



BANK MUAMALAT MALAYSIA BERHAD

Company No. 6175-W
(Incorporated in Malaysia)

**AUDITED FINANCIAL STATEMENT
31 MARCH 2012**

PUBLIC

6175-W

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Contents	Page
Directors' report	1 - 7
Statement by directors	8
Statutory declaration	8
Report of the Shariah committee	9
Independent auditors' report	10 - 11
Statements of financial position	12 - 13
Income statements	14
Statements of comprehensive income	15
Consolidated statement of changes in equity	16 - 17
Statements of changes in equity	18 - 19
Statements of cash flows	20 - 22
Notes to the financial statements	23 - 151

6175-W

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Directors' report

The directors of Bank Muamalat Malaysia Berhad 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 2012.

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
Net profit for the year	<u>84,984</u>	<u>84,370</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

No dividends has been paid or declared by the company since the end of the previous financial year. The directors do not recommend the payment of any dividend in respect of the current financial year

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

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
 Dato' Sri Haji Mohd Khamil Jamil
 Dato' Haji Mohd Redza Shah Abdul Wahid
 Haji Ismail Ibrahim
 Haji Abdul Jabbar Abdul Majid
 Tengku Dato' Seri Hasmuddin Tengku Othman
 Haji Mohd Izani Ghani
 Dato' Azmi Abdullah
 Dato' Hj Kamil Khalid Ariff (appointed 29 September 2011)
 Dato' Lukman Ibrahim (appointed 18 November 2011)

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 are as follows:

	Number of ordinary shares of RM1.00 each			
	As at 1.4.2011	Acquired	Disposal	As at 31.3.2012
Interest in Etika Strategi Sdn Bhd, ultimate holding company:				
Dato' Sri Haji Mohd Khamil Jamil	30,000	-	-	30,000

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, an 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 corporate body.

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 28 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 immediate holding company.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Other statutory information

- (a) Before the income statements, statements of comprehensive income and statements of financial positions of the Group and the Bank were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and financing and the making of allowance for doubtful debts and financing and have satisfied themselves that all known bad debts and financing had been written off and that adequate allowance had been made for doubtful debts and financing; 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 to realise.
- (b) As at the date of this report, the directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts and financing, or the amount of the allowance for doubtful debts and financing in the financial statements of the Group and of the Bank inadequate to any substantial extent; and
 - (ii) the value 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.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

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

In the preparation of the financial statements of the Group and the Bank, the directors have taken reasonable steps to ensure that Bank Negara Malaysia's Guidelines on financial statements have been complied with, including those as set out in the Guidelines on Financial Reporting for Financial Institutions and the Guidelines on Classification and Impairment Provision for Loans/Financing.

Business review 2011/2012

The Group registered a profit before zakat and taxation of RM124.1 million, lower by 39% as compared with the amount posted in the previous corresponding year, despite recording moderate growth of 6% in total distributable income. Decline in profit was partly attributed to higher income attributable to depositors by RM64 million, as a result of increase in total customer deposits by 12%.

Being a relevant player in the Islamic Banking industry, the Bank maintained its core business well with expanded financing base from RM7.1 billion in March 2011 to RM9.0 billion for the year ended March 2012. Total assets of the Group grew in the twelve months period to RM20.5 billion as compared to RM18.3 billion last year. The increase was mainly due to an increase in amount of investment securities held and financing of customers.

Prospects 2012/2013

Premised on the above prospects, we are optimistic that there will be sufficient opportunities for the bank to grow its financing as well as investment assets. Capital market and investment banking activities however may be more subdued as compared to last year. Consumer demand on the other hand, is expected to continue to remain resilient whilst the thrust of business banking will be more selective as the economy registers a relatively slower growth rate.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Prospects 2012/2013 (cont'd.)

The Bank is optimistic on the outlook for financing growth next year, buoyed by encouraging demand on consumer financing whilst corporate portfolio is expected to grow relatively moderate. The new Financial Sector Blueprint 2011-2020, which promotes internationalization of Islamic finance, provides new and alternative opportunities for growth of Malaysian banking sector.

Looking ahead, the Bank will continue its focus on fee income generation in particular in the areas of trade finance, treasury activities, investment banking and transactional banking and also aims to further deepen its wealth management and Bancatakaful services. Ar-Rahnu business introduced this year has shown positive development and next year will see further expansion as the bank plans to equip more of its branches with Ar-Rahnu facilities.

Enhancement of network presence and customer service delivery remains priority. Some selected branches will be relocated to more strategic locations and some will be given a facelift with a new “look and feel” to create new customers’ banking experience. More kiosks will be opened to provide convenient and simpler banking services to the customer. Ongoing collaboration within the DRB-Hicom Group, in particular with Pos Malaysia, will be another significant initiative that would take the bank to a greater height.

Rating by external rating agencies

Details of the Bank’s ratings are as follows:

Rating Agency	Date	Classification	Received
Rating Agency Malaysia Berhad	May 2012	Long term	A2
		Short term	P1
		Subordinated Bond	A3
		Outlook	Stable

Disclosure of Shariah committee

The Bank's business activities are subject to the Shariah compliance and conformation 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 governed 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 follow:

- (a) The Shariah Committee is expected 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) The Shariah Committee is expected 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.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Disclosure of Shariah committee (cont'd.)

- (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) The related parties of the Bank 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.
- (f) The Shariah Committee may 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) The Shariah Committee is required to provide written Shariah opinions in circumstances where the Bank make reference to the SAC for further deliberation, or where the Bank submits applications to the Bank for new product approval.
- (h) Provide the Bank with guidelines and advice on religious matters to ensure that the Bank's overall activities are in line with Shariah.
- (i) Make decisions on matters arising from existing and future activities of the Bank which have religious repercussions.
- (j) Report to the shareholders and the depositors that all the Bank's activities are in accordance with Shariah.
- (k) 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) Scrutinize and endorse the annual financial report of the Bank.
- (m) Provide training to the staff as well as notes or relevant materials for their reference.
- (n) Represent the Bank or to attend any meetings with the SAC or other relevant bodies concerning any Shariah issues relating to the Bank.

6175-W

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Disclosure of Shariah committee (cont'd.)

- (o) The Shariah Committee shall 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 authorized by the Bank or required by law.
- (p) The Shariah Committee shall ensure the quality and consistency of the Shariah decision.

Zakat obligations

The Bank pays zakat on its business as required by Shariah.

Auditors

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

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

Tan Sri Dato' Dr. Mohd Munir Abdul Majid

Dato' Haji Mohd Redza Shah Abdul Wahid

Kuala Lumpur, Malaysia

6175-W

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Statement by directors

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

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 12 to 151 are drawn up in accordance with Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines and Shariah principles and 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 2012 and of the financial performance 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

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

Dato' Haji Mohd Redza Shah Abdul Wahid

Statutory declaration

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

I, PeerMohamed Ibrahim 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 12 to 151 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 PeerMohamed Ibrahim
at Kuala Lumpur in Federal Territory
on

PeerMohamed Ibrahim

Before me,

Commissioner for Oaths

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Report of the Shariah committee

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 Muamalat Malaysia Berhad during the year ended 31 March 2012. We have also conducted our review to form an opinion as to whether Bank Muamalat Malaysia Berhad 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 Bank Muamalat Malaysia Berhad is responsible for ensuring that the financial institution conducts its business in accordance with Shariah principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank Muamalat Malaysia Berhad, 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 Muamalat Malaysia Berhad 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 Bank Muamalat Malaysia Berhad 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 Muamalat Malaysia Berhad during the year ended 31 March 2012 that we have reviewed are in compliance with the Shariah principles;
2. the allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles;
3. all earnings that have been realised from sources or by means prohibited by the Shariah principles have been considered for disposal to charitable causes; 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 Muamalat Malaysia Berhad to the best of its effort, for the year ended 31 March 2012 have been conducted in conformity with the Shariah principles.

Signed on behalf of the Shariah Committee,

Azizi Che Seman

Engku Ahmad Fadzil Engku Ali

Kuala Lumpur, Malaysia

Date:

6175-W

**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 2012 of the Group and the Bank, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 12 to 151.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation of 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.

6175-W

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards, as modified by Bank Negara Malaysia Guidelines and Shariah principles and 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 2012 and of their financial performances and cash flows for the year then ended.

Report on other legal and regulatory requirements

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

- (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

Mohd. Sukarno bin Tun Sardon
No. 1697/03/13(J)
Chartered Accountant

Kuala Lumpur, Malaysia

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

Statements of financial position as at 31 March 2012 (8 Jamadil Awal 1433H)

	Note	Group		Bank	
		2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Assets					
Cash and short-term funds	4 (a)	4,391,223	6,199,953	4,391,223	6,199,953
Cash and placements with financial institutions	4 (b)	110,333	251,012	110,333	251,012
Financial investment held-to-maturity	5 (a)	74,494	28,585	74,494	28,585
Financial investment available-for-sale	5 (b)	6,144,018	4,370,987	6,139,218	4,360,187
Islamic derivative financial assets	6	4,150	5,177	4,150	5,177
Financing of customers	7	9,038,483	7,148,160	9,050,805	7,166,034
Other assets	8	44,371	70,700	37,394	63,645
Statutory deposits with Bank Negara Malaysia	9	527,721	94,121	527,721	94,121
Deferred tax assets	10	52,353	38,240	52,353	38,240
Investment in subsidiaries	11	-	-	6,384	6,484
Property, plant and equipment	12	81,072	101,521	81,072	101,516
Prepaid land lease payment	13	251	255	251	255
Total assets		20,468,469	18,308,711	20,475,398	18,315,209
Liabilities					
Deposits from customers	14	18,151,087	16,216,173	18,158,747	16,222,790
Deposits and placements of banks and other financial institutions	15	11,896	14,993	11,896	14,993
Islamic derivative financial liabilities	6	5,630	3,986	5,630	3,986
Bills and acceptances payable	16	310,324	291,375	310,324	291,375
Other liabilities	17	133,044	164,398	133,218	164,422
Provision for zakat and taxation	18	20,521	5,228	20,511	5,228
Subordinated bonds	19	406,079	251,128	406,079	251,128
Total liabilities		19,038,581	16,947,281	19,046,405	16,953,922

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

Statements of financial position as at 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

		Group		Bank	
	Note	2012	2011	2012	2011
		RM'000	RM'000	RM'000	RM'000
Shareholders' equity					
Share capital	20	1,000,000	1,000,000	1,000,000	1,000,000
Reserves	21	429,888	361,430	428,993	361,287
Total shareholders' equity		<u>1,429,888</u>	<u>1,361,430</u>	<u>1,428,993</u>	<u>1,361,287</u>
Total liabilities and shareholders' equity					
		<u>20,468,469</u>	<u>18,308,711</u>	<u>20,475,398</u>	<u>18,315,209</u>
Commitments and contingencies					
	37	<u>4,287,269</u>	<u>5,820,824</u>	<u>4,287,269</u>	<u>5,820,824</u>
Capital adequacy *					
	41				
Core capital ratio		14.4%	15.2%	14.4%	15.2%
Risk-weighted capital ratio		19.7%	19.2%	19.7%	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.

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

Income statements

For the year ended 31 March 2012 (8 Jamadil Awal 1433H)

	Note	Group		Bank	
		2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Income derived from investment of depositors' funds and others	22	838,499	757,951	838,499	757,951
Income derived from investment of shareholders' funds	23	55,092	63,632	54,401	63,547
Allowance for impairment on financing	24	(41,451)	(36,127)	(47,451)	(36,127)
Provision for commitments and contingencies	17(a)	-	(32,861)	-	(32,861)
Impairment writeback on investments	25	10,317	59,617	16,217	59,699
Other expenses directly attributable to the investment of the depositors and shareholders' funds		(20,752)	(18,345)	(20,752)	(18,345)
Total distributable income		841,705	793,867	840,914	793,864
Income attributable to depositors	26	(364,565)	(300,499)	(364,736)	(300,641)
Total net income		477,140	493,368	476,178	493,223
Personnel expenses	27	(170,947)	(157,577)	(170,256)	(156,871)
Other overheads and expenditures	30	(158,571)	(115,855)	(159,204)	(115,940)
Finance cost	31	(23,478)	(15,625)	(23,231)	(15,625)
Profit before zakat and taxation		124,144	204,311	123,487	204,787
Zakat	32	(3,087)	(8,174)	(3,087)	(8,174)
Taxation	33	(36,073)	(62,560)	(36,030)	(62,599)
Profit for the year		84,984	133,577	84,370	134,014
Earnings per share attributable to share holders of the Bank (sen) (basic and diluted):	34	8.5	13.4		

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

6175-W

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

**Statements of comprehensive income
For the year ended 31 March 2012 (8 Jamadil Awal 1433H)**

		Group		Bank	
	Note	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Profit for the year		84,984	133,577	84,370	134,014
Other comprehensive (loss)/ income:					
Net unrealised (loss)/gain on revaluation of financial investment available-for- sale		(24,215)	18,386	(24,354)	18,376
Income tax relating to components of other comprehensive income	10	8,159	(5,526)	8,159	(5,526)
Exchange fluctuation reserve		(470)	1,083	(470)	1,083
Other comprehensive (loss)/ income for the year, net of tax		(16,526)	13,943	(16,665)	13,933
Total comprehensive income for the year		68,458	147,520	67,705	147,947

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

6175-W

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

**Consolidated statements of changes in equity
For the year ended 31 March 2012 (8 Jamadil Awal 1433H)**

Group	<===== Attributable to Shareholders of the Bank =====>					Total equity RM'000
	Ordinary shares RM'000	Statutory reserve* RM'000	Exchange fluctuation reserve RM'000	Available- for-sale reserve RM'000	Distributable retained profits RM'000	
At 1 April 2011	1,000,000	272,893	553	(40,113)	128,097	1,361,430
Total comprehensive income for the year	-	-	(470)	(16,056)	84,984	68,458
Transfer to statutory reserve	-	42,492	-	-	(42,492)	-
At 31 March 2012	1,000,000	315,385	83	(56,169)	170,589	1,429,888

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

6175-W

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

**Consolidated statements of changes in equity
For the year ended 31 March 2011 (26 Rabiul akhir 1432H) (cont'd.)**

Group (cont'd.)	<===== Attributable to Shareholders of the Bank =====>					Total equity RM'000
	Ordinary shares RM'000	Statutory reserve* RM'000	Exchange fluctuation reserve RM'000	Available- for-sale reserve RM'000	Distributable retained profits RM'000	
At 1 April 2010	1,000,000	206,105	(530)	(52,973)	61,308	1,213,910
Total comprehensive income for the year	-	-	1,083	12,860	133,577	147,520
Transfer to statutory reserve	-	66,788	-	-	(66,788)	-
At 31 March 2011	<u>1,000,000</u>	<u>272,893</u>	<u>553</u>	<u>(40,113)</u>	<u>128,097</u>	<u>1,361,430</u>

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

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

6175-W

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

**Statements of changes in equity
For the year ended 31 March 2012 (8 Jamadil Awal 1433H)**

	<===== Attributable to Shareholders of the Bank =====>					Total equity RM'000
	Ordinary shares RM'000	Statutory reserve* RM'000	Exchange fluctuation reserve RM'000	Available- for-sale reserve RM'000	Distributable retained profits RM'000	
Bank						
At 1 April 2011	1,000,000	271,603	553	(39,974)	129,105	1,361,287
Total comprehensive income for the year	-	-	(470)	(16,194)	84,370	67,706
Transfer to statutory reserve	-	42,185	-	-	(42,185)	-
At 31 March 2012	1,000,000	313,788	83	(56,168)	171,290	1,428,993

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

6175-W

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

**Statements of changes in equity
For the year ended 31 March 2011 (26 Rabiul akhir 1432H) (cont'd.)**

	<===== Attributable to Shareholders of the Bank =====>					Total equity RM'000
	<===== Non-distributable =====>		Exchange fluctuation reserve RM'000	Available- for-sale reserve RM'000	Distributable retained profits RM'000	
Bank (cont'd.)	Ordinary shares RM'000	Statutory reserve* RM'000	RM'000	RM'000	RM'000	RM'000
At 1 April 2010	1,000,000	204,596	(530)	(52,824)	62,098	1,213,340
Total comprehensive income for the year	-	-	1,083	12,850	134,014	147,947
Transfer to statutory reserve	-	67,007	-	-	(67,007)	-
At 31 March 2011	<u>1,000,000</u>	<u>271,603</u>	<u>553</u>	<u>(39,974)</u>	<u>129,105</u>	<u>1,361,287</u>

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

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

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

Statements of cash flows

For the year ended 31 March 2012 (8 Jamadil Awal 1433H)

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cash flows from operating activities				
Profit before zakat and taxation	124,144	204,311	123,487	204,787
Adjustment for				
Amortisation of prepaid land lease payment (Note 30)	4	5	4	5
Depreciation of property, plant and equipment (Note 30)	16,205	13,638	16,200	13,612
Gain on disposal of property, plant and equipment (Note 23)	(66)	-	(66)	-
Property, plant and equipment written-off (Note 30)	31,595	748	31,595	748
Amortisation of premium less accretion of discount (Note 22 and 23)	3,976	14,584	3,976	14,584
Net gain from sale of financial investment available-for-sale (Note 22 and 23)	(22,948)	(2,202)	(22,948)	(2,202)
Net gain from sale of financial investment held-for-trading (Note 22)	(2,561)	(1,170)	(2,561)	(1,170)
Net gain on revaluation of foreign exchange transaction (Note 23)	(11,819)	(14,013)	(11,819)	(14,013)
Net gain from foreign exchange derivatives (Note 23)	(1,060)	(2,523)	(1,060)	(2,523)
Unrealised loss on revaluation of islamic profit rate swap (Note 23)	2,474	158	2,474	158
Impairment writeback on investments (Note 25)	(10,317)	(59,617)	(16,317)	(59,617)
Impairment loss/(writeback) of investment in subsidiaries (Note 25)	-	-	100	(82)
Allowance for impairment on financing (Note 24)	68,814	45,403	74,814	45,403
Financing written off	1,100	8,494	1,100	8,494
Provision for commitment and contingencies	-	32,861	-	32,861
Finance cost (Note 31)	23,478	15,625	23,231	15,625
Gross dividend income (Note 23)	(8,864)	(2,000)	(8,864)	(2,000)
Operating profit before working capital changes	214,155	254,302	213,346	254,670

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

Statements of cash flows

For the year ended 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
(Increase)/decrease in operating assets:				
Islamic derivative financial assets	2,087	15,088	2,087	15,088
Financing of customers	(1,961,494)	(674,386)	(1,961,942)	(691,907)
Statutory deposits with Bank Negara Malaysia	(433,600)	(6,300)	(433,600)	(6,300)
Other assets	(30,677)	(52,928)	(30,891)	(35,571)
Increase/(decrease) in operating liabilities:				
Deposits from customers	1,934,914	1,250,916	1,935,957	1,250,541
Deposits and placements of banks and other financial institutions	(3,097)	(1,368)	(3,097)	(1,368)
Islamic derivative financial liabilities	427	(12,795)	427	(12,795)
Bills and acceptances payable	18,949	199,151	18,949	199,151
Other liabilities	(41,316)	96,618	(41,373)	96,654
Cash (used in)/generated from operations	(299,652)	1,068,298	(300,137)	1,068,163
Zakat paid	(5,228)	(3,402)	(5,228)	(3,402)
Tax paid	(9,805)	(66,768)	(9,567)	(66,619)
Net cash (used in)/generated from operating activities	(314,685)	998,128	(314,932)	998,142
Cash flows from investing activities				
Proceed of financial investment in securities	5,561,248	4,439,477	5,561,248	4,439,477
Purchase of financial investment in securities	(7,310,152)	(4,716,830)	(7,310,152)	(4,716,830)
Proceed from disposal of property, plant and equipment	127	32	127	18
Purchase of property, plant and equipment (Note 12)	(27,412)	(31,860)	(27,412)	(31,860)
Dividend income	8,864	2,000	8,864	2,000
Net cash used in investing activities	(1,767,325)	(307,181)	(1,767,325)	(307,195)

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Statements of cash flows

For the year ended 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cash flows from financing activities				
Dividend paid on islamic subordinated bonds	(17,399)	(15,365)	(17,152)	(15,365)
Redemption of subordinated bonds	(250,000)	-	(250,000)	-
Additional issuance of subordinated sukuk	400,000	-	400,000	-
Net cash generated from/(used in) financing activities	132,601	(15,365)	132,848	(15,365)
Net (decrease)/increase in cash and cash equivalents	(1,949,409)	675,582	(1,949,409)	675,582
Cash and cash equivalents at beginning of year	6,450,965	5,775,383	6,450,965	5,775,383
Cash and cash equivalents at end of year	4,501,556	6,450,965	4,501,556	6,450,965
Cash and cash equivalents consist of:				
Cash and short term funds - Note 4 (a)	4,391,223	6,199,953	4,391,223	6,199,953
Cash and placements with financial institutions - Note 4 (b)	110,333	251,012	110,333	251,012
	4,501,556	6,450,965	4,501,556	6,450,965

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

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H)

1. Corporate information

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 Banking Act, 1983, 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, a public limited liability company is listed on the main Board 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 27 April 2012.

2. Basis of preparation

The financial statements of the Group and of the Bank have been prepared in accordance with Financial Reporting Standards ("FRSs") as modified by Bank Negara Malaysia ("BNM") Guidelines and Shariah principles and the Companies Act, 1965 in Malaysia. At the beginning of the current financial year, the Group and the Bank adopted new and revised FRSs which are mandatory for financial periods beginning on or after 1 April 2011 as described fully in Note 3.2.

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

3. Significant accounting policies

3.1 Basis of accounting

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

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

3.2 Changes in accounting policies and disclosures.

The accounting policies adopted by the Group and the Bank are consistent with those adopted in previous years, except for the adoption on 1 April 2011 of the following new, revised and/or amendments to:-

- Financial Reporting Standards (“FRSs”);
- Issues Committee Interpretation (“IC Interpretations”); and
- Technical Release (“TR”).

Amendments to FRSs, new IC Interpretations and TR effective from financial year commencing 1 April 2011:

FRS 1 First Time Adoption of Financial Reporting Standards
FRS 3 Business Combinations (revised)
Amendments to FRS 5 Non-current Assets Held for Sale and Discontinued Operations
Amendments to FRS 127 Consolidated and Separate Financial Statements
Amendments to FRS 138 Intangible Assets
Amendments to IC Interpretation 9 Reassessment of Embedded Derivatives
IC Interpretation 12 Service Concession Arrangements
IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation
IC Interpretation 17 Distributions of Non-cash Assets to Owners
Amendments to FRS 1 Additional Exemption for First-time Adopters
Amendment to FRS 1 Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
Amendments to FRS 1 First-time Adoption of Financial Reporting Standards
Amendments to FRS 2 Share-based Payment
Amendments to FRS 2 Group Cash-settled Share-based Payment Transactions
Amendments to FRS 3 Business Combinations
Amendments to FRS 7 Improving Disclosures about Financial Instruments
Amendments to FRS 7 Financial Instruments: Disclosure
Amendments to FRS 101 Presentation of Financial Statements
Amendments to FRS 121 The Effects of Changes in Foreign Exchange Rates
Amendments to FRS 128 Investments in Associates
Amendments to FRS 131 Interests in Joint Ventures
Amendments to FRS 132 Financial Instruments: Presentation
Amendments to FRS 134 Interim Financial Reporting
Amendments to FRS 139 Financial Instruments: Recognition and Measurement
IC Interpretation 4 Determining Whether an Arrangement Contains a Lease
IC Interpretation 18 Transfers of Assets from Customers
Amendments to IC Interpretation 13 Customer Loyalty Programmes
TR 3 Guidance on Disclosures of Transition to IFRSs
TR i-4 Shariah Compliant Sale Contracts

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

3.2 Changes in accounting policies and disclosures. (cont'd)

The adoption of the above new/amendments to FRSs, IC Interpretations and TR did not have any material impact on the accounting policies, financial position or performance of the Group and the Bank, except for the following:

Amendments to FRS 7: Financial Instruments: Disclosures, Improving Disclosures about Financial Instruments

The adoption of amendments to FRS 7 which resulted in removal of some disclosures as well as additional disclosures in the financial statements, but did not affect profit or loss, retained earnings and other reserves of the Group and of the Bank for the year ended 31 March 2012.

Amendments to FRS 7 introduce changes to credit risk disclosures as well as enhanced disclosures on fair value measurement and liquidity risk.

The adoption is effected prospectively for annual periods beginning on or after 1 January 2011 except for credit risk disclosures whereby the changes in the disclosures are effected retrospectively. The disclosure details are mainly disclosed in Note 38.

3.3 Transition to Malaysian Financial Reporting Standards Framework ("MFRS Framework")

On 19 November 2011, the Malaysian Accounting Standards Board (MASB) issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards (MFRS Framework).

The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture (MFRS 141) and IC Interpretation 15 Agreements for Construction of Real Estate (IC 15), including its parent, significant investor and venturer (herein called 'Transitioning Entities').

Transitioning Entities will be allowed to defer adoption of the new MFRS Framework for an additional one year. Consequently, adoption of the MFRS Framework by Transitioning Entities will be mandatory for annual periods beginning on or after 1 January 2013.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

3.3 Transition to Malaysian Financial Reporting Standards Framework ("MFRS Framework") (cont'd.)

The Group does not falls within the scope definition of Transitioning Entities and accordingly, will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the year ending 31 March 2013. In presenting its first MFRS financial statements, the Group will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. The majority of the adjustments required on transition will be made, retrospectively, against opening retained profits.

At the date of these financial statements, the Group has not completed its quantification of the financial effects of the differences between Financial Reporting Standards and accounting standards under the MFRS Framework due to the ongoing assessment by the project team. Accordingly, the consolidated and separate financial performance and financial position as disclosed in these financial statements for the year ended 31 March 2012 could be different if prepared under the MFRS Framework.

The Group considers that it is achieving its scheduled milestones and expects to be in a position to fully comply with the requirements of the MFRS Framework for the financial year ending 31 March 2013.

3.4 Summary of significant accounting policies

(a) Subsidiaries and basis of consolidation

(i) Subsidiaries

Subsidiaries are entities over which the Group has the ability to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

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

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

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

(a) Subsidiaries and basis of consolidation (cont'd.)

(ii) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at the reporting date. The financial statements of the subsidiaries used into the preparation of the consolidated financial statements are prepared for the same reporting date as the Bank.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses resulting from intra-group transactions are eliminated in full. Consistent accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

Acquisitions of subsidiaries are accounted for using the purchase method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in other comprehensive income. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of the acquisition over the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill in the statement of financial position. The accounting policy for goodwill is set out in Note 3.4(b). Any excess of the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised as income in profit or loss on the date of acquisition.

Non-controlling interests ("NCI") represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in profit or loss of the Group and within equity in the consolidated statements of financial position, separately from parent shareholders' equity. All total comprehensive income is proportionately allocated to NCI, even if this results in the NCI having a deficit balance.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

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

(a) Subsidiaries and basis of consolidation (cont'd.)

(ii) Basis of consolidation (cont'd.)

A change in the ownership interest of a subsidiary (without loss of control), is accounted for as a transaction with owners in their capacity as owners.

(b) Goodwill

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired is allocated, from the acquisition date, to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired, by comparing the carrying amount of the cash-generating unit, including the allocated goodwill, with the recoverable amount of the cash-generating unit. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

(c) Financial assets

Initial recognition and subsequent measurement

Financial assets are initially recognised in the statements of financial position when, and only when, the Group and the Bank become a party to the contractual provisions of the financial instrument.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

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

(c) Financial assets (cont'd.)

Initial recognition and subsequent measurement (cont'd.)

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group and the Bank determine the classification of their financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss ("FVTPL"), financing and receivables, held-to-maturity ("HTM") and available-for-sale ("AFS") in which the details are disclosed below.

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

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, profit and dividend income. Exchange differences, profit and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other losses or other income.

Regular way purchases and sales of financial assets held-for-trading are recognised on settlement date.

(ii) Financing and receivables

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

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

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

(c) Financial assets (cont'd.)

Initial recognition and subsequent measurement (cont'd.)

(ii) Financing and receivables (cont'd.)

Subsequent to initial recognition, financing and receivables are measured at amortised cost using the effective profit method, less allowance for impairment. Profit income on financing and receivables is recognised in "profit income" in the profit or loss. Impairment losses on financing and receivables are recognised in profit or loss as "Allowances for impairment".

(iii) Financial investment held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective profit method, less impairment. Profit income on held-to-maturity investments is recognised in "Profit income" in the profit or loss. Impairment losses on held-to-maturity investments are recognised in profit or loss as "Impairment on held-to-maturity investments".

Unquoted shares in organisations set up for socio-economic purposes and equity instruments received as a result of financing restructuring or financing conversion which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are also classified as securities held-to-maturity.

Regular way purchases and sales of held-to-maturity investments are recognised on settlement date.

If the Group or the Bank were to sell or reclassify more than an insignificant amount of financial investments held-to-maturity before maturity, the entire category would be tainted and be reclassified to available-for sale.

Furthermore, the Group and the Bank would be prohibited from classifying any financial assets as held-to-maturity for the following two years.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

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

(c) Financial assets (cont'd.)

Initial recognition and subsequent measurement (cont'd.)

(iv) Financial investment available-for-sale

Available-for-sale are financial assets that are designated as available for sale or are not classified in any of the three preceding categories. Available-for-sale investments include financial assets that are intended to be held for an indefinite period of time, which may be sold in response to liquidity needs or changes in market condition.

After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and profit calculated using the effective profit method are recognised in profit or loss.

The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to income statement as a reclassification adjustment when the financial asset is derecognised. Profit income calculated using the effective profit method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in income statement when the Group and the Bank's right to receive payment is established.

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

Regular way purchases and sales of held-to-maturity investments are recognised on settlement date.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

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

(c) Financial assets (cont'd.)

Fair value determination

For financial instruments measured at fair value, the fair value is determined by reference to quoted market prices or by using valuation models. The fair value of financial instruments traded in active markets are based on quoted market price or dealer price quotation.

For all other financial assets, fair value is determined using appropriate valuation techniques. In such cases, the fair values are estimated using discounted cash flow models, based on observable data in respect of similar financial instruments and using inputs (such as yield curve) existing at reporting date.

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

Derecognition

Financial assets are derecognised when the risks and rewards associated with the instruments are substantially transferred, cancelled or expired. On derecognition, the difference between the carrying amount of the instruments and the consideration received/paid, less the cumulative gain or loss that has been recognised in other comprehensive income is recognised in profit or loss.

(d) Financial liabilities

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.

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.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

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

(d) Financial liabilities (cont'd.)

Initial recognition and subsequent measurement (cont'd.)

Financial liabilities, within the scope of FRS 139, 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.

(i) 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 the income statement. Net gains or losses on derivatives include exchange differences.

The Group and the Bank have not designated any financial liabilities as at fair value through profit or loss.

(ii) 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.

(1) 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.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

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

(d) Financial liabilities (cont'd.)

Initial recognition and subsequent measurement (cont'd.)

(ii) Other financial liabilities (cont'd.)

(2) Debt securities

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 debt securities consist of subordinated bonds.

These 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 interest 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, 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 borrowings on an effective interest method.

(3) Payables

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

(4) 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.

(5) 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.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

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

(d) Financial liabilities (cont'd.)

Initial recognition and subsequent measurement (cont'd.)

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 profit or loss.

(e) Impairment of financial assets

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

Evidence of impairment may include indications that the borrower or a group of borrowers 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 measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financing of customers

Classification of financing as impaired

Financing of the Group and the Bank are classified as impaired when they fulfill either of the following criteria:

- (1) principal or profit or both are past due for more than three (3) months;

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

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

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

(i) Financing of customers (cont'd.)

Classification of financing as impaired (cont'd.)

- (2) where a financing is in arrears for less than three (3) months, the financing exhibits indications of credit weaknesses, whether or not impairment loss has been provided; or
- (3) 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.

De-classification of an impaired account shall be supported by a credit assessment of the payment capabilities, cash flow and financial position of the borrower. The Group must be satisfied that once the account is de-classified, the account is unlikely to be classified again in the near future.

Impairment allowances

The Group first assesses individually whether objective evidence of impairment exists individually for financing that are individually significant, or collectively for financial assets that are not 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 estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted at the financing's original effective profit rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Where appropriate, the calculation of the present value of the estimated future cash flows of a collateralised financing or receivable reflect the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

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

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

(i) Financing of customers (cont'd.)

Impairment allowances (cont'd.)

Profit income continues to be accrued on the reduced carrying amount and is accrued using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss. The profit income is recorded as part of 'profit income'.

Financing together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the profit or loss.

Financing that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. For financing that are collectively assessed, the Group have applied the transitional provision issued by Bank Negara Malaysia via its guidelines on Classification and Impairment Provision for Loans/Financing, whereby collective assessment allowance is maintained at a minimum of 1.5% of total financing outstanding, net of individual impairment allowance.

(ii) Held-to-maturity

For securities carried at amortised cost which there are objective evidence of impairment, impairment loss is measured as the difference between the amortised cost and the present value of the estimated future cash flows, discounted at the securities original effective rate. The amount of impairment is recognised in the income statement, less any impairment previously recognised.

(iii) Available-for-sale

The Group assess at each reporting date whether there is objective evidence that financial investment classified as available-for-sale is impaired.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

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

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

(iii) Available-for-sale (cont'd)

In the case of quoted equity, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether objective evidence of impairment exists. Where such evidence exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less impairment loss previously recognised) is removed from equity and recognised in the profit or loss. For unquoted equity investment which are measured at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flow discounted at the current rate of return for a similar financial asset. Impairment losses recognised in the profit and loss on equity investments are not reversed subsequent to its recognition.

For debt instruments, classified as available-for-sale impairment is assessed 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 profit or loss. Where impairment losses have been previously recognised in the profit or loss, if there is a subsequent increase in the fair value of the debt instruments that can be objectively related to a credit event occurring after the impairment was recognised in the profit or loss, the impairment loss is reversed through profit or loss.

(f) Equity instruments

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

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

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

(g) Derivative instruments and hedge accounting

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 they are part of a hedging relationship:

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.

(i) 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 income statement. 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 income statement.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

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

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

Hedge accounting (cont'd.)

(i) Fair value hedge (cont'd.)

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 income statement.

(ii) 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 equity in the 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 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 income statement.

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 income statement.

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

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

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

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

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 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

(h) Foreclosed properties

Foreclosed properties are those acquired in full or partial satisfaction of debts and are stated at the lower of cost and fair value.

(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. All other repairs and maintenance are charged to the income statement during the financial period in which they are 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.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

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

(i) Property, plant and equipment and depreciation (cont'd.)

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 and the unutilised portion of the revaluation surplus on that item is taken directly to retained earnings.

(j) 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.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

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

(j) Foreign currencies (cont'd)

(ii) Foreign currency transactions and balances (cont'd.)

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.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

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

(k) 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.

(l) Impairment of non-financial assets

The Group assesses 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 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 except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

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

(l) Impairment of non-financial assets (cont'd.)

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 unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment loss on goodwill is not reversed in a subsequent period.

(m) 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.

(n) 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. The Group does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)****Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)****3. Significant accounting policies (cont'd.)****3.4 Summary of significant accounting policies (cont'd.)****(o) 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").

(p) 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 available-for-sale and financial instruments designated at fair value through profit or loss, 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.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

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

(p) Income recognition (cont'd.)

(i) Profit and income from financing (cont'd.)

For impaired financial assets where the value of the financial asset have been written down as a result of an impairment loss, profit/financing income continues to be recognised using the rate of profit rate used to discount the future cash flows for the purpose of measuring the impairment loss.

(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.

(q) 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.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

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

(q) Income tax (cont'd.)

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.

(r) 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.

3.5 Significant accounting estimates and judgements

The preparation of financial statements requires management to make judgments, 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 judgment and complexity, are as follows:

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

3.5 Significant accounting estimates and judgements (cont'd.)

(a) Fair value estimation of securities 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.

(b) Impairment of financial investment held-to-maturity and available-for-sale (Note 5)

The Bank reviews its debt securities classified as held-to-maturity and available-for-sale investments at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of financing.

The Bank also records impairment charges on available-for-sale 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 judgment. In making this judgment, the bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

(c) Impairment losses on financing (Note 7)

For impaired financing which are individually assessed, judgement by management is required in the estimation of the amount and timing of future cash flows in the determination of impairment losses. In estimating these cash flows, judgements are made about the realisable value of collateral pledged and the borrower's financial position. These estimations are based on assumptions and the actual results may differ from this, hence resulting in changes to impairment losses.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 March 2012 (8 Jamadil Awal 1433H) (cont'd.)

3. Significant accounting policies (cont'd.)

3.5 Significant accounting estimates and judgements (cont'd.)

(c) Impairment losses on financing (Note 7) (cont'd.)

For financing of the Bank which are collectively assessed for impairment under BNM's guidelines on Classification and Impairment Provisions for Financing, judgement is exercised in the determination of the adequacy of the collective assessment allowance provided based on 1.5% of total outstanding financing net of individual assessment allowance to cover credit losses within the portfolio. In the exercise of such judgement, management assesses the historical loss experience of the various financing asset pools within the portfolio in order to determine the actual incurred impairment levels for those portfolios.

The impairment loss on financing is disclosed in more detail in Note 24.

(e) Income tax (Note 18)

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 advise 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.

(f) Deferred tax (Note 10)

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.

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

4. (a) Cash and short-term funds

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cash and balances with banks and other financial institutions	162,535	169,013	162,535	169,013
Money at call and interbank placements with remaining maturity not exceeding one month	4,228,688	6,030,940	4,228,688	6,030,940
	<u>4,391,223</u>	<u>6,199,953</u>	<u>4,391,223</u>	<u>6,199,953</u>

(b) Cash and placements with financial institutions

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Licensed Islamic banks	110,333	251,012	110,333	251,012

5. Financial investment

	Group and Bank	
	2012 RM'000	2011 RM'000
(a) Held-to-maturity		
At amortised cost		
Unquoted Islamic private debt securities in Malaysia	30,008	30,071
Unquoted foreign Islamic private debt securities and sukuk	45,972	-
Unquoted shares in Malaysia	575	575
	<u>76,555</u>	<u>30,646</u>
Accumulated impairment loss	(2,061)	(2,061)
Total held-to-maturity securities	<u>74,494</u>	<u>28,585</u>

(i) The indicative value of unquoted securities held-to-maturity are as follows:

	Group and Bank	
	2012 RM'000	2011 RM'000
Unquoted Islamic private debt securities in Malaysia	27,947	28,010
Unquoted foreign Islamic private debt securities and sukuk	45,972	-
Unquoted shares in Malaysia	575	575
	<u>74,494</u>	<u>28,585</u>

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

5. Financial investment (cont'd.)

(b) Available-for-sale

At fair value, or at cost less impairment losses for certain financial investments:

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Government securities and treasury bills:				
Malaysian government investment certificates	3,737,482	1,972,826	3,737,482	1,972,826
Money market instruments:				
Negotiable islamic debt certificates	55,570	-	55,570	-
Quoted securities in Malaysia:				
Quoted shares	48,023	24,994	48,023	24,994
Unit trust	-	9,910	-	9,910
	48,023	34,904	48,023	34,904
Unquoted securities:				
Islamic private debt securities in Malaysia	2,092,914	2,153,416	2,092,914	2,153,416
Cagamas bonds	116,266	136,245	116,266	136,245
Foreign islamic private debt securities and sukuk	84,332	58,691	84,332	58,691
Shares in Malaysia	9,431	14,905	4,631	4,105
	2,302,943	2,363,257	2,298,143	2,352,457
Total available-for-sale securities	6,144,018	4,370,987	6,139,218	4,360,187

The maturity structure of money market instruments, available-for-sale are as follows:

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Maturity within one year	55,570	-	55,570	-

6175-W

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)
6. 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.

Group and Bank	Contract/ notional amount RM'000	2012		2011		
		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	110,486	1,983	(272)	52,994	770	(302)
- Currency swaps						
Less than one year	569,975	2,082	(1,383)	256,702	1,384	(558)
- Currency spot						
Less than one year	189,753	85	(86)	1,487,300	3,023	(2,968)
	870,214	4,150	(1,741)	1,796,996	5,177	(3,828)
Hedging derivatives:						
Islamic profit rate swap (IPRS)						
More than one year	75,000	-	(3,889)	75,000	-	(158)
Total	945,214	4,150	(5,630)	1,871,996	5,177	(3,986)

6175-W

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

6. Islamic derivative financial instruments (cont'd.)

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:

	2012			2011		
	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)	75,000	-	(1,865)	-	-	-

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 2012, the Group and the Bank recognised a net loss of RM1,864,906 (2011: Nil) on the hedging instrument. The total net gain on the hedged item attributable to the hedged risk amounted to RM1,256,623 (2011: Nil).

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

7. Financing of customers

(i) By type

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cash line	181,842	367,763	181,842	367,763
Term financing				
- Home financing	6,469,716	4,828,099	6,469,716	4,828,099
- Syndicated financing	86,143	143,617	86,143	143,617
- Hire purchase receivables	1,165,170	1,397,081	1,165,170	1,397,081
- Leasing receivables	176,859	191,584	176,859	191,584
- Other term financing	6,688,931	4,294,681	6,707,253	4,312,555
Trust receipts	116,428	147,916	116,428	147,916
Claims on customers				
under acceptance credits	722,131	779,186	722,131	779,186
Staff financing	111,101	94,761	111,101	94,761
Revolving credit	491,233	356,088	491,233	356,088
	16,209,554	12,600,776	16,227,876	12,618,650
Less : Unearned income	(6,715,082)	(4,753,075)	(6,715,082)	(4,753,075)
	9,494,472	7,847,701	9,512,794	7,865,575
Less : Financing sold to Cagamas	(64,910)	(364,308)	(64,910)	(364,308)
Gross financing	9,429,562	7,483,393	9,447,884	7,501,267
Less : Allowance for impaired financing:				
- Collective assessment allowance	(229,175)	(226,702)	(229,175)	(226,702)
- Individual assessment allowance	(161,904)	(108,531)	(167,904)	(108,531)
Net financing of customers	9,038,483	7,148,160	9,050,805	7,166,034

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

7. Financing of customers (cont'd.)

(ii) By contract

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Bai' Bithaman Ajil (deferred payment sale)	3,947,411	2,465,728	3,947,411	2,465,728
Ijarah (lease)	287,697	260,690	287,697	260,690
Ijarah Thumma Al-Bai (lease ended with purchase)	1,024,090	1,207,059	1,024,090	1,207,059
Inah (sale and buyback)	263,365	449,754	263,365	449,754
Tawarruq (commodity murabahah)	1,979,340	1,301,019	1,979,340	1,301,019
Bai Al Dayn (purchase of debt)	732,250	805,213	732,250	805,213
Murabahah (cost-plus)	714,268	652,739	714,268	652,739
Istisna' (sale order)	453,524	301,566	453,524	301,566
Qard (benevolent loan)	27,309	16,344	27,309	16,344
Shirkah Mutanaqisah (diminishing partnership)/ Musharakah (profit sharing)	308	23,281	18,630	41,155
	9,429,562	7,483,393	9,447,884	7,501,267

(iii) By type of customer

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Domestic non-banking institutions	445,254	37,042	445,254	37,042
Domestic business enterprises				
- Small business enterprises	420,518	728,478	420,518	728,478
- Others	2,648,898	2,336,206	2,653,772	2,347,158
Government and statutory bodies	602,147	135,190	615,595	142,112
Individuals	5,292,442	4,224,569	5,292,442	4,224,569
Other domestic entities	5,340	5,520	5,340	5,520
Foreign entities	14,963	16,388	14,963	16,388
	9,429,562	7,483,393	9,447,884	7,501,267

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

7. Financing of customers (cont'd.)

(iv) By profit rate sensitivity

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Fixed rate:				
Home financing	717,689	485,065	717,689	485,065
Hire purchase receivables	1,017,029	1,201,348	1,017,029	1,201,348
Others	4,279,145	2,764,311	4,284,019	2,769,263
Variable rate:				
Home financing	1,536,955	1,114,763	1,536,955	1,114,763
Others	1,878,744	1,917,906	1,892,192	1,930,828
	9,429,562	7,483,393	9,447,884	7,501,267

(v) By sector

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Agriculture	50,424	75,846	50,424	75,846
Mining and quarrying	2,032	4,049	2,032	4,049
Manufacturing	571,540	670,143	576,414	675,095
Electricity, gas and water	129,063	144,710	129,063	144,710
Construction	701,667	775,252	701,667	781,252
Purchase of landed property:				
- Residential	2,324,901	1,649,817	2,324,901	1,649,817
- Non-residential	232,143	255,494	232,143	255,494
Real estate	126,348	16,937	126,348	16,937
Wholesale, retail and restaurant	649,352	601,139	649,352	601,139
Transport, storage and communication	309,664	155,913	309,664	155,913
Finance, takaful and business services	529,448	154,028	529,448	154,028
Purchase of securities	119	86	119	86
Purchase of transport vehicles	1,024,737	1,207,546	1,024,737	1,207,546
Consumption credit	1,932,640	1,316,730	1,932,640	1,316,730
Community, social and personal service	229,889	384,158	243,337	391,080
Government and statutory bodies	615,595	71,545	615,595	71,545
	9,429,562	7,483,393	9,447,884	7,501,267

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

7. Financing of customers (cont'd.)

(vi) By residual contractual maturity

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Maturity				
within one year	2,081,549	2,470,365	2,081,549	2,470,365
more than one to five years	3,399,490	2,866,870	3,399,490	2,866,870
more than five years	3,948,523	2,146,158	3,966,845	2,164,032
	9,429,562	7,483,393	9,447,884	7,501,267

(vii) By geographical area

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Domestic	9,385,810	7,388,918	9,404,132	7,406,792
Labuan Offshore	43,752	94,475	43,752	94,475
	9,429,562	7,483,393	9,447,884	7,501,267

(viii) By economic purpose

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Purchase of securities	119	86	119	86
Purchase of transport vehicles	1,024,737	1,207,546	1,024,737	1,207,546
Purchase of landed properties of which:				
– residential	2,326,294	1,651,418	2,326,294	1,651,418
– non-residential	232,570	255,963	232,570	255,963
Purchase of fixed assets (excluding landed properties)	1,278,061	448,398	1,278,061	448,398
Personal use	1,932,640	1,316,730	1,932,640	1,316,730
Construction	735,147	810,779	735,147	816,779
Working capital	375,431	239,508	375,431	239,508
Other purposes	1,524,563	1,552,965	1,542,885	1,564,839
	9,429,562	7,483,393	9,447,884	7,501,267

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

7. Financing of customers (cont'd.)

Included in financing of customers is a corporate financing which is hedged by profit rate derivatives. The hedge achieved the criteria for hedge accounting and the financing are carried at fair value.

The maximum credit exposure of the financing of customers amounts to RM73.3 million (2011: Nil). The cumulative change in fair value of the financings attributable to changes in profit rate risks amounts to a profit of RM1,256,623 (2011: Nil) and the change for the current year is a profit of RM1,256,623 (2011: Nil). The changes in fair value of the designated financing attributable to changes in profit risk have been calculated by determining the changes in profit spread implicit in the fair value of bonds issued by entities with similar credit characteristics.

Impaired financing

(i) Movements in the impaired financing

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
At 1 April 2011/2010	378,343	591,988	378,343	591,988
Classified as impaired during the year	371,687	457,633	377,687	457,633
Reclassified as performing during the year	(174,373)	(265,609)	(174,373)	(265,609)
Recovered during the year	(115,245)	(142,588)	(115,245)	(142,588)
Written off during the year	(14,068)	(263,081)	(14,068)	(263,081)
As at 31 March	446,344	378,343	452,344	378,343
Ratio of gross impaired financing to total financing	4.7%	4.8%	4.8%	4.8%

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

7. Financing of customers (cont'd.)

Impaired financing (cont'd.)

(ii) Movements in the allowance for impaired financing

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<u>Collective assessment allowance</u>				
At 1 April 2011/2010	226,702	223,218	226,702	223,218
Allowance made during the year (Note 24)	240,131	250,047	240,131	250,047
Amount written-back (Note 24)	(224,690)	(224,291)	(224,690)	(224,291)
Amount written-off	(12,968)	(22,272)	(12,968)	(22,272)
As at 31 March	229,175	226,702	229,175	226,702
As % of gross financing, less individual assessment allowance	2.5%	3.1%	2.5%	3.1%

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<u>Individual assessment allowance</u>				
At 1 April 2011/2010	108,531	324,997	108,531	324,997
Allowance made during the year (Note 24)	64,029	89,776	70,029	89,776
Amount recovered (Note 24)	(10,656)	(70,129)	(10,656)	(70,129)
Amount written-off	-	(236,113)	-	(236,113)
As at 31 March	161,904	108,531	167,904	108,531

(iii) Impaired financing by geographical area

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Domestic	439,870	372,045	445,870	372,045
Labuan Offshore	6,474	6,298	6,474	6,298
	446,344	378,343	452,344	378,343

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

7. Financing of customers (cont'd.)

Impaired financing (cont'd.)

(iv) Impaired financing by sector

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Manufacturing	40,874	24,660	40,874	24,660
Construction	175,116	71,810	175,116	71,810
Purchase of landed property:				
- Residential	100,192	159,345	100,192	159,345
- Non-residential	8,128	12,206	8,128	12,206
Real estate	9,342	-	9,342	-
Wholesale and retail and restaurant	32,082	33,360	32,082	33,360
Transport, storage and communication	80	45	80	45
Finance, takaful and business services	10,292	9,713	16,292	9,713
Purchase of securities	50	84	50	84
Purchase of transport vehicle:	36,543	34,933	36,543	34,933
Consumption credit	30,555	23,928	30,555	23,928
Community, social and personal service	3,090	8,259	3,090	8,259
	446,344	378,343	452,344	378,343

(v) Impaired financing by economic purpose

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Purchase of securities	50	84	50	84
Purchase of transport vehicles	36,543	34,933	36,543	34,933
Purchase of landed properties of which:				
- residential	100,192	159,345	100,192	159,345
- non-residential	8,128	12,206	8,128	12,206
Purchase of fixed assets (excluding landed properties)	4,101	1,553	4,101	1,553
Personal use	30,555	23,928	30,555	23,928
Construction	175,116	71,810	175,116	71,810
Working capital	265	867	265	867
Other purposes	91,394	73,617	97,394	73,617
	446,344	378,343	452,344	378,343

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

8. Other assets

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Deposits	5,658	4,876	5,508	4,721
Prepayments	2,823	2,428	2,822	2,409
Tax prepayment	265	15,726	-	15,611
Amount due from subsidiaries	-	-	797	5,534
Foreclosed properties	14,000	14,000	14,000	14,000
Other debtors	21,625	33,670	14,267	21,370
	44,371	70,700	37,394	63,645

9. Statutory deposits with Bank Negara Malaysia

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

10. Deferred tax assets

	Group and Bank	
	2012 RM'000	2011 RM'000
At 1 April 2011/2010	38,240	62,953
Recognised in the income statement (Note 33)	5,954	(30,239)
Recognised in the equity	8,159	5,526
At 31 March	52,353	38,240

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:

	Group and Bank	
	2012 RM'000	2011 RM'000
Deferred tax assets	60,516	46,855
Deferred tax liabilities	(8,163)	(8,615)
	52,353	38,240

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

10. Deferred tax assets (net) (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 2010	28,068	1,853	39,449	69,370
Recognised in income statements	640	6,362	(35,043)	(28,041)
Recognised in the equity At 31 March 2011	-	-	5,526	5,526
	28,708	8,215	9,932	46,855
At 1 April 2011	28,708	8,215	9,932	46,855
Recognised in income statements	948	4,099	455	5,502
Recognised in the equity At 31 March 2012	-	-	8,159	8,159
	29,656	12,314	18,546	60,516

Deferred tax liabilities of the Group and the Bank:

	Property, plant and equipment RM'000	Total RM'000
At 1 April 2010	(6,417)	(6,417)
Recognised in the income statement At 31 March 2011	(2,198)	(2,198)
	(8,615)	(8,615)
At 1 April 2011	(8,615)	(8,615)
Recognised in the income statement At 31 March 2012	452	452
	(8,163)	(8,163)

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

11. Investment in subsidiaries

	Bank	
	2012	2011
	RM'000	RM'000
Unquoted shares at cost		
- in Malaysia	10,823	10,823
Less: Impairment loss	(4,439)	(4,339)
	<u>6,384</u>	<u>6,484</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
		2012	2011	2012
		%	%	RM
Muamalat Nominees (Tempatan) Sdn. Bhd.	Dormant	100	100	2
Muamalat Nominees (Asing) Sdn. Bhd.	Dormant	100	100	2
Muamalat Venture Sdn. Bhd.	Islamic Venture Capital	100	100	100,002
Muamalat Invest Sdn. Bhd.	Provision of Fund Management Services	100	100	10,000,000

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

12. Property, plant and equipment

Group	Freehold land and building RM'000	Office building RM'000	Furniture, fixtures, fittings, motor vehicle and equipment RM'000	Capital work in progress RM'000	Total RM'000
At 31 March 2012					
Cost					
At 1 April 2011	2,958	16,049	182,841	40,410	242,258
Additions	-	-	10,211	17,201	27,412
Disposals	-	-	(567)	-	(567)
Write off	-	-	-	(31,595)	(31,595)
Reclassification	-	-	8,964	(8,964)	-
At 31 March 2012	<u>2,958</u>	<u>16,049</u>	<u>201,449</u>	<u>17,052</u>	<u>237,508</u>
Accumulated depreciation					
At 1 April 2011	914	4,143	135,680	-	140,737
Charge for the period	74	402	15,729	-	16,205
Disposals	-	-	(506)	-	(506)
At 31 March 2012	<u>988</u>	<u>4,545</u>	<u>150,903</u>	<u>-</u>	<u>156,436</u>
Carrying amount at 31 March 2012	<u>1,970</u>	<u>11,504</u>	<u>50,546</u>	<u>17,052</u>	<u>81,072</u>
At 31 March 2011					
Cost					
At 1 April 2010	2,958	16,049	160,659	33,831	213,497
Additions	-	-	10,736	21,124	31,860
Disposals	-	-	(1,945)	-	(1,945)
Write off	-	-	(533)	(621)	(1,154)
Reclassification	-	-	13,924	(13,924)	-
At 31 March 2011	<u>2,958</u>	<u>16,049</u>	<u>182,841</u>	<u>40,410</u>	<u>242,258</u>
Accumulated depreciation					
At 1 April 2010	880	3,702	124,836	-	129,418
Charge for the period	74	401	13,163	-	13,638
Disposals	-	-	(1,913)	-	(1,913)
Write off	-	-	(406)	-	(406)
Reclassification	(40)	40	-	-	-
At 31 March 2011	<u>914</u>	<u>4,143</u>	<u>135,680</u>	<u>-</u>	<u>140,737</u>
Carrying amount at 31 March 2011	<u>2,044</u>	<u>11,906</u>	<u>47,161</u>	<u>40,410</u>	<u>101,521</u>

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

12. Property, plant and equipment (cont'd.)

Bank	Freehold land and building RM'000	Office building RM'000	Furniture, fixtures, fittings, motor vehicle and equipment RM'000	Capital work in progress RM'000	Total RM'000
At 31 March 2012					
Cost					
At 1 April 2011	2,958	16,049	182,691	40,439	242,137
Additions	-	-	10,211	17,201	27,412
Disposals	-	-	(567)	-	(567)
Write off	-	-	-	(31,595)	(31,595)
Reclassification	-	-	8,964	(8,964)	-
At 31 March 2012	2,958	16,049	201,299	17,081	237,387
Accumulated depreciation					
At 1 April 2011	914	4,143	135,564	-	140,621
Charge for the period	74	402	15,724	-	16,200
Disposals	-	-	(506)	-	(506)
At 31 March 2012	988	4,545	150,782	-	156,315
Carrying amount at 31 March 2012	1,970	11,504	50,517	17,081	81,072
At 31 March 2011					
Cost					
At 1 April 2010	2,958	16,049	160,481	33,860	213,348
Additions	-	-	10,736	21,124	31,860
Disposals	-	-	(1,917)	-	(1,917)
Reclassification	-	-	(533)	(621)	(1,154)
Write off	-	-	13,924	(13,924)	-
At 31 March 2011	2,958	16,049	182,691	40,439	242,137
Accumulated depreciation					
At 1 April 2010	880	3,702	124,732	-	129,314
Charge for the year	74	401	13,137	-	13,612
Disposals	-	-	(1,899)	-	(1,899)
Write off	-	-	(406)	-	(406)
Reclassification	(40)	40	-	-	-
At 31 March 2011	914	4,143	135,564	-	140,621
Carrying amount at 31 March 2011	2,044	11,906	47,127	40,439	101,516

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

13. Prepaid land lease payments

	Group and Bank	
	2012	2011
	RM'000	RM'000
At 1 April	255	260
Amortisation	(4)	(5)
As at 31 March	<u>251</u>	<u>255</u>
Analysed as:		
Long term leasehold land	<u>251</u>	<u>255</u>

14. Deposits from customers

(i) By type of deposits

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Non-Mudharabah Fund				
Demand deposits	2,565,993	2,733,552	2,573,653	2,740,169
Savings deposits	469,668	474,723	469,668	474,723
Negotiable Islamic debt certificate	2,830,628	1,505,815	2,830,628	1,505,815
Others	536,112	17,582	536,112	17,582
	<u>6,402,401</u>	<u>4,731,672</u>	<u>6,410,061</u>	<u>4,738,289</u>
Mudharabah Fund				
Demand deposits	472,685	217,094	472,685	217,094
Savings deposits	355,220	222,945	355,220	222,945
General investment deposits	9,846,015	9,581,971	9,846,015	9,581,971
Special general investment deposits	1,074,766	1,462,491	1,074,766	1,462,491
	<u>11,748,686</u>	<u>11,484,501</u>	<u>11,748,686</u>	<u>11,484,501</u>
	<u>18,151,087</u>	<u>16,216,173</u>	<u>18,158,747</u>	<u>16,222,790</u>

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

14. Deposits from customers (cont'd.)

(ii) By type of customer

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Government and statutory bodies	3,810,127	3,779,432	3,810,127	3,779,432
Business enterprises	7,195,021	6,649,116	7,195,021	6,649,116
Individuals	1,153,015	1,025,224	1,153,015	1,025,224
Others	5,992,924	4,762,559	6,000,584	4,769,176
	18,151,087	16,216,332	18,158,747	16,222,949

The maturity structure of negotiable instruments of deposit and mudharabah general and special investment deposit are as follows:

	Group and Bank	
	2012	2011
	RM'000	RM'000
Due within six months	11,928,972	11,124,366
More than six months to one year	1,813,119	1,405,514
More than one year to three years	9,319	20,555
	13,751,410	12,550,435

15. Deposits and placements of banks and other financial institutions

	2012	2011
	RM'000	RM'000
Non-Mudharabah		
Bank Negara Malaysia	11,896	14,993

16. 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.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

17. Other liabilities

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Sundry creditors	24,320	38,402	24,509	38,378
Provision for commitments and contingencies (Note (a))	40,273	40,273	40,273	40,273
Accrual for bonus	16,397	30,605	16,397	30,527
Accrued expenses	12,573	11,450	12,571	11,450
Accrual for directors' fees	577	479	577	479
Accrual for audit fees	202	119	189	119
Other liabilities	38,702	43,070	38,702	43,196
	133,044	164,398	133,218	164,422

(a) Movement in provision for commitments and contingencies:

	Group and Bank	
	2012	2011
	RM'000	RM'000
At 1 April 2011/2010	40,273	7,412
Charge during the year	-	32,861
At 31 March	40,273	40,273

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.

18. Provision for zakat and taxation

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Zakat	3,087	5,228	3,087	5,228
Taxation	17,434	-	17,424	-
	20,521	5,228	20,511	5,228

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

19. Subordinated bonds

Prior year subordinated bonds relate to RM250 million Subordinated Bonds issued on 5 September 2006 under the Shariah principle of Bai' Bithaman Ajil. The Bonds were under a 10 non-callable 5 basis feature, with a profit rate of 6.25% per annum payable semi-annually. Under the 10 non-callable 5 basic feature, the Bank had the option to redeem the Bonds on the 5th anniversary or any semi-annual date thereafter. The Bank has redeemed the Bonds in September 2011.

On 15 June 2011, the Bank successfully issued its Tier-2 Capital Islamic Subordinated Sukuk of RM400 million ("Subordinated Sukuk"). The Subordinated 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 bonds, the bond 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 Subordinated Sukuk. The RM400 million Subordinated Sukuk qualifies as Tier-2 capital for the purpose of Bank Negara Malaysia capital adequacy requirement.

20. Share capital

	Number of shares of RM1 each		Amount	
	2012 '000	2011 '000	2012 RM'000	2011 RM'000
Authorised:				
Ordinary shares	<u>3,000,000</u>	3,000,000	<u>3,000,000</u>	3,000,000
Musharakah Irredeemable Non-Cumulative Convertible Preference Shares	<u>1,000,000</u>	1,000,000	<u>1,000,000</u>	1,000,000
Total	<u>4,000,000</u>	4,000,000	<u>4,000,000</u>	4,000,000
Issued and fully paid:				
Ordinary shares				
At 1 April/31 March	<u>1,000,000</u>	1,000,000	<u>1,000,000</u>	1,000,000

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

21. Reserves

	Note	Group		Bank	
		2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Statutory reserve	(a)	315,385	272,893	313,788	271,603
Retained profit	(b)	170,589	128,097	171,290	129,105
Exchange fluctuation reserve	(c)	83	553	83	553
Net unrealised losses on financial investment available-for-sale	(d)	(56,169)	(40,113)	(56,168)	(39,974)
		429,888	361,430	428,993	361,287

(a) Statutory reserve

The statutory reserve is maintained in compliance with Section 15 of the Islamic Banking Act 1983 and are 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 dividend 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 as at 31 March 2011 and 31 March 2010 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007.

As at 31 March 2012 and 31 March 2011, the Bank has sufficient credit in the 108 balance to pay franked dividends out of its entire retained earnings.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

21. 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.

22. Income derived from investment of depositors' funds and others

	Group and Bank	
	2012	2011
	RM'000	RM'000
Income derived from investment of:		
(i) General investment deposits	503,821	515,516
(ii) Other deposits	334,678	242,435
	<u>838,499</u>	<u>757,951</u>

(i) Income derived from investment of general investment deposits

	Group and Bank	
	2012	2011
	RM'000	RM'000
Finance income and hibah:		
Income from financing	313,415	324,867
Financial investment held-for-trading	5	4
Financial investment held-for-maturity	157	178
Financial investment available-for-sale	106,109	102,303
Money at call and deposit with financial institutions	60,891	80,870
	<u>480,577</u>	<u>508,222</u>
Amortisation of premium less accretion of discounts	(2,946)	(9,872)
Total finance income and hibah	<u>477,631</u>	<u>498,350</u>

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

22. 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	
	1.4.2010	1.1.2009
	to	to
	2012	2011
	RM'000	RM'000
Other operating income:		
Net gain from sale of:		
- financial investment available-for-sale	10,664	1,090
- financial investment held-for-trading	1,539	796
	<u>12,203</u>	<u>1,886</u>
Fees and commission		
Guarantee fees	2,659	3,218
Processing fees	512	541
Service charges and fees	5,045	5,540
Commission	5,771	5,981
	<u>13,987</u>	<u>15,280</u>
Total	<u>503,821</u>	<u>515,516</u>
Of which:		
Financing income earned on impaired financing	<u>1,555</u>	<u>868</u>

(ii) Income derived from investment of other deposits

	Group and Bank	
	2012	2011
	RM'000	RM'000
Finance income and hibah		
Income from financing	208,196	152,796
Financial investment held-for-trading	4	2
Financial investment held-for-maturity	104	83
Financial investment available-for-sale	70,486	48,101
Money at call and deposit with financial institutions	40,448	38,024
	<u>319,238</u>	<u>239,006</u>
Amortisation of premium less accretion of discounts	<u>(1,957)</u>	<u>(4,642)</u>
Total finance income and hibah	<u>317,281</u>	<u>234,364</u>

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

22. Income derived from investment of depositors' funds and others (cont'd.)

(ii) Income derived from investment of other deposits (cont'd.)

	Group and Bank	
	1.4.2010	1.1.2009
	to	to
	2012	2011
	RM'000	RM'000
Other operating income		
Net gain from sale of:		
- financial investment available-for-sale	7,084	512
- financial investment held-for-trading	1,022	374
	<u>8,106</u>	<u>886</u>
Fees and commission		
Guarantee fees	1,766	1,513
Processing fees	340	255
Service charges and fees	3,351	2,605
Commission	3,834	2,812
	<u>9,291</u>	<u>7,185</u>
Total	<u>334,678</u>	<u>242,435</u>
Of which :		
Financing income earned on impaired financing	<u>1,033</u>	<u>408</u>

23. Income derived from investment of shareholders' funds

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Finance income and hibah				
Financial investment available-for-sale	23,437	33,901	23,437	33,901
Amortisation of premium less accretion of discounts	927	(70)	927	(70)
Total finance income and hibah	<u>24,364</u>	<u>33,831</u>	<u>24,364</u>	<u>33,831</u>

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

23. Income derived from investment of shareholders' funds

	Group		Bank	
	1.4.2010 to 2012 RM'000	1.1.2009 to 2011 RM'000	1.4.2010 to 2012 RM'000	1.1.2009 to 2011 RM'000
Other operating income				
Net gain from foreign exchange derivatives	1,060	2,523	1,060	2,523
Net gain on revaluation of foreign exchange transaction	11,819	14,013	11,819	14,013
Net gain from sale of financial investment available-for-sale	5,200	600	5,200	600
Gross dividend income	8,864	2,000	8,864	2,000
Net dividend paid for islamic profit rate swap	(1,057)	(353)	(1,057)	(353)
Unrealised loss on revaluation of islamic profit rate swap	(2,474)	(158)	(2,474)	(158)
	23,412	18,625	23,412	18,625
Fees and commission				
Processing fees	1,285	1,608	1,285	1,608
Corporate advisory fees	2,078	5,613	2,073	5,662
Service charges and fees	1,274	661	588	527
Commission	1,414	1,793	1,414	1,793
Others	808	1,198	808	1,198
	6,859	10,873	6,168	10,788
Other income				
Rental income	391	303	391	303
Gain on disposal of property plant and equipment	66	-	66	-
	457	303	457	303
Total	55,092	63,632	54,401	63,547

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

24. Allowance for impairment on financing

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Allowance for impaired financing:				
(a) Individual assessment allowance (Note 7(ii)):				
Made during the year	64,029	89,776	70,029	89,776
Written back during the year	(10,656)	(70,129)	(10,656)	(70,129)
	53,373	19,647	59,373	19,647
(b) Collective assessment allowance (Note 7(ii)):				
Made during the year	240,131	250,047	240,131	250,047
Written back during the year	(224,690)	(224,291)	(224,690)	(224,291)
	15,441	25,756	15,441	25,756
Bad debts on financing:				
Written off	1,100	8,494	1,100	8,494
Recovered	(28,463)	(17,770)	(28,463)	(17,770)
	(27,363)	(9,276)	(27,363)	(9,276)
Total	41,451	36,127	47,451	36,127

25. Impairment (write back)/loss on investments

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Impairment write back on corporate bonds included under available-for-sale financial investment	(10,317)	(59,617)	(16,317)	(59,617)
Impairment loss/(write back) on investment in subsidiary	-	-	100	(82)
	(10,317)	(59,617)	(16,217)	(59,699)

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

26. Income attributable to depositors

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Deposits from customers				
- Mudharabah funds	289,991	237,384	290,161	237,526
- Non-Mudharabah funds	66,782	53,530	66,783	53,530
Deposits and placements of banks and other financial institutions				
- Mudharabah funds	173	388	173	388
- Non-Mudharabah funds	7,619	9,197	7,619	9,197
	364,565	300,499	364,736	300,641

27. Personnel expenses

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Salaries and wages	109,689	90,697	109,119	90,182
Contributions to defined contribution plan	19,350	18,040	19,273	17,972
Social security contributions	1,005	908	1,002	908
Allowances and bonuses	22,889	28,783	22,859	28,673
Mutual Separation Scheme	565	107	565	107
Others	17,449	19,042	17,438	19,029
	170,947	157,577	170,256	156,871

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

28. Directors' remuneration

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Executive Director/ Chief Executive Officer				
Salaries and wages	1,080	985	1,080	985
Contributions to defined contribution plan	498	343	498	343
Bonuses	1,689	924	1,689	924
Benefits-in-kind	40	63	40	63
	3,307	2,315	3,307	2,315
Non-Executive Directors				
Fees	809	517	803	517
Other remunerations	487	373	486	373
	1,296	890	1,289	890
Shariah Committee Members				
Allowance	279	200	279	200
Other remunerations	78	54	78	54
	357	254	357	254
Total	4,960	3,459	4,953	3,459
Total (excluding benefits-in-kind)	4,920	3,396	4,913	3,396

6175-W

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

28. Directors' 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 2012	Salary RM'000	Fees RM'000	Bonus RM'000	Other emoluments RM'000	Benefits- in-kind RM'000	Total RM'000
Executive Directors:						
Dato' Haji Mohd Redza Shah Abdul Wahid	1,080	-	1,689	498	40	3,307
Non-Executive Directors:						
Tan Sri Dato' Dr Mohd Munir Abdul Majid	-	222	-	39	-	261
Dato' Sri Haji Mohd Khamil Jamil	-	84	-	41	-	125
Haji Ismail Ibrahim *	-	84	-	66	-	150
Haji Mohd Izani Ghani *	-	84	-	38	-	122
Haji Abdul Jabbar Abdul Majid	-	84	-	73	-	157
Tengku Dato' Seri Hasmuddin Tengku Othman	-	84	-	89	-	173
Dato' Azmi Abdullah	-	84	-	99	-	183
Dato' Lukman Ibrahim	-	35	-	11	-	46
Dato' Hj Kamil Khalid Ariff	-	42	-	30	-	72
	-	803	-	486	-	1,289
Total Directors' remuneration	1,080	803	1,689	984	40	4,596

* Director's fees payable to Khazanah Nasional Berhad

6175-W

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

28. Directors' 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 2011	Salary RM'000	Fees RM'000	Bonus RM'000	Other emoluments RM'000	Benefits- in-kind RM'000	Bank Total RM'000
Executive Directors:						
Dato' Haji Mohd Redza Shah Abdul Wahid	985	-	924	343	63	2,315
Non-Executive Directors:						
Tan Sri Dato' Dr Mohd Munir Abdul Majid	-	192	-	27	-	219
Dato' Sri Haji Mohd Khamil Jamil *	-	50	-	29	-	79
Haji Ismail Ibrahim **	-	50	-	48	-	98
Haji Mohd Izani Ghani **	-	50	-	37	-	87
Haji Abdul Jabbar Abdul Majid	-	50	-	67	-	117
Tengku Dato' Seri Hasmuddin Tengku Othman	-	50	-	66	-	116
Dato' Azmi Abdullah	-	50	-	62	-	112
Datin Azizah Mohd Jaafar	-	25	-	37	-	62
	-	517	-	373	-	890
Total Directors' remuneration	985	517	924	716	63	3,205

* Director's fees payable to DRB Hicom Berhad

** Director's fees payable to Khazanah Nasional Berhad

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

29. Compensation of key management personnels

The remuneration of directors and other members of key management during the year was as follows:

	Group and Bank	
	2012	2011
	RM'000	RM'000
Short-term employees benefits	7,075	4,450
Included in the total key management personnel are:		
Directors' remuneration (Note 28)	3,307	2,315

30. Other overheads and expenditures

	Group		Bank	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Promotion				
Advertisement and publicity	11,070	11,825	11,070	11,821
Establishment				
Rental	7,939	7,108	7,939	7,108
Depreciation	16,205	13,638	16,200	13,612
Amortisation of prepaid land lease payment	4	5	4	5
EDP expenses	33,879	31,332	33,879	31,332
Hire of equipment	4,915	4,820	4,915	4,820
	62,942	56,903	62,937	56,877

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

30. Other overheads and expenditures (cont'd.)

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
General expenses				
Auditors' fees				
- statutory audit	280	251	265	236
- non-audit work	548	638	512	481
- tax advisory	43	24	36	17
Professional fees	6,884	3,250	6,749	2,896
Legal expenses	1,736	1,416	1,736	1,416
Repair and maintenance	3,576	2,051	3,570	2,044
Takaful	3,371	4,426	3,371	4,426
Utilities expenses	5,056	4,789	5,042	4,789
Security guard expenses	6,258	5,786	6,258	5,786
Telephone	2,016	2,785	2,005	2,471
Stationery and printing	2,613	2,605	2,610	2,602
Postage and courier	1,971	1,826	1,971	1,826
Travelling	4,348	4,853	4,345	4,843
Directors remuneration and Shariah Committee allowance (Note 28)	4,920	2,508	4,913	2,501
Property, plant and equipment written off	31,595	748	31,595	748
Others	9,344	9,171	10,219	10,160
	84,559	47,127	85,197	47,242
	158,571	115,855	159,204	115,940

31. Finance cost

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Dividend paid on subordinated bonds	23,478	15,625	23,231	15,625

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

32. Zakat

	Group and Bank	
	2012 RM'000	2011 RM'000
Provision for zakat for the year	3,087	5,228
Under provision in prior year	-	2,946
	3,087	8,174

33. Taxation

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Current income tax	64,407	32,360	64,368	32,360
Over provision in prior year	(22,380)	(36)	(22,384)	-
	42,027	32,324	41,984	32,360
Deferred tax:				
Relating to origination and reversal of temporary differences	(26,738)	26,190	(26,738)	26,193
Under provision in prior years	20,784	4,046	20,784	4,046
	(5,954)	30,236	(5,954)	30,239
	36,073	62,560	36,030	62,599

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

33. Taxation (cont'd.)

Domestic current income tax is calculated at the statutory tax rate of 25% (2011: 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	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Profit before taxation	124,144	204,311	123,487	204,787
Taxation at Malaysian statutory tax rate 25% (2011: 25%)	31,036	51,078	30,872	51,197
Effect of different tax rates in other tax jurisdiction	(740)	4,541	(740)	4,541
Income not subject to tax	(3,441)	-	(3,185)	-
Expenses not deductible for tax purposes	10,693	2,931	10,683	2,815
Deferred tax asset not recognised	120	-	-	-
Over provision of income tax in prior years	(22,380)	(36)	(22,384)	-
Under provision of deferred tax in prior years	20,784	4,046	20,784	4,046
Income tax expense for the years	36,073	62,560	36,030	62,599

The Group has not recognised the following unused tax losses and unabsorbed capital allowances of subsidiary for the Group:

	Group	
	2012 RM'000	2011 RM'000
Unused tax losses	2,445	2,052
Unabsorbed capital allowances	96	9
	2,541	2,061

The unused tax losses of the Group amounting to RM2,445,000 (2011: RM2,052,000) 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.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

34. Earnings per share

Basic and diluted	Group	
	2012	2011
	RM'000	RM'000
Profit attributable to ordinary equity holders of the Bank (RM'000)	84,984	133,577
Weighted average number of ordinary shares in issue ('000)	1,000,000	1,000,000
Basic earnings per share (sen)	8.5	13.4

35. Related party transactions

The Bank's significant transactions and balances with related parties are as follows:

	Group and Bank	
	2012	2011
	RM'000	RM'000
Related companies *		
Income		
- profit on financing	9,863	1,314
Expenditure		
- hibah on deposit	4,020	4,650
- seconded staff salary and related expenses	998	3,023
- Rental (ATM Machine & Branch)	351	220
- others	423	384
Amounts due to		
- deposits	419,093	277,320
Amounts due from		
- financing	251,323	265,225

Other related companies **

Income		
- profit on financing	22,369	18,283
Expenditure		
- hibah on deposit	6,816	12,997
- security services and equipment	865	1,969
- takaful expenses	3,686	5,852
- others	594	593

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

35. Related party transactions (cont'd.)

	Group and Bank	
	2012	2011
	RM'000	RM'000
Amounts due to		
- deposits	387,321	889,574
Amounts due from		
- financing	858,774	720,441

* Related companies are companies within the DRB-HICOM Berhad group.

** Other related companies are companies related to a substantial shareholder of DRB-HICOM Berhad group.

36. Credit exposures arising from credit transactions with connected parties

	Group and Bank	
	2012	2011
	RM'000	RM'000
Outstanding credit exposures with connected parties	1,113,171	988,892
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	6.7%	6.4%
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.

6175-W

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

37. Commitments and contingencies

- (i) In the normal course of business, 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 Bank are as follows:

	Group and Bank					
	31 March 2012			31 March 2011		
	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	1,208	1,208	1,208	11	11	11
Trade-related contingencies	65,352	13,070	5,739	45,914	9,183	9,025
Transaction related contingencies	616,105	308,053	248,935	871,491	435,745	371,611
Obligations under an on-going underwriting agreement	41,000	20,500	4,100	65,000	32,500	6,500
Housing financing sold directly and indirectly to Cagamas with recourse	64,910	64,910	33,962	364,308	364,308	174,040
Commitments						
Credit extension commitment:						
- Maturity within one year	349,478	69,896	65,135	323,002	64,600	55,443
- Maturity exceeding one year	2,184,119	1,092,060	376,999	2,242,093	1,121,047	391,538
Bills of collection	19,883	-	-	37,009	-	-
Islamic derivative financial instruments						
Foreign exchange related contracts	870,214	5,001	3,783	1,796,996	2,131	1,608
Profit rate related contract	75,000	6,000	1,200	75,000	6,000	1,200
	4,287,269	1,580,698	741,061	5,820,824	2,035,525	1,010,976

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. 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 optimization 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 organization, 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 organization structure and defining the appropriate roles and responsibilities.
- 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 and Bank 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.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. 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 Management 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 of non-trading portfolio.
Credit Committee ("CC")	Authority for approving and reviewing business financing.
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's RMD and Senior Management via ERMC 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 and the Group and Bank will be able to identify its risk tolerance level. 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").

Credit risk arises from the possibility that a customer or counterparty may be unable to meet its financial obligations to the Group and Bank, either from a facility granted or a contract in which the Group and Bank have a gain position. The Group and Bank comprehend that credit risk is inherent in its credit products activities such as financing facilities (funded / non-funded); treasury activities including inter-bank money market, money and capital trading, foreign exchange; and investment banking activities including underwriting of private debt securities issuance.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)****38. Financial risk management objectives and policies (cont'd.)****(a) Credit risk (cont'd.)**

The above credit risk exposures are controlled through financing granting criteria which include the assessment of an identifiable and adequate source of payments or income generation from the customer, as well as the appropriate structure of credit. As a supporting tool of the assessment, the Group and Bank adopt credit risk rating (internal / external) mechanism. 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. The external rating assessment will be used as those provided by more than one of the selected External Credit Assessment Institution ("ECAI").

The applicable level of credit approval is determined by the aggregation of all credit lines or facilities (including temporary excesses) of all related companies and their principals and guarantors as prescribed by BNM GP5. The Group and Bank establish its credit exposure limit for individual/single customer, global counterparty, industry/sector and other various funded and non-funded exposures.

In mitigating the credit risk, the Group and Bank have also introduced the Credit Risk Mitigation Techniques ("CRMT") whereby the various financing facilities are categorized as either secured or unsecured. The Group and Bank have developed the techniques to identify the eligible collaterals and securities through certain criteria, perform appraisal on the collaterals and securities, value and revalue the collaterals and securities including valuation of collaterals for impaired financing and implement adequate monitoring process on the collaterals and securities. These measures are taken to control and mitigate the calculated risks in granting such credit.

Credit portfolio of the Group and Bank are monitored on a bank-wide basis by stipulating portfolio exposure limits with the objective to avoid credit concentrations and over exposure in the portfolio. The monitoring includes (among others) review of exposure limit for each sector of which, the relevant limit is recommended to the Board for approval. The risk limits should be appropriate and justified for the business activities of each specified sector/industry.

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 which are guided by Bank Negara Malaysia's ("BNM") guidelines on Classification and Impairment Provisions for Loans/Financing.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)****38. Financial risk management objectives and policies (cont'd.)****(a) Credit risk (cont'd.)****(i) Maximum credit risk exposures and credit risk concentration**

The following table 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.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. 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 2012	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	-	4,391,223	-	-	-	-	4,391,223
Cash and placements with financial institutions	-	110,333	-	-	-	-	110,333
Financial investment held-to-maturity	575	45,972	-	-	-	27,947	74,494
Financial investment available-for-sale	3,922,079	325,467	605,148	243,533	-	1,047,791	6,144,018
Islamic derivative financial assets	1,320	2,816	-	-	-	14	4,150
Financing of customers	615,595	519,232	1,200,381	751,945	1,020,093	5,160,412	9,267,658
Statutory deposits with Bank Negara Malaysia	527,721	-	-	-	-	-	527,721
Other financial assets	-	-	-	-	-	27,284	27,284
	5,067,290	5,395,043	1,805,529	995,478	1,020,093	6,263,448	20,546,881
Less: Collective assessment allowance	-	-	-	-	-	-	(229,175)
	5,067,290	5,395,043	1,805,529	995,478	1,020,093	6,263,448	20,317,706
Commitments and contingencies							
Contingent liabilities	147,653	105,909	63,333	323,210	-	148,470	788,575
Commitments	1,352,347	-	463,543	216,994	14,036	506,560	2,553,480
Derivative financial instruments	-	945,214	-	-	-	-	945,214
	1,500,000	1,051,123	526,876	540,204	14,036	655,030	4,287,269
Total credit exposures	6,567,290	6,446,166	2,332,405	1,535,682	1,034,129	6,918,478	24,604,975

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. 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 2011	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	-	6,199,953	-	-	-	-	6,199,953
Cash and placements with financial institutions	-	251,012	-	-	-	-	251,012
Financial investment held-to-maturity	575	-	-	-	-	28,010	28,585
Financial investment available-for-sale	2,286,044	218,197	464,667	262,959	-	1,139,120	4,370,987
Islamic derivative financial assets	-	5,140	-	-	-	37	5,177
Financing of customers	71,545	143,949	1,299,273	750,729	1,206,465	3,902,901	7,374,862
Statutory deposits with Bank Negara Malaysia	94,121	-	-	-	-	-	94,121
Other financial assets	-	-	-	-	-	38,544	38,544
	2,452,285	6,818,251	1,763,940	1,013,688	1,206,465	5,108,612	18,363,241
Less: Collective assessment allowance	-	-	-	-	-	-	(226,702)
	2,452,285	6,818,251	1,763,940	1,013,688	1,206,465	5,108,612	18,136,539
Commitments and contingencies							
Contingent liabilities	121,166	429,308	90,285	351,919	-	354,046	1,346,724
Commitments	1,378,834	-	419,604	450,840	15,604	337,222	2,602,104
Derivative financial instruments	-	1,871,996	-	-	-	-	1,871,996
	1,500,000	2,301,304	509,889	802,759	15,604	691,268	5,820,824
Total credit exposures	3,952,285	9,119,555	2,273,829	1,816,447	1,222,069	5,799,880	23,957,363

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. 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 2012	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	-	4,391,223	-	-	-	-	4,391,223
Cash and placements with financial institutions	-	110,333	-	-	-	-	110,333
Financial investment held-to-maturity	575	45,972	-	-	-	27,947	74,494
Financial investment available-for-sale	3,922,079	325,467	600,348	243,533	-	1,047,791	6,139,218
Islamic derivative financial assets	1,320	2,816	-	-	-	14	4,150
Financing of customers	615,595	519,232	1,205,254	751,945	1,020,093	5,167,861	9,279,980
Statutory deposits with Bank Negara Malaysia	527,721	-	-	-	-	-	527,721
Other financial assets	-	-	-	-	-	20,572	20,572
	5,067,290	5,395,043	1,805,602	995,478	1,020,093	6,264,185	20,547,691
Less: Collective assessment allowance	-	-	-	-	-	-	(229,175)
	5,067,290	5,395,043	1,805,602	995,478	1,020,093	6,264,185	20,318,516
Commitments and contingencies							
Contingent liabilities	147,653	105,909	63,333	323,210	-	148,470	788,575
Commitments	1,352,347	-	463,543	216,994	14,036	506,560	2,553,480
Derivative financial instruments	-	945,214	-	-	-	-	945,214
	1,500,000	1,051,123	526,876	540,204	14,036	655,030	4,287,269
Total credit exposures	6,567,290	6,446,166	2,332,478	1,535,682	1,034,129	6,919,215	24,605,785

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. 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 2011	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	-	6,199,953	-	-	-	-	6,199,953
Cash and placements with financial institutions	-	251,012	-	-	-	-	251,012
Financial investment held-to-maturity	575	-	-	-	-	28,010	28,585
Financial investment available-for-sale	2,286,044	218,197	459,867	256,959	-	1,139,120	4,360,187
Islamic derivative financial assets	-	5,140	-	-	-	37	5,177
Financing of customers	71,545	143,949	1,304,225	756,729	1,206,465	3,909,823	7,392,736
Statutory deposits with Bank Negara Malaysia	94,121	-	-	-	-	-	94,121
Other financial assets	-	-	-	-	-	31,624	31,624
	2,452,285	6,818,251	1,764,092	1,013,688	1,206,465	5,108,614	18,363,395
Less: Collective assessment allowance	-	-	-	-	-	-	(226,702)
	2,452,285	6,818,251	1,764,092	1,013,688	1,206,465	5,108,614	18,136,693
Commitments and contingencies							
Contingent liabilities	121,166	429,308	90,285	351,919	-	354,046	1,346,724
Commitments	1,378,834	-	419,604	450,840	15,604	337,222	2,602,104
Derivative financial instruments	-	1,871,996	-	-	-	-	1,871,996
	1,500,000	2,301,304	509,889	802,759	15,604	691,268	5,820,824
Total credit exposures	3,952,285	9,119,555	2,273,981	1,816,447	1,222,069	5,799,882	23,957,517

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. 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
2012				
On Balance Sheet				
Exposures				
Cash and short-term funds	4,378,538	12,685	4,378,538	12,685
Cash and placements with financial institutions	110,333	-	110,333	-
Financial investment held-to-maturity	28,522	45,972	28,522	45,972
Financial investment available-for-sale	6,059,686	84,332	6,054,886	84,332
Islamic derivative financial assets	4,150	-	4,150	-
Financing of customers	9,230,491	37,167	9,242,813	37,167
Statutory deposits with Bank Negara Malaysia	527,721	-	527,721	-
Other financial assets	27,276	8	20,564	8
	<u>20,366,717</u>	<u>180,164</u>	<u>20,367,527</u>	<u>180,164</u>
Less: Collective assessment allowance	<u>(226,986)</u>	<u>(2,189)</u>	<u>(226,986)</u>	<u>(2,189)</u>
	<u>20,139,731</u>	<u>177,975</u>	<u>20,140,541</u>	<u>177,975</u>
Commitments and contingencies				
Contingent liabilities	788,575	-	788,575	-
Commitments	2,553,480	-	2,553,480	-
Derivative financial instruments	945,214	-	945,214	-
	<u>4,287,269</u>	<u>-</u>	<u>4,287,269</u>	<u>-</u>
Total credit exposures	<u>24,427,000</u>	<u>177,975</u>	<u>24,427,810</u>	<u>177,975</u>

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. 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
2011				
On Balance Sheet				
Exposures				
Cash and short-term funds	6,054,783	145,170	6,054,783	145,170
Cash and placements with financial institutions	251,012	-	251,012	-
Financial investment held-to-maturity	28,585	-	28,585	-
Financial investment available-for-sale	4,312,296	58,691	4,301,496	58,691
Islamic derivative financial assets	5,177	-	5,177	-
Financing of customers	7,286,438	88,424	7,304,312	88,424
Statutory deposits with Bank Negara Malaysia	94,121	-	94,121	-
Other financial assets	37,871	673	30,951	673
	<u>18,070,283</u>	<u>292,958</u>	<u>18,070,437</u>	<u>292,958</u>
Less: Collective assessment allowance	<u>(221,882)</u>	<u>(4,820)</u>	<u>(221,882)</u>	<u>(4,820)</u>
	<u>17,848,401</u>	<u>288,138</u>	<u>17,848,555</u>	<u>288,138</u>
Commitments and contingencies				
Contingent liabilities	1,346,724	-	1,346,724	-
Commitments	2,602,104	-	2,602,104	-
Derivative financial instruments	1,871,996	-	1,871,996	-
	<u>5,820,824</u>	<u>-</u>	<u>5,820,824</u>	<u>-</u>
Total credit exposures	<u>23,669,225</u>	<u>288,138</u>	<u>23,669,379</u>	<u>288,138</u>

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 43% as at 31 March 2012, respectively (31 March 2011: 42% for the Group and the Bank). The financial effect of collateral held for other financial assets is not significant.

6175-W

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. 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 2012	Neither past due nor impaired		Past due but not impaired	Impaired financing	Total RM'000
	Good RM'000	Satisfactory RM'000	RM'000	RM'000	
Term financing					
- Home financing	1,701,501	331,551	108,669	94,602	2,236,323
- Syndicated financing	70,918	-	-	6,474	77,392
- Hire purchase receivables	875,543	71,128	34,168	36,191	1,017,030
- Leasing receivables	81,782	5,305	-	33,261	120,348
- Other term financing	3,855,209	288,397	62,418	200,346	4,406,370
Other financing	846,092	649,195	1,342	75,470	1,572,099
	7,431,045	1,345,576	206,597	446,344	9,429,562
Less:					
- Collective assesment allowance	-	-	-	-	(229,175)
- Individual assesment allowance	-	-	-	(161,904)	(161,904)
Total net financing	7,431,045	1,345,576	206,597	284,440	9,038,483

6175-W

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. 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.)

Group 2011	Neither past due nor impaired		Past due but not impaired	Impaired financing	Total RM'000
	Good RM'000	Satisfactory RM'000	RM'000	RM'000	
Term financing					
- Home financing	1,046,164	303,158	79,130	153,502	1,581,954
- Syndicated financing	125,457	-	-	6,298	131,755
- Hire purchase receivables	1,010,655	108,833	47,126	34,735	1,201,349
- Leasing receivables	95,036	-	19	30,385	125,440
- Other term financing	2,453,022	164,333	44,337	61,695	2,723,387
Other financing	1,104,380	514,693	8,707	91,728	1,719,508
	5,834,714	1,091,017	179,319	378,343	7,483,393
Less:					
- Collective assesment allowance	-	-	-	-	(226,702)
- Individual assesment allowance	-	-	-	(108,531)	(108,531)
Total net financing	5,834,714	1,091,017	179,319	269,812	7,148,160

6175-W

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. 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 2012	Neither past due nor impaired		Past due but not impaired	Impaired financing	Total RM'000
	Good RM'000	Satisfactory RM'000	RM'000	RM'000	
Term financing					
- Home financing	1,719,823	331,551	108,669	94,602	2,254,645
- Syndicated financing	70,918	-	-	6,474	77,392
- Hire purchase receivables	875,543	71,128	34,168	36,191	1,017,030
- Leasing receivables	81,782	5,305	-	33,261	120,348
- Other term financing	3,855,209	288,397	62,418	200,346	4,406,370
Other financing	846,092	643,195	1,342	81,470	1,572,099
	7,449,367	1,339,576	206,597	452,344	9,447,884
Less:					
- Collective assesment allowance	-	-	-	-	(229,175)
- Individual assesment allowance	-	-	-	(167,904)	(167,904)
Total net financing	7,449,367	1,339,576	206,597	284,440	9,050,805

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. 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 2011	Neither past due nor impaired Good RM'000	Satisfactory RM'000	Past due but not impaired RM'000	Impaired financing RM'000	Total RM'000
Term financing					
- Home financing	1,064,038	303,158	79,130	153,502	1,599,828
- Syndicated financing	125,457	-	-	6,298	131,755
- Hire purchase receivables	1,010,655	108,833	47,126	34,735	1,201,349
- Leasing receivables	95,036	-	19	30,385	125,440
- Other term financing	2,453,022	164,333	44,337	61,695	2,723,387
Other financing	1,104,380	514,693	8,707	91,728	1,719,508
	<u>5,852,588</u>	<u>1,091,017</u>	<u>179,319</u>	<u>378,343</u>	<u>7,501,267</u>
Less:					
- Collective assesment allowance	-	-	-	-	(226,702)
- Individual assesment allowance	-	-	-	(108,531)	(108,531)
Total net financing	<u>5,852,588</u>	<u>1,091,017</u>	<u>179,319</u>	<u>269,812</u>	<u>7,166,034</u>

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.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. 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 2012	Less than 1 month RM'000	1 - 2 months RM'000	>2 - 3 months RM'000	Total RM'000
Term financing				
- Home financing	-	74,396	34,273	108,669
- Hire purchase receivables	-	27,671	6,497	34,168
- Leasing receivables	-	-	-	-
- Other term financing	-	41,585	20,833	62,418
Other financing	-	606	736	1,342
Total	-	144,258	62,339	206,597

Group and Bank 2011	Less than 1 month RM'000	1 - 2 months RM'000	>2 - 3 months RM'000	Total RM'000
Term financing				
- Home financing	-	61,218	17,912	79,130
- Hire purchase receivables	-	36,715	10,411	47,126
- Leasing receivables	-	-	19	19
- Other term financing	-	19,456	24,881	44,337
Other financing	2,081	6,177	449	8,707
Total	2,081	123,566	53,672	179,319

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. 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	2012 RM'000	2011 RM'000
Purchase of transport vehicles	34,190	47,133
Purchase of landed properties of which:		
– residential	110,157	77,700
– non-residential	5,682	9,661
Personal use	11,005	12,980
Construction	950	1,156
Working capital	-	2,018
Other purpose	44,613	28,671
	206,597	179,319

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 (as prescribed under the FRS139).

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;
- (b) where a financing is in arrears for less than three (3) months, and exhibits the indications of credit weaknesses; or
- (c) where an impaired financing has been rescheduled or restructured, the financing continues to be classified as impaired until payment based on the rescheduled and restructured terms have been observed continuously for a minimum period of six (6) months.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. 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 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. Distressed debt restructuring
7. Improper use of credit lines
8. Legal action by other creditors

Collective assessment allowance

Financing which are not individually significant and financing that have been individually assessed with no evidence of impairment loss are grouped together for collective impairment assessment. These financing are grouped within similar credit risk characteristics for purposes of calculating an estimated collective loss. Future cash flows on a group of financial assets that are collectively assessed for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

The group is currently reporting under BNM's transitional arrangement as prescribed in its guidelines on Classification and Impairment Provision for Loans/Financing and as allowed by the MASB in its Amendments to FRS 139. Pursuant to this transitional arrangement, banking institutions are required to maintain collective assessment impairment allowances at least 1.5% of total outstanding financing, net of individual impairment allowance.

The following collective allowance methodology has been applied and adopted by the Bank since 2011:

- (i) Collective provision 1 ("CP1") – represents provision for profit-in-suspense for impaired financing with outstanding balance considered individually insignificant;

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(ii) Credit quality financing of customers (cont'd.)

- (ii) Collective provision 2 ("CP2") - represents specific provision for financing with more than three (3) months-in-arrears based on difference between outstanding balance and collateral value; and
- (iii) Collective provision 3 ("CP3") – represents 1.5% of total financing outstanding less individual assessment allowance, CP1 and CP2.

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 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;
- For other financing - charges over business assets such as premises, inventories, trade receivables or deposits.

At 31 March 2012 the fair value of collateral that the Group and Bank hold relating to financing of customers individually determined to be impaired amounts to RM238,306,000 as compared with 31 March 2011 of RM217,193,000. The collateral consists of cash, securities, letters of guarantee and properties.

Reposessed collateral

Group and Bank	2012	2011
	RM'000	RM'000
Residential properties	14,000	14,000

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 dispose as soon as practicable. Collateral are recognised in other assets on the statement of financial position. The Group's and the Bank's do not occupy reposessed properties for its business use.

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

38. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(iii) Reconciliation of allowance/impairment losses for financial assets

Group 2012	Financing of customers RM'000	Financial investment available -for-sale RM'000	Financial investment held-to- maturity RM'000	Total RM'000
<u>Individual impairment allowance/ impairment losses:</u>				
At 1 April 2011	108,531	81,663	2,061	192,255
Allowance/impairment lossess made during the year	64,029	8,829	-	72,858
Amount recovered/written back	(10,656)	(19,146)	-	(29,802)
Foreign exchange difference	-	102	-	102
As at 31 March	<u>161,904</u>	<u>71,448</u>	<u>2,061</u>	<u>235,413</u>

Group 2011	Financing of customers RM'000	Financial investment available -for-sale RM'000	Financial investment held-to- maturity RM'000	Total RM'000
<u>Individual impairment allowance/ impairment losses:</u>				
At 1 April 2010	324,997	142,236	2,061	469,294
Allowance/impairment lossess made during the year	89,776	31,885	-	121,661
Amount recovered/written back	(70,129)	(91,502)	-	(161,631)
Amount written off	(236,113)	-	-	(236,113)
Foreign exchange difference	-	(956)	-	(956)
As at 31 March	<u>108,531</u>	<u>81,663</u>	<u>2,061</u>	<u>192,255</u>

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(iii) Reconciliation of allowance/impairment losses for financial assets

Bank 2012	Financing of customers RM'000	Financial investment available -for-sale RM'000	Financial investment held-to- maturity RM'000	Total RM'000
<u>Individual impairment allowance/ impairment losses:</u>				
At 1 April 2011	108,531	81,663	2,061	192,255
Allowance/impairment losses made during the year	70,029	2,829	-	72,858
Amount recovered/written back	(10,656)	(19,146)	-	(29,802)
Foreign exchange difference	-	102	-	102
As at 31 March	167,904	65,448	2,061	235,413

Bank 2011	Financing of customers RM'000	Financial investment available -for-sale RM'000	Financial investment held-to- maturity RM'000	Total RM'000
<u>Individual impairment allowance/ impairment losses:</u>				
At 1 April 2010	324,997	142,236	2,061	469,294
Allowance/impairment losses made during the year	89,776	31,885	-	121,661
Amount recovered/written back	(70,129)	(91,502)	-	(161,631)
Amount written off	(236,113)	-	-	(236,113)
Foreign exchange difference	-	(956)	-	(956)
As at 31 March	108,531	81,663	2,061	192,255

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

38. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(iv) Credit quality of financial investment and other financial assets

Set out below are the credit quality of financial investment (money market instruments and non-money market instruments-debt securities) and other financial assets analysed by ratings from external credit ratings agencies:

	Financial investment held-to-maturity			Financial investment available-for-sale						
	Non Money Market Instruments - Debt Securities			Money Market Instruments			Non Money Market Instruments - Debt Securities			Other financial assets
	International	Domestic	Total	International	Domestic	Total	International	Domestic	Total	
2012	Ratings RM'000	Ratings RM'000	Total RM'000	Ratings RM'000	Ratings RM'000	Total RM'000	Ratings RM'000	Ratings RM'000	Total RM'000	
Group										
AAA+ to AA-	-	-	-	-	55,570	55,570	-	1,429,351	1,429,351	-
A+ to A-	-	-	-	-	-	-	42,277	439,531	481,808	-
BBB+ to BB-	-	-	-	-	-	-	-	136,183	136,183	-
Unrated	45,972	28,522	74,494	-	-	-	-	9,431	9,431	27,284
Defaulted	-	-	-	-	-	-	6,922	4,668	11,590	-
Sovereign	-	-	-	-	-	-	-	3,972,062	3,972,062	-
Total	45,972	28,522	74,494	-	55,570	55,570	49,199	5,991,226	6,040,425	27,284
Bank										
AAA+ to AA-	-	-	-	-	55,570	55,570	-	1,429,351	1,429,351	-
A+ to A-	-	-	-	-	-	-	42,277	439,531	481,808	-
BBB+ to BB-	-	-	-	-	-	-	-	136,183	136,183	-
Unrated	45,972	28,522	74,494	-	-	-	-	4,631	4,631	20,572
Defaulted	-	-	-	-	-	-	6,922	4,668	11,590	-
Sovereign	-	-	-	-	-	-	-	3,972,062	3,972,062	-
Total	45,972	28,522	74,494	-	55,570	55,570	49,199	5,986,426	6,035,625	20,572

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

38. Financial risk management objectives and policies (cont'd.)

(a) Credit risk (cont'd.)

(iv) Credit quality of financial investment and other financial assets

Set out below are the credit quality of financial investment (money market instruments and non-money market instruments-debt securities) and other financial assets analysed by ratings from external credit ratings agencies:

2011	Financial investment held-to- Non Money Market Instruments - Debt Securities			Financial investment available-for-sale						Other financial assets RM'000
				Money Market Instruments			Non Money Market Instruments - Debt Securities			
	International	Domestic	Total	International	Domestic	Total	International	Domestic	Total	
	Ratings RM'000	Ratings RM'000	RM'000	Ratings RM'000	Ratings RM'000	RM'000	Ratings RM'000	Ratings RM'000	RM'000	
Group										
AAA+ to AA-	-	-	-	-	-	-	-	1,505,741	1,505,741	-
A+ to A-	-	-	-	-	-	-	4,347	386,144	390,491	-
BBB+ to BB-	-	-	-	-	-	-	46,921	140,028	186,949	-
Unrated	-	28,585	28,585	-	-	-	-	14,898	14,898	38,544
Defaulted	-	-	-	-	-	-	7,424	7,068	14,492	-
Sovereign	-	-	-	-	-	-	-	2,223,512	2,223,512	-
Total	-	28,585	28,585	-	-	-	58,692	4,277,391	4,336,083	38,544
Bank										
AAA+ to AA-	-	-	-	-	-	-	-	1,505,741	1,505,741	-
A+ to A-	-	-	-	-	-	-	4,347	386,144	390,491	-
BBB+ to BB-	-	-	-	-	-	-	46,921	140,028	186,949	-
Unrated	-	28,585	28,585	-	-	-	-	4,098	4,098	31,624
Defaulted	-	-	-	-	-	-	7,424	7,068	14,492	-
Sovereign	-	-	-	-	-	-	-	2,223,512	2,223,512	-
Total	-	28,585	28,585	-	-	-	58,692	4,266,591	4,325,283	31,624

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. 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 RM14,357,000 (2011: RM14,297,000), which has been classified as impaired.

At 31 March 2011 the fair value of collateral that the Group's and Bank's holds relating to defaulted private debt securities held under financial investments available-for-sale with amounts to RM19,779,000 (2011: RM31,446,000). The collateral consists of cash, securities, letters of guarantee and properties.

(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.

Risk governance

The ALCO supports the RMC in market risk management oversight. The ALCO reviews the Group's and Bank's market risk framework and policies, aligns market risk management with business strategies and planning, and recommends actions to ensure that the market risks remain within established risk tolerance. The market risk of the Group is identified into traded market risk and non-traded market risk.

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.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)****38. Financial risk management objectives and policies (cont'd.)****(b) Market risk (cont'd.)***(i) Traded market risk (cont'd.)****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.

(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.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. Financial risk management objectives and policies (cont'd.)

(b) Market risk (cont'd.)

(ii) *Non-traded market risk (cont'd.)*

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 use of derivative financial instruments to hedge profit rate risk is set out on Note 6 to the financial statements.

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.

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

38. 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	Up to	>1-3	>3-12					Over	Non-profit	Trading		Effective
2012	1 month	months	months	>1-2 years	>2-3 years	>3-4 years	>4-5 years	5 years	sensitive	books	Total	profit
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	rate %
ASSETS												
Cash and short-term funds	4,225,335	3,353	-	-	-	-	-	-	162,535	-	4,391,223	2.8%
Cash and placements with financial institutions	-	18,389	91,944	-	-	-	-	-	-	-	110,333	-
Financial investment held-to-maturity	298	-	-	-	-	-	-	-	74,196	-	74,494	-
Financial investment available-for-sale	386,280	175,528	845,821	573,797	814,696	668,569	704,912	1,910,097	64,318	-	6,144,018	4.1%
Financing of customers:												
- non-impaired	3,368,677	9,917	226,301	262,062	549,929	501,430	711,924	3,346,978	-	-	8,977,218	6.4%
- impaired*	290,440	-	-	-	-	-	-	-	-	-	290,440	-
- collective assessment allowance	-	-	-	-	-	-	-	-	(229,175)	-	(229,175)	-
Islamic derivative financial assets	-	-	-	-	-	-	-	-	-	4,150	4,150	-
Other non-profit sensitive balances	-	-	-	-	-	-	-	-	705,768	-	705,768	-
TOTAL ASSETS	8,271,030	207,187	1,164,066	835,859	1,364,625	1,169,999	1,416,836	5,257,075	777,643	4,150	20,468,469	
LIABILITIES AND EQUITY												
Deposits from customers	10,951,365	5,330,113	1,327,976	4,622	328	292	279	-	536,112	-	18,151,087	2.7%
Deposits and placements of banks and other financial institutions	-	-	3,148	7,250	-	649	849	-	-	-	11,896	1.5%
Islamic derivative financial liabilities	-	-	3,889	-	-	-	-	-	-	1,741	5,630	-
Bills and acceptances payable	-	-	-	-	-	-	-	-	310,324	-	310,324	-
Subordinated bond	-	-	-	-	-	-	-	406,079	-	-	406,079	5.2%
Other non-profit sensitive balances	-	-	-	-	-	-	-	-	153,565	-	153,565	-
Total Liabilities	10,951,365	5,330,113	1,335,013	11,872	328	941	1,128	406,079	1,000,001	1,741	19,038,581	
Equity attributable to shareholders of the Bank	-	-	-	-	-	-	-	-	1,429,888	-	1,429,888	-
TOTAL LIABILITIES AND EQUITY	10,951,365	5,330,113	1,335,013	11,872	328	941	1,128	406,079	2,429,889	1,741	20,468,469	

6175-W

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

38. 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 2012	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-2 years RM'000	>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 %
On-balance sheet profit sensitivity gap	(2,680,335)	(5,122,926)	(170,947)	823,987	1,364,297	1,169,058	1,415,708	4,850,996	(1,652,247)	2,409	-	
Off-balance sheet profit sensitivity gap (profit rate swaps)	2,680,335	5,122,926	170,947	(823,987)	(1,364,297)	(1,169,058)	(1,415,708)	(4,850,996)	1,652,247	(2,409)	-	
TOTAL PROFIT SENSITIVITY GAP	-	-	-	-	-	-	-	-	-	-	-	

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

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

38. 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 2011	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-2 years RM'000	>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 %
ASSETS												
Cash and short-term funds	6,030,940	-	-	-	-	-	-	-	169,013	-	6,199,953	2.3%
Cash and placements with financial institutions	-	190,506	60,506	-	-	-	-	-	-	-	251,012	-
Financial investment held-to-maturity	361	-	-	-	-	-	-	-	28,224	-	28,585	-
Financial investment available-for-sale	192,948	287,499	689,365	1,094,217	513,889	763,973	192,931	571,990	64,175	-	4,370,987	4.5%
Financing of customers:*												
- non-impaired	2,939,248	98,603	201,621	232,423	420,784	181,873	463,920	2,566,578	-	-	7,105,050	6.4%
- impaired	269,812	-	-	-	-	-	-	-	-	-	269,812	-
- collective assessment allowance	-	-	-	-	-	-	-	-	(226,702)	-	(226,702)	-
Islamic derivative financial assets	-	-	-	-	-	-	-	-	-	5,177	5,177	-
Other non-profit sensitive balances	-	-	-	-	-	-	-	-	304,837	-	304,837	-
TOTAL ASSETS	9,433,309	576,608	951,492	1,326,640	934,673	945,846	656,851	3,138,568	339,547	5,177	18,308,711	
LIABILITIES AND EQUITY												
Deposits from customers	8,752,323	5,654,500	1,782,268	3,434	1,132	1,051	3,883	-	17,582	-	16,216,173	2.7%
Deposits and placements of banks and other financial institutions	-	-	800	4,504	6,638	2,401	650	-	-	-	14,993	2.3%
Islamic derivative financial liabilities	-	-	-	-	-	-	-	-	-	3,986	3,986	-
Bills and acceptances payable	-	-	-	-	-	-	-	-	291,375	-	291,375	-
Subordinated bond	-	-	251,128	-	-	-	-	-	-	-	251,128	6.3%
Other non-profit sensitive balances	-	-	-	-	-	-	-	-	169,626	-	169,626	-
Total Liabilities	8,752,323	5,654,500	2,034,196	7,938	7,770	3,452	4,533	-	478,583	3,986	16,947,281	
Equity attributable to shareholders of the Bank	-	-	-	-	-	-	-	-	1,361,430	-	1,361,430	-
TOTAL LIABILITIES AND EQUITY	8,752,323	5,654,500	2,034,196	7,938	7,770	3,452	4,533	-	1,840,013	3,986	18,308,711	

6175-W

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

38. 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 2011	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-2 years RM'000	>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 %
On-balance sheet profit sensitivity gap	680,986	(5,077,892)	(1,082,704)	1,318,702	926,903	942,394	652,318	3,138,568	(1,500,466)	1,191	-	
Off-balance sheet profit sensitivity gap (profit rate swaps)	(680,986)	5,077,892	1,082,704	(1,318,702)	(926,903)	(942,394)	(652,318)	(3,138,568)	1,500,466	(1,191)	-	
TOTAL PROFIT SENSITIVITY GAP	-	-	-	-	-	-	-	-	-	-	-	

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

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

38. 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 2012	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-2 years RM'000	>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 %
ASSETS												
Cash and short-term funds	4,225,335	3,353	-	-	-	-	-	-	162,535	-	4,391,223	2.8%
Cash and placements with financial institutions	-	18,389	91,944	-	-	-	-	-	-	-	110,333	-
Financial investment held-to-maturity	298	-	-	-	-	-	-	-	74,196	-	74,494	-
Financial investment available-for-sale	386,280	175,528	841,021	573,797	814,696	668,569	704,912	1,910,097	64,318	-	6,139,218	4.1%
Financing of customers:												
- non-impaired	3,368,677	9,917	226,301	280,384	549,929	501,430	711,924	3,346,978	-	-	8,995,540	6.4%
- impaired*	284,440	-	-	-	-	-	-	-	-	-	284,440	-
- collective assessment allowance	-	-	-	-	-	-	-	-	(229,175)	-	(229,175)	-
Islamic derivative financial assets	-	-	-	-	-	-	-	-	-	4,150	4,150	-
Other non-profit sensitive balances	-	-	-	-	-	-	-	-	705,175	-	705,175	-
TOTAL ASSETS	8,265,030	207,187	1,159,266	854,181	1,364,625	1,169,999	1,416,836	5,257,075	777,050	4,150	20,475,398	
LIABILITIES AND EQUITY												
Deposits from customers	10,959,025	5,330,113	1,327,976	4,622	328	292	279	-	536,112	-	18,158,747	2.7%
Deposits and placements of banks and other financial institutions	-	-	3,148	7,250	-	649	849	-	-	-	11,896	1.5%
Islamic derivative financial liabilities	-	-	3,889	-	-	-	-	-	-	1,741	5,630	-
Bills and acceptances payable	-	-	-	-	-	-	-	-	310,324	-	310,324	-
Subordinated bond	-	-	-	-	-	-	-	406,079	-	-	406,079	5.2%
Other non-profit sensitive balances	-	-	-	-	-	-	-	-	153,729	-	153,729	-
Total Liabilities	10,959,025	5,330,113	1,335,013	11,872	328	941	1,128	406,079	1,000,165	1,741	19,046,405	
Equity attributable to shareholders of the Bank	-	-	-	-	-	-	-	-	1,428,993	-	1,428,993	-
TOTAL LIABILITIES AND EQUITY	10,959,025	5,330,113	1,335,013	11,872	328	941	1,128	406,079	2,429,158	1,741	20,475,399	

6175-W

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

38. 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 2012	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-2 years RM'000	>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 %
On-balance sheet profit sensitivity gap	(2,693,995)	(5,122,926)	(175,747)	842,309	1,364,297	1,169,058	1,415,708	4,850,996	(1,652,108)	2,409	-	
Off-balance sheet profit sensitivity gap (profit rate swaps)	2,693,995	5,122,926	175,747	(842,309)	(1,364,297)	(1,169,058)	(1,415,708)	(4,850,996)	1,652,108	(2,409)	-	
TOTAL PROFIT SENSITIVITY GAP	-	-	-	-	-	-	-	-	-	-	-	

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

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

38. 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 2011	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-2 years RM'000	>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 %
ASSETS												
Cash and short-term funds	6,030,940	-	-	-	-	-	-	-	169,013	-	6,199,953	2.5%
Cash and placements with financial institutions	-	190,506	60,506	-	-	-	-	-	-	-	251,012	-
Financial investment held-to-maturity	361	-	-	-	-	-	-	-	28,224	-	28,585	-
Financial investment available-for-sale	192,948	287,499	689,365	1,094,217	513,889	763,973	192,931	571,990	53,375	-	4,360,187	4.4%
Financing of customers:												
- non-impaired	2,939,248	98,603	201,621	232,423	420,784	181,873	463,920	2,584,452	-	-	7,122,924	6.3%
- impaired*	269,812	-	-	-	-	-	-	-	-	-	269,812	-
- collective assessment allowance	-	-	-	-	-	-	-	-	(226,702)	-	(226,702)	-
Islamic derivative financial assets	-	-	-	-	-	-	-	-	-	5,177	5,177	-
Other non-profit sensitive balances	-	-	-	-	-	-	-	-	304,261	-	304,261	-
TOTAL ASSETS	9,433,309	576,608	951,492	1,326,640	934,673	945,846	656,851	3,156,442	328,171	5,177	18,315,209	
LIABILITIES AND EQUITY												
Deposits from customers	8,758,940	5,654,500	1,782,268	3,434	1,132	1,051	3,883	-	17,582	-	16,222,790	2.3%
Deposits and placements of banks and other financial institutions	-	-	800	4,504	6,638	2,401	650	-	-	-	14,993	1.5%
Islamic derivative financial liabilities	-	-	-	-	-	-	-	-	-	3,986	3,986	-
Bills and acceptances payable	-	-	-	-	-	-	-	-	291,375	-	291,375	-
Subordinated bond	-	-	251,128	-	-	-	-	-	-	-	251,128	6.3%
Other non-profit sensitive balances	-	-	-	-	-	-	-	-	169,650	-	169,650	-
Total Liabilities	8,758,940	5,654,500	2,034,196	7,938	7,770	3,452	4,533	-	478,607	3,986	16,953,922	
Equity attributable to shareholders of the Bank	-	-	-	-	-	-	-	-	1,361,287	-	1,361,287	-
TOTAL LIABILITIES AND EQUITY	8,758,940	5,654,500	2,034,196	7,938	7,770	3,452	4,533	-	1,839,894	3,986	18,315,209	

6175-W

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

38. 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 2011	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-2 years RM'000	>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 %
On-balance sheet profit sensitivity gap	674,369	(5,077,892)	(1,082,704)	1,318,702	926,903	942,394	652,318	3,156,442	(1,511,723)	1,191	-	
Off-balance sheet profit sensitivity gap (profit rate swaps)	(674,369)	5,077,892	1,082,704	(1,318,702)	(926,903)	(942,394)	(652,318)	(3,156,442)	1,511,723	(1,191)	-	
TOTAL PROFIT												
SENSITIVITY GAP	-	-	-	-	-	-	-	-	-	-	-	

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

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. 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.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. 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;
- Changes in the asset-liability mix; and

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. 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:

Group and Bank 2012	Effect on profit before tax RM'000	Effect on profit after tax RM'000	Effect on other comprehensive income RM'000
Increase/(decrease) in basis points			
-50	36,122	27,092	78,394
+50	(36,122)	(27,092)	(78,394)
Group and Bank 2011	Effect on profit before tax RM'000	Effect on profit after tax RM'000	Effect on other comprehensive income RM'000
Increase/(decrease) in basis points			
-50	22,510	16,882	49,047
+50	(22,510)	(16,882)	(49,047)

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. 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. In addition, the earnings from the Overseas Operations are repatriated in line with Management Committees’ direction as and when required. The Group controls its FX exposures by transacting in permissible currencies. It has an internal 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 table below 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.

Group	Malaysian	United	Australian	Swiss	Euro	Great	Japan	Others	Total
2012	Ringgit	States	Dollar	Franc	RM'000	Britain	Yen	RM'000	RM'000
	RM'000	Dollar	RM'000	RM'000	RM'000	Pound	RM'000	RM'000	RM'000
Assets									
Cash and short-term funds	4,274,697	51,292	39	215	35,450	3,194	23,491	2,845	4,391,223
Cash and placements with financial institutions	-	110,333	-	-	-	-	-	-	110,333
Financial investment held-to-maturity	28,522	45,972	-	-	-	-	-	-	74,494
Financial investment available-for-sale	6,059,686	84,332	-	-	-	-	-	-	6,144,018
Islamic derivative financial assets	-	3,453	-	-	44	1	607	45	4,150
Financing of customers	9,003,505	34,978	-	-	-	-	-	-	9,038,483
Other assets	42,702	1,669	-	-	-	-	-	-	44,371
Statutory deposits with Bank Negara									
Malaysia	527,721	-	-	-	-	-	-	-	527,721
Deferred tax assets	52,353	-	-	-	-	-	-	-	52,353
Investment in subsidiaries	-	-	-	-	-	-	-	-	-
Property, plant and equipment	81,072	-	-	-	-	-	-	-	81,072
Prepaid land lease payment	251	-	-	-	-	-	-	-	251
Total Assets	20,070,510	332,029	39	215	35,494	3,195	24,098	2,890	20,468,469

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

38. 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 2012	Malaysian Ringgit RM'000	United States Dollar RM'000	Australian Dollar RM'000	Swiss Franc RM'000	Euro RM'000	Great Britain Pound RM'000	Japan Yen RM'000	Others RM'000	Total RM'000
Liabilities									
Deposits from customers	17,516,540	609,008	-	-	25,539	-	-	-	18,151,087
Deposits and placements of banks and other financial institutions	11,896	-	-	-	-	-	-	-	11,896
Islamic derivative financial liabilities	3,889	1,468	-	-	173	-	56	44	5,630
Bills and acceptances payable	310,324	-	-	-	-	-	-	-	310,324
Other liabilities	133,044	-	-	-	-	-	-	-	133,044
Provision for taxation and zakat	20,501	20	-	-	-	-	-	-	20,521
Subordinated bonds	406,079	-	-	-	-	-	-	-	406,079
Total Liabilities	18,402,273	610,496	-	-	25,712	-	56	44	19,038,581
On-balance sheet open position	1,668,237	(278,467)	39	215	9,782	3,195	24,042	2,846	1,429,889
Less: Islamic derivative financial assets	-	(3,453)	-	-	(44)	(1)	(607)	(45)	(4,150)
Add: Islamic derivative financial liabilities	3,889	1,468	-	-	173	-	56	44	5,630
Net open position	1,672,126	(280,452)	39	215	9,911	3,194	23,491	2,845	1,431,369

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

38. 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	Malaysian	United	Australian	Swiss	Euro	Great	Japan	Others	Total
2011	Ringgit	States	Dollar	Franc		Britain	Yen		
	RM'000	Dollar	Dollar	RM'000	RM'000	Pound	RM'000	RM'000	RM'000
		RM'000	RM'000			RM'000			RM'000
Assets									
Cash and short-term funds	6,132,185	41,215	380	178	2,766	391	20,548	2,290	6,199,953
Cash and placements with financial institutions	130,000	121,012	-	-	-	-	-	-	251,012
Financial investment held-to-maturity	28,585	-	-	-	-	-	-	-	28,585
Financial investment available-for-sale	4,312,296	58,691	-	-	-	-	-	-	4,370,987
Islamic derivative financial assets	-	2,687	-	14	1,441	216	819	-	5,177
Financing of customers	7,064,556	83,604	-	-	-	-	-	-	7,148,160
Other assets	69,829	871	-	-	-	-	-	-	70,700
Statutory deposits with Bank Negara									
Malaysia	94,121	-	-	-	-	-	-	-	94,121
Deferred tax assets	38,240	-	-	-	-	-	-	-	38,240
Investment in subsidiaries	-	-	-	-	-	-	-	-	-
Property, plant and equipment	101,521	-	-	-	-	-	-	-	101,521
Prepaid land lease payment	255	-	-	-	-	-	-	-	255
Total Assets	17,971,588	308,080	380	192	4,207	607	21,367	2,290	18,308,711
Liabilities									
Deposits from customers	15,911,077	305,096	-	-	-	-	-	-	16,216,173
Deposits and placements of banks and other financial institutions	14,993	-	-	-	-	-	-	-	14,993
Islamic derivative financial liabilities	158	2,032	-	14	1,441	198	143	-	3,986
Bills and acceptances payable	291,375	-	-	-	-	-	-	-	291,375
Other liabilities	164,398	-	-	-	-	-	-	-	164,398
Provision for taxation and zakat	5,228	-	-	-	-	-	-	-	5,228
Subordinated bonds	251,128	-	-	-	-	-	-	-	251,128
Total Liabilities	16,638,357	307,128	-	14	1,441	198	143	-	16,947,281
On-balance sheet open position	1,333,231	952	380	178	2,766	409	21,224	2,290	1,361,430
Less: Islamic derivative financial assets	-	(2,687)	-	(14)	(1,441)	(216)	(819)	-	(5,177)
Add: Islamic derivative financial liabilities	158	2,032	-	14	1,441	198	143	-	3,986
Net open position	1,333,389	297	380	178	2,766	391	20,548	2,290	1,360,239

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

38. 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 2012	Malaysian Ringgit RM'000	United States Dollar RM'000	Australian Dollar RM'000	Swiss Franc RM'000	Euro RM'000	Great Britain Pound RM'000	Japan Yen RM'000	Others RM'000	Total RM'000
Assets									
Cash and short-term funds	4,274,697	51,292	39	215	35,450	3,194	23,491	2,845	4,391,223
Cash and placements with financial institutions	-	110,333	-	-	-	-	-	-	110,333
Financial investment held-to-maturity	28,522	45,972	-	-	-	-	-	-	74,494
Financial investment available-for-sale	6,054,886	84,332	-	-	-	-	-	-	6,139,218
Islamic derivative financial assets	-	3,453	-	-	44	1	607	45	4,150
Financing of customers	9,015,827	34,978	-	-	-	-	-	-	9,050,805
Other assets	35,725	1,669	-	-	-	-	-	-	37,394
Statutory deposits with Bank Negara Malaysia	527,721	-	-	-	-	-	-	-	527,721
Deferred tax assets	52,353	-	-	-	-	-	-	-	52,353
Investment in subsidiaries	6,384	-	-	-	-	-	-	-	6,384
Property, plant and equipment	81,072	-	-	-	-	-	-	-	81,072
Prepaid land lease payment	251	-	-	-	-	-	-	-	251
Total Assets	20,077,439	332,029	39	215	35,494	3,195	24,098	2,890	20,475,398
Liabilities									
Deposits from customers	17,524,200	609,008	-	-	25,539	-	-	-	18,158,747
Deposits and placements of banks and other financial institutions	11,896	-	-	-	-	-	-	-	11,896
Islamic derivative financial liabilities	3,889	1,468	-	-	173	-	56	44	5,630
Bills and acceptances payable	310,324	-	-	-	-	-	-	-	310,324
Other liabilities	133,218	-	-	-	-	-	-	-	133,218
Provision for taxation and zakat	20,491	20	-	-	-	-	-	-	20,511
Subordinated bonds	406,079	-	-	-	-	-	-	-	406,079
Total Liabilities	18,410,097	610,496	-	-	25,712	-	56	44	19,046,405
On-balance sheet open position	1,667,342	(278,467)	39	215	9,782	3,195	24,042	2,846	1,428,993
Less: Islamic derivative financial assets	-	(3,453)	-	-	(44)	(1)	(607)	(45)	(4,150)
Add: Islamic derivative financial liabilities	3,889	1,468	-	-	173	-	56	44	5,630
Net open position	1,671,231	(280,452)	39	215	9,911	3,194	23,491	2,845	1,430,473

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

38. 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 2011	Malaysian Ringgit RM'000	United States Dollar RM'000	Australian Dollar RM'000	Swiss Franc RM'000	Euro RM'000	Great Britain Pound RM'000	Japan Yen RM'000	Others RM'000	Total RM'000
Assets									
Cash and short-term funds	6,132,185	41,215	380	178	2,766	391	20,548	2,290	6,199,953
Cash and placements with financial institutions	130,000	121,012	-	-	-	-	-	-	251,012
Financial investment held-to-maturity	28,585	-	-	-	-	-	-	-	28,585
Financial investment available-for-sale	4,301,496	58,691	-	-	-	-	-	-	4,360,187
Islamic derivative financial assets	-	2,687	-	14	1,441	216	819	-	5,177
Financing of customers	7,082,430	83,604	-	-	-	-	-	-	7,166,034
Other assets	62,774	871	-	-	-	-	-	-	63,645
Statutory deposits with Bank Negara Malaysia	94,121	-	-	-	-	-	-	-	94,121
Deferred tax assets	38,240	-	-	-	-	-	-	-	38,240
Investment in subsidiaries	6,484	-	-	-	-	-	-	-	6,484
Property, plant and equipment	101,516	-	-	-	-	-	-	-	101,516
Prepaid land lease payment	255	-	-	-	-	-	-	-	255
Total Assets	17,978,086	308,080	380	192	4,207	607	21,367	2,290	18,315,209
Liabilities									
Deposits from customers	15,917,694	305,096	-	-	-	-	-	-	16,222,790
Deposits and placements of banks and other financial institutions	14,993	-	-	-	-	-	-	-	14,993
Islamic derivative financial liabilities	158	2,032	-	14	1,441	198	143	-	3,986
Bills and acceptances payable	291,375	-	-	-	-	-	-	-	291,375
Other liabilities	164,422	-	-	-	-	-	-	-	164,422
Provision for taxation and zakat	5,228	-	-	-	-	-	-	-	5,228
Subordinated bonds	251,128	-	-	-	-	-	-	-	251,128
Total Liabilities	16,644,998	307,128	-	14	1,441	198	143	-	16,953,922
On-balance sheet open position	1,333,088	952	380	178	2,766	409	21,224	2,290	1,361,287
Less: Islamic derivative financial assets	-	(2,687)	-	(14)	(1,441)	(216)	(819)	-	(5,177)
Add: Islamic derivative financial liabilities	158	2,032	-	14	1,441	198	143	-	3,986
Net open position	1,333,246	297	380	178	2,766	391	20,548	2,290	1,360,096

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. Financial risk management objectives and policies (cont'd.)

(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 Deputy CEO, 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 2012 based on remaining contractual maturities.

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

38. 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 2012	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	3,252,625	1,138,598	-	-	-	-	4,391,223
Cash and placements with financial institutions	-	-	18,389	91,944	-	-	110,333
Financial investment held-to-maturity	-	298	-	27,649	-	46,547	74,494
Financial investment available-for-sale	-	350,778	175,528	481,282	404,557	4,731,873	6,144,018
Financing of customers	-	514,337	365,509	439,506	690,822	7,028,309	9,038,483
Islamic derivative financial assets	162	2,330	1,645	13	-	-	4,150
Other assets	-	-	-	-	96,724	609,044	705,768
TOTAL ASSETS	3,252,787	2,006,341	561,071	1,040,394	1,192,103	12,415,773	20,468,469
LIABILITIES AND EQUITY							
Deposits from customers	1,755,512	8,255,153	5,944,495	1,547,083	624,637	24,207	18,151,087
Deposits and placements of banks and other financial institutions	-	-	-	2,946	252	8,698	11,896
Islamic derivative financial liabilities	311	185	1,132	10	103	3,889	5,630
Other liabilities	-	385,918	-	-	77,971	406,079	869,968
Total Liabilities	1,755,823	8,641,256	5,945,627	1,550,039	702,963	442,873	19,038,581
Equity attributable to shareholders of the Bank	-	-	-	-	-	1,429,888	1,429,888
NET MATURITY MISMATCH	1,496,964	(6,634,915)	(5,384,556)	(509,645)	489,140	10,543,012	-

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

38. 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 2011	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	4,701,413	1,498,540	-	-	-	-	6,199,953
Cash and placements with financial institutions	-	-	190,506	60,506	-	-	251,012
Financial investment held-to-maturity	-	361	-	-	-	28,224	28,585
Financial investment available-for-sale	-	227,852	287,499	437,491	254,286	3,163,859	4,370,987
Financing of customers	-	773,147	661,746	383,617	516,622	4,813,028	7,148,160
Islamic derivative financial assets	3,122	1,689	366	-	-	-	5,177
Other assets	-	-	-	-	64,708	240,129	304,837
TOTAL ASSETS	4,704,535	2,501,589	1,140,117	881,614	835,616	8,245,240	18,308,711
LIABILITIES AND EQUITY							
Deposits from customers	1,865,816	6,886,507	5,654,500	1,315,137	467,131	27,082	16,216,173
Deposits and placements of banks and other financial institutions	-	-	-	300	500	14,193	14,993
Islamic derivative financial liabilities	3,031	309	149	339	-	158	3,986
Other liabilities	-	384,895	-	251,128	76,106	-	712,129
Total Liabilities	1,868,847	7,271,711	5,654,649	1,566,904	543,737	41,433	16,947,281
Equity attributable to shareholders of the Bank	-	-	-	-	-	1,361,430	1,361,430
NET MATURITY MISMATCH	2,835,688	(4,770,122)	(4,514,532)	(685,290)	291,879	6,842,377	-

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

38. 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 2012	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	3,252,625	1,138,598	-	-	-	-	4,391,223
Cash and placements with financial institutions	-	-	18,389	91,944	-	-	110,333
Financial investment held-to-maturity	-	298	-	27,649	-	46,547	74,494
Financial investment available-for-sale	-	350,778	175,528	481,282	399,757	4,731,873	6,139,218
Financing of customers	-	514,337	365,509	439,506	690,822	7,040,631	9,050,805
Islamic derivative financial assets	162	2,330	1,645	13	-	-	4,150
Other assets	-	-	-	-	89,747	615,428	705,175
TOTAL ASSETS	3,252,787	2,006,341	561,071	1,040,394	1,180,326	12,434,479	20,475,398
LIABILITIES AND EQUITY							
Deposits from customers	1,763,172	8,255,153	5,944,495	1,547,083	624,637	24,207	18,158,747
Deposits and placements of banks and other financial institutions	-	-	-	2,946	252	8,698	11,896
Islamic derivative financial liabilities	311	185	1,132	10	103	3,889	5,630
Other liabilities	-	386,105	-	-	77,948	406,079	870,132
Total Liabilities	1,763,483	8,641,443	5,945,627	1,550,039	702,940	442,873	19,046,405
Equity attributable to shareholders of the Bank	-	-	-	-	-	1,428,993	1,428,993
NET MATURITY MISMATCH	1,489,304	(6,635,102)	(5,384,556)	(509,645)	477,387	10,562,613	-

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

38. 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 2011	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	4,701,413	1,498,540	-	-	-	-	6,199,953
Cash and placements with financial institutions	-	-	190,506	60,506	-	-	251,012
Financial investment held-to-maturity	-	361	-	-	-	28,224	28,585
Financial investment available-for-sale	-	192,948	287,499	437,491	254,286	3,187,963	4,360,187
Financing of customers	-	773,146	661,746	383,617	516,622	4,830,903	7,166,034
Islamic derivative financial assets	3,122	1,689	366	-	-	-	5,177
Other assets	-	-	-	-	57,653	246,608	304,261
TOTAL ASSETS	4,704,535	2,466,684	1,140,117	881,614	828,561	8,293,698	18,315,209
LIABILITIES AND EQUITY							
Deposits from customers	1,872,433	6,886,507	5,654,500	1,315,137	467,131	27,082	16,222,790
Deposits and placements of banks and other financial institutions	-	-	-	300	500	14,193	14,993
Islamic derivative financial liabilities	3,031	309	149	339	-	158	3,986
Other liabilities	-	384,998	-	251,128	76,027	-	712,153
Total Liabilities	1,875,464	7,271,814	5,654,649	1,566,904	543,658	41,433	16,953,922
Equity attributable to shareholders of the Bank	-	-	-	-	-	1,361,287	1,361,287
NET MATURITY MISMATCH	2,829,071	(4,805,130)	(4,514,532)	(685,290)	284,903	6,890,978	-

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. 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 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	
2012							
By contractual maturity	1,755,512	8,255,153	5,944,495	1,547,083	624,637	24,207	18,151,087
By behavioural maturity	2,801,287	4,084,991	984,477	215,767	65,651	9,998,914	18,151,087
Difference	(1,045,775)	4,170,162	4,960,018	1,331,316	558,986	(9,974,707)	-
2011							
By contractual maturity	1,865,816	6,886,507	5,654,500	1,315,137	467,131	27,082	16,216,173
By behavioural maturity	1,761,183	1,618,132	1,452,317	141,860	395,721	10,846,960	16,216,173
Difference	104,633	5,268,375	4,202,183	1,173,277	71,410	(10,819,878)	-
Bank							
2012							
By contractual maturity	1,763,172	8,255,153	5,944,495	1,547,083	624,637	24,207	18,158,747
By behavioural maturity	2,808,947	4,084,991	984,477	215,767	65,651	9,998,914	18,158,747
Difference	(1,045,775)	4,170,162	4,960,018	1,331,316	558,986	(9,974,707)	-

6175-W

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. Financial risk management objectives and policies (cont'd.)

(c) Liquidity and funding risk (cont'd.)

Group	Deposits from customers						Total RM'000
	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	
Bank (cont'd.)							
2011							
By contractual maturity	1,872,433	6,886,507	5,654,500	1,315,137	467,131	27,082	16,222,790
By behavioural maturity	1,767,800	1,618,132	1,452,317	141,860	395,721	10,846,960	16,222,790
Difference	104,633	5,268,375	4,202,183	1,173,277	71,410	(10,819,878)	-

(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.

Within the "More than 1 year" maturity band as at 31 March 2012 and 31 March 2011 are financial liabilities of **RM406,079,000**, all of which relate to Non-Innovative Tier I Stapled Securities whereby the profit payments are computed up to the first optional redemption date.

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.

6175-W

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. Financial risk management objectives and policies (cont'd.)

(c) Liquidity and funding risk (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 Year RM'000	Total RM'000
2012							
Deposits from customers	1,755,512	8,255,153	5,944,495	1,547,083	624,637	24,207	18,151,087
Deposits and placements of banks and other financial institutions	-	-	-	2,946	252	8,698	11,896
Others	311	347,402	1,132	10	882	409,968	759,706
Total Liabilities	1,755,823	8,602,555	5,945,627	1,550,039	625,771	442,873	18,922,689
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
2011							
Deposits from customers	1,865,816	6,886,507	5,654,500	1,315,137	467,131	27,082	16,216,173
Deposits and placements of banks and other financial institutions	-	-	-	300	500	14,193	14,993
Others	3,031	341,536	149	251,467	598	158	596,939
Total Liabilities	1,868,847	7,228,043	5,654,649	1,566,904	468,229	41,433	16,828,104

6175-W

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. 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
2012							
Deposits from customers	1,763,172	8,255,153	5,944,495	1,547,083	624,637	24,207	18,158,747
Deposits and placements of banks and other financial institutions	-	-	-	2,946	252	8,698	11,896
Others	311	347,589	1,132	10	869	409,968	759,879
Total Liabilities	1,763,483	8,602,742	5,945,627	1,550,039	625,758	442,873	18,930,522
2011							
Deposits from customers	1,872,433	6,886,507	5,654,500	1,315,137	467,131	27,082	16,222,790
Deposits and placements of banks and other financial institutions	-	-	-	300	500	14,193	14,993
Others	3,031	341,512	149	251,467	598	158	596,915
Total Liabilities	1,875,464	7,228,019	5,654,649	1,566,904	468,229	41,433	16,834,698

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

38. 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 Division.

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.

39. Fair values of financial instruments

(a) Financial instruments measured at fair value

Determination of fair value and the fair value hierarchy

FRS 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.

For financial instruments measured at fair value, where available, quoted and observable market prices in an active market or dealer price quotations are used to measure fair value. These include listed equity securities and broker quotes from Bloomberg and Reuters.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

39. 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	Quoted Market Price Level 1 RM'000	Valuation technique using		Total RM'000
		Observable Inputs Level 2 RM'000	Unobservable Inputs Level 3 RM'000	
Financial assets				
Financial investments available-for-sale	48,023	6,074,973	21,022	6,144,018
Derivative financial assets	4,150	-	-	4,150
Total financial assets measured at fair value	52,173	6,074,973	21,022	6,148,168
Financial liabilities				
Derivative financial liabilities	1,741	3,889	-	5,630
Total financial liabilities measured at fair value	1,741	3,889	-	5,630

There were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the financial year.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

39. 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	Quoted Market Price Level 1 RM'000	Valuation technique using		Total RM'000
		Observable Inputs Level 2 RM'000	Unobservable Inputs Level 3 RM'000	
Financial assets				
Financial investments available-for-sale	48,023	6,074,973	16,222	6,139,218
Derivative financial assets	4,150	-	-	4,150
Total financial assets measured at fair value	<u>52,173</u>	<u>6,074,973</u>	<u>16,222</u>	<u>6,143,368</u>
Financial liabilities				
Derivative financial liabilities	1,741	3,889	-	5,630
Total financial liabilities measured at fair value	<u>1,741</u>	<u>3,889</u>	<u>-</u>	<u>5,630</u>

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy:

	Group Securities available- for-sale RM'000	Bank Securities available- for-sale RM'000
As at 1 April 2011	29,397	18,597
Gains or losses recognised in income statement	(8,901)	(2,901)
Gains or losses recognised in other comprehensive income	-	-
Purchases	526	526
Sales	-	-
Issues	-	-
Settlements	-	-
Transfer out of Level 3	-	-
As at 31 March 2012	<u>21,022</u>	<u>16,222</u>

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

39. Fair values of financial instruments (cont'd.)

(a) Financial instruments measured at fair value (cont'd.)

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy (cont'd.):

	Group Securities available- for-sale RM'000	Bank Securities available- for-sale RM'000
Total gains or losses recognised in income statement for financial instruments measured at fair value at the end of the financial year	(8,901)	(2,901)
Total gains or losses recognised in other comprehensive income for financial instruments measured at fair value at the end of the financial year	-	-

(b) Financial instruments measured not carried at fair value

Group	2012		2011	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Financial assets				
Cash and short-term funds	4,391,223	4,391,223	6,199,953	6,199,953
Cash and placements with financial institutions	110,333	110,333	251,012	251,012
Financial investment held-to-maturity	74,494	74,494	28,585	28,585
Financing of customers	9,038,483	9,940,929	7,148,160	8,338,198
Financial liabilities				
Deposits from customers	18,151,087	18,153,040	16,216,173	16,216,173
Deposits and placements of banks and other financial institutions	11,896	11,493	14,993	14,993
Bills and acceptances payable	310,324	310,324	291,375	291,375
Subordinated bonds	406,079	416,068	250,000	250,025

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

39. Fair values of financial instruments (cont'd.)

(b) Financial instruments measured not carried at fair value (cont'd.)

	2012		2011	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Bank				
Financial assets				
Cash and short-term funds	4,391,223	4,391,223	6,199,953	6,199,953
Cash and placements with financial institutions	110,333	110,333	251,012	251,012
Financial investment held-to-maturity	74,494	74,494	28,585	28,585
Financing of customers	9,050,805	9,959,250	7,166,034	8,356,072
Financial liabilities				
Deposits from customers	18,158,747	18,158,752	16,222,790	16,222,790
Deposits and placements of banks and other financial institutions	11,896	11,493	14,993	14,993
Bills and acceptances payable	310,324	310,324	291,375	291,375
Subordinated bonds	406,079	416,068	250,000	250,025

Fair value is the estimated amount at which a financial asset or liability can be exchanged between two parties under normal market conditions. However, for certain assets such as financing and deposits, fair values are not readily available as there is no open market where these instruments are traded. The fair values for these instruments are estimated based on the assumptions below. These methods are subjective in nature, therefore, the fair values presented may not be indicative of the actual realisable value.

Cash and short-term funds, statutory deposits with Bank Negara Malaysia, other assets, deposits and placements of banks and other financial institutions, bills and acceptances payable and other liabilities

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

39. Fair values of financial instruments (cont'd.)

(b) Financial instruments measured not carried at fair value (cont'd.)

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

The fair values of these financial instruments are estimated based on quoted or observable market prices. Where such quoted or observable market prices are not available, the fair values are estimated using pricing models or discounted cash flow techniques. Where the discounted cash flow technique is used, the expected future cash flows are discounted using market interest rates for similar instruments.

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 bonds

The fair values of subordinated obligations are estimated by discounting the expected future cash flows using the applicable prevailing interest rates for borrowings with similar risks profiles.

40. Capital and other commitments

Capital expenditure approved by directors but not provided for in the financial statements amounted to:

	Group and Bank	
	2012	2011
	RM'000	RM'000
Approved and contracted for	16,529	6,002
Approved but not contracted for	29,080	42,981
	45,609	48,983

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

41. Capital adequacy

- (a) The core capital ratios and risk-weighted capital ratios of the Group and the Bank are as follows:

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Computation of total risk-weighted assets ("RWA")				
Total credit RWA	8,854,238	7,948,103	8,840,877	7,934,560
Total market RWA	115,622	75,061	115,622	75,061
Total operational RWA	1,006,091	960,106	998,498	953,244
Total RWA	9,975,951	8,983,270	9,954,997	8,962,865
Computation of capital ratios				
<u>Tier-I capital</u>				
Paid-up ordinary share capital	1,000,000	1,000,000	1,000,000	1,000,000
Statutory reserve	315,385	272,893	313,788	271,603
Retained profits	170,589	128,097	171,290	129,105
Less: Deferred tax assets (net)	(52,353)	(38,240)	(52,353)	(38,240)
Total Tier-I Capital	1,433,621	1,362,750	1,432,725	1,362,468
<u>Tier-II capital</u>				
Subordinated bonds	406,079	250,000	406,079	250,000
Collective assessment	128,332	114,833	128,332	114,833
Total Tier-II Capital	534,411	364,833	534,411	364,833
Less: Investment in subsidiaries	-	-	(6,384)	(6,484)
Capital Base	1,968,032	1,727,583	1,960,752	1,720,817
Core capital	1,433,621	1,362,750	1,432,725	1,362,468
Capital base	1,968,032	1,727,583	1,960,752	1,720,817
Core capital ratios	14.4%	15.2%	14.4%	15.2%
Risk-weighted capital ratio	19.7%	19.2%	19.7%	19.2%

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

41. Capital adequacy (cont'd.)

The capital adequacy ratios of the Bank is computed in accordance with the Bank Negara Malaysia's Capital Adequacy Framework for Islamic Bank (CAFIB-Basel II). The Bank has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

* *Excluded collective assessment allowance on impaired financing restricted from Tier II capital by BNM of the Group and the Bank of RM100.8 million.(2011: RM111.9 million)*

Credit risk disclosure by risk weights of the Group as at 31 March, are as follows:

	Group			
	2012			2011
	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%	9,387,217	-	9,101,082	-
20%	2,238,923	447,785	1,883,668	376,734
35%	829,206	290,222	534,458	187,060
50%	931,978	465,989	1,041,868	520,934
75%	3,332,019	2,499,014	3,499,816	2,624,862
100%	4,989,859	4,989,859	4,136,883	4,136,883
150%	107,580	161,369	67,754	101,630
Risk weighted assets for credit risk	21,816,782	8,854,238	20,265,529	7,948,103
Risk weighted assets for market risk		115,622		75,061
Risk weighted assets for operational risk		1,006,091		960,106
Total risk weighted assets		9,975,951		8,983,270

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

41. Capital adequacy (cont'd.)

Credit risk disclosure by risk weights of the Bank as at 31 March, are as follows:

	Bank			
	2012			2011
	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%	9,387,217	-	9,101,082	-
20%	2,238,923	447,785	1,883,668	376,734
35%	829,206	290,222	534,458	187,060
50%	931,978	465,989	1,041,868	520,934
75%	3,332,019	2,499,014	3,499,816	2,624,862
100%	4,976,498	4,976,498	4,123,340	4,123,340
150%	107,580	161,369	67,754	101,630
Risk weighted assets for credit risk	21,803,421	8,840,877	20,251,986	7,934,560
Risk weighted assets for market risk		115,622		75,061
Risk weighted assets for operational risk		998,498		953,244
Total risk weighted assets		9,954,997		8,962,865

42. Capital management

The capital injection worth of RM400 million of Tier-2 capital in June 2011, had ensured that the Group and the Banks' RWCR remain competitive throughout the duration of the 5-year business plan.

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.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

42. Capital management (cont'd.)

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 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.

43. Segment information

(a) Business segments

The bank is organised into two major business segments:

- (i) Wholesale banking - this segment includes corporate banking, treasury and capital market and investment banking activities.
- (ii) Retail banking - this segment includes Small Medium Enterprise banking, commercial and retail banking.

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

43. 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 2012	Wholesale banking RM'000	Retail banking RM'000	Others RM'000	Total RM'000
Total income	<u>491,879</u>	<u>385,752</u>	<u>15,960</u>	<u>893,591</u>
Result				
Segment result	<u>127,639</u>	<u>110,180</u>	<u>(113,675)</u>	<u>124,144</u>
Zakat and taxation				<u>(39,160)</u>
Net profit for the financial year				<u>84,984</u>
Other information				
Segment assets	<u>9,514,653</u>	<u>6,153,549</u>	<u>-</u>	<u>15,668,202</u>
Unallocated corporate assets				<u>4,800,267</u>
Total assets				<u>20,468,469</u>
Segment liabilities	<u>8,899,931</u>	<u>9,251,156</u>	<u>-</u>	<u>18,151,087</u>
Unallocated corporate liabilities				<u>887,494</u>
Total liabilities				<u>19,038,581</u>
Other segment items				
Capital expenditure	<u>95</u>	<u>9,333</u>	<u>17,984</u>	<u>27,412</u>
Depreciation	<u>1,685</u>	<u>10,338</u>	<u>4,182</u>	<u>16,205</u>

**Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)**

43. Segment information (cont'd.)

(a) Business segments (cont'd.)

Group 2011	Wholesale banking RM'000	Retail banking RM'000	Others RM'000	Total RM'000
Total income	406,597	409,647	5,339	821,583
Result				
Segment result	157,430	99,621	(52,740)	204,311
Zakat and taxation				(70,734)
Net profit for the financial year				133,577
Other information				
Segment assets	6,842,657	5,337,344	-	12,180,001
Unallocated corporate assets				6,128,710
Total assets				18,308,711
Segment liabilities	7,165,843	9,031,131	-	16,196,974
Unallocated corporate liabilities				750,307
Total liabilities				16,947,281
Other segment items				
Capital expenditure	398	7,438	24,024	31,860
Depreciation	1,436	8,816	3,386	13,638

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

43. Segment information (cont'd.)

(a) Business segments (cont'd.)

Bank 2012	Wholesale banking RM'000	Retail banking RM'000	Others RM'000	Total RM'000
Total income	<u>491,879</u>	<u>385,752</u>	<u>15,269</u>	<u>892,900</u>
Result				
Segment result	<u>127,639</u>	<u>110,180</u>	<u>(114,331)</u>	<u>123,488</u>
Zakat and taxation				<u>(39,118)</u>
Net profit for the financial year				<u>84,370</u>
Other information				
Segment assets	<u>9,514,653</u>	<u>6,153,549</u>	<u>-</u>	<u>15,668,202</u>
Unallocated corporate assets				<u>4,807,196</u>
Total assets				<u>20,475,398</u>
Segment liabilities	<u>8,907,591</u>	<u>9,251,156</u>	<u>-</u>	<u>18,158,747</u>
Unallocated corporate liabilities				<u>887,658</u>
Total liabilities				<u>19,046,405</u>
Other segment items				
Capital expenditure	<u>95</u>	<u>9,333</u>	<u>17,984</u>	<u>27,412</u>
Depreciation	<u>1,685</u>	<u>10,338</u>	<u>4,177</u>	<u>16,200</u>

Bank Muamalat Malaysia Berhad
(Incorporated in Malaysia)

43. Segment information (cont'd.)

(a) Business segments (cont'd.)

Bank 2011	Wholesale banking RM'000	Retail banking RM'000	Others RM'000	Total RM'000
Total income	406,597	409,647	5,254	821,498
Result				
Segment result	157,430	99,621	(52,264)	204,787
Zakat and taxation				(70,773)
Net profit for the financial year				134,014
Other information				
Segment assets	6,842,657	5,337,344	-	12,180,001
Unallocated corporate assets				6,135,208
Total assets				18,315,209
Segment liabilities	7,147,258	9,031,131	-	16,178,389
Unallocated corporate liabilities				775,533
Total liabilities				16,953,922
Other segment items				
Capital expenditure	398	7,438	24,024	31,860
Depreciation	1,436	8,816	3,360	13,612

(b) Geographical segment

No segmental reporting in respect of geographical segment is presented as the Bank operates only in Malaysia.

44. Comparatives

Certain comparative figures have been reclassified to confirm to current year's presentation.