATCH	1,194,830	(7,633,176)	(4,667,076)	(861,391)	14,513	11,952,300	-

43. Financial risk management objectives and policies (cont'd.)

(c) Liquidity and funding risk (cont'd.)

(ii) Behavioural maturity of deposits from customers

In practice, deposits from customers behave differently from their contractual terms and typically, short-term customer accounts and non-maturing savings and current deposits extend to a longer period than their contractual maturity. The Group's and the Bank's behavioural maturity for deposits from customers are as follows:

Group	Deposits from customers						Total RM'000
	Up to 7 Days	>7 Days - 1 Month	>1-3 Months	>3-6 Months	>6-12 Months	>1 Year	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
2014							
By contractual maturity	1,345,621	7,969,321	5,648,711	1,792,847	826,752	45,976	17,629,228
By behavioural maturity	1,748,032	1,564,122	933,992	1,276,716	201,637	11,904,729	17,629,228
Difference	(402,411)	6,405,199	4,714,719	516,131	625,115	(11,858,753)	-
2013							
By contractual maturity	1,848,030	8,925,947	5,365,877	1,582,461	990,359	31,505	18,744,179
By behavioural maturity	2,114,990	1,922,126	910,685	160,414	224,555	13,411,409	18,744,179
Difference	(266,960)	7,003,821	4,455,192	1,422,047	765,804	(13,379,904)	-
Bank	Up to 7 Days	>7 Days - 1 Month	>1-3 Months	>3-6 Months	>6-12 Months	>1 Year	Total RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
2014							
By contractual maturity	1,349,753	7,974,621	5,648,711	1,792,847	826,752	45,976	17,638,660
By behavioural maturity	1,752,164	1,569,422	933,992	1,276,716	201,637	11,904,729	17,638,660
Difference	(402,411)	6,405,199	4,714,719	516,131	625,115	(11,858,753)	-
2013							
By contractual maturity	1,848,506	8,931,547	5,365,877	1,582,461	990,359	31,505	18,750,255
By behavioural maturity	2,115,466	1,922,126	910,685	166,014	224,555	13,411,409	18,750,255
Difference	(266,960)	7,009,421	4,455,192	1,416,447	765,804	(13,379,904)	-

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43. Financial risk management objectives and policies (cont'd.)

(c) Liquidity and funding risk (cont'd.)

(iii) Maturity analysis of financial liabilities on an undiscounted basis

The following tables show the contractual undiscounted cash flows payable for financial liabilities by remaining contractual maturities. The financial liabilities in the tables below will not agree to the balances reported in the statement of financial position as the tables incorporate all contractual cash flows, on an undiscounted basis, relating to both principal and profit payments. The contractual maturity profile does not necessarily reflect the behavioural cash flows.

The cash flows of commitments and contingent liabilities are not presented on an undiscounted basis as the total outstanding contractual amounts do not represent future cash requirements since the Group and the Bank expect many of these contingencies to expire or be unconditionally cancelled without being called or drawn upon and many of the contingent liabilities are reimbursable by customers.

Group	Up to 7 Days RM'000	>7 Days - 1 Month RM'000	>1-3 Months RM'000	>3-6 Months RM'000	>6-12 Months RM'000	>1 Year RM'000	Total RM'000
2014							
Non-derivative liabilities							
Deposits from customers	1,345,621	7,969,321	5,648,711	1,792,847	826,752	46,294	17,629,546
Deposits and placements of banks and other financial institutions	67,142	27,100	-	-	-	7,782	102,024
Bills and acceptances payable	-	100,321	4,683	-	-	-	105,004
Other liabilities	-	23,800	-	-	891	-	24,691
Recourse obligation on financing sold to Cagamas	-	-	-	-	-	-	-
Subordinated sukuk	-	-	-	-	-	409,882	409,882
Derivative liabilities	470	296	71	3,308	-	-	4,145
Total Financial Liabilities	1,413,233	8,120,838	5,653,465	1,796,155	827,643	463,958	18,275,292

Group	Up to 7 Days RM'000	>7 Days - 1 Month RM'000	>1-3 Months RM'000	>3-6 Months RM'000	>6-12 Months RM'000	>1 Year RM'000	Total RM'000
2013							
Non-derivative liabilities							
Deposits from customers	1,848,030	8,931,547	5,365,877	1,582,461	990,359	31,628	18,749,902
Deposits and placements of banks and other financial institutions	-	-	2,820	-	3,152	5,022	10,994
Bills and acceptances payable	-	132,750	-	-	-	-	132,750
Other liabilities	-	16,232	-	-	981	-	17,213
Recourse obligation on financing sold to Cagamas	-	238	462	703	60,277	-	61,680
Subordinated sukuk	-	-	-	-	-	410,412	410,412
Derivative liabilities	938	-	230	-	11	8,385	9,564
Total Financial Liabilities	1,848,968	9,080,767	5,369,389	1,583,164	1,054,780	455,447	19,392,515

43. Financial risk management objectives and policies (cont'd.)

(c) Liquidity and funding risk (cont'd.)

(iii) Maturity analysis of financial liabilities on an undiscounted basis (cont'd.)

Bank	Up to 7 Days RM'000	>7 Days - 1 Month RM'000	>1-3 Months RM'000	>3-6 Months RM'000	>6-12 Months RM'000	>1 Year RM'000	Total RM'000
2014							
Non-derivative liabilities							
Deposits from customers	1,349,753	7,974,621	5,648,711	1,792,847	826,752	46,294	17,638,978
Deposits and placements of banks and other financial institutions	67,142	27,100	-	-	-	7,782	102,024
Bills and acceptances payable	-	100,321	4,683	-	-	-	105,004
Other liabilities	-	24,161	-	-	877	-	25,038
Subordinated sukuk	-	-	-	-	-	409,882	409,882
Derivative liabilities	470	296	71	3,308	-	-	4,145
Total Financial Liabilities	1,417,365	8,126,499	5,653,465	1,796,155	827,629	463,958	18,285,071
2013							
Non-derivative liabilities							
Deposits from customers	1,848,506	8,931,547	5,365,877	1,582,461	990,359	31,628	18,750,378
Deposits and placements of banks and other financial institutions	-	-	2,820	-	3,152	5,022	10,994
Bills and acceptances payable	-	132,750	-	-	-	-	132,750
Other liabilities	-	17,255	-	-	968	-	18,223
Recourse obligation on financing sold to Cagamas	-	238	462	703	60,277	-	61,680
Subordinated sukuk	-	-	-	-	-	410,412	410,412
Derivative liabilities	938	-	230	-	11	8,385	9,564
Total Financial Liabilities	1,849,444	9,081,790	5,369,389	1,583,164	1,054,767	455,447	19,394,001

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43. Financial risk management objectives and policies (cont'd.)

(d) Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This risk is managed through an operational risk management framework with established operational risk management processes. To manage and control operational risk, the Group and Bank place great emphasis on the importance of proper monitoring and reporting of business units' adherence to established risk policies, procedures and limits by independent control and support units, oversight provided by the management and the Board of Directors, and independent assessment of the adequacy and reliability of the risk management processes by the Internal Audit

The operational risk management processes include establishment of system of internal controls, identification and assessment of operational risk inherent in new and existing products, processes and systems, regular disaster recovery and business continuity planning and simulations, self-compliance audit, and operational risk incident reporting and data collection.

44. Fair values of financial instruments

(a) Financial instruments measured at fair value

Determination of fair value and the fair value hierarchy

MFRS 7 Financial Instruments: Disclosures requires the classification of financial instruments held at fair value according to a hierarchy that reflects the significance of inputs used in making the measurements, in particular, whether the inputs used are observable or unobservable. The following levels of hierarchy are used for determining and disclosing the fair value of financial instruments:

Level 1 - quoted market prices: quoted prices (unadjusted) in active markets for identical instruments;

Level 2 - valuation techniques based on observable inputs: inputs other than quoted prices included within Level 1 that are observable for the instrument, whether directly (ie. prices) or indirectly (ie. derived from prices), are used; and

Level 3 - valuation techniques using significant unobservable inputs: inputs used are not based on observable market data and the unobservable inputs have a significant impact on the instrument's valuation.

44. Fair values of financial instruments (cont'd.)

(a) Financial instruments measured at fair value (cont'd.)

Determination of fair value and the fair value hierarchy (cont'd.)

Where such quoted and observable market prices are not available, fair values are determined using appropriate valuation techniques, which include the use of mathematical models, such as discounted cash flow models and option pricing models, comparison to similar instruments for which market observable prices exist and other valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length. Valuation techniques used incorporate assumptions regarding discount rates, profit rate yield curves, estimates of future cash flows and other factors. Changes in these assumptions could materially affect the fair values derived. The Bank generally uses widely recognised valuation techniques with market observable inputs for the determination of fair value, which require minimal management judgement and estimation, due to the low complexity of the financial instruments held.

The following table shows the financial instruments which are measured at fair value at the reporting date analysed by the various level within the fair value hierarchy:

Group	Valuation technique using			Total RM'000
	Quoted	Observable	Unobservable	
	Market Price	Inputs	Inputs	
	Level 1	Level 2	Level 3	
2014	RM'000	RM'000	RM'000	
Financial assets				
Financial investments designated at fair value through profit and loss	-	-	98,710	98,710
Financial investments available-for-sale	66,671	5,861,316	137,260	6,065,247
Derivative financial assets	-	20,035	-	20,035
Total financial assets measured at fair value	66,671	5,881,351	235,970	6,183,992
Financial liabilities				
Derivative financial liabilities	-	4,145	-	4,145
Total financial liabilities measured at fair value	-	4,145	-	4,145

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44. Fair values of financial instruments (cont'd.)

(a) Financial instruments measured at fair value (cont'd.)

Determination of fair value and the fair value hierarchy (cont'd.)

Group	Valuation technique using			Total RM'000
	Quoted	Observable	Unobservable	
	Market Price Level 1 RM'000	Inputs Level 2 RM'000	Inputs Level 3 RM'000	
2013				
Financial assets				
Financial investments designated at fair value through profit and loss	-	-	84,373	84,373
Financial investments available-for-sale	44,182	6,316,460	106,924	6,467,566
Derivative financial assets	-	4,488	-	4,488
Total financial assets measured at fair value	44,182	6,320,948	191,297	6,556,427
Financial liabilities				
Derivative financial liabilities	-	8,905	-	8,905
Total financial liabilities measured at fair value	-	8,905	-	8,905
Bank	Valuation technique using			Total RM'000
	Quoted	Observable	Unobservable	
	Market Price Level 1 RM'000	Inputs Level 2 RM'000	Inputs Level 3 RM'000	
2014				
Financial assets				
Financial investments designated at fair value through profit and loss	-	-	94,610	94,610
Financial investments available-for-sale	66,671	5,861,316	137,260	6,065,247
Derivative financial assets	-	20,035	-	20,035
Total financial assets measured at fair value	66,671	5,881,351	231,870	6,179,892
Financial liabilities				
Derivative financial liabilities	-	4,145	-	4,145
Total financial liabilities measured at fair value	-	4,145	-	4,145

44. Fair values of financial instruments (cont'd.)

(a) Financial instruments measured at fair value (cont'd.)

Determination of fair value and the fair value hierarchy (cont'd.)

Bank	Valuation technique using			Total RM'000
	Quoted	Observable	Unobservable	
	Market Price Level 1 RM'000	Inputs Level 2 RM'000	Inputs Level 3 RM'000	
2013				
Financial assets				
Financial investments designated at fair value through profit and loss	-	-	79,573	79,573
Financial investments available-for-sale	44,182	6,316,460	106,924	6,467,566
Derivative financial assets	-	4,488	-	4,488
Total financial assets measured at fair value	44,182	6,320,948	186,497	6,551,627
Financial liabilities				
Derivative financial liabilities	-	8,905	-	8,905
Total financial liabilities measured at fair value	-	8,905	-	8,905

Reconciliation of financing assets at fair value measurements in Level 3 of the fair value hierarchy:

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
At 1 April 2013	191,297	66,994	186,497	62,194
Gains recognised in income statement	14,234	4,397	14,934	4,397
(Losses)/gains recognised in other comprehensive income	(2,927)	712	(2,927)	712
Purchases	36,117	33,601	36,117	33,601
Sales	(25,034)	(4,597)	(25,034)	(4,597)
Settlements	-	(13,067)	-	(13,067)
Foreign exchange translation difference	4,755	-	4,755	-
Transfer into Level 3	17,528	103,257	17,528	103,257
At 31 March 2014	235,970	191,297	231,870	186,497

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44. Fair values of financial instruments (cont'd.)

(a) Financial instruments measured at fair value (cont'd.)

Determination of fair value and the fair value hierarchy (cont'd.)

Reconciliation of financing assets at fair value measurements in Level 3 of the fair value hierarchy (cont'd.):

The reason for the transfer was due to impairment of the securities which resulted in the inability to obtain market prices for the securities as at reporting date.

	Group	
	2014 RM'000	2013 RM'000
Total gains recognised in income statement for financial instruments measured at fair value at the end of the financial year	<u>14,234</u>	<u>4,397</u>
Total (losses)/gains recognised in other comprehensive income for financial instruments measured at fair value at the end of the financial year	<u>(2,927)</u>	<u>712</u>
	Bank	
	2014 RM'000	2013 RM'000
Total gains recognised in income statement for financial instruments measured at fair value at the end of the financial year	<u>14,934</u>	<u>4,397</u>
Total (losses)/gains recognised in other comprehensive income for financial instruments measured at fair value at the end of the financial year	<u>(2,927)</u>	<u>712</u>

44. Fair values of financial instruments (cont'd.)

(b) Financial instruments not carried at fair value

Group 2014	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total fair value RM'000	Carrying Amount RM'000
Financial assets					
Financing of customers		7,620,453	4,149,202	11,769,655	11,899,691
Financial liabilities					
Deposits from customers	-	2,328,971	15,301,995	17,630,966	17,629,228
Deposits and placements of banks and other financial institutions	-	4,489	96,503	100,992	101,074
Bills and acceptances payable	-	-	105,004	105,004	105,004
Subordinated sukuk	-	411,855	-	411,855	406,055
Bank 2014					
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total fair value RM'000	Carrying Amount RM'000
Financial assets					
Financing of customers	-	7,620,453	4,153,586	11,774,039	11,904,074
Financial liabilities					
Deposits from customers	-	2,328,970	15,311,428	17,640,398	17,638,660
Deposits and placements of banks and other financial institutions	-	4,489	96,503	100,992	101,074
Bills and acceptances payable	-	-	105,004	105,004	105,004
Subordinated sukuk	-	411,855	-	411,855	406,055

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44. Fair values of financial instruments (cont'd.)

(b) Financial instruments not carried at fair value (cont'd.)

Group 2013	Total fair value RM'000	Carrying Amount RM'000
Financial assets		
Financing of customers	10,352,626	11,975,243
Financial liabilities		
Deposits from customers	18,744,179	18,770,758
Deposits and placements of banks and other financial institutions	10,774	10,500
Bills and acceptances payable	132,750	132,750
Recourse obligation on financing sold to Cagamas	61,679	61,679
Subordinated sukuk	406,055	422,704
Bank 2013	Total fair value RM'000	Carrying Amount RM'000
Financial assets		
Financing of customers	10,365,020	11,962,849
Financial liabilities		
Deposits from customers	18,750,255	18,776,838
Deposits and placements of banks and other financial institutions	10,774	10,500
Bills and acceptances payable	132,750	132,750
Recourse obligation on financing sold to Cagamas	61,679	59,193
Subordinated sukuk	406,055	422,704

44. Fair values of financial instruments (cont'd.)

(b) Financial instruments not carried at fair value (cont'd.)

The on-balance sheet financial assets and financial liabilities of the Group and the Bank whose fair values are required to be disclosed in accordance with MFRS 132 comprise all their assets and liabilities with the exception of investments in subsidiaries, interest in associates, property, plant and equipment and provision for current and deferred taxation.

For financing to customers, where such market prices are not available, various methodologies have been used to estimate the approximate fair values of such instruments. These methodologies are significantly affected by 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 the assumptions could significantly affect these estimates and the resulting fair value estimates. Therefore, for a significant portion of the Group's and the Bank's financial instruments, including financing to customers, their respective fair value estimates do not purport to represent, nor should they be construed to represent, the amounts that the Group and the Bank could realise in a sale transaction at the reporting date. The fair value information presented herein should also in no way be construed as representative of the underlying value of the Group and the Bank as a going concern.

The estimated fair values of those on-balance sheet financial assets and financial liabilities as at the reporting date approximate their carrying amounts as shown in the statement of financial position, except for the financial assets and liabilities as stated.

Financing to customers

The fair values of financing to customers not designated as hedged item are estimated based on expected future cash flows of contractual instalment payments, discounted at applicable and prevailing rates at balance sheet date offered for similar facilities to new borrowers with similar credit profiles. In respect of non-performing financing, the fair values are deemed to approximate the carrying values, which are net of specific allowance for bad and doubtful financing.

Deposits from customers

The fair values of deposits from customers are estimated to approximate their carrying values as the profit rates are determined at the end of their holding periods based on the actual profits generated from the assets invested.

Subordinated sukuk

The fair values of subordinated obligations are estimated by discounting the expected future cash flows using the applicable prevailing profit rates for financings with similar risks profiles.

Recourse obligation on financing sold to Cagamas

The fair value of recourse obligation on financing sold to Cagamas are determined based on the discounted cash flows of future instalment payables at applicable prevailing Cagamas rate as at reporting date.

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45. Offsetting financial assets and financial liabilities

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

	Gross amount of recognised financial assets/ financial liabilities RM'000	Gross amount set off in the statements of financial position RM'000	Net amount presented in the statements of financial position RM'000	Amount not set off in the statement of financial position			Net amount RM'000
				Amount related to recognised financial instruments RM'000	Amount related to financial collateral RM'000		
Group and Bank							
2014							
Derivative assets	20,035	-	20,035	-	-	-	20,035
Derivative liabilities	(4,145)	-	(4,145)	-	-	-	(4,145)
2013							
Derivative assets	4,488	-	4,488	-	-	-	4,488
Derivative liabilities	(8,905)	-	(8,905)	-	-	-	(8,905)

Financial assets and financial liabilities are offset and the net amount is reported in the statements 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 asset and settle the liability simultaneously.

The amount not set off in the statement of financial position relate to transactions where:

- (i) the counterparty has an offsetting exposure with the Group and a master netting or similar arrangements is in place with a right to set off only in the event of default, insolvency or bankruptcy; and
- (ii) cash or securities are received or cash pledged in respect of the transaction described above.

46. Capital and other commitments

Capital expenditure approved by directors but not provided for in the financial statements amounted to:

	Group	
	2014 RM'000	2013 RM'000
Approved and contracted for	82,476	92,136
Approved but not contracted for	63,766	21,366
	146,242	113,502

	Bank	
	2014 RM'000	2013 RM'000
Approved and contracted for	82,476	92,136
Approved but not contracted for	64,389	21,426
	146,865	113,562

47. Capital adequacy

(a) The core capital ratios and risk-weighted capital ratios of the Group are as follows:

	Group	
	2014 RM'000	2013 RM'000
Computation of total risk-weighted assets ("RWA")		
Total credit RWA	10,995,042	9,687,613
Total market RWA	113,581	57,818
Total operational RWA	1,068,340	1,022,010
Total RWA	12,176,963	10,767,441

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47. Capital adequacy (cont'd.)

(a) The core capital ratios and risk-weighted capital ratios of the Group are as follows:

	Group	
	2014	2013
	RM'000	RM'000
Computation of capital ratios		
<u>Tier-I capital</u>		
Paid-up ordinary share capital	1,195,000	1,000,000
Retained profits	107,885	226,048
<u>Other Reserves</u>		
Statutory reserve	473,705	398,978
Unrealised losses on available for-sale financial instruments	(30,227)	(25,940)
Foreign exchange translation reserve	(787)	(610)
	-	-
Less: Regulatory Adjustment		
Deferred tax assets (net)	(12,786)	(17,027)
Investment in subsidiaries	-	-
Total Common Equity Tier-I Capital	1,732,790	1,581,449
Total Tier-I Capital	1,732,790	1,581,449
<u>Tier-II capital</u>		
Subordinated sukuk	324,844	365,450
Collective assessment	90,088	121,095
Total Tier-II Capital	414,932	486,545
Total Capital Base	2,147,722	2,067,994
<u>Ratio (%)</u>		
CET 1 Capital	14.2%	14.7%
Tier 1 Capital	14.2%	14.7%
Total Capital	17.6%	19.2%

47. Capital adequacy (cont'd.)

(a) The core capital ratios and risk-weighted capital ratios of the the Bank are as follows:

	Bank	
	2014	2013
	RM'000	RM'000
Computation of total risk-weighted assets ("RWA")		
Total credit RWA	10,995,963	9,680,838
Total market RWA	113,581	57,818
Total operational RWA	1,063,238	1,020,708
Total RWA	<u>12,172,782</u>	<u>10,759,364</u>
Computation of capital ratios (cont'd.)		
<u>Tier-I capital</u>		
Paid-up ordinary share capital	1,195,000	1,000,000
Retained profits	105,269	225,542
Other Reserves		
Statutory reserve	472,108	397,381
Unrealised losses on available for-sale financial instruments	(30,227)	(25,940)
Foreign exchange translation reserve	(787)	(610)
Regulatory Adjustment		
Less: Deferred tax assets (net)	(12,786)	(17,027)
Less: Investment in subsidiaries	(6,384)	(6,384)
Total Common Equity Tier- I Capital	<u>1,722,193</u>	<u>1,572,962</u>
Total Tier-I Capital	<u>1,722,193</u>	<u>1,572,962</u>
<u>Tier-II capital</u>		
Subordinated sukuk	324,844	365,450
Collective assessment	90,088	120,903
Total Tier-II Capital	<u>414,932</u>	<u>486,353</u>
Total Capital Base	<u>2,137,125</u>	<u>2,059,315</u>

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47. Capital adequacy (cont'd.)

(a) The core capital ratios and risk-weighted capital ratios of the the Bank are as follows (cont'd.):

	Bank	
	2014 RM'000	2013 RM'000
Computation of capital ratios (cont'd.)		
<u>Ratio (%)</u>		
CET 1 Capital	14.1%	14.6%
Tier 1 Capital	14.1%	14.6%
Total Capital	17.6%	19.1%

With effect from 1 January 2013, the total capital and capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks (Capital Components and Basel II - Risk-weighted Assets) dated 28 November 2012. The Group and Bank have adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk. In line with the transitional arrangements under the Bank Negara Malaysia's Capital Adequacy Framework (Capital Components), the minimum capital adequacy requirement for Common Equity Tier I capital ratio and Tier I capital ratio are 3.5% and 4.5% respectively for the current period. The minimum regulatory capital adequacy requirement remains at 8.0% (2013: 8.0%) for total capital ratio.

(b) Credit risk disclosure by risk weights of the Group as at 31 March, are as follows:

	Group			
	2014		2013	
	Total exposures after netting and credit risk mitigation RM'000	Total risk weighted assets RM'000	Total exposures after netting and credit risk mitigation RM'000	Total risk weighted assets RM'000
0%	6,428,416	-	9,165,454	-
20%	2,722,323	544,465	2,260,167	452,033
35%	1,161,435	406,502	988,384	345,934
50%	663,050	331,525	747,640	373,820
75%	3,933,421	2,950,066	3,100,378	2,325,285
100%	6,592,961	6,592,961	6,084,959	6,084,959
150%	113,015	169,523	70,388	105,582
Risk weighted assets for credit risk	21,614,621	10,995,042	22,417,370	9,687,613
Risk weighted assets for market risk		113,581		57,818
Risk weighted assets for operational risk		1,068,340		1,022,010
Total risk weighted assets		12,176,963		10,767,441

47. Capital adequacy (cont'd.)

(b) Credit risk disclosure by risk weights of the Bank as at 31 March, are as follows:

	Bank			
	2014		2013	
	Total exposures after netting and credit risk mitigation RM'000	Total risk weighted assets RM'000	Total exposures after netting and credit risk mitigation RM'000	Total risk weighted assets RM'000
0%	6,428,416	-	9,165,454	-
20%	2,722,323	544,465	2,260,167	452,033
35%	1,161,435	406,502	988,384	345,934
50%	663,050	331,525	747,640	373,820
75%	3,933,421	2,950,066	3,100,379	2,325,283
100%	6,587,306	6,587,306	6,077,556	6,077,556
150%	117,399	176,099	70,808	106,212
Risk weighted assets for credit risk	21,613,350	10,995,963	22,410,388	9,680,838
Risk weighted assets for market risk		113,581		57,818
Risk weighted assets for operational risk		1,063,238		1,020,708
Total risk weighted assets		<u>12,172,782</u>		<u>10,759,364</u>

48. Capital management

The issuance of subordinated sukuk which qualifies for Tier 2 capital amounting to RM400 million which was issued in June 2011, had ensured that the Group and the Banks' RWCR remain competitive throughout the duration of the 5-year business plan. Subject to the gradual phase-out treatment in accordance with BNM's Capital Adequacy Framework for Islamic Bank (Capital Components) issued on 28 November 2012, the RM400 million sukuk qualifies as Tier-2 capital for the purpose of Bank Negara Malaysia capital adequacy requirement.

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48. Capital management (cont'd.)

Board of Directors holds the ultimate responsibility in approving the capital management strategy. At the management level, capital management strategy review is a period exercise that is under the purview of Asset-Liability Management Committee ("ALCO"). The said exercise refers to an assessment of the Bank's capital requirement vis-à-vis the development of the Bank as well as the broad environment, i.e. regulatory and macroeconomic setting.

Latest review exercise revealed that the management of the Bank's capital has remained consistent with the development of the 5-year business plan. This indicates that the present depth in capital is sufficient to meet the requirements of the business plan outlined.

Meanwhile, there were a series of developments made from the regulatory perspective, in particular, the proposal by the Basel Committee on Banking Supervision on Basel III. Much has been deliberated as regulators globally strive to address reform in banking supervision, especially in the quality of capital and liquidity standards.

The Bank has adopted the Standardised Approach for the measurement of credit and market risks, and the Basic Indicator Approach for operational risk, in compliance with BNM's requirements vis-à-vis the Capital Adequacy Framework for Islamic Bank. In addition, the stress testing process forecast the Bank's capital requirements under plausible and worst case stress scenarios to assess the Bank's capital to withstand the shocks.

49. Segment information

(a) Business segments

The Bank is organised into three major business segments:

- (i) Business banking - this segment comprises the full range of products and services offered to business customers in the region, ranging from large corporates and the public sector and also commercial enterprises. The products and services offered including long-term financing such as project financing, short-term credit such as Muamalat Cashline and trade financing and fee based services such as cash management.
- (ii) Consumer banking - this segment comprises the full range of products and services offered to individual customers in Malaysia, including savings accounts, current accounts, general investment accounts, remittance services, internet banking services, cash management services, consumer financing such as mortgage financing, personal financing, hire purchases financing, micro financing, wealth management and bancatakaful products.
- (iii) Treasury and Investment Banking - this segment comprises the full range of products and services relating to treasury activities and services, including foreign exchange, money market, derivatives and trading of capital market securities.

Investment Banking focuses on business needs of mainly large corporate customers and financial institutions which include corporate advisory services, bond issuances, IPOs and debt restructuring advisory services. It also explores investment opportunities via Private Equity investments for the Bank.

49. Segment information (cont'd.)

(a) Business segments (cont'd.)

Other business segments include rental services, none of which is of a sufficient size to be reported separately.

Group 2014	Business banking RM'000	Consumer banking RM'000	Treasury and Investment banking RM'000	Others RM'000	Total RM'000
Revenue	195,173	476,256	314,297	18,662	1,004,388
Total Income	120,914	343,759	42,397	49,872	556,942
Writeback of/(allowance for) impairment on financing	34,380	26,906	5,547	(700)	66,133
Other expenses	-	-	-	(12,245)	(12,245)
Total net income	155,294	370,665	47,944	36,927	610,830
Total Overhead expenses					(402,546)
Profit before zakat and taxation					208,284
Zakat					(5,137)
Taxation					(51,583)
Profit for the year					151,564

Group 2013	Business banking RM'000	Consumer banking RM'000	Treasury and Investment banking RM'000	Others RM'000	Total RM'000
Revenue	222,735	434,788	331,172	10,643	999,339
Total Income	137,088	319,593	85,906	39,788	582,375
Writeback of/(allowance for) impairment on financing	41,742	(16,493)	(5,093)	-	20,156
Other expenses	-	-	-	(9,369)	(9,369)
Total net income	178,830	303,100	80,813	30,419	593,162
Total Overhead expenses					(357,199)
Profit before zakat and taxation					235,963
Zakat					(6,149)
Taxation					(61,878)
Profit for the year					167,936

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49. Segment information (cont'd.)

(a) Business segments (cont'd.)

Other business segments include rental services, none of which is of a sufficient size to be reported separately.

Bank 2014	Business banking RM'000	Consumer banking RM'000	Treasury and Investment banking RM'000	Others RM'000	Total RM'000
Revenue	195,173	476,256	312,006	15,060	998,495
Total Income	120,914	343,759	40,106	46,690	551,469
Writeback of impairment during the year	34,380	26,906	5,547	-	66,833
Other expenses	-	-	-	(12,245)	(12,245)
Total net income	155,294	370,665	45,653	34,445	606,057
Total Overhead expenses					(400,574)
Profit before zakat and taxation					205,483
Zakat					(5,137)
Taxation					(50,892)
Profit for the year					149,454

Bank 2013	Business banking RM'000	Consumer banking RM'000	Treasury and Investment banking RM'000	Others RM'000	Total RM'000
Revenue	222,735	434,788	331,023	9,715	998,261
Total Income	137,088	319,593	85,757	39,110	581,548
Writeback of/(allowance for) impairment during the year	41,742	(16,493)	(5,093)	-	20,156
Other expenses	-	-	-	(9,369)	(9,369)
Total net income	178,830	303,100	80,664	29,741	592,335
Total Overhead expenses					(357,357)
Profit before zakat and taxation					234,978
Zakat					(6,149)
Taxation					(61,643)
Profit for the year					167,186

50. Subsequent events

There were no material events subsequent to the reporting date that require disclosure or adjustments to the financial statements except for the following event:

Islamic Financial Services Act 2013 (IFSA)

The Islamic Banking has entered a new regulatory landscape through the enforcement of Islamic Financial Services Act 2013 (IFSA) on 30 June 2013 that focuses in safeguarding financial stability, promoting shariah governance and strengthening market and consumer confidence.

These include mandatory compliance to Islamic deposits and investment accounts requirements as defined by the Acts, in which to be completed by June 2015. The Bank has put in place comprehensive transition plans and initiatives that summarized as follows:-

Deposits	Transition Plans
a. Mudharabah Current Account & Mudharabah Saving Account	Maintained as investment account under the guidance of AIBIM through joint collaboration with other Islamic Banks. The transition is guided by the BNM's Guidelines on Investment Account, issued on 14th March 2014. The process will be completed by June 2015.
b. Mudharabah General Investment Account (GIA) & Mudharabah Special General Investment Deposit (SGID)	To be converted and rolled over to Fixed Term Account (FTA-i). The launch of the new FTA will be made in tandem with the Bank's Muamalat Banking Solution (MBS) cut-over date.
c. Other deposits	No changes

A blurred background image showing a calculator and a document. The document is the primary focus, with the title 'Basel II Pillar 3 Disclosure' clearly visible. The calculator is in the upper left, and the document's text is in the lower right.

Basel II Pillar 3 Disclosure

Pillar 3's objective is to improve market discipline
2. To that end, Pillar 3 is a substantial public disclosure
made publicly available by Bank Muamalat
Capital structure, capital adequacy risk rating

The information herein disclosed is
under the Basel II - Disclosure
11 March 2011 This document
Company and its

Basel II Pillar 3 Disclosure

Statement by Chief Executive Officer

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

In accordance with the requirement of BNM's Guideline on Capital Adequacy Framework for Islamic Banks ('CAFIB') – Disclosure Requirement ('Pillar 3'), and on behalf of the Board and management of Bank Muamalat Malaysia Berhad, I am pleased to provide an attestation that the Pillar 3 disclosures of the Group and the Bank for year ended 31 March 2014 are accurate and complete.

Dato' Haji Mohd Redza Shah bin Abdul Wahid
Chief Executive Officer

Basel II Pillar 3 Disclosure

Abbreviations

ALCO	Asset-Liability Management Committee	RMD	Risk Management Department
ALM	Asset and Liability Management	RWA	Risk Weighted Assets
BCM	Business Continuity Management	RWCAF	Risk Weighted Capital Adequacy Framework
BCP	Business Continuity Plan	TBPS	Trading Book Policy Statement
BIA	Business Impact Analysis	S&P	Standard and Poor's
BOD	Board of Director	SC	Shariah Committee
BNM	Bank Negara Malaysia	SNCI	Shariah Non-Compliance Income
BRMC	Board Risk Management Committee	SRP	Shariah Review Program
BU	Business Unit	SU	Support Unit
CAFIB	Capital Adequacy Framework for Islamic Banks	VaR	Value at Risk
CBs	Corporate Bonds		
CC	Credit Committee		
CCR	Counterparty Credit Risk		
CEO	Chief Executive Officer		
CPs	Commercial Papers		
CR	Credit Risk		
CRP	Credit Risk Policy		
CRM	Credit Risk Mitigation		
CSRD	Credit Supervision and Recovery Department		
EAR	Earning At Risk		
ECAI	External Credit Assessment Institutions		
ERMIC	Executive Risk Management Committee		
EVE	Economic Value Perspective		
FRS139	Financial Reporting Standards 139		
FDI	Foreign Direct Investments		
GCRP	Guidelines to Credit Risk Policies		
IC	Investment Committee		
ICAAP	Internal Capital Adequacy Assessment Process		
IFIs	Islamic Financial Institutions		
IFSB-10	Institute Offering Islamic Financial Services		
IPRS	Islamic Profit Rate Swap		
IRB Approach	Internal Ratings Based Approach		
MARC	Malaysian Rating Corporation Berhad		
MDB	Multilateral Development Bank		
MISB	Muamalat Invest Sdn Bhd		
MR	Market Risk		
OR	Operational Risk		
ORM	Operational Risk Management		
ORMC	Operational Risk Management Committee		
PDS	Private Debt Securities		
PSEs	Non- Federal Government Public Sector Entities		
RA	Risk Assessment		
R&I	Rating and Investment Information, Inc		
RAM	RAM Rating Services Berhad		
RORBB	Rate of Return Risk in Banking Book		

Overview

The Pillar 3 Disclosure is a regulatory requirement aimed at enhancing market transparency and discipline. It is prepared in accordance to the Bank Negara Malaysia's (BNM's) guidelines "Capital Adequacy Framework for Islamic Banks (CAFIB) - Disclosure Requirements (Pillar 3)" and contains qualitative and quantitative information on Bank Muamalat Malaysia Berhad's (the Bank's) risk exposures and capital adequacy levels as well as on its capital and risk management practices.

In assessing its capital position, the Bank applies the prescribed Standardised Approach to measure its credit and market risk exposures and the Basic Indicator Approach for operational risk, as outlined under the BNM's CAFIB guidelines.

This Pillar 3 disclosure is published for the financial year ended 31 March 2014 and should be read in conjunction with the Bank's audited financial statement for the year ended 31 March 2014.

Basel II

Improved soundness and stability

Pillar 1 Minimum capital	Pillar 2 Supervisory review	Pillar 3 Market discipline
Credit risk > Standardised method, or > Internal rating based approach (IRB or A-IRB) > Risk quantification (PD, LGD, EAD) Operational risk > Standardised methods, or > Advanced measurement (AM) > Loss event segmentation by type and business unit > Quantification of losses > Process development Market Risk > Focus on specific risk and model validation	> Risk measurement of all risks > Stress testing of risks > Financial plan and down turn scenario > Assessment of capital adequacy management > Capital plan and capital alert plan > Board and senior management oversight	> Policies and procedures regarding disclosure frequency and materiality > Capital structure > Capital adequacy > Risk exposure and assessment ■ Credit Risk ■ Market Risk ■ Operational Risk ■ Equities in the banking book ■ Rate of return risk in the banking book

Basel II Pillar 3 Disclosure

1.0 Scope of Application

The Pillar 3 Disclosure is prepared on a consolidated basis and comprises information on the Bank and its subsidiaries (hereinafter referred as “the Group and the Bank”). Information on subsidiaries is available in Note 11 to the financial statements.

The basis of consolidation for financial accounting purposes is described in Notes 3.4 (a) to the financial statements, and differs from that used for regulatory capital purposes. The investment in subsidiary companies is deducted from regulatory capital at entity level and consolidated at group level.

There are no significant restrictions or impediments on the transfer of funds or regulatory capital within the Group.

There were no capital deficiencies in any of the subsidiary companies of the Group as at the financial year end.

All information in the ensuing paragraphs is based on the Group’s position. Certain information on capital adequacy relating to the Group and the Bank is presented on a voluntary basis to provide additional information to users. The capital-related information of the Group and the Bank, which is presented on a global basis, includes its offshore banking activities in Labuan as determined under the CAFIB.

These disclosures have been reviewed and verified by internal auditors and approved by the Board and Directors of the Group.

Scope of disclosure

The detailed scope of published disclosure is subject to the following classification of information:

- Insignificant, i.e. its exclusion or distortion cannot influence the assessment or decision of a person using such information to make economic decisions, or influence such an assessment or decision,
- Reserved, i.e. its public distribution might adversely influence the position of the Group and the Bank on the market according to regulations on competition and consumer protection,
- Subject to law-protected confidentiality, such information is not published. In case of not publishing reserved information or the one which is subject to law-protected confidentiality, the Group and the Bank disclose information which is less detailed.

2.0 Capital Management

The Bank's capital management framework has been developed and designed to protect the interests of its key stakeholders. The primary objective of the Bank's capital management is to ensure overall capital utilization is efficient and optimized while in pursuit of its strategic objectives. It is also aimed at ensuring sufficient level of capital is maintained at all times to support the business growth targets and that it is kept in line with the Bank's risk appetite, profile and regulatory requirements.

To determine the appropriate level and composition of capital to be held, the Bank uses the risk and capital adequacy assessment approaches as outlined under the Internal Capital Adequacy Assessment Process (ICAAP). The capital levels are assessed based on the Bank's strategic and business targets, current and forecasted economic and market conditions, and feedback received from regulators and rating agencies.

The Bank conducts and draws up its strategic, business and capital plans on an annual basis. Guided by the Board-approved risk appetite statements, the plans cover a three-year planning horizon and are subjected to a stress test covering several possible scenarios. Based on the ICAAP and stress test analysis, internal capital targets are set for key capital ratios to facilitate ongoing capital management and monitoring and to ensure that adequate capital can be maintained under adverse economic scenarios.

Arising from the annual business planning and capital assessment process, the Bank has also drawn up a capital plan which addresses the capital issuance requirements, capital instrument composition and maturity profile, capital contingency planning, and capital efficiency and optimization strategy and action plan.

2.1 Internal Capital Adequacy Assessment Process ("ICAAP")

The Bank's approach in assessing the adequacy of internal capital levels in relation to its risk profile is addressed in its Internal Capital Adequacy Assessment Process (ICAAP). This is in line with BNM's requirement as stipulated in its guideline on "Capital Adequacy Framework for Islamic Banks (CAFIB) - Internal Capital Adequacy Assessment Process (Pillar 2)".

Under this process, the Bank evaluates its risk profile and identifies the key material risks it faces from its business activities. It begins with the assessment and allocation of capital on the core Pillar 1 risks, namely credit, market and operational risks (generally referred to as "Pillar 1 capital").

The Bank further assesses the adequacy of its capital in relation to other discretionary and non-discretionary risks, such as credit concentration, liquidity, strategic risk, reputational risk, and IT risk. Additional capital allocation and buffers are made for risk exposures that are deemed inadequately covered under the Pillar 1 capital.

The Bank uses the regulatory capital ratios, namely the Common Equity Tier 1 Capital, Tier 1 Capital and Total Capital, as a measure of its capital adequacy. In terms of its capital mix, the Bank's capital consists primarily of Tier 1 capital and common equity, which enhances the Bank's ability to absorb potential losses under unforeseeable circumstances.

Stress Test

For a more critical analysis of the Bank's capital adequacy level, the business growth projection and inherent risk profile is subjected to a stress test analysis. The aim of stress testing is to estimate the potential losses on the exposures under possible and adverse market or economic conditions. The results of these analyses are used as important inputs in the formulation of the Bank's capital and strategic action plans.

Basel II Pillar 3 Disclosure

2.1 Internal Capital Adequacy Assessment Process ("ICAAP") (cont'd.)

The tables below present the capital adequacy ratios of the Group and the Bank.

Table 1: Capital adequacy ratios

	Group		Bank	
	31 March 2014	31 March 2013	31 March 2014	31 March 2013
Core Capital Ratio	14.2%	14.7%	14.1%	14.6%
Risk-weighted capital ratio	17.6%	19.2%	17.6%	19.1%

The following table represents the Group's and Bank's capital position as at 31 March 2014. Details on capital instruments, including share capital and reserves are found in notes 23 to 25 of the financial statements:

Table 2: Capital structure

	Group		Bank	
	31 March 2014	31 March 2013	31 March 2014	31 March 2013
	RM'000	RM'000	RM'000	RM'000
Tier-I capital				
Paid-up ordinary share capital	1,195,000	1,000,000	1,195,000	1,000,000
Retained profits/loss brought forward	107,885	226,048	105,269	225,542
Other Reserves				
Statutory reserve	473,705	398,978	472,108	397,381
Unrealised gains and losses on 'available for-sale' financial instruments	(30,227)	(25,940)	(30,227)	(25,940)
Foreign exchange translation reserve	(787)	(610)	(787)	(610)
				-
Regulatory Adjustment				
Less: Deferred tax assets (net)	(12,786)	(17,027)	(12,786)	(17,027)
Less: Investment in subsidiaries	-	-	(6,384)	(6,384)
Total Tier-I Capital	1,732,790	1,581,449	1,722,193	1,572,962
Tier-II capital				
Subordinated bonds	324,844	365,450	324,844	365,450
Collective assessment allowance	90,088	121,095	90,088	120,903
Total Tier-II Capital	414,932	486,545	414,932	486,353
Common Equity Tier 1 Capital (CET1)	1,732,790	1,581,449	1,722,193	1,572,962
Tier 1 Capital	1,732,790	1,581,449	1,722,193	1,572,962
Total Capital	2,147,722	2,067,994	2,137,125	2,059,315

With effect from 1 January 2013, the total capital and capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks (Capital Components and Basel II - Risk-weighted Assets). The Bank has adopted the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk.

2.1 Internal Capital Adequacy Assessment Process ("ICAAP") (cont'd.)

The following tables present the minimum regulatory capital requirement to support the Group's and the Bank's risk-weighted assets:

Table 3: Minimum capital requirement and risk-weighted assets

	31 March 2014		31 March 2013	
	Risk Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000	Risk Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Group				
Credit Risk	10,995,042	879,603	9,687,613	775,009
Market Risk	113,581	9,086	57,818	4,625
Operational Risk	1,068,340	85,467	1,022,010	81,761
Total	12,176,963	974,156	10,767,441	861,395
	31 March 2014		31 March 2013	
	Risk Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000	Risk Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Bank				
Credit Risk	10,995,963	879,677	9,680,838	773,782
Market Risk	113,581	9,086	57,818	4,625
Operational Risk	1,063,238	85,059	1,020,708	81,657
Total	12,172,782	973,822	10,759,364	860,064

The Group and the Bank do not have any capital requirement for Large Exposure Risk as there is no amount in excess of the lowest threshold arising from equity holdings as specified in the BNM's RWCAF.

Basel II Pillar 3 Disclosure

2.1 Internal Capital Adequacy Assessment Process ("ICAAP") (cont'd.)

Risk-weighted and capital requirements for credit risk, market risk and operational risk are as follows:

Table 4: Minimum capital requirement and risk-weighted assets by exposures

Group	Gross Exposures RM'000	*Net Exposures RM'000	Risk Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
31 March 2014				
(i) Credit Risk (Standardised Approach)				
(a) On Balance Sheet Exposures				
Sovereign/Central Banks	5,544,455	5,544,455	-	-
PSEs	63,480	62,575	12,515	1,001
Banks, Development Financial Institution & MDBs	529,820	529,820	96,989	7,759
Corporates	5,396,353	5,307,533	3,675,328	294,026
Regulator Retail	5,204,402	5,198,848	4,329,886	346,391
Residential Real Estate	2,795,009	2,795,009	1,686,551	134,924
Higher Risk Assets	68,416	68,416	102,623	8,210
Other Assets	313,524	313,524	222,533	17,802
Defaulted Exposures	138,802	138,802	111,458	8,917
	20,054,261	19,958,982	10,237,883	819,030
(b) Off-Balance Sheet Exposures**				
Credit-related off-balance sheet exposure	1,556,486	1,556,486	734,676	58,774
Derivative financial instruments	99,152	99,152	22,483	1,799
	1,655,638	1,655,638	757,159	60,573
Total Credit Exposures	21,709,899	21,614,620	10,995,042	879,603
(ii) Market Risk (Standardised Approach)				
Benchmark Rate Risk	479	(1,255)	75,066	6,005
Foreign Currency Risk	38,516	(24,636)	38,515	3,081
			113,581	9,086
(iii) Operational Risk (Basic Indicators Approach)			1,068,340	85,467
(iv) Total RWA and Capital Requirements			12,176,963	974,156

* After netting and credit risk mitigation

** Credit Risk of off balance sheet items

2.1 Internal Capital Adequacy Assessment Process ("ICAAP") (cont'd.)

Risk-weighted and capital requirements for credit risk, market risk and operational risk are as follows: (cont'd.)

Table 4: Minimum capital requirement and risk-weighted assets by exposures (cont'd.)

Group	Gross Exposures RM'000	*Net Exposures RM'000	Risk Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
31 March 2013				
(i) Credit Risk (Standardised Approach)				
(a) On Balance Sheet Exposures				
Sovereign/Central Banks	8,262,049	8,262,049	-	-
PSEs	67,594	63,029	12,606	1,008
Banks, Development Financial Institution & MDBs	399,475	399,475	78,906	6,312
Corporates	5,028,053	4,945,547	3,384,867	270,789
Regulator Retail	4,645,090	4,641,658	4,000,865	320,069
Residential Real Estate	2,151,797	2,151,797	1,241,602	99,328
Higher Risk Assets	18,205	18,205	27,308	2,185
Other Assets	372,255	372,255	250,751	20,061
Defaulted Exposures	101,504	101,504	109,677	8,775
	21,046,022	20,955,519	9,106,582	728,527
(b) Off-Balance Sheet Exposures**				
Credit-related off-balance sheet exposure	1,417,933	1,417,933	569,240	45,539
Derivative financial instruments	43,920	43,920	11,791	943
	1,461,853	1,461,853	581,031	46,482
Total Credit Exposures	22,507,875	22,417,372	9,687,613	775,009
(ii) Market Risk (Standardised Approach)	Long Position	Short Position	Risk Weighted Assets	Capital Requirement
Benchmark Rate Risk	204	(1,044)	38,494	3,080
Foreign Currency Risk	19,324	(2,513)	19,324	1,545
			57,818	4,625
(iii) Operational Risk (Basic Indicators Approach)			1,022,010	81,761
(iv) Total RWA and Capital Requirements			10,767,441	861,395

* After netting and credit risk mitigation

** Credit Risk of off balance sheet items

Basel II Pillar 3 Disclosure

2.1 Internal Capital Adequacy Assessment Process ("ICAAP") (cont'd.)

Risk-weighted and capital requirements for credit risk, market risk and operational risk are as follows: (cont'd.)

Table 4: Minimum capital requirement and risk-weighted assets by exposures (cont'd.)

Bank	Gross Exposures RM'000	*Net Exposures RM'000	Risk Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
31 March 2014				
(i) Credit Risk (Standardised Approach)				
(a) On Balance Sheet Exposures				
Sovereign/Central Banks	5,544,455	5,544,455	-	-
PSEs	63,480	62,575	12,515	1,001
Banks, Development Financial Institution & MDBs	529,820	529,820	96,989	7,759
Corporates	5,396,353	5,307,533	3,675,328	294,026
Regulator Retail	5,204,402	5,198,848	4,329,886	346,391
Residential Real Estate	2,795,009	2,795,009	1,686,551	134,924
Higher Risk Assets	72,799	72,799	109,199	8,736
Other Assets	307,869	307,869	216,878	17,350
Defaulted Exposures	138,802	138,802	111,458	8,917
	20,052,989	19,957,710	10,238,804	819,104
(b) Off-Balance Sheet Exposures**				
Credit-related off-balance sheet exposure	1,556,486	1,556,486	734,676	58,774
Derivative financial instruments	99,152	99,152	22,483	1,799
	1,655,638	1,655,638	757,159	60,573
Total Credit Exposures	21,708,627	21,613,348	10,995,963	879,677
(ii) Market Risk (Standardised Approach)	Long Position	Short Position	Risk Weighted Assets	Capital Requirement
Benchmark Rate Risk	479	(1,255)	75,066	6,005
Foreign Currency Risk	38,516	(24,636)	38,515	3,081
			113,581	9,086
(iii) Operational Risk (Basic Indicators Approach)			1,063,238	85,059
(iv) Total RWA and Capital Requirements			12,172,782	973,822

* After netting and credit risk mitigation

** Credit Risk of off balance sheet items

2.1 Internal Capital Adequacy Assessment Process ("ICAAP") (cont'd.)

Risk-weighted and capital requirements for credit risk, market risk and operational risk are as follows: (cont'd.)

Table 4: Minimum capital requirement and risk-weighted assets by exposures (cont'd.)

Bank	Gross Exposures RM'000	*Net Exposures RM'000	Risk Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
31 March 2013				
(i) Credit Risk (Standardised Approach)				
(a) On Balance Sheet Exposures				
Sovereign/Central Banks	8,262,049	8,262,049	-	-
PSEs	67,594	63,029	12,606	1,008
Banks, Development Financial Institution & MDBs	399,475	399,475	78,906	6,312
Corporates	5,028,053	4,945,547	3,384,867	270,789
Regulator Retail	4,645,090	4,641,658	4,000,865	320,069
Residential Real Estate	2,151,797	2,151,797	1,241,602	99,329
Higher Risk Assets	18,625	18,625	27,938	2,235
Other Assets	356,282	356,282	234,778	18,783
Defaulted Exposures	101,504	101,504	109,677	8,774
	21,030,469	20,939,966	9,091,239	727,299
(b) Off-Balance Sheet Exposures**				
Credit-related off-balance sheet exposure	1,417,933	1,417,933	569,240	45,540
Derivative financial instruments	43,920	43,920	11,791	943
	1,461,853	1,461,853	581,031	46,483
Total Credit Exposures	22,492,322	22,401,819	9,672,270	773,782
(ii) Market Risk (Standardised Approach)	Long Position	Short Position	Risk Weighted Assets	Capital Requirement
Benchmark Rate Risk	204	(1,044)	38,494	3,080
Foreign Currency Risk	19,324	(2,513)	19,324	1,545
			57,818	4,625
(iii) Operational Risk (Basic Indicators Approach)			1,020,708	81,657
(iv) Total RWA and Capital Requirements			10,750,796	860,064

* After netting and credit risk mitigation

** Credit Risk of off balance sheet items

Basel II Pillar 3 Disclosure

3.0 Risk Management

Overview

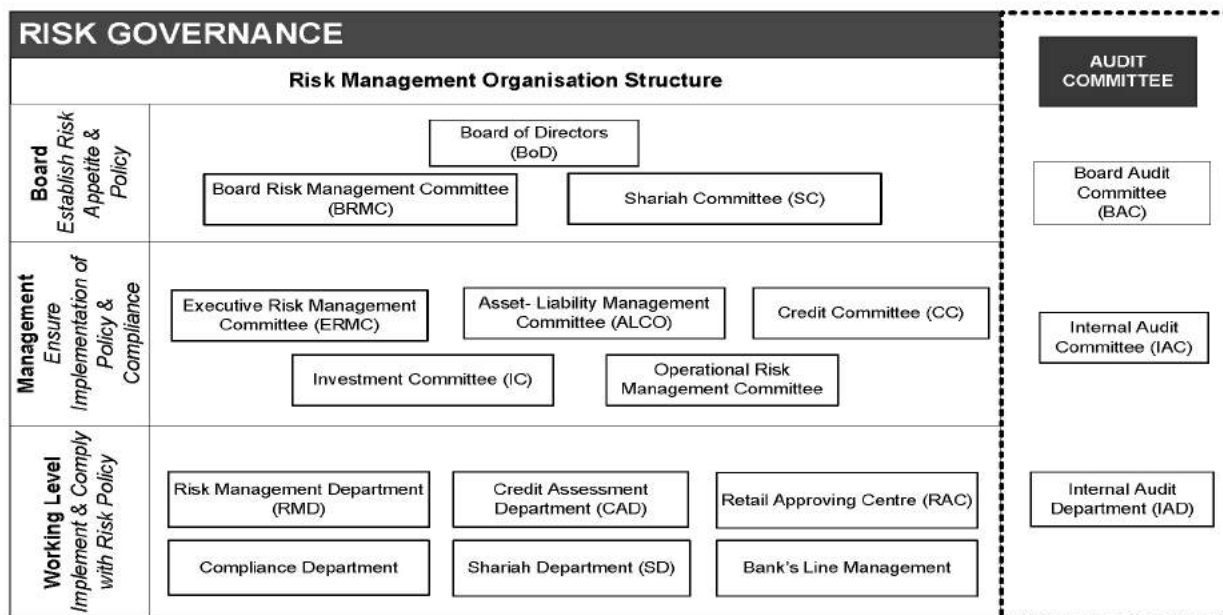
Risk is inherent in every aspect of our business activity and to manage this effectively, the Bank has undertaken an integrated risk management approach to ensure that a broad spectrum of risk types are considered and addressed. The Bank's risk management framework and structure are built on formal governance processes that outline responsibilities for risk management activities, as well as the governance and oversight of these activities.

An integral part of this approach is the systematic process of risk identification and measurement. Appropriate risk management strategies are then developed in line with the Bank's business plans and objectives, which include the ongoing monitoring and control of the identified risk exposures. The management and control over the principal risk areas of credit, market, asset and liability management, operational and Shariah are integrated to optimize and secure the Bank's strategic and competitive advantage.

Risk Governance

The Board of Directors holds the ultimate responsibility for overall risk governance and oversight, which include determining appropriate risk strategies, setting the Bank's risk appetite and ensuring that risks are monitored and controlled effectively. The Board oversees the risk management of the Bank through a clearly defined governance structure, which include board and management level committees with distinct roles and responsibilities.

Table 5: Risk Governance Structure



3.0 Risk Management (cont'd.)

Risk Governance (cont'd.)

The Board is responsible for understanding the risks undertaken by the Bank and ensuring that these risks are properly managed. While the Board is ultimately responsible for the Bank's management of risks, it has entrusted the Board Risk Management Committee (BRMC) to carry out specific risk management oversight functions on its behalf.

BRMC, which is chaired by an independent director of the Board, is a board level committee that oversees the overall management of risks and deliberates on risk-related issues and resolutions. The Board, via BRMC, also ensures that the appropriate processes, resources, policies and guidelines are in place to manage the Bank's risks.

In addition, the Shariah Committee (SC) is also set up as an independent external body to decide on Shariah issues and simultaneously to assist towards risk mitigation and compliance with the Shariah principles.

The execution of the Board-approved risk strategies and policies is the responsibility of the Bank's management and the conduct of these functions are being exercised under a committee structure. Heading the management level committees is the Executive Risk Management Committee (ERMC), which is chaired by the Chief Executive Officer (CEO).

The ERMC focuses on the overall business strategies and day-to-day business operations of the Bank in respect of risk management.

At the management level, the following risk committees are set up to oversee specific risk areas and its related control functions:

Table 6: Risk Committees & Functions

Committee	Objective
Asset & Liability Working Committee (ALCO)	To ensure that all strategies conform to the Bank's risk appetite and levels of exposure as determined by the BRMC. These include areas of capital management, funding and liquidity management and market risk.
Credit Committee (CC)	To manage the direction of the Bank's financing exposures (business and consumer). These include authority to decide on new and/or additional exposures and review the direction of existing exposure.
Investment Committee (IC)	To manage the Bank's investments and decide on new and/or additional investment in securities and/or other Treasury investment-related activities.
Operational Risk Management Committee (ORMC)	To ensure effective implementation of Operational Risk Management Framework.

A dedicated and independent Risk Management Department (RMD), supports the above committees by carrying out the day-to-day risk management functions and providing reports, analysis and recommendations for decision-making.

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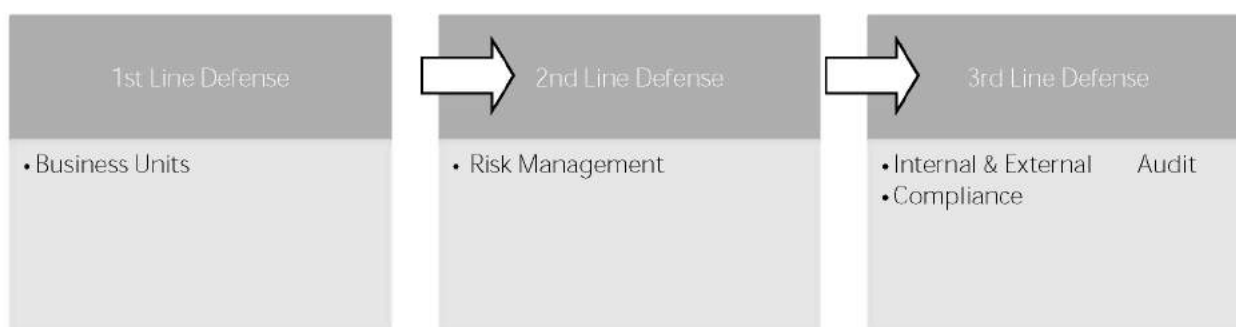
3.0 Risk Management (cont'd.)

The Bank's risk governance structure is based on the principle that each line of business is responsible for managing the risk inherent in their undertaken business activities. The line managers are therefore responsible for the identification, measurement and management of risks within their respective areas of responsibility.

The Bank's risk management framework is based on a "distributed function" approach, where:

- The First Line of Defense lies within the business lines, which are primarily responsible for managing specific risks assumed by them in their day-to-day activities.
- The Second Line of Defense provides the specialized resources for developing risk frameworks, policies, methodologies and tools for the management of material risks taken by the Group as a whole.
- The Third Line of Defense involves internal audit and compliance, whose tasks would be to independently review on the adequacy and effectiveness of the risk management process and ensuring compliance.

Table 7: Risk Management Flow



Risk Appetite

For the risk management framework to be effective, the Bank has developed a set of risk appetite statements that defines the risk capacity, risk appetite, risk tolerance and risk limits/targets of the Bank. It sets out the principles and policies that guide the Bank's behavior and decision making for all risk taking activities towards achieving an optimal balance between risk and return. It also provides a clear reference point to monitor risk taking, to trigger appropriate action as the boundaries are approached or breached, and to minimize the likelihood of 'surprises' when adverse risk events occur.

The risk appetite statements, together with the risk tolerance limits and thresholds, are formulated to cover several key strategic and business risk levels or metrics such as capital ratios, liquidity, earnings volatility, asset portfolio composition and quality. The risk appetite, which is expressed in quantitative and qualitative forms, also incorporates the Bank's key performance indicators and states its stance towards reputational and Shariah non-compliance.

The Board, BRMC and senior management is responsible for determining the Bank's risk appetite and risk management strategy. The risk appetite is reviewed by the Board on an annual basis, in alignment with the annual strategic and business planning process.

4.0 Credit Risk (General Disclosure)

Credit risk is the potential financial loss caused by a retail customer or wholesale counterparty failing to meet their obligations to the Bank as they become due. This covers all exposures and includes credit risk on guarantees and irrevocable undrawn facilities. Risks arising from changes in credit quality remain a central feature of the Bank's business and the recoverability of financing and amounts due from counterparties are inherent across most of the Bank's activities. Adverse changes in the credit quality of customer or a general deterioration in the economic conditions could affect the recoverability and value of the Bank's assets and therefore its financial performance.

As credit risk is the main risk to the Bank, a credit risk framework has been established as part of the overall governance framework to measure, mitigate and manage credit risk within the Bank's risk appetite. To a lesser degree, the Bank is exposed to other forms of credit risk, such as those arising from settlement activities where the risk is a consequence of undertaking the activity, rather than a driver for it. The Bank's credit risk framework is based on the allocation of the Bank's financing into risk rating categories. These provide a sufficient level of detail to identify, monitor and manage the overall credit risk profile on a regular basis. These rating categories are linked and defined in relation to profit spread.

The Board has established several key committees, namely the ERM and BRMC, to review the overall credit risk management activities, approve risk strategies and policies, and resolve any policy-related issues. The Risk Management Department (RMD) and senior management are tasked to implement and execute the strategies and policies approved by these committees and the Board.

The Bank conducts constant review of its credit exposures based on concentration and portfolio segments to ensure that these exposures are kept within the Board-approved risk appetite and risk tolerance levels. These review and analysis reports also provide the basis for risk management strategy and policy formulation.

The management of credit risk is governed by a set of credit-related policies, namely the Credit Risk Policy (CRP) and Guidelines to Credit Risk Policies (GCRP) and related operating procedures. These policies and procedures outlines the appropriate risk policies and prudential limits, risk rating and financing underwriting standards, delegated approving authority, risk mitigation, review, rehabilitation and restructuring, and provisioning for impaired financing. These policies are periodically reviewed and updated to ensure its efficacy and continued relevance.

4.0 Credit Risk (General Disclosure) (cont'd.)

Credit Risk Exposures and Credit Risk Concentration (cont'd.)

Table 8: Credit risk exposures and credit risk concentration by sector analysis (cont'd.)

Group	Government and statutory bodies RM'000	Finance, takaful and business services RM'000	Agriculture, manufacturing, wholesale, retail and restaurant RM'000	Construction and real estate RM'000	Purchase of transport vehicles RM'000	Others RM'000	Total RM'000
31 March 2013							
On balance sheet exposures							
Cash and short-term funds	-	3,236,505	-	-	-	-	3,236,505
Cash and placements with financial institutions	-	105,189	-	-	-	-	105,189
Financial investments designated at fair value through profit and loss	-	79,573	4,800	-	-	-	84,373
Financial investment available-for-sale	4,398,695	368,717	482,340	257,340	-	960,474	6,467,566
Islamic derivative financial assets	-	4,488	-	-	-	-	4,488
Financing of customers (restated)	621,076	481,993	1,205,013	588,866	971,027	6,484,651	10,352,626
Statutory deposits with Bank Negara Malaysia	612,721	-	-	-	-	-	612,721
Other financial assets	-	-	-	-	-	22,959	22,959
	5,632,492	4,276,465	1,692,153	846,206	971,027	7,468,084	20,886,427
Commitments and contingencies							
Contingent liabilities	139,872	25,000	73,259	260,811	-	116,853	615,795
Commitments	1,360,128	-	304,007	279,623	14,036	456,318	2,414,112
Derivative financial instruments	-	1,270,124	-	-	-	-	1,270,124
	1,500,000	1,295,124	377,266	540,434	14,036	573,171	4,300,031
Total credit exposures	7,132,492	5,571,589	2,069,419	1,386,640	985,063	8,041,255	25,186,458

Basel II Pillar 3 Disclosure

4.0 Credit Risk (General Disclosure) (cont'd.)

Credit Risk Exposures and Credit Risk Concentration (cont'd.)

Table 8: Credit risk exposures and credit risk concentration by sector analysis (cont'd.)

Bank	Government and statutory bodies	Finance, takaful and business services	Agriculture, manufacturing, wholesale, retail and restaurant	Construction and real estate	Purchase of transport vehicles	Others	Total
31 March 2014	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On balance sheet exposures							
Cash and short-term funds	-	966,260	-	-	-	-	966,260
Cash and placements with financial institutions	-	120,787	-	-	-	-	120,787
Financial investments designated at fair value through profit and loss	-	94,610	-	-	-	-	94,610
Financial investment available-for-sale	3,573,987	503,681	780,253	-	-	1,207,326	6,065,247
Islamic derivative financial assets	-	20,035	-	-	-	-	20,035
Financing of customers	560,164	687,595	1,367,044	730,609	1,085,553	7,473,109	11,904,074
Statutory deposits with Bank Negara Malaysia	648,721	-	-	-	-	-	648,721
Other financial assets	-	-	-	-	-	65,638	65,638
	4,782,872	2,392,968	2,147,297	730,609	1,085,553	8,746,073	19,885,372
Commitments and contingencies							
Contingent liabilities	7,478	7,500	59,292	227,589	-	100,783	402,642
Commitments	1,492,522	-	572,031	297,490	7,100	780,044	3,149,187
Derivative financial instruments	-	3,511,521	-	-	-	-	3,511,521
	1,500,000	3,519,021	631,323	525,079	7,100	880,827	7,063,350
Total credit exposures	6,282,872	5,911,989	2,778,620	1,255,688	1,092,653	9,626,900	26,948,722

4.0 Credit Risk (General Disclosure) (cont'd.)

Credit Risk Exposures and Credit Risk Concentration (cont'd.)

Table 8: Credit risk exposures and credit risk concentration by sector analysis (cont'd.)

Bank	Government and statutory bodies RM'000	Finance, takaful and business services RM'000	Agriculture, manufacturing, wholesale, retail and restaurant RM'000	Construction and real estate RM'000	Purchase of transport vehicles RM'000	Others RM'000	Total RM'000
31 March 2013							
On balance sheet exposures							
Cash and short-term funds	-	3,236,505	-	-	-	-	3,236,505
Cash and placements with financial institutions	-	105,189	-	-	-	-	105,189
Financial investments designated at fair value through profit and loss	-	79,573	-	-	-	-	79,573
Financial investment available-for-sale	4,398,695	368,717	482,340	257,340	-	960,474	6,467,566
Islamic derivative financial assets	-	4,488	-	-	-	-	4,488
Financing of customers (restated)	621,076	481,993	1,209,577	588,866	971,027	6,492,481	10,365,020
Statutory deposits with Bank Negara Malaysia	612,721	-	-	-	-	-	612,721
Other financial assets	-	-	-	-	-	13,488	13,488
	5,632,492	4,276,465	1,691,917	846,206	971,027	7,466,443	20,884,550
Commitments and contingencies							
Contingent liabilities	139,872	25,000	73,259	260,811	-	116,853	615,795
Commitments	1,360,128	-	304,007	279,623	14,036	456,318	2,414,112
Derivative financial instruments	-	1,270,124	-	-	-	-	1,270,124
	1,500,000	1,295,124	377,266	540,434	14,036	573,171	4,300,031
Total credit exposures	7,132,492	5,571,589	2,069,183	1,386,640	985,063	8,039,614	25,184,581

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4.0 Credit Risk (General Disclosure) (cont'd.)

Credit Risk Exposures and Credit Risk Concentration (cont'd.)

Table 9: Credit risk exposures and credit risk concentration by geographical analysis

The analysis of credit concentration risk of financial assets and commitments and contingencies of the Group and the Bank categorised by geographical distribution (based on the geographical location where the credit risk resides) are as follows:

	Group		Bank	
	Domestic RM'000	Labuan RM'000	Domestic RM'000	Labuan RM'000
31 March 2014				
On Balance Sheet Exposures				
Cash and short-term funds	907,021	59,239	907,021	59,239
Cash and placements with financial institutions	120,787	-	120,787	-
Financial investment designated at fair value through profit and loss	4,100	94,610	-	94,610
Financial investment available-for-sale	6,043,271	21,976	6,043,271	21,976
Islamic derivative financial assets	20,034	1	20,034	1
Financing of customers	11,824,128	75,563	11,828,511	75,563
Statutory deposits with Bank Negara Malaysia	648,721	-	648,721	-
Other financial assets	66,095	4	65,634	4
	19,634,157	251,393	19,633,979	251,393
Commitments and contingencies				
Contingent liabilities	402,642	-	402,642	-
Commitments	3,149,187	-	3,149,187	-
Derivative financial instruments	3,511,521	-	3,511,521	-
	7,063,350	-	7,063,350	-
Total credit exposures	26,697,507	251,393	26,697,329	251,393

4.0 Credit Risk (General Disclosure) (cont'd.)

Credit Risk Exposures and Credit Risk Concentration (cont'd.)

Table 9: Credit risk exposures and credit risk concentration by geographical analysis (cont'd.)

The analysis of credit concentration risk of financial assets and commitments and contingencies of the Group and the Bank categorised by geographical distribution (based on the geographical location where the credit risk resides) are as follows:

	Group		Bank	
	Domestic	Labuan	Domestic	Labuan
31 March 2013	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	3,232,160	4,345	3,232,160	4,345
Cash and placements with financial institutions	105,189	-	105,189	-
Financial investment designated at fair value through profit and loss	4,800	79,573	-	79,573
Financial investment available-for-sale	6,410,522	57,044	6,410,522	57,044
Islamic derivative financial assets	4,487	1	4,487	1
Financing of customers (restated)	10,337,627	14,999	10,350,021	14,999
Statutory deposits with Bank Negara Malaysia	612,721	-	612,721	-
Other financial assets	22,955	4	13,484	4
	<u>20,730,461</u>	<u>155,966</u>	<u>20,728,584</u>	<u>155,966</u>
Commitments and contingencies				
Contingent liabilities	615,795	-	615,795	-
Commitments	2,414,112	-	2,414,112	-
Derivative financial instruments	1,270,124	-	1,270,124	-
	<u>4,300,031</u>	<u>-</u>	<u>4,300,031</u>	<u>-</u>
Total credit exposures	<u>25,030,492</u>	<u>155,966</u>	<u>25,028,615</u>	<u>155,966</u>

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4.0 Credit Risk (General Disclosure) (cont'd.)

Credit Exposures of Financial Assets by Maturity Distribution

Table 10: Maturities of financial assets by remaining contractual maturity

Group	Up to 6 months	> 6 - 12 months	> 1 - 5 years	Over 5 years	Total
31 March 2014	RM'000	RM'000	RM'000	RM'000	RM'000
On-Balance Sheet Exposures					
Cash and short-term funds	966,260	-	-	-	966,260
Cash and placements with financial institutions	120,787	-	-	-	120,787
Financial investments designated at fair value through profit and loss	-	-	-	98,710	98,710
Financial investment available-for-sale	130,241	326,266	4,271,785	1,336,955	6,065,247
Islamic derivative financial assets	2,375	36	15,976	1,648	20,035
Financing of customers	2,647,521	841,799	4,067,181	4,343,190	11,899,691
Statutory deposits with Bank Negara Malaysia	-	-	-	648,721	648,721
Other financial assets	-	66,099	-	-	66,099
Total On-Balance Sheet Exposures	3,867,184	1,234,200	8,354,942	6,429,224	19,885,550

Group	Up to 6 months	> 6 - 12 months	> 1 - 5 years	Over 5 years	Total
31 March 2013	RM'000	RM'000	RM'000	RM'000	RM'000
On-Balance Sheet Exposures					
Cash and short-term funds	3,236,505	-	-	-	3,236,505
Cash and placements with financial institutions	105,189	-	-	-	105,189
Financial investments designated at fair value through profit and loss	-	-	-	84,373	84,373
Financial investment available-for-sale	1,066,494	294,214	4,054,559	1,052,299	6,467,566
Islamic derivative financial assets	4,386	102	-	-	4,488
Financing of customers (restated)	1,529,977	766,336	3,740,874	4,315,439	10,352,626
Statutory deposits with Bank Negara Malaysia	-	-	-	612,721	612,721
Other financial assets	-	22,959	-	-	22,959
Total On-Balance Sheet Exposures	5,942,551	1,083,611	7,795,433	6,064,832	20,886,427

4.0 Credit Risk (General Disclosure) (cont'd.)

Credit Exposures of Financial Assets by Maturity Distribution (cont'd.)

Table 10: Maturities of financial assets by remaining contractual maturity (cont'd.)

Bank	Up to 6 months RM'000	> 6 - 12 months RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Total RM'000
31 March 2014					
On-Balance Sheet Exposures					
Cash and short-term funds	966,260	-	-	-	966,260
Cash and placements with financial institutions	120,787	-	-	-	120,787
Financial investments designated at fair value through profit and loss	-	-	-	94,610	94,610
Financial investment available-for-sale	130,241	326,266	4,271,785	1,336,955	6,065,247
Islamic derivative financial assets	2,375	36	15,976	1,648	20,035
Financing of customers	2,647,521	841,799	4,067,181	4,347,573	11,904,074
Statutory deposits with Bank Negara Malaysia	-	-	-	648,721	648,721
Other financial assets	-	65,638	-	-	65,638
Total On-Balance Sheet Exposures	3,867,184	1,233,739	8,354,942	6,429,507	19,885,372
Bank	Up to 6 months RM'000	> 6 - 12 months RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Total RM'000
31 March 2013					
On-Balance Sheet Exposures					
Cash and short-term funds	3,236,505	-	-	-	3,236,505
Cash and placements with financial institutions	105,189	-	-	-	105,189
Financial investments designated at fair value through profit and loss	-	-	-	79,573	79,573
Financial investment available-for-sale	1,066,494	294,214	4,054,559	1,052,299	6,467,566
Islamic derivative financial assets	4,386	102	-	-	4,488
Financing of customers (restated)	1,529,977	766,336	3,740,874	4,327,833	10,365,020
Statutory deposits with Bank Negara Malaysia	-	-	-	612,721	612,721
Other financial assets	-	13,488	-	-	13,488
Total On-Balance Sheet Exposures	5,942,552	1,074,140	7,795,434	6,072,426	20,884,550

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4.0 Credit Risk (General Disclosure) (cont'd.)

Credit Risk Management Approach

Credit risk is inherent in all credit-related activities such as granting of financing facilities (funded/ non-funded); participating in treasury activities such as inter-bank money market, capital market trading, foreign exchange, and investment; and investment banking activities including issuance and underwriting of private debt securities.

Credit risk exposures are controlled and managed at every stage of the credit process through various methods and techniques. At the point of origination, the credit exposure is assessed with well-defined financing granting criteria, which include the identification of a clear and adequate source of payment or income generation from the customer, structuring of an effective financing package and incorporation of appropriate risk mitigants.

The Bank adopts a credit risk rating/grading mechanism to support the credit assessment process and portfolio-level limit setting and monitoring. The Bank's credit-origination and granting activities are segregated according to customer and financing types, namely Business Banking for corporate and commercial customers, Consumer/Retail Banking for retail consumers and SMEs, and Investment Banking for credit syndication and capital market instruments. These departments are responsible for marketing, developing and managing the Bank's financing and investment assets as well as ensuring the quality and timely delivery of its products and services.

The Bank has an established structure to facilitate the credit approval process which defines the appropriate level of approving authority and limits. The approving authority and limits are duly sanctioned by the Board and are subject to periodic reviews to assess its effectiveness as well as compliance. To enhance the risk identification process, the financing proposals by the origination departments are subjected to independent credit reviews and risk assessments by the relevant credit assessment departments prior to submission to the approving authority.

The credit portfolios are managed and monitored against stipulated portfolio exposure limits with the objective to avoid credit concentrations and excessive build-up of exposures and to preserve the credit portfolios' quality through timely and appropriate corrective actions.

The Credit Risk report is produced on a monthly basis to monitor the exposure limits while the Risk Profiling Analysis is conducted on a periodic basis to analyze the asset quality and concentrations in the portfolio. Stress Test on credit risk is used as a tool to identify possible events or future changes in the financial and economic condition that could have unfavorable impact on the Bank's exposures. It is also used to assess the Bank's ability to withstand such changes in relation to the capacity of capital and earnings to absorb potentially significant losses.

The Credit Supervision and Recovery Department (CSRD) is responsible for monitoring and recovery of delinquent and problematic financing. The Early Care and Remedial Management units within the CSRD has been formed to monitor and undertake pre-emptive measures on financing with early warning signs to prevent further deterioration and/or initiate rescheduling and restructuring of facilities as part of its rehabilitation strategy.

Classification of impaired financing and provisioning is made on the Bank's financing assets upon determination of the existence of "objective evidence of impairment" and categorisation into individual and collective assessment (as prescribed under the FRS139).

Credit Scoring Project

The Credit Scoring Project commenced in April 2011 with the objective to develop risk grading tools to assess customers' credit risk using statistical methodologies. The outcome of the credit scoring would facilitate the Bank's decision to either approve or reject a financing application. This would also allow the Bank to build a robust estimation of probability of default (PD), loss given default (LGD) and exposure at default (EAD) to move forward to the "Internal Rating Based" (IRB) approach in the future. The project covers the development of six scorecards for business and consumer financing portfolios as well as the development of a data mart for credit scoring and risk assessment purposes.

4.0 Credit Risk (General Disclosure) (cont'd.)

Credit Quality Financing of Customers

Table 11: Credit quality financing of customers

The credit quality for financing of customers is managed by the Group and the Bank using the internal credit ratings. The table below shows the credit quality for financing of customers exposed to credit risk, based on the Group's and the Bank's internal credit ratings.

Financing of customers are analysed as follows:

Group	Neither past due nor impaired		Past due	Impaired	Total
	Good	Satisfactory	but not impaired	financing	
31 March 2014	RM'000	RM'000	RM'000	RM'000	RM'000
Term financing					
- Home financing	3,054,655	253,077	130,201	68,307	3,506,240
- Syndicated financing	93,914	-	-	7,019	100,933
- Hire purchase receivables	1,032,037	36,518	26,863	32,151	1,127,569
- Leasing receivables	67,360	-	-	14,493	81,853
- Other term financing	5,129,946	137,032	30,952	94,107	5,392,037
Other financing	1,830,320	9,164	12,389	109,629	1,961,502
	11,208,232	435,791	200,405	325,706	12,170,134
Less:					
- Collective assesment allowance	-	-	-	-	(195,951)
- Individual assesment allowance	-	-	-	(74,492)	(74,492)
Total net financing	11,208,232	435,791	200,405	251,214	11,899,691

Group	Neither past due nor impaired		Past due	Impaired	Total
	Good	Satisfactory	but not impaired	financing	
31 March 2013	RM'000	RM'000	RM'000	RM'000	RM'000
Term financing					
- Home financing	2,291,366	307,003	128,490	83,628	2,810,487
- Syndicated financing	33,220	-	-	21,567	54,787
- Hire purchase receivables	855,491	78,021	40,738	29,204	1,003,454
- Leasing receivables	75,381	-	-	21,681	97,062
- Other term financing	4,468,744	224,994	87,720	75,681	4,857,139
Other financing	1,097,361	667,430	2,595	33,607	1,800,993
	8,821,563	1,277,448	259,543	265,368	10,623,922
Less:					
- Collective assesment allowance	-	-	-	-	(242,843)
- Individual assesment allowance	-	-	-	(28,453)	(28,453)
Total net financing	8,821,563	1,277,448	259,543	236,915	10,352,626

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Credit Quality Financing of Customers (cont'd.)

Table 11: Credit quality financing of customers (cont'd.)

The credit quality for financing of customers is managed by the Group and the Bank using the internal credit ratings. The table below shows the credit quality for financing of customers exposed to credit risk, based on the Group's and the Bank's internal credit ratings.

Financing of customers are analysed as follows:

Bank	Neither past due nor impaired		Past due but not impaired	Impaired financing	Total
	Good	Satisfactory			
31 March 2014	RM'000	RM'000	RM'000	RM'000	RM'000
Term financing					
- Home financing	3,054,655	313,393	130,201	68,307	3,566,556
- Syndicated financing	93,914	-	-	7,019	100,933
- Hire purchase receivables	1,032,037	36,518	26,863	32,151	1,127,569
- Leasing receivables	67,360	-	-	14,493	81,853
- Other term financing	5,074,011	137,032	30,952	100,107	5,342,102
Other financing	1,830,320	9,166	12,389	109,629	1,961,504
	11,152,297	496,109	200,405	331,706	12,180,517
Less:					
- Collective assesment allowance	-	-	-	-	(195,951)
- Individual assesment allowance	-	-	-	(80,492)	(80,492)
Total net financing	11,152,297	496,109	200,405	251,214	11,904,074

Bank	Neither past due nor impaired		Past due but not impaired	Impaired financing	Total
	Good	Satisfactory			
31 March 2013	RM'000	RM'000	RM'000	RM'000	RM'000
Term financing					
- Home financing	2,291,366	307,003	128,490	83,628	2,810,487
- Syndicated financing	33,220	-	-	21,567	54,787
- Hire purchase receivables	855,491	78,021	40,738	29,204	1,003,454
- Leasing receivables	75,381	-	-	21,681	97,062
- Other term financing	4,481,138	224,994	87,720	81,681	4,875,533
Other financing	1,097,361	667,430	2,595	33,607	1,800,993
	8,833,957	1,277,448	259,543	271,368	10,642,316
Less:					
- Collective assesment allowance	-	-	-	-	(242,843)
- Individual assesment allowance	-	-	-	(34,453)	(34,453)
Total net financing	8,833,957	1,277,448	259,543	236,915	10,365,020

4.0 Credit Risk (General Disclosure) (cont'd.)

Credit Quality Financing of Customers (cont'd.)

Financing of customers are analysed as follows: (cont'd.)

(i) Neither past due nor impaired

Gross financing and advances which are neither past due nor impaired:

- "Good Grade" refers to financing and advances which are neither past due nor impaired in the last six months and have never undergone any rescheduling or restructuring exercise previously.
- "Satisfactory Grade" refers to financing and advances which may have been past due or impaired during the last six months or have undergone a rescheduling or restructuring exercise previously.

(ii) Rescheduled/restructured financing

Rescheduling or restructuring activities include extended payment arrangements, and the modification and deferral of payments. The carrying amounts by type of financing that would otherwise be past due or impaired whose terms have been renegotiated are as follows:

Table 12: Rescheduled/restructured financing

Rescheduling or restructuring activities include extended payment arrangements, and the modification and deferral of payments. The carrying amount by type of financing that would otherwise be past due or impaired whose terms have been renegotiated are as follows:

Group and Bank	31 March 2014 RM'000	31 March 2013 RM'000
Term financing		
- Home financing	141,064	142,435
- Hire purchase receivables	6,662	8,865
- Leasing receivables	-	-
- Other term financing	74,293	124,698
Other financing	-	2,493
Total	<u>222,019</u>	<u>278,491</u>

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4.0 Credit Risk (General Disclosure) (cont'd.)

Credit Quality Financing of Customers (cont'd.)

Financing of customers are analysed as follows: (cont'd.)

(iii) Past due but not impaired

Past due but not impaired financing of customers refers to where the customer has failed to make a principal or profit payment after the contractual due date for more than one day but less than three (3) months.

Aging analysis of past due but not impaired is as follows:

Table 13: Past due but not impaired

Group and Bank 31 March 2014	Less than 1 month RM'000	1 - 2 months RM'000	>2 - 3 months RM'000	Total RM'000
Term financing				
- Home financing	-	94,326	35,875	130,201
- Hire purchase receivables	-	22,510	4,352	26,862
- Other term financing	-	22,784	8,168	30,952
Other financing	4,690	3,705	3,995	12,390
Total	4,690	143,325	52,390	200,405

Group and Bank 31 March 2013	Less than 1 month RM'000	1 - 2 months RM'000	>2 - 3 months RM'000	Total RM'000
Term financing				
- Home financing	-	93,161	35,329	128,490
- Hire purchase receivables	-	34,658	6,080	40,738
- Other term financing	-	80,769	6,951	87,720
Other financing	614	531	1,450	2,595
Total	614	209,119	49,810	259,543

4.0 Credit Risk (General Disclosure) (cont'd.)

Credit Quality Financing of Customers (cont'd.)

(iii) Past due but not impaired (cont'd.)

The following tables present an analysis of the past due but not impaired financing by economic purpose.

Group and Bank	31 March 2014 RM'000	31 March 2013 RM'000
Purchase of securities	-	-
Purchase of transport vehicles	26,863	40,838
Purchase of landed properties of which:		
– residential	130,585	130,116
– non-residential	10,416	14,518
Personal use	25,080	13,253
Construction	1,255	24,734
Other purpose	6,206	36,084
	200,405	259,543

The following table presents an analysis of the past due but not impaired financing by geographical area:

Group and Bank	31 March 2014 RM'000	31 March 2013 RM'000
Domestic	200,405	259,543
Labuan Offshore	-	-
	200,405	259,543

(iv) Impaired financing

Classification of impaired financing and provisioning is made on the Group's and the Bank's financing assets upon determination of the existence of "objective evidence of impairment" and categorisation into individual and collective assessment (as prescribed under the MFRS139).

Individual assessment allowance

- (a) principal or profit or both are past due for more than three (3) months or more;
- (b) where financing in arrears for less than three (3) months exhibits indications of credit weaknesses; or
- (c) where an impaired financing has been rescheduled or restructured, the financing will continue to be classified as impaired until payment based on the revised and/or restructured terms have been observed continuously for a period of six (6) months.

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4.0 Credit Risk (General Disclosure) (cont'd.)

Credit Quality Financing of Customers (cont'd.)

(iv) Impaired financing (cont'd.)

Individual assessment allowance (cont'd.)

In addition, all financing considered significant are individually assessed on a case-by-case basis at each reporting date to ascertain if there is any objective evidence that the financing is impaired. The criteria that the Group and the Bank use to determine that there is objective evidence of impairment include:

- a) Bankruptcy petition filed against the customer
- b) Customer resorting to Section 176 Companies Act 1965 (and alike)
- c) Other banks calling their lines (revealed through publicised news, etc)
- d) Customer involved in material fraud
- e) Excess drawing or unpaid profit/principal
- f) Distressed debt restructuring
- g) Improper use of credit lines
- h) Legal action by other creditors

Collectively assessed allowances

The Group's and the Bank's collective assessment allowance were previously maintained at a minimum of 1.5% of total outstanding financing of customer, net of individual assessment allowance, being the transitional arrangement as prescribed in BNM's Guidelines on Classification and Impairment Provisions of Loans/ Financing (the "BNM Impairment Guidelines").

The BNM Impairment Guidelines were revised on 9 November 2011 to align the requirements on the determination of collective assessment allowance with that of MFRS 139. Based on the revised Guidelines, the transitional arrangement is removed with effect from 1 January 2012.

Following the adoption of MFRS during the financial year, exposures not individually considered 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 yet identified. The required financing loss allowance is estimated on the basis of historical loss experience of the Bank for assets with credit risk characteristics similar to those in the collective pool.

The financial effects of the adoption of MFRS in relation to other areas on the Group's and the Bank's financial statements are disclosed in Note 2.3.

4.0 Credit Risk (General Disclosure) (cont'd.)

Credit Quality Financing of Customers (cont'd.)

(iv) Impaired financing (cont'd.)

Table 14: Impaired financing by economic purpose

The following tables present an analysis of the impaired financing by economic purpose.

Group	31 March 2014					
	Individual Assessment Allowance at 1 April	Net Charge for the Year	Amounts Written Off/Other Movements	Individual Assessment Allowance at 31 March	Collective Assessment Allowance at 31 March	Total Impairment Allowances for Financing
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Purchase of securities	14	-	-	-	14	14
Purchase of transport vehicles	32,151	(337)	-	(105)	41,720	41,615
Purchase of landed properties of which:						
– residential	67,693	(576)	-	(576)	68,311	67,735
– non-residential	5,456	(63)	-	(63)	6,456	6,393
Purchase of fixed assets (excluding landed properties)	10,663	(300)	(287)	(587)	8,828	8,241
Personal use	36,059	-	-	-	45,215	45,215
Construction	60,672	10,557	20,189	30,746	2,943	33,689
Working capital	32,654	17,932	24	17,956	8,084	26,040
Other purpose	80,344	671	29,435	27,121	14,380	41,501
	325,706	28,453	49,024	74,492	195,951	270,443

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4.0 Credit Risk (General Disclosure) (cont'd.)

Credit Quality Financing of Customers (cont'd.)

(iv) Impaired financing (cont'd.)

Table 14: Impaired financing by economic purpose (cont'd.)

The following tables present an analysis of the impaired financing by economic purpose.

Group	31 March 2013					
	Impaired Financing RM'000	Individual Assessment Allowance at 1 April RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 March RM'000	Collective Assessment Allowance at 31 March RM'000
Purchase of securities	18	-	-	-	-	19
Purchase of transport vehicles	29,306	4,587	(3,478)	(877)	232	39,062
Purchase of landed properties of which:						
– residential	84,590	2,021	(2,597)	-	(576)	86,181
– non-residential	10,314	(13)	(50)	-	(63)	10,385
Purchase of fixed assets (excluding landed properties)	3,171	920	(733)	(487)	(300)	16,409
Personal use	26,086	-	-	-	-	46,851
Construction	63,083	77,467	494	(67,404)	10,557	29,017
Working capital	7,000	18,198	(266)	-	17,932	3,688
Other purpose	41,800	58,724	(1,368)	(56,685)	671	11,231
	265,368	161,904	(7,998)	(125,453)	28,453	242,843
						271,296

4.0 Credit Risk (General Disclosure) (cont'd.)

Credit Quality Financing of Customers (cont'd.)

(iv) Impaired financing (cont'd.)

Table 14: Impaired financing by economic purpose (cont'd.)

The following tables present an analysis of the impaired financing by economic purpose.

Bank	31 March 2014						
	Impaired Financing	Individual Assessment Allowance at 1 April	Net Charge for the Year	Amounts Written Off/Other Movements	Individual Assessment Allowance at 31 March	Collective Assessment Allowance at 31 March	Total Impairment Allowances for Financing
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Purchase of securities	14	-	-	-	-	14	14
Purchase of transport vehicles	32,151	232	(337)	-	(105)	41,720	41,615
Purchase of landed properties of which:							
– residential	67,693	(576)	-	-	(576)	68,311	67,735
– non-residential	5,456	(63)	-	-	(63)	6,456	6,393
Purchase of fixed assets (excluding landed properties)	10,663	(300)	(287)	-	(587)	8,828	8,241
Personal use	36,059	-	-	-	-	45,215	45,215
Construction	60,672	10,557	20,189	-	30,746	2,943	33,689
Working capital	32,654	17,932	24	-	17,956	8,084	26,040
Other purpose	86,344	6,671	29,435	(2,985)	33,121	14,380	47,501
	331,706	34,453	49,024	(2,985)	80,492	195,951	276,443

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4.0 Credit Risk (General Disclosure) (cont'd.)

Credit Quality Financing of Customers (cont'd.)

(iv) Impaired financing (cont'd.)

Table 14: Impaired financing by economic purpose (cont'd.)

The following tables present an analysis of the impaired financing by economic purpose.

Bank	31 March 2013					
	Impaired Financing RM'000	Individual Assessment Allowance at 1 April RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 March RM'000	Collective Assessment Allowance at 31 March RM'000
Purchase of securities	18	-	-	-	-	19
Purchase of transport vehicles	29,306	4,587	(3,478)	(877)	232	39,062
Purchase of landed properties of which:						
– residential	84,590	2,021	(2,597)	-	(576)	86,181
– non-residential	10,314	(13)	(50)	-	(63)	10,385
Purchase of fixed assets (excluding landed properties)	3,171	920	(733)	(487)	(300)	16,409
Personal use	26,086	-	-	-	-	46,851
Construction	63,083	77,467	494	(67,404)	10,557	29,017
Working capital	7,000	18,198	(266)	-	17,932	3,688
Other purpose	47,800	64,724	(1,368)	(56,685)	6,671	11,231
	271,368	167,904	(7,998)	(125,453)	34,453	242,843
						277,296

4.0 Credit Risk (General Disclosure) (cont'd.)

Credit Quality Financing of Customers (cont'd.)

(iv) Impaired financing (cont'd.)

Table 15: Impaired financing by geographical distribution

The following tables present an analysis of the impaired financing by geographical distribution.

Group	31 March 2014					
	Impaired Financing RM'000	Individual Assessment Allowance at 1 April RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 March RM'000	Collective Assessment Allowance at 31 March RM'000
Domestic	318,687	21,770	49,024	(2,985)	67,809	195,844
Labuan offshore	7,019	6,683	-	-	6,683	107
	325,706	28,453	49,024	(2,985)	74,492	195,951
						270,443

Group	31 March 2013					
	Impaired Financing RM'000	Individual Assessment Allowance at 1 April RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 March RM'000	Collective Assessment Allowance at 31 March RM'000
Domestic	243,801	154,766	(14,461)	(118,535)	21,770	242,843
Labuan offshore	21,567	7,138	6,463	(6,918)	6,683	-
	265,368	161,904	(7,998)	(125,453)	28,453	242,843
						271,296

4.0 Credit Risk (General Disclosure) (cont'd.)

Credit Quality Financing of Customers (cont'd.)

(iv) Impaired financing (cont'd.)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types and collateral and valuation parameters.

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

- For home financing - mortgages over residential properties;
- For hire purchase financing - charges over the vehicles financed;
- For share margin financing - pledges over securities from listed exchange;
- For other financing - charges over business assets such as premises, inventories, trade receivables or deposits.

The financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for financing of customer for the Group and the Bank is at 44% as at 31 March 2014, (31 March 2013 of 40% for the Group and the Bank). The financial effect of collateral held for other financial assets is not significant.

At 31 March 2014, the fair value of collateral that the Group and Bank hold relating to financing of customers individually determined to be impaired amounts to RM275,697,000 as compared with 31 March 2013 of RM693,984,000. The collateral consists of cash, securities, letters of guarantee and properties.

(v) Repossessed Collateral

Assets obtained by taking possession of collateral held as security against financing & advances, and held as at the end of the year as follows.

Table 16: Repossessed Collateral

Group and Bank	31 March 2014 RM'000	31 March 2013 RM'000
Residential properties	-	14,000
	-	14,000

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5.0 Credit Risk (Disclosures for Portfolio under the Standardised Approach)

The Group and the Bank use the external rating agencies such as MARC, RAM, Moody's, Standard & Poors, Fitch and R&I for rating of commercial papers (CPs) and corporate bonds (CBs) or participation of syndication or underwriting of PDS issuance.

Each ECAI is used based on the types of exposures as described per Capital Adequacy Framework for Islamic Banks (CAFIB). The Group's and the Bank's credit exposures that are presently not mapped to the ECAI ratings are depicted below as unrated. Rating for financing exposure based on the obligor rating and treasury exposure based on issue rating of the exposure.

Table 17: Rating distribution on credit exposures

Group

31 March 2014

Exposure Class	AAA RM'000	AA+ RM'000	AA RM'000	AA- RM'000
On and Off Balance-Sheet Exposures				
Credit Exposures - Standardised Approach				
Sovereigns/Central Banks	-	-	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions & MDBs	91,768	70,529	129,420	10,028
Corporates	1,160,373	195,847	110,745	532,288
Regulatory Retail	-	-	-	-
Residential Mortgages	-	-	-	-
Higher Risk Assets	-	-	-	-
Other Assets	-	-	-	-
Total	1,252,141	266,376	240,165	542,316

Group

31 March 2013

Exposure Class	AAA RM'000	AA+ RM'000	AA RM'000	AA- RM'000
On and Off Balance-Sheet Exposures				
Credit Exposures - Standardised Approach				
Sovereigns/Central Banks	-	-	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions & MDBs	30,938	77,345	35,222	-
Corporates	1,043,793	149,342	90,024	426,100
Regulatory Retail	-	-	-	-
Residential Mortgages	-	-	-	-
Higher Risk Assets	-	-	-	-
Other Assets	-	-	-	-
Total	1,074,731	226,687	125,246	426,100

Rating by Approved ECAIS						
A	BBB	BB+ TO BB-	P1/MARC1	Unrated	Others	Grand Total
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
-	-	-	-	-	6,292,537	6,292,537
-	-	-	-	69,477	-	69,477
9	-	-	47,661	231,353	44,887	625,655
24,664	-	-	-	4,101,474	23,470	6,148,861
-	-	-	-	-	5,371,824	5,371,824
-	-	-	-	-	2,823,704	2,823,704
-	-	-	-	68,416	-	68,416
-	-	-	-	-	309,422	309,422
24,673	-	-	47,661	4,470,720	14,865,844	21,709,896

Rating by Approved ECAIS						
A	BBB	BB+ TO BB-	P1/MARC1	Unrated	Others	Grand Total
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
-	-	-	-	9,003,386	-	9,003,386
-	-	-	-	73,229	-	73,229
-	-	-	696	258,185	-	402,386
300,718	163,115	-	59,900	3,378,964	-	5,611,956
-	-	-	-	-	4,778,393	4,778,393
-	-	-	-	-	2,248,065	2,248,065
-	-	-	-	18,205	-	18,205
-	-	-	-	-	372,255	372,255
300,718	163,115	-	60,596	12,731,969	7,398,713	22,507,875

Basel II Pillar 3 Disclosure

5.0 Credit Risk (Disclosures for Portfolio under the Standardised Approach) (cont'd.)

Table 17: Rating distribution on credit exposures (cont'd.)

Bank

31 March 2014

Exposure Class	AAA RM'000	AA+ RM'000	AA RM'000	AA- RM'000
On and Off Balance-Sheet Exposures				
Credit Exposures - Standardised Approach				
Sovereigns/Central Banks	-	-	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions & MDBs	91,768	70,529	129,420	10,028
Corporates	1,160,373	195,847	110,745	532,288
Regulatory Retail	-	-	-	-
Residential Mortgages	-	-	-	-
Higher Risk Assets	-	-	-	-
Other Assets	-	-	-	-
Total	1,252,141	266,376	240,165	542,316

Bank

31 March 2013

Exposure Class	AAA RM'000	AA+ RM'000	AA RM'000	AA- RM'000
On and Off Balance-Sheet Exposures				
Credit Exposures - Standardised Approach				
Sovereigns/Central Banks	-	-	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions & MDBs	30,938	77,345	35,222	-
Corporates	1,043,793	149,342	90,024	426,100
Regulatory Retail	-	-	-	-
Residential Mortgages	-	-	-	-
Higher Risk Assets	-	-	-	-
Other Assets	-	-	-	-
Total	1,074,731	226,687	125,246	426,100

Rating by Approved ECAIS						
A	BBB	BB+ TO BB-	P1/MARC1	Unrated	Others	Grand Total
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
-	-	-	-	-	6,292,537	6,292,537
-	-	-	-	69,477	-	69,477
9	-	-	47,661	231,353	44,887	625,655
24,664	-	-	-	4,097,374	23,470	6,144,761
-	-	-	-	-	5,371,824	5,371,824
-	-	-	-	-	2,823,704	2,823,704
-	-	-	-	72,799	-	72,799
-	-	-	-	-	307,870	307,870
24,673	-	-	47,661	4,471,003	14,864,292	21,708,627

Rating by Approved ECAIS						
A	BBB	BB+ TO BB-	P1/MARC1	Unrated	Others	Grand Total
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
-	-	-	-	9,003,386	-	9,003,386
-	-	-	-	73,229	-	73,229
-	-	-	696	258,185	-	402,386
300,718	163,115	-	59,900	3,378,964	-	5,611,956
-	-	-	-	-	4,778,393	4,778,393
-	-	-	-	-	2,248,065	2,248,065
-	-	-	-	18,625	-	18,625
-	-	-	-	-	356,282	356,282
300,718	163,115	-	60,596	12,732,389	7,382,740	22,492,322

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5.0 Credit Risk (Disclosures for Portfolio under the Standardised Approach) (cont'd.)

Table 18: Rating distribution on credit exposures (using Corporate Risk Weights)

Exposure Class	Moody's S&P Fitch RAM MARC RII Inc RM'000	Ratings of Corporate by Approved ECALs						Unrated
		Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA3 AAA to AA- AAA to AA- RM'000	A1 to A3 A+ to A- A+ to A- A to A3 A+ to A- A+ to A- RM'000	Baa1 to Ba3 BBB+ to BB- BBB+ to BB- BBB1 to BB3 BBB+ to BB- BBB+ to BB- RM'000	B1 to C B+ to D B+ to D B to D B+ to D B+ to D RM'000	B1 to C B+ to D B+ to D B to D B+ to D B+ to D RM'000		
On and Off Balance-Sheet Exposures								
Credit Exposures (Using Corporate Risk Weights)								
Group and Bank								
31 March 2014								
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)	-	-	-	-	-	-	-	69,477
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	-	-	-	-
Corporates	1,999,254	24,664	-	-	-	-	-	4,120,844
Total	1,999,254	24,664	-	-	-	-	-	4,190,321
Group and Bank								
31 March 2013								
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)	-	-	-	-	-	-	-	73,229
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	-	-	-	-
Corporates	1,709,259	300,718	163,115	-	-	-	-	3,364,119
Total	1,709,259	300,718	163,115	-	-	-	-	3,437,348

5.0 Credit Risk (Disclosures for Portfolio under the Standardised Approach) (cont'd.)

Table 18: Rating distribution on credit exposures (using Corporate Risk Weights) (cont'd.)

Short term Ratings of Banking Institutions and Corporate by Approved ECAIs							
Exposure Class	Moody's	P-1	P-2	P-3	Others	Unrated	
	S&P	A-1	A-2	A-3	Others	Unrated	
	Fitch	F1+,F1	2	3	B to D	Unrated	
	RAM	P-1	P-2	P-3	NP	Unrated	
	MARC	MARC-1	MARC-2	MARC-3-	MARC-4	Unrated	
	RII Inc	a-1+,a-1	a-2	a-3	b,c	Unrated	
		RM'000	RM'000	RM'000	RM'000	RM'000	
On and Off Balance-Sheet Exposures							
Group and Bank							
31 March 2014							
Banks, MDBs and FDIs		47,661	-	-	-	-	
Credit Exposures (using Corporate Risk Weights)							
Corporates		-	-	-	-	-	
Total		47,661	-	-	-	-	
Group and Bank							
31 March 2013							
Banks, MDBs and FDIs		696	-	-	-	-	
Credit Exposures (using Corporate Risk Weights)							
Corporates		59,900	-	-	-	-	
Total		60,596	-	-	-	-	

Basel II Pillar 3 Disclosure

5.0 Credit Risk (Disclosures for Portfolio under the Standardised Approach) (cont'd.)

Table 18: Rating distribution on credit exposures (using Corporate Risk Weights) (cont'd.)

Group and Bank 31 March 2014		Ratings of Sovereigns and Central Banks by Approved ECAIs						
Exposure Class	Moody's	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	
	RII Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
On and Off Balance-Sheet Exposures								
Sovereigns and Central Banks		-	-	-	-	-	6,292,537	
Total		-	-	-	-	-	6,292,537	
Group and Bank 31 March 2013		Ratings of Sovereigns and Central Banks by Approved ECAIs						
Exposure Class	Moody's	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	
	RII Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
On and Off Balance-Sheet Exposures								
Sovereigns and Central Banks		-	-	-	-	-	9,003,386	
Total		-	-	-	-	-	9,003,386	

5.0 Credit Risk (Disclosures for Portfolio under the Standardised Approach) (cont'd.)

Table 18: Rating distribution on credit exposures (using Corporate Risk Weights) (cont'd.)

Exposure Class	Moody's S&P Fitch RAM MARC RII Inc	Ratings of Banking Institutions by Approved ECAIs							
		Aaa to Aa3 AAA to AA-	A1 to A3 A+ to A-	Baa1 to Baa3 BBB+ to BBB-	Ba1 to B3 BB+ to B-	Caa1 to C CCC+ to D	Unrated		
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
On and Off Balance-Sheet Exposures									
Group and Bank									
31 March 2014									
Banks, MDBs and FDIs		301,746	9	-	-	-	-	-	276,240
Total		301,746	9	-	-	-	-	-	276,240
Group and Bank									
31 March 2013									
Banks, MDBs and FDIs		143,505	-	-	-	-	-	-	258,185
Total		143,505	-	-	-	-	-	-	258,185

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5.0 Credit Risk (Disclosures for Portfolio under the Standardised Approach) (cont'd.)

Credit risk disclosure by risk weights (including deducted exposures) as at 31 March 2014, are as follows:

Table 19: Credit risk disclosure by risk weights

Group	Exposures after Netting and Credit Risk Mitigation										Total	
	Sovereign & Central Banks RM'000	Public Sector Entities RM'000	Banks, MDBs and FDIs RM'000	Corporate RM'000	Regulatory Retail RM'000	Residential Real Estate RM'000	Equity Exposures RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Netting and Credit Risk Mitigation RM'000	Exposures after	Total Risk Weighted Assets RM'000
Risk-Weights	0%	6,292,537	-	44,887	-	-	-	-	90,992	6,428,416	-	-
	20%	-	68,572	580,760	2,072,991	-	-	-	-	2,722,323	-	544,465
	35%	-	-	-	-	-	1,161,434	-	-	1,161,434	-	406,501
	50%	-	-	9	71,941	5,789	585,312	-	-	663,051	-	331,525
	75%	-	-	-	-	3,632,553	300,868	-	-	3,933,421	-	2,950,068
	100%	-	-	-	3,868,214	1,726,126	776,088	-	-	6,592,959	-	6,592,959
150%	-	-	-	42,797	1,803	-	-	68,416	222,531	113,016	-	169,524
Total	6,292,537	68,572	625,656	6,055,943	5,366,271	2,823,702	-	68,416	313,523	21,614,620	10,995,042	

Credit risk disclosure by risk weights (including deducted exposures) as at 31 March 2013, are as follows:

Table 19: Credit risk disclosure by risk weights

Group	Exposures after Netting and Credit Risk Mitigation										Total Exposures after Netting and Credit Risk Mitigation		Total Risk Weighted Assets RM'000
	Sovereign & Central Banks RM'000	Public Sector Entities RM'000	Banks, MDBs and FDIs RM'000	Corporate RM'000	Regulatory Retail RM'000	Residential Real Estate RM'000	Equity Exposures RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Netting and Credit Risk Mitigation RM'000			
Risk-Weights	0%	9,003,386	-	4,966	35,598	-	-	-	121,504	9,165,454	-	-	
	20%	-	68,664	397,405	1,794,098	-	-	-	-	2,260,167	-	452,033	
	35%	-	-	-	-	-	988,384	-	-	988,384	-	345,934	
	50%	-	-	14	318,119	-	429,506	-	-	747,639	-	373,820	
	75%	-	-	-	-	2,689,433	410,946	-	-	3,100,379	-	2,325,283	
100%	-	-	-	3,329,452	2,085,528	419,230	-	-	250,751	6,084,961	-	6,084,961	
150%	-	-	-	52,183	-	-	580	17,625	-	70,388	-	105,582	
Total	9,003,386	68,664	402,385	5,529,450	4,774,961	2,248,066	580	17,625	372,255	22,417,372	9,687,613		

5.0 Credit Risk (Disclosures for Portfolio under the Standardised Approach) (cont'd.)

Credit risk disclosure by risk weights (including deducted exposures) as at 31 March 2014, are as follows:

Table 19: Credit risk disclosure by risk weights

Bank	Exposures after Netting and Credit Risk Mitigation										Total Exposures after		Total Risk Weighted Assets RM'000
	Sovereign & Central Banks RM'000	Public Sector Entities RM'000	Banks, MDBs and FDIs RM'000	Corporate RM'000	Regulatory Retail RM'000	Residential Real Estate RM'000	Equity Exposures RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Netting and Credit Risk Mitigation RM'000			
Risk-Weights	0%	6,292,537	-	44,887	-	-	-	-	90,992	6,428,416	-		
	20%	-	68,572	580,760	2,072,991	-	-	-	-	2,722,323	544,465		
	35%	-	-	-	-	-	1,161,434	-	-	1,161,434	406,502		
	50%	-	-	9	71,941	5,789	585,312	-	-	663,051	331,528		
	75%	-	-	-	-	3,632,553	300,868	-	-	3,933,421	2,950,066		
	100%	-	-	-	3,868,214	1,726,126	776,089	-	216,874	6,587,303	6,587,303		
150%	-	-	-	42,797	1,803	-	-	72,800	117,400	176,099			
Total	6,292,537	68,572	625,656	6,055,943	5,366,271	2,823,703	-	72,800	307,866	21,613,348	10,995,963		

Credit risk disclosure by risk weights (including deducted exposures) as at 31 March 2013, are as follows:

Table 19: Credit risk disclosure by risk weights

Bank	Exposures after Netting and Credit Risk Mitigation										Total Exposures after Netting and Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
	Sovereign & Central Banks RM'000	Public Sector Entities RM'000	Banks, MDBs and FDIs RM'000	Corporate RM'000	Regulatory Retail RM'000	Residential Real Estate RM'000	Equity Exposures RM'000	Higher Risk Assets RM'000	Other Assets RM'000			
Risk-Weights	0%	9,003,386	-	4,966	35,598	-	-	-	-	121,504	9,165,454	-
	20%	-	68,664	397,405	1,794,098	-	-	-	-	-	2,260,167	452,033
	35%	-	-	-	-	-	988,385	-	-	-	988,385	345,934
	50%	-	-	14	318,119	-	429,506	-	-	-	747,639	373,820
	75%	-	-	-	-	2,689,433	410,946	-	-	-	3,100,379	2,325,284
	100%	-	-	-	3,329,451	2,085,528	419,230	-	-	-	6,068,987	6,068,987
150%	-	-	-	52,183	-	-	1,000	17,625	-	70,808	106,212	
Total	9,003,386	68,664	402,385	5,529,449	4,774,961	2,248,067	1,000	17,625	356,282	22,401,819	9,672,270	

Basel II Pillar 3 Disclosure

6.0 Credit Risk Mitigation (CRM) Disclosures under the Standardised Approach

Upon assessment of the customer's credit standing and repayment capacity, and identification of the financing's source of repayment, the Bank may provide the financing facility on secured, partially secured or unsecured basis. In mitigating its credit exposure, the Group and the Bank may employ Credit Risk Mitigants (CRM) in the form of collaterals and other supports. Examples of these CRMs include charges over residential and commercial properties being financed; pledge over shares and marketable securities, ownership claims over vehicles being financed, and supports in the forms of debentures, assignments and guarantees.

The Group and the Bank utilise specific techniques to identify eligible collaterals and securities and ascertain their value, and subsequently, implement adequate monitoring process to ensure continued coverage and enforceability.

Credit documentation, administration and disbursement are carried out under clear guidelines and procedures to ensure protection and enforceability of collaterals and other credit risk mitigants. Valuation updates of collaterals are concurrently done during the periodic review of the financing facilities to reflect current market value and ensure adequacy and continued coverage.

The following tables present the credit exposures covered by eligible financial collateral and financial guarantees as defined under the Standardised Approach. Eligible financial collateral consists primarily of cash, securities from listed exchange, unit trust or marketable securities. The Group and the Bank does not have any credit exposure which is reduced through the application of other eligible collateral.

6.0 Credit Risk Mitigation (CRM) Disclosures under the Standardised Approach (cont'd.)

Table 20: Credit risk mitigation on credit exposures

Group	Gross Exposures RM'000	Total Exposures Covered by Eligible Financial Collateral RM'000	*Net Exposures RM'000
31 March 2014			
Credit Risk			
(a) On Balance Sheet Exposures			
Sovereign/Central banks	5,544,455	-	5,544,455
Public sector entities	63,480	905	62,575
Banks, Development Financial Institution & MDBs	529,820	-	529,820
Corporates	5,396,353	88,821	5,307,532
Regulatory retail	5,204,402	5,553	5,198,849
Residential real estate	2,795,009	-	2,795,009
Higher risk assets	68,416	-	68,416
Other assets	313,524	-	313,524
Defaulted exposure	138,802	-	138,802
	20,054,261	95,279	19,958,982
(b) Off-Balance Sheet Exposures			
Credit-related Off-Balance Sheet Exposure	1,556,486	-	1,556,486
Derivative Financial Instruments	99,152	-	99,152
	1,655,638	-	1,655,638
Total Credit Exposures	21,709,899	95,279	21,614,620
Group	Gross Exposures RM'000	Total Exposures Covered by Eligible Financial Collateral RM'000	*Net Exposures RM'000
31 March 2013			
Credit Risk			
(a) On Balance Sheet Exposures			
Sovereign/Central banks	8,262,049	-	8,262,049
Public sector entities	67,594	4,565	63,029
Banks, Development Financial Institution & MDBs	399,475	-	399,475
Corporates	5,028,053	82,507	4,945,546
Regulatory retail	4,645,090	3,432	4,641,658
Residential real estate	2,151,797	-	2,151,797
Higher risk assets	18,205	-	18,205
Other assets	372,256	-	372,256
Defaulted exposure	101,504	-	101,504
	21,046,023	90,504	20,955,519
(b) Off-Balance Sheet Exposures			
Credit-related Off-Balance Sheet Exposure	1,417,933	-	1,417,933
Derivative Financial Instruments	43,920	-	43,920
	1,461,853	-	1,461,853
Total Credit Exposures	22,507,876	90,504	22,417,372

Note:

* After netting and credit risk mitigation

Basel II Pillar 3 Disclosure

6.0 Credit Risk Mitigation (CRM) Disclosures under the Standardised Approach (cont'd.)

Table 20: Credit risk mitigation on credit exposures (cont'd.)

Bank 31 March 2014	Total Exposures		
	Gross Exposures RM'000	Covered by Eligible Financial Collateral RM'000	*Net Exposures RM'000
Credit Risk			
(a) On Balance Sheet Exposures			
Sovereign/Central banks	5,544,455	-	5,544,455
Public sector entities	63,480	905	62,575
Banks, Development Financial Institution & MDBs	529,820	-	529,820
Corporates	5,396,353	88,821	5,307,532
Regulatory retail	5,204,402	5,553	5,198,849
Residential real estate	2,795,009	-	2,795,009
Higher risk assets	72,799	-	72,799
Other assets	307,869	-	307,869
Defaulted exposure	138,802	-	138,802
	20,052,989	95,279	19,957,710
(b) Off-Balance Sheet Exposures			
Credit-related Off-Balance Sheet Exposure	1,556,486	-	1,556,486
Derivative Financial Instruments	99,152	-	99,152
	1,655,638	-	1,655,638
Total Credit Exposures	21,708,627	95,279	21,613,348
Bank 31 March 2013	Total Exposures		
	Gross Exposures RM'000	Covered by Eligible Financial Collateral RM'000	*Net Exposures RM'000
Credit Risk			
(a) On Balance Sheet Exposures			
Sovereign/Central banks	8,262,049	-	8,262,049
Public sector entities	67,594	4,565	63,029
Banks, Development Financial Institution & MDBs	399,475	-	399,475
Corporates	5,028,053	82,507	4,945,546
Regulatory retail	4,645,090	3,432	4,641,658
Residential real estate	2,151,797	-	2,151,797
Higher risk assets	18,625	-	18,625
Other assets	356,283	-	356,283
Defaulted exposure	101,504	-	101,504
	21,030,470	90,504	20,939,966
(b) Off-Balance Sheet Exposures			
Credit-related Off-Balance Sheet Exposure	1,417,933	-	1,417,933
Derivative Financial Instruments	43,920	-	43,920
	1,461,853	-	1,461,853
Total Credit Exposures	22,492,323	90,504	22,401,819

Note:

* After netting and credit risk mitigation

7.0 General Disclosure for Off-balance Sheet Exposure and Counterparty Credit Risk (CCR)

Commitments and contingencies

In the normal course of business, the Group and the Bank make various commitments and incur certain contingent liabilities with legal recourse to its customers.

Notwithstanding the above, the Bank establishes specific limits to manage its exposure to off-balance sheet and counterparty risks, which are derived based on, amongst others, the respective counterparty's financial strength and credit rating, sector limits, SCEL limits, connected party, domicile country's risk rating, existing relationship with the Bank and utilization trend of allocated limits. These limits are monitored and reviewed on a regular basis. No material losses are anticipated as a result of these transactions. Risk weighted exposures of commitments and contingencies are as follows:

Table 21: Commitments and contingencies

	Group and Bank					
	31 March 2014			31 March 2013		
	Principal amount RM'000	Credit equivalent amount RM'000	Total risk weighted amount RM'000	Principal amount RM'000	Credit equivalent amount RM'000	Total risk weighted amount RM'000
The commitments and contingencies constitute the following :						
Contingent liabilities						
Direct credit substitutes	15,880	15,880	15,707	16,362	16,362	8,362
Trade-related contingencies	34,424	6,885	4,284	73,372	14,674	4,904
Transaction related contingencies	344,838	172,419	168,699	501,061	250,531	191,325
Obligations under an on-going underwriting agreement	7,500	3,750	750	25,000	12,500	2,500
Commitments						
Credit extension commitment:						
- Maturity within one year	705,115	141,023	124,981	450,046	90,009	76,294
- Maturity exceeding one year	2,433,060	1,216,529	420,255	1,944,354	972,177	256,626
Bills of collection	11,012	-	-	19,712	-	-
Islamic derivative financial instruments						
Foreign exchange related contracts	711,521	9,528	4,558	395,124	6,670	4,341
Profit rate related contract	2,800,000	89,624	17,925	875,000	37,250	7,450
Total off-balance sheet exposures	7,063,350	1,655,638	757,159	4,300,031	1,400,173	551,802

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7.0 General Disclosure for Off-balance Sheet Exposure and Counterparty Credit Risk (CCR) (cont'd.)

Islamic derivative financial instruments

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which change in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

Table 22: Derivative financial assets & liabilities

Group and Bank	31 March 2014			31 March 2013		
	Contract/ Notional Amount RM'000	Fair value		Contract/ Notional Amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
Trading derivatives:						
Foreign exchange contracts						
- Currency forwards						
Less than one year	209,588	1,948	(162)	54,230	2,862	(24)
- Currency swaps						
Less than one year	461,620	430	(3,876)	213,422	1,500	(1,021)
- Currency spot						
Less than one year	40,313	33	(107)	127,472	126	(134)
	711,521	2,411	(4,145)	395,124	4,488	(1,179)
Islamic profit rate swap (IPRS)						
More than one year	2,800,000	17,624	-	875,000	-	(7,726)
Total	3,511,521	20,035	(4,145)	1,270,124	4,488	(8,905)

8.0 Market Risk and Assets-Liability Management (ALM)

Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices. Asset-Liability Management (ALM) refers to the coordinated management of the Group's and the Bank's balance sheet, which includes assets, liabilities and capital. The main focus of ALM is on the Group's and the Bank's overall performance that can be measured in terms of net income. In turn, the primary determinant of net income will be the overall risk-return position of the Group and the Bank.

The key objective of market risk management and ALM of the Bank is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile that is consistent with Bank's strategic and business plan.

The Bank's market risk management and ALM objectives are to:

- Ensure the implementation of an effective market risk management system in the Bank;
- Assume an appropriate balance between the level of risk and the level of return desired in order to maximize the return to shareholders' funds;
- Ensure prudent management of the Bank's resources to support the growth of the Bank's economic value; and
- Proactively manage the Bank's balance sheet in order to maximize earnings and attain its strategic goal within the overall risk/return preferences

The Bank has an independent market risk control function that is responsible for measuring and managing market risk exposures in accordance with the Board-approved policies and guidelines. The unit reports to the ALCO Working Committee on a monthly basis, where issues on balance sheet and capital management are proactively discussed and any recommendation and decision reached are then escalated to the ERM, BRMC and Board respectively.

The Bank has formulated several strategies to effectively manage and ensure a sound balance sheet profile that complements both regulatory and business requirements among the strategies implemented for FYE 2013/2014 were:

- Build-up of an Islamic Profit Rate Swap (IPRS) portfolio as part of the rate of return risk management, where strategies have been outlined to optimize and hedge against market rate movements.
- Establishment of an RM 2.0 billion senior debt issuance program will be part of the Bank's contingency funding plan that focuses on strengthening the core and stable liquidity requirements as stipulated in the Basel 3 accord.

The Bank's market risk and ALM management processes, which include risk identification, measurement, mitigation, monitoring and reporting are translated into the following policies & guidelines:

- Market Risk & ALM Policies and Guidelines ("MRAPG").
- Trading Book Policy Statement ("TBPS")

Basel II Pillar 3 Disclosure

Market Risk Measurement

1. Value at Risk

Value at Risk which includes the historical simulation is widely used by the Bank as a tool to measure the risk of loss on a specific portfolio of financial assets, limit setting activities and market forecasting.

2. Sensitivity Analysis

The Bank uses various methodologies in assessing the sensitivity of the Bank's portfolio against changes in the market variables.

8.1 Market Risk (Disclosures for Portfolios under the Standardised Approach)

Stress Testing and Scenario Analyses

Stress testing and scenario analyses are used as market risk and ALM tools for evaluation of potential impact on the Bank's performance under plausible extreme adverse conditions. The stress testing include the assessment on the funding and market liquidity, rate of return risk, displaced commercial risk and currency volatility.

The Group and the Bank clearly define and segregate the trading and banking book positions through the Trading Book Policy Statement ("TBPS") as required by the Capital Adequacy Framework for Islamic Bank ("CAFIB") of Bank Negara Malaysia. The policy covers the definition of trading and banking book for financial instruments, classification, performance and limit monitoring, position valuation and hedging requirements.

Valuation Policy

The Group and the Bank adhere to the minimum prudent valuation practices as stipulated in the CAFIB and FRS139 guidelines. Based on these prudential requirements, broad internal guidelines has been drawn out as summarized below:

• Systems and Controls

The Group and the Bank have established and maintained adequate systems and controls to give the management and supervisors the confidence that the valuation estimates are prudent and reliable.

• Valuation Methodologies

There are three levels of fair value hierarchy applied to reflect the level of judgment involved in estimating fair values. The hierarchy as broken down into three levels is as follows:-

i. Level 1

The preferred inputs to valuation efforts are the available close out of quoted prices in the active markets for identical assets or liabilities that are sourced independently from various sources. If a quoted market price is not available, the Group and the Bank make an estimate of fair value by using the best information available under the circumstances. The resulting fair value estimate would then be classified under Level 2 or Level 3.

8.1 Market Risk (Disclosures for Portfolios under the Standardised Approach) (cont'd.)

• Valuation Methodologies (cont'd.)

ii. Level 2

In the absence of quoted market price, the Group and the Bank estimate the fair values based on market observables by using a valuation technique. Significant assumptions or inputs used in the valuation technique require the use of inputs that are observable in the market. Examples of observable market inputs include quoted prices for similar assets, profit rates, yield curve, credit spreads, prepayment speeds.

iii. Level 3

Fair value is also estimated using a valuation technique on non-observable market inputs. Which necessitates the use of internal information. This category is allowed “for situations in which there is little, if any, market activity for the asset or liability at the measurement date”. Despite being “assumptions about assumptions”, Level 3 inputs can provide useful information about fair values (and thus future cash flows) when they are generated logically and with best efforts without any attempt to influence users’ decisions.

As at 31 March 2014, the Group and the Bank used the standardized approach in computing the market risk weighted assets of the trading book position of the Group and the Bank. The following is the minimum regulatory requirement for market risk.

Table 23: Minimum regulatory requirement for market risk

Group and Bank 31 March 2014

	Long Position RM' 000	Short Position RM' 000	Risk weighted Assets RM' 000	Minimum Capital Requirement at 8% RM' 000
Benchmark Rate Risk	479	(1,255)	75,066	6,005
Foreign Currency Risk	38,516	(24,636)	38,515	3,081
Total	38,995	(25,891)	113,581	9,086

Group and Bank 31 March 2013

	Long Position RM' 000	Short Position RM' 000	Risk weighted Assets RM' 000	Minimum Capital Requirement at 8% RM' 000
Benchmark Rate Risk	204	(1,044)	38,494	3,080
Foreign Currency Risk	19,324	(2,513)	19,324	1,545
Total	19,528	(3,557)	57,818	4,625

Basel II Pillar 3 Disclosure

8.2 Equities (Disclosures for Banking Book Positions)

The classification of equities purchased must be made at the point of transaction. The equities are classified as banking book when they were acquired and held for positive profit spread over average funding cost and/or for capital growth purposes.

The Bank's portfolio of equities under the banking book is managed by Muamalat Invest Sdn Bhd (MISB), a wholly-owned subsidiary of the Bank. The equity investment portfolio consists of listed quoted shares and unit trusts, which are held for yield purposes, to benefit from positive changes in equity prices.

The supervision and decision involving the equity funds resides within the Investment Committee's (IC) authority which includes purchase and sale of stocks and review of equity funds' performance. MISB monitors and reports the performance of the funds to the IC on a monthly basis.

Table 24: Equity exposures

Group and Bank 31 March 2014

	Gross Credit Exposure RM'000	Risk Weighted Assets RM'000	Unrealised Gain/(Losses) RM'000
Publicly Traded			
Investment in Unit Trust Funds	-	-	-
Investment in Quoted Shares	152,488	152,488	984
Total	152,488	152,488	984

31 March 2013

	Gross Credit Exposure RM'000	Risk Weighted Assets RM'000	Unrealised Gain/(Losses) RM'000
Publicly Traded			
Investment in Unit Trust Funds	-	-	-
Investment in Quoted Shares	44,182	44,182	(2,059)
Total	44,182	44,182	(2,059)

8.3 Disclosure for Rate of Return Risk in Banking Book ("RORBB")

Rate of Return Risk ("RoR") Management

Rate of return risk refers to the variability of the Bank's assets and liabilities resulting from the volatility of the market benchmark rates, both in the trading and banking books. The Bank actively manages the following risks:

Table 25: Rate of return risks

Risk	Definition
Repricing Risk	Timing differences in the maturity and repricing of the Bank's assets and liabilities
Yield Curve Risk	Unanticipated yield curve shifts that has adverse impact on the Bank's income and economic values
Basis Risk	Arises from imperfect correlation in the adjustment of rates earned and paid on different instruments with otherwise similar repricing characteristics
Optionality/ Embedded Option Risk	The risk arising from options embedded in the Bank's assets, liabilities and off-balance sheet portfolio

Rate of Return Risk Measurement

The Bank measures various parallel rate shocks scenarios (up to 200 basis points as per Basel II recommendations) and its impact on earning and equities by assessing key assumptions which incorporates the Bank's balance sheet profile, business strategies, economic outlook and behavioural analysis of non-maturity deposits. Among the various analyses that are carried out are:

1. Earning at Risk (EaR)

The focus of this analysis is more on the impact of changes in rate of return on accrual or reported earnings. Variation in earnings such as reduced earnings or outright losses can threaten the financial stability of the Bank by undermining its capital adequacy and reducing market confidence.

2. Economic Value of Equity (EVE)

Economic value of a bank can be viewed as the present value of the Bank's expected net repricing balance weighted by duration, which can be defined as the expected repricing balance on assets minus the expected repricing balance on liabilities plus the expected net repricing balance on off-balance-sheet position. The sensitivity of a bank's economic value to fluctuation in rate of return is particularly an important consideration of shareholders and management.

Basel II Pillar 3 Disclosure

8.3 Disclosure for Rate of Return Risk in Banking Book ("RORBB") (cont'd.)

Rate of Return Risk Measurement (cont'd.)

3. Repricing Gap Analysis

Repricing gap analysis measures the difference or gap between the absolute value of rate of return sensitive assets and rate of return sensitive liabilities, which are expected to experience changes in contractual rates (repriced) over the residual maturity period or on maturity.

4. Other Risk Assessment

Simulation analysis is used to evaluate the impact of possible decisions that includes assessment on product pricing, new product introduction, derivatives and hedging strategies, changes in the asset-liability mix and short term funding decisions.

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

Table 26: Sensitivity analysis of rate of return risk

The increase or decline in earnings and economic value for upwards and downward rate shocks which are consistent with shocks applied in the stress test for measuring:

Increase/(decrease) in basis points	Tax rate	Group		Bank	
		-50 Basis Points	+50 Basis Points	-50 Basis Points	+50 Basis Points
		RM'000	RM'000	RM'000	RM'000
31 March 2014					
Effect on profit after tax	25%	6,800	(6,800)	6,591	(6,591)
Effect on other comprehensive income, net of tax	25%	79,163	(79,163)	77,263	(77,263)
Effect on equity		118,327	(118,327)	115,812	(115,812)
31 March 2013					
Effect on profit after tax	25%	29,815	(29,815)	29,837	(29,837)
Effect on other comprehensive income, net of tax	25%	68,650	(68,650)	68,650	(68,650)
Effect on equity		159,855	(159,855)	159,854	(159,854)

8.4 Liquidity Risk

Liquidity and Funding Risk

Liquidity risk is best described as the inability to fund any obligation on time as they fall due, whether due to increase in assets or demand for funds from the depositors. The Bank will incur liquidity risk if it is unable to create liquidity and this has serious implication on its reputation and continued existence.

In view of this, it is the Bank's priority to manage and maintain a stable source of financial resources towards fulfilling the above expectation. The Bank, through active balance sheet management, ensures that sufficient cash and liquid assets availability are in place to meet the short and long term obligations as they fall due.

Generally, liquidity risk can be divided into two types, which are:

- **Funding Liquidity Risk**

Refers to the potential inability of the Bank to meet its funding requirements arising from cash flow mismatches at a reasonable cost.

- **Market Liquidity Risk**

Refers to the Bank's potential inability to liquidate positions quickly and insufficient volumes, at a reasonable price.

As stated in the policy, the Bank's liquidity risk magnitude segregated into the following:

Table 27: Liquidity risk indicators

Magnitude	Indicators
Low	Earnings and capital exposure from the liquidity risk profile is negligible.
Moderate	Earnings or capital exposure from the liquidity risk profile is manageable.
High	Funding sources and liability structure suggest current or potential difficulty in maintaining long-term and cost-effective liquidity.

The Bank monitors the maturity profile of its assets and liabilities so that adequate liquidity is maintained at all times. The Bank's ability to maintain a stable liquidity profile is primarily on account of its success in retaining and growing its customer deposit base. The Bank's marketing strategy has ensured a balanced mix of deposits, hence reducing concentration or over-reliance on a specific source of deposit or funding.

Stability of the deposit base minimizes the Bank's dependency on volatile short-term deposits. Considering the effective maturities of deposits based on retention history (behavioral method/ analysis) and availability of liquid investments, the Bank is able to ensure sufficient liquidity.

The Asset & Liability Working Committee (ALCO), meets on a monthly basis to review the Bank's liquidity gap profile and deliberates on appropriate strategies to manage and mitigate the risk exposure. In addition, liquidity stress test is periodically conducted to address strategic issues concerning liquidity risk.

Basel II Pillar 3 Disclosure

8.4 Liquidity Risk (cont'd.)

Liquidity and Funding Risk (cont'd.)

To manage its liquidity, the Bank has the following policies and strategies in place:

- Management under normal condition:

Normal condition is defined as the situation in which the Bank is able to meet any liquidity demands when they come due.

The Bank monitors its liquidity positions through liquidity controls such as maximum cumulative outflows, deposits concentration, financing to deposits ratio, and controlled financing draw down level.

- Management under crisis condition:

Crisis condition is defined as the situation in which the Bank faces difficulties to meet liquidity demand when they fall due. The crisis can be classified into 4 levels as follows:

Contingency Level	Trigger / Status
Level 0	Business as usual
Level 1	Material change in funding risk, internal or external environment
Level 2	Increasing probability of liquidity crisis – ERM to invoke contingency plan
Level 3	Liquidity crisis – escalated to BRMC for immediate actions

- BASEL III requirements:

The Bank has put in place the relevant measures and monitoring processes of Basel 3 requirements on liquidity through the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) computations.

8.4 Liquidity Risk (cont'd.)

Liquidity and Funding Risk (cont'd.)

Table 28: Maturity analysis of assets and liabilities based on remaining contractual maturity

Group	Up to 7 Days RM'000	>7 Days - 1 Month RM'000	>1-3 Months RM'000	>3-6 Months RM'000	>6-12 Months RM'000	>1 - 5 Years RM'000	Over 5 Years RM'000	Total RM'000
31 March 2014								
ASSETS								
Cash and short-term funds	614,000	352,260	-	-	-	-	-	966,260
Cash and placements with financial institutions	-	-	97,935	22,852	-	-	-	120,787
Financial investments designated at fair value through profit and loss	-	-	-	-	-	-	98,710	98,710
Financial investment available-for-sale	10,277	19,392	10,254	90,318	326,266	4,271,785	1,336,955	6,065,247
Islamic derivative financial assets	180	865	1,115	215	36	15,976	1,648	20,035
Financing of customers	-	1,324,639	736,984	585,898	841,799	4,067,181	4,343,190	11,899,691
Other assets	-	-	-	-	86,700	600	803,660	890,960
TOTAL ASSETS	624,457	1,697,156	846,288	699,283	1,254,801	8,355,542	6,584,163	20,061,690
LIABILITIES AND EQUITY								
Deposits from customers	1,345,621	7,969,321	5,648,711	1,792,847	826,752	5,003	40,973	17,629,228
Deposits and placements of banks and other financial institutions	67,143	27,100	-	-	-	6,831	-	101,074
Islamic derivative financial liabilities	470	296	71	3,308	-	-	-	4,145
Other liabilities	-	137,824	10,738	-	33,105	400,000	-	581,667
Total Liabilities	1,413,234	8,134,541	5,659,520	1,796,155	859,857	411,834	40,973	18,316,114
Equity attributable to shareholders of the Bank	-	-	-	-	-	-	1,745,576	1,745,576
NET MATURITY MISMATCH	(788,777)	(6,437,385)	(4,813,232)	(1,096,872)	394,944	7,943,708	4,797,614	-

Basel II Pillar 3 Disclosure

8.4 Liquidity Risk (cont'd.)

Liquidity and Funding Risk (cont'd.)

Table 28: Maturity analysis of assets and liabilities based on remaining contractual maturity (cont'd.)

Group	Up to 7 Days RM'000	>7 Days - 1 Month RM'000	>1-3 Months RM'000	>3-6 Months RM'000	>6-12 Months RM'000	>1 - 5 Years RM'000	Over 5 Years RM'000	Total RM'000
31 March 2013								
ASSETS								
Cash and short-term funds	2,913,226	323,279	-	-	-	-	-	3,236,505
Cash and placements with financial institutions	-	-	105,189	-	-	-	-	105,189
Financial investments designated at fair value through profit and loss	-	-	-	-	-	-	84,373	84,373
Financial investment available-for-sale	130,708	467,195	185,850	282,741	294,214	4,054,559	1,052,299	6,467,566
Islamic derivative financial assets	340	2,529	789	728	102	-	-	4,488
Financing of customers (restated)	-	675,133	416,540	438,304	766,336	3,740,874	4,315,439	10,352,626
Other assets (restated)	-	-	-	-	90,024	-	730,819	820,843
TOTAL ASSETS	3,044,274	1,468,136	708,368	721,773	1,150,676	7,795,433	6,182,930	21,071,590
LIABILITIES AND EQUITY								
Deposits from customers	1,848,030	8,925,947	5,365,877	1,582,461	990,359	5,848	25,657	18,744,179
Deposits and placements of banks and other financial institutions	-	-	2,820	-	3,152	4,802	-	10,774
Islamic derivative financial liabilities	938	-	230	-	11	-	7,726	8,905
Other liabilities (restated)	-	168,743	462	703	133,293	-	406,055	709,256
Total Liabilities	1,848,968	9,094,690	5,369,389	1,583,164	1,126,815	10,650	439,438	19,473,114
Equity attributable to shareholders of the Bank	-	-	-	-	-	-	1,598,476	1,598,476
NET MATURITY MISMATCH	1,195,306	(7,626,554)	(4,661,021)	(861,391)	23,861	7,784,783	4,145,016	-

8.4 Liquidity Risk (cont'd.)

Liquidity and Funding Risk (cont'd.)

Table 28: Maturity analysis of assets and liabilities based on remaining contractual maturity (cont'd)

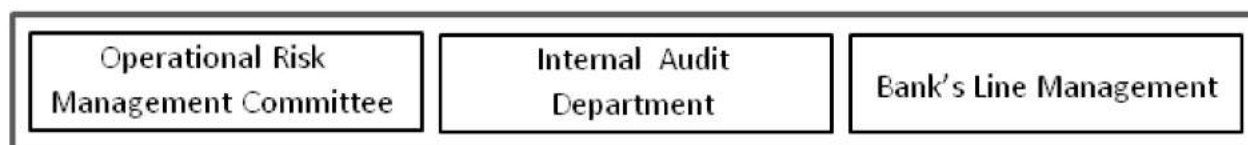
Bank	Up to 7 Days RM'000	>7 Days - 1 Month RM'000	>1-3 Months RM'000	>3-6 Months RM'000	>6-12 Months RM'000	>1 - 5 Years RM'000	Over 5 Years RM'000	Total RM'000
31 March 2014								
ASSETS								
Cash and short-term funds	614,000	352,260	-	-	-	-	-	966,260
Cash and placements with financial institutions	-	-	97,935	22,852	-	-	-	120,787
Financial investments designated at fair value through profit and loss	-	-	-	-	-	-	94,610	94,610
Financial investment available-for-sale	10,277	19,392	10,254	90,318	326,266	4,271,785	1,336,955	6,065,247
Islamic derivative financial assets	180	865	1,115	215	36	15,976	1,648	20,035
Financing of customers	-	1,324,639	736,984	585,898	841,799	4,067,181	4,347,573	11,904,074
Other assets	-	-	-	-	86,134	600	809,054	895,788
TOTAL ASSETS	624,457	1,697,156	846,288	699,283	1,254,235	8,355,542	6,589,840	20,066,801
LIABILITIES AND EQUITY								
Deposits from customers	1,349,753	7,974,621	5,648,711	1,792,847	826,752	5,003	40,973	17,638,660
Deposits and placements of banks and other financial institutions	67,142	27,101	-	-	-	6,831	-	101,074
Islamic derivative financial liabilities	470	296	71	3,308	-	-	-	4,145
Other liabilities	-	138,185	10,739	-	32,635	400,000	-	581,559
Total Liabilities	1,417,365	8,140,203	5,659,521	1,796,155	859,387	411,834	40,973	18,325,438
Equity attributable to shareholders of the Bank	-	-	-	-	-	-	1,741,363	1,741,363
NET MATURITY MISMATCH	(792,908)	(6,443,047)	(4,813,233)	(1,096,872)	394,848	7,943,708	4,807,504	-

9.0 Operational Risk Management (“ORM”) Disclosures

Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes and systems, human factors, and/or from various external events. The objective of operational risk management therefore is to effectively manage these risks to minimize possible financial and non-financial losses.

The management of operational risks is targeted at preventing risk events and damages, proper handling of critical situations and mitigating potential losses. These are achieved partly by instituting appropriate process and management controls and implementing clear and comprehensive contingency plans and business continuity management (BCM).

The risk management processes and controls are established in line with the Bank's own operational risks while relying on relevant guidelines, regulatory requirements and standard market practices as guidance and benchmarks. By establishing and operating a system of control procedures that commensurate with its risks, the Bank limits its exposure to an acceptable level in accordance with its risk appetite.



The Muamalat Operational Risk Solution (MORiS)

The **MORiS** is a newly implemented IT-based system that is used as a tool in risk identification and assessment, acts as a centralized loss incidents database and tracks risk exposures against established key risk indicators (KRI) overtime.

Its objective is to improve monitoring and reporting for branches and departments through Risk & Control Self-Assessment (RCSA), Incident Management Data Collection (IMDC) and Key Risk Indicator (KRI). The scope of application is primarily intended to be used for management of operational risk and in time, it will become a single point of entry to aggregate and present the Directorial Dashboard covering the key areas of risk management. The system was completed and launched on 27 March 2013.

Basel II Pillar 3 Disclosure

9.0 Operational Risk Management (“ORM”) Disclosures (cont’d.)

Business Continuity Management (BCM)

The Group and the Bank adopt the Bank Negara Malaysia Guidelines on Business Continuity Management, which entails enterprise-wide planning and arrangements of key resources and procedures that enable the Bank to respond and continue to operate critical business functions across a broad spectrum of interruptions to business, arising from internal or external events.

BCM Methodology

The Bank prepares the Business Units BCP by completing the Risk Assessment (RA) and the Business Impact Analysis (BIA). RA is a tool used to identify the potential threat on all business function. A BIA will be carried out to identify critical business functions recovery time objective (RTO) and maximum tolerable downtime (MTD) resources and infrastructure of the institution. RA and BIA session is being conducted annually with business units.

ORM Minimum Capital Requirement

The Group and the Bank adopt the Basic Indicator Approach (BIA) to determine the minimum capital requirement for its operational risk. Under this approach, the Group and the Bank set aside a fixed percentage (α or alpha factor) of 15% of positive annual average gross income, averaged over the previous three years. The Group and the Bank minimum capital is presented in table below:

Table 29: ORM minimum capital requirement

	2014		2013	
	Risk Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000	Risk Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Group	1,068,340	85,467	1,022,010	81,761
Bank	1,063,238	85,059	1,020,708	81,657

Overview

BMMB's shariah governance structure is governed by BNM's guidelines on "Shariah Governance Framework for Islamic Financial Institutions (IFIs)", and any related guidelines issued by the authorities, subject to any variation and amendments from time to time.

Shariah governance system as defined by The IFSB Guiding Principles on Shariah Governance System on Institutions Offering Islamic Financial Services (IFSB-10) refers to a set of institutional and organizational arrangements to oversee Shariah compliance aspects in IFIs.

In this context, Shariah non-compliance risk defined as "The risk that arises from the Group's and the Bank's failure to comply with the Shariah rules and principles determined by the Shariah Committee (SC) of BMMB and relevant Shariah Authorities (SA) committees."

This risk is managed through the Shariah Governance Framework ("the Framework"), which is endorsed by the Shariah Committee and approved by the Board. The Framework is drawn up in accordance to the Shariah Governance Framework for Islamic Financial Institutions issued by BNM on 22 October 2010.

To ensure the operations and business activities of the Bank remain consistent with Shariah principles and its requirements, the Bank has established its own internal Shariah Committee and internal Shariah Organs, which consist of Shariah Department, Shariah Audit under Internal Audit Department, Shariah Review & Compliance under Compliance Department, Shariah Risk under Risk Management Department.

Shariah Governance Structure

Internal Shariah Control

Shariah compliance management is driven top down from the BOD through Shariah Committee ("SC"), who has the responsibility of understanding the Shariah related matters in the activities assumed by the Group and the Bank.

The Group and the Bank shall realign its Shariah Management & Compliance organisational responsibilities with the objective of ensuring a single view of risks across the Group and the Bank and putting in place capabilities for an integrated compliance management. The SC function independently and shall ensure the integration of compliance management.

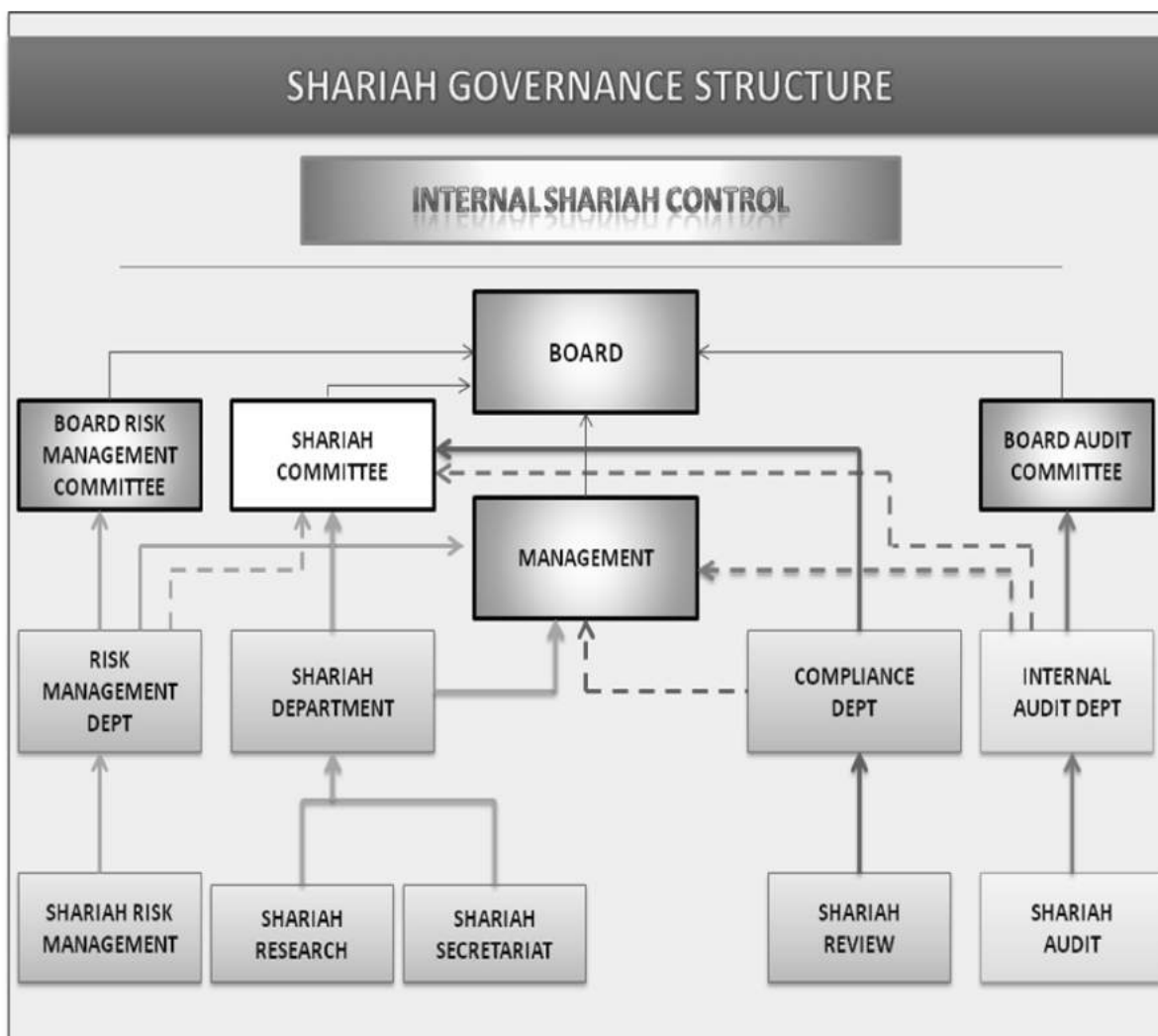
To ensure that the Group's and the Bank's compliance management functions are able to provide an independent evaluation of its overall business decision and strategies, the functions are segregated to the business operating units.

Basel II Pillar 3 Disclosure

10.0 Shariah Governance Disclosures (cont'd.)

Shariah Governance Structure (cont'd.)

Table 30: Shariah governance structure



10.0 Shariah Governance Disclosures (cont'd.)

Rectification Process of Shariah Non-Compliance Income (SNCI)

Earning and Expenditure Prohibited by Shariah

Policy on Management of Shariah Non-Compliant Income is formulated pursuant to the BNM Shariah Governance Framework for IFI, which define the principles and practices to be applied by the Bank in managing its SNCI.

SNCI is an income generated from any transaction(s) that breaches the governing Shariah principles and requirements determined by the Bank's SC and/or other Shariah Authorities (SA).

The SA are as follows:

- Shariah Advisory Council of Bank Negara Malaysia.
- Shariah Advisory Council of Securities Commission Malaysia.
- Any other relevant Shariah resolutions and rulings as prescribed and determined by the SC of the Bank from to time.

The amount of SNCI and events decided by SC is as follows:

31 March 2014	31 March 2013
Event - NIL plus monthly Nostro interest received	RM63,816 (1 incident) plus monthly Nostro interest received

Any reported SNCI will be utilised to fund charitable activities as guided by SC of the Bank.

Unidentified fund/*Shubhah*

During the bank's daily operation, there are certain funds received by the bank where the source is not clear or uncertain. These fund are therefore not recognised as income and are retained in the *Maslahah Ammah* account. The utilisation of the fund follows the similar procedure set for the SNCI funds.

Example of unidentified funds are cash excess at teller and ATM machines and unidentified credit balances. Unidentified fund during the year was recorded at RM376,210 (2013: RM404,363).

Branch Network

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Regional Office Federal Territory
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No.Fax : 03-8925 5894

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Faks : 03-4043 1467

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Jln Tuanku Abdul Rahman,
50100 Kuala Lumpur.
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Faks : 03-2697 8020

Taman Melawati

268, 269 & 270, Jalan Bandar 12
Taman Melawati, 53100 Kuala Lumpur.
Tel : 03-4108 1160
Faks : 03-4107 4625

Sungai Besi

NO 2&2A, JALAN TASIK UTAMA 7, MEDAN NIAGA TASIK DAMAI,
SG BESI, 50700,
KUALA LUMPUR
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Faks : 03-9058 1476

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62050 Putrajaya.
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Faks : 03-8889 2053

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No.Fax : 03-5510 6611

SELANGOR

Batu Caves

No. 3A & 3A-1 (Ground & level 1) & No 5 (Ground)
Prima Samudera, Jln Samudera Utara,
68100, Batu Caves, Selangor Darul Ehsan
Tel: 03-6187 8235
Faks: 03-6186 2387

Kajang

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No. 2-1-G/1/2, Jalan Prima Saujana 2/1,
Prima Saujana, 43000 Kajang, Selangor Darul Ehsan.
Tel : 03-8733 9569
Faks : 03-8733 8014

Kelang

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Jalan Kelicap, 42A/Ku1,
Klang Bandar Diraja, Off Jalan Meru,
41050 Kelang, Selangor
Tel : 03-3344 4145
Faks : 03-3344 4146

Petaling Jaya

No. B-29-1 & 2,
Blok B, Jaya One 72A,
Jalan Universiti, 46200, P.J
Selangor Darul Ehsan
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Fax : 03-7954 1196

Laman Seri

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Laman Seri Business Park,
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40100 Shah Alam, Selangor.
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Rawang

No. 9 & 11,
Jalan Bandar Rawang 1,
Bandar Baru Rawang,
48000 Rawang.
Tel: 03-6091 9045
Faks: 03-6092 1677

Shah Alam, Pkns

G-1, 2 & 3, Ground Floor,
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40000 Shah Alam.
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47500 Subang Jaya,
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Fax : 03-8022 1729/ 8022 1730

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Glenmarie, Shah Alam

No.2, Jalan Presiden F U1/F,
Accentra Glenmarie, Seksyen U1,
40150, Shah Alam.
Tel : 03-5569 1402 / 03-5569 1403
Faks : 03-5569 1435

Branch Network

NEGERI SEMBILAN

Seremban

Wisma Great Eastern,
Mo. 105, 107 & 109,
Jalan Yam Tuan,
70000 Seremban.
Negeri Sembilan
Tel : 06-765 1506
Faks : 06-762 7218

KIOSK

Kemuning Utama, Shah Alam.

Lot G8, Giant Hypermarket Kemuning Utama,
No. 3, Jalan Kemuning Prima E33/E
Kemuning Utama, Seksyen 33
40400 Shah Alam, Selangor
Tel : 03-5121 2607
Faks : 03-5121 2766

REGIONAL OFFICE NORTHERN

Bank Muamalat Malaysia Berhad
Regional Office Northern,
3rd Floor, No. 64, Lebuhr Pantai,
Georgetown,
10300 Pulau Pinang.
No.Tel : 04-250 3551 / 04-251 3552
No.Fax : 04-261 1503

PERAK

Ipoh

Ground & Mezzanine Floor,
Wisma Maju UMNO,
Jalan Sultan Idris Shah,
30000 Ipoh.
Tel : 05-249 8802
Faks : 05-243 4997

Parit Buntar

No. 40 & 42, Jalan Wawasan 4,
Taman Wawasan Jaya,
Pusat Bandar Baru,
34200 Parit Buntar, Perak
Tel : 05-716 6737
Faks : 05-716 7204

Sitiawan

Ground & 1st Floor,
No. 392, Taman Samudera,
32040 Seri Manjung, Perak.
Tel : 05-688 4915
Faks : 05-688 4931

Taiping

98-100, Ground & 1st Floor,
Jalan Kota, 34000 Taiping.
Tel : 05-807 8372
Faks : 05-807 8375

KEDAH

Alor Setar

Lot T-1, Ground
& Mezanin Floor, Wisma PKNK,
Jalan Sultan Badlishah,
05000 Alor Setar.
Tel : 04-731 5722
Faks : 04-731 5724

Souq Al-Bukhary

Ground Floor,
Bazaar Souq Al-Bukhary,
No. 1, Jln Tun Abdul Razak,
05200 Alor Setar.
Tel : 04-731 5480
Faks : 04-731 5546

Kulim

No. 6, Bangunan Al-Ikhwan,
Pusat Perniagaan Putra,
Jalan Kilang Lama,
09000 Kulim.
Tel : 04-496 3500
Faks : 04-490 7714

Sungai Petani

No. 21, Lot 88,
Jalan Perdana Heights 2/2,
Perdana Heights,
08000 Sungai Petani, Kedah
Tel : 04-420 4300 / 4301 / 4302
Faks : 04-421 5007

PULAU PINANG

Bayan Baru

No 24, 26 & 28,
Ground & 1st Floor,
Taman Seri Tunas, Jln Tengah,
11950 Bayan Baru.
Tel : 04-630 8100
Faks : 04-641 1058

USM

Universiti Sains Malaysia
Bangunan D12, Minden Campus,
11800 Minden, Pulau Pinang
Tel : 04-660 4600
Faks : 04-658 5945

Seberang Jaya

Ground, 1st & 2nd Floor,
No. 27 & 28, Jalan Todak 2,
Bandar Sunway Seberang Jaya,
13700 Perai, Butterworth,
Pulau Pinang
Tel : 04-397 2494
Faks : 04-399 3797

Lebuh Pantai

No. 64, Lebuh Pantai,
Georgetown, 10300 Pulau Pinang.
Tel : 04-262 0000 / 04-262 0266
Faks : 04-2611700

PERLIS

Kangar

No. 11 & 13, Jalan Bukit Lagi,
01000 Kangar.
Tel : 04-976 4751
Faks : 04-976 4799

KIOSK**Kepala Batas**

Lot G-13A, Ground Floor,
Pusat Perniagaan Dato' Kailan,
13200 Kepala Batas, P.Pinang
Tel : 04-575 4071 / 4018
Fax : 04-575 4084

Ipoh Terminal

Lot No 25, Ground Floor,
Ipoh City Integrated Bus Terminal Complex,
Persiaran Meru Raya 5, Bandar Meru Raya,
30020 Ipoh, Perak
Tel : 05-5273275, 05-5273276 (General Line)
Fax : 05-5273277

Branch Network

Arau Kiosk

No. 27, Ground Floor,
Jalan 2, Kompleks Arau,
Pekan Tok Arau,
02600 Arau, Perlis
Tel : 04-9860389 & 04-9860385
Fax : 04-9860386

REGIONAL OFFICE EAST COAST

Bank Muamalat Malaysia Berhad
Regional Office East Coast,
Tingkat 2,
Bangunan Perbadanan Menteri Besar Kelantan,
Jalan Kuala Krai,
15150 Kota Bharu,
Kelantan Darul Naim
No.Tel : 09-743 3339 / 09-743 5050
No.Fax : 09-743 3993

TERENGGANU

Kuala Terengganu

1, Jalan Air Jerneh,
20300 Kuala Terengganu.
Tel : 09-622 2177
Faks : 09-622 3543

Kg. Raja

Lot 5678 & 5679,
Taman D'Laheh,
Gong Kepas,
Kampung Raja,
22200, Besut, Terengganu Darul Iman
Tel : 09-697 3133 / 3233
Faks : 09-697 5566

KELANTAN

Kota Bharu

Ground & 1st Floor,
Bangunan Perbadanan Menteri
Besar Kelantan (PMBK),
Jalan Kuala Krai, 15150 Kota Bharu.
Tel : 09-744 1711
Faks : 09-744 4622

Kok Lanas

Ground & 1st Floor, Lot PT 5080 Kompleks Perniagaan Saidina Ali,
Jalan Kuala Kerai, Kok Lanas
16450 Kota Bharu.
Tel : 09-788 6868
Faks : 09-788 6828

Jalan Sultan Yahya Petra

Ground Floor,
Lot PT 265 & PT, 266, Wisma Nik Kob,
Jalan Sultan Yahya Petra,
15200 Kota Bharu.
Tel : 09-747 3187
Faks : 09-747 3230

Jeli

Ground & First Floor,
No. PT4646, Lot 2003,
PN 3523,17600
Bandar Jeli, Kelantan
Tel : 09-944 1339
Faks : 09-944 8228

PAHANG

Kuantan

B-114 & B-116,
Sri Dagangan Centre,
Jalan Tun Ismail, 25000 Kuantan.
Tel : 09-516 2782
Faks : 09-516 2853

Mentakab

6 & 7, Jalan Tun Abd Razak,
28400 Mentakab.
Tel : 09-277 5917
Faks : 09-277 4940

Pekan

G-02, Ground Floor,
Bangunan UMNO (Bahagian Pekan)
Jalan Teng Que,
26600, Pekan,
Pahang Darul Makmur
Tel : 09-422 4488/ 09-422 3751
Faks : 09-422 3751

Temerloh

C-8, Jalan Tengku Ismail,
 Temerloh,
 28000 Pahang Darul Makmur
 Tel : 09-2962 358 / 09-2962 362
 Faks : 09-2962 364

REGIONAL OFFICE SOUTHERN

Bank Muamalat Malaysia Berhad
 Regional Office Southern,
 1st Floor,
 Lot 1 & 2, Kebun Teh Commercial City,
 Jalan Kebun Teh,
 80250 Johor Bahru, Johor
 No.Tel : 07- 222 7682 / 07- 223 6067
 No.Fax : 07-228 1550

MELAKA

Melaka

395, Taman Sinn, Jalan Semabuk,
 75050 Melaka.
 Tel : 06-282 8464
 Faks : 06-286 7518

Taman Cheng Baru

Ground & 1st Floor,
 No 92, Jln Cheng Baru,
 Taman Cheng Baru,
 75250 Melaka.
 Tel : 06-312 5086
 Faks : 06-312 5091

JOHOR

Johor Bahru

Ground & 1st Floor,
 Lot 1 & 2, Kebun Teh Commercial City,
 Jalan Kebun Teh,
 80250 Johor Bahru, Johor
 Tel : 07-223 5822
 Faks : 07-224 0811

Batu Pahat

24-25, Ground & 1st Floor,
 Jalan Kundang, Taman Bukit Pasir, 83000 Batu Pahat.
 Tel : 07-432 5257
 Faks : 07-432 4945

Universiti Tun Hussein Onn Malaysia (UTHM)

Ground Floor,
 Bangunan Pusat Khidmat Pelajar,
 Universiti Tun Hussein Onn Malaysia,
 86400 Parit Raja, Batu Pahat.
 Tel : 07-453 6969
 Faks : 07-453 6125

Johor Jaya

Ground & 1st Floor,
 No. 17, Jalan Ros Merah 2/20,
 Taman Johor Jaya,
 81100 Johor Bahru.
 Tel : 07-357 7451
 Faks : 07-355 8106

Kluang

No. 1, Jalan Persiaran Dato' Haji Ismail Hassan,
 86000 Kluang.
 Tel : 07-772 2487
 Faks : 07-774 4419

Kulai

No. 32, Jalan Sri Putra 1,
 Bandar Putra,
 81000 Kulai, Johor
 Tel : 07-662 1570
 Faks : 07-663 8496

Segamat

No. 37 & 38, Jalan Genuang Perdana,
 Taman Genuang Perdana,
 85000 Segamat, Johor
 Tel : 07-943 3281 / 07-943 3292
 Faks : 07-943 3042

Taman Universiti

Ground & 1st Floor,
 No 28, Jalan Kebudayaan 5,
 Taman Universiti,
 81300 Skudai.
 Tel : 07-520 6875
 Faks : 07-520 5503

Branch Network

Kota Tinggi

No. 23,25 & 27, Jalan Sri Warisan 1,
Kota Tinggi Heritage Mall,
81920, Kota Tinggi.
Johor
Tel : 07- 882 5220/5221/5001
Faks : 07- 882 5229

KIOSK

Johor Bharu Sentral Terminal

SK05, 3rd Floor
JB Sentral Terminal
Jalan Lingkaran Dalam
80300 Johor Bahru, Johor
Tel : 07-2212397
Fax : 07-2211597

Pasir Gudang

L3,-188, Kompleks Pusat Bandar Pasir Gudang,
Jalan Bandar,
81700 Pasir Gudang, Johor
Tel : 07-252 1350 / 1421
Fax : 07-252 1094

Sg. Udang

No. 11, Jalan Kerambit 1
Bandar Baru Sungai Udang
76300 Sungai Udang
Melaka
Tel : 06-3515700
Faks : 06-3513703

REGIONAL OFFICE EAST MALAYSIA

Bank Muamalat Malaysia Berhad
Regional Office East Malaysia
Ground & Mezzanine Floor,
Wisma Gek Poh,
No.18, Jalan Haji Saman,
88000 Kota Kinabalu. Sabah
Tel : 088-233 024 / 025 / 026
Faks : 088-233 530

SARAWAK

Kuching

Lot 543-545, Bangunan Cheema, Jalan Tun Ahmad Zaidi Adruce,
93400 Kuching.
Tel : 082-25 7877
Faks : 082-41 4142

Bintulu

Ground 1st & 2nd Floor,
No. 252, Lot 73 Park City Commercial Centre, Jalan Tanjung Batu,
97012 Bintulu
Tel : 086-337 462
Faks : 086-337 461

Miri

433-434 Ground & First Floor
Jalan Bendahara
98000 Miri
Sarawak
Tel : 085-420 622
Faks : 085-418 111

Sabah

Kota Kinabalu

Ground & Mezzanine Floor,
Wisma Gek Poh,
No.18, Jalan Haji Saman,
88000 Kota Kinabalu. Sabah
Tel : 088-239 122 / 129 / 881
Faks : 088-239 128

Labuan

UO 114, Ground Floor,
Jln OKK Awang Besar, 87000
Wilayah Persekutuan Labuan
Tel : 087-424 190
Faks : 087-424 204

Tawau

Lot 69 & 70, Ground & First Floor,
Kubota Square,
Jalan Kubota,
91000 Tawau, Sabah.
Tel : 089-771 492/ 089-771 488
Faks : 089-771 493

KIOSK

Putatan

Lot G14, Ground Floor,
One Place Mall@ Putatan Square,
88200 Kota Kinabalu, Sabah
Tel : 088-779 601 / 602
Fax : 088-779 603

Bank Muamalat Malaysia Berhad (6175-W)
Menara Bumiputra, Jalan Melaka
50100 Kuala Lumpur

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