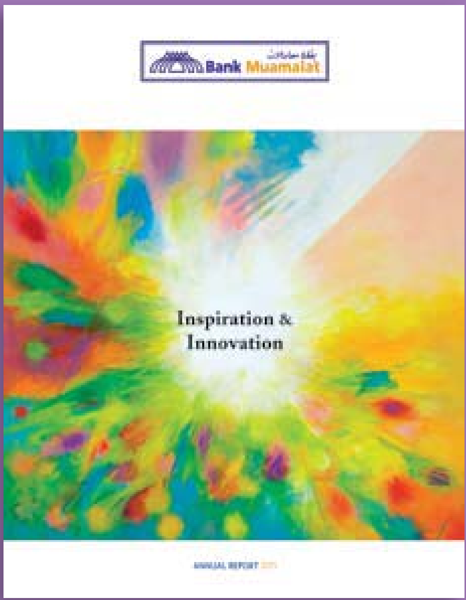
Bank Muamalat

بنك معاملات

Inspiration & Innovation

ANNUAL REPORT 2011



Art piece courtesy of : National Art Gallery (Malaysia)
Artist : Y. Bhg Datuk Syed Ahmad Jamal

INSPIRATION AND INNOVATION

Bank Muamalat is one of Malaysia's few fully-fledged Islamic banks, and appropriately the design of our annual report for 2011 is based around contemporary Islamic art. The artworks displayed on our cover and divider pages reflect the vibrancy and innovation that not only characterise the Islamic world today but underlie Islamic banking as practiced by Bank Muamalat.

OUR VISION

To become the preferred Islamic financial service provider.

OUR MISSION

To deliver best value to the stakeholders.

OUR VALUES

Care
Integrity
Innovative
Service Oriented
Respect

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

The dome is a basic design element of Islamic architecture. It is used to signify the place for prayers and for shelter. This represents the products and services that the Bank can offer to its customers. The five domes are representative of the 5 tenets of Islam and the 5 times Muslims are called to pray. The 5 points are also used in relation to the five principles of the Rukun Negara, giving a truly Malaysian objective to its existence. The linkage of the five domes with a single line signifies networking of the Bank and the relationship between Bank, customers and its external environment.

This networking and togetherness translates the very meaning of Muamalat itself, which is "relationship between mankind". An hourglass embedded in the centre within the logo design stands for time which is the essence of a Bank. Investments grow over time.

Two colours are used within the logo. Sultan blue, a royal colour is used to provide a feeling of strength and confidence. Orange is a warm and exiting colour. It gives light and signifies growth. The orange is used to signify the warmth of the Bank, which is in continuous growth, never static but always dynamic.

Contents

NIZAR KAMAL ARIFFIN Faces & Faces Al Wahid 2010
Acrylic on Canvas

Art piece courtesy of: National Art Gallery (Malaysia)

integrity

Without integrity, no business is sustainable.
If we act with total integrity in all
our business dealings, and commit
ourselves to always delivering the highest
quality, the rest will take care of itself.

Corporate Information

BOARD OF DIRECTORS

CHAIRMAN
Tan Sri Dato' Dr Mohd Munir Abdul Majid

MEMBERS
Dato' Sri Haji Mohd Khamil Jamil
Dato' Haji Mohd Redza Shah Abdul Wahid
Haji Ismail Ibrahim
Haji Mohd Izani Ghani
Haji Abdul Jabbar Abdul Majid
Tengku Dato' Seri Hasmuddin Tengku Othman
Dato' Azmi Abdullah

COMPANY SECRETARY
Nora Shikhen Ramli (LS 01587)

REGISTERED OFFICE
20th Floor, Menara Bumiputra
Jalan Melaka
50100 Kuala Lumpur

Tel : 603-2615 7069
Fax : 603-2693 3367

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

10 Years Financial Highlights (2001 - 2011) – Group (RM'000)

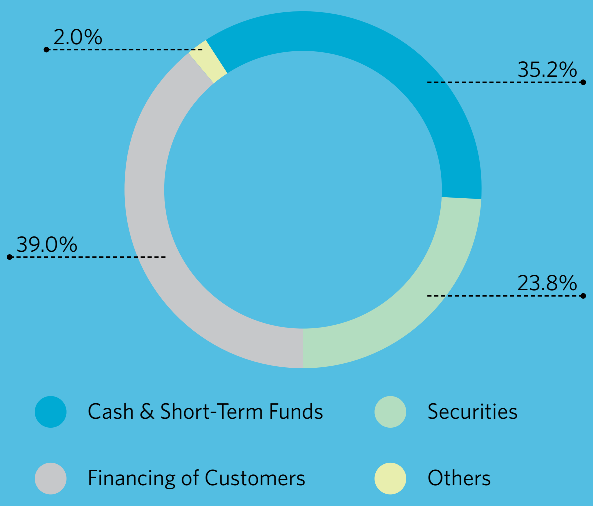
	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	JAN 2009 – MAR 2010 RM'000	2011 RM'000
Total Shareholders' Fund	329,051	349,434	353,020	507,564	523,683	713,126	737,331	702,236	1,319,131	**1,361,430**
Profit/(Loss) Before Tax	18,375	15,640	7,267	(26,819)	41,251	103,409	64,238	44,068	142,061	**204,311**
Profit/(Loss) After Tax	17,916	9,617	3,586	(28,720)	32,328	72,520	48,138	31,951	98,834	**133,577**
Total Assets	5,445,742	6,565,769	7,315,942	8,070,831	10,269,647	13,450,636	13,808,090	14,398,645	16,733,420	**18,305,742**
Total Deposits	4,965,251	6,029,351	6,846,533	7,455,010	9,373,971	12,178,691	12,172,868	12,447,970	14,920,856	**16,171,772**
Total Financing	2,091,802	2,312,405	2,272,526	2,887,415	4,154,021	5,373,343	5,870,585	6,427,747	7,037,126	**7,483,393**
No. of Branches	40	40	40	41	42	43	48	48	49	**51**
No. of Service Centres	–	–	7	7	6	6	3	5	6	**4**
No. of Offshore Branches/Labuan	1	1	1	1	1	1	1	1	1	**1**
No. of Staff	1,154	1,174	1,244	1,241	1,145	1,380	1,454	1,419	1,584	**1,763**
ROA - PBT	0.35	0.26	0.10	(0.35)	0.45	0.87	0.47	0.31	0.73	**1.17**
ROE - PBT	5.7	4.6	2.1	(6.2)	8.0	16.7	8.9	6.1	11.24	**15.24**


MEDIA HIGHLIGHTS
Jangka salurkan pinjaman RM1b
Bank Muamalat aims to grow financing assets by 15pct
Bank Muamalat catat untung pra cukai RM44.8j
Bank Muamalat sedia bantu wanita jaga parkir
'Sedia RM400 pun tak mampu'
Bank Muamala
Columbia A
Bank Muamalat expects to grow total financing assets
Bank Muamalat cadang buka 60 cawangan bar
Empat cawangan akan dibuka babitkan pelaburan RM4 juta
TUAN BUGHAIRAH TUAN MUHAMAD ADNAN
PERKHIDMATAN perbankan Islam, Bank Muamalat Malaysia Berhad (Bank Muamalat) merancang meluaskan sayap niaganya dengan membuka 60 cawangan menjelang akhir tahun ini.

untung RM44.8 juta
FAKTA NOMBOR
Islamic financing market share to exceed its target
By Ghaz Ghazali
KUCHING: The market share for Islamic financing in the country's financial services sector is poised to surpass the 20 per cent target set for this year.
As at December 31 last year, total assets for Islamic banking sector reached RM303.3 billion, accounting for 19.2 per cent from the total banking market share.
Despite the economic challenges globally, the Malaysian financial system is expected to continue witnessing sustained growth.
In his remarks, Awang Tengah agreed that the sector had remained resilient throughout the recent challenges seen in the global economic scenario.
Asia, Bank Muamalat tie up
READY FOR TAKE OFF: Kahar (centre) with the other signatories at the signing ceremony
amalat sedia bantu wanita jaga parkir
'Sedia RM400 pun tak mampu'
Bank Muamalat sees financing business growth
By DALJIT DHESI
The key driver for Bank Muamalat will be consumer financing
Untung sebelum cukai Bank Muamalat naik 117 peratus
Bank Muamalat posts RM45m pre-tax profit in Jan-June

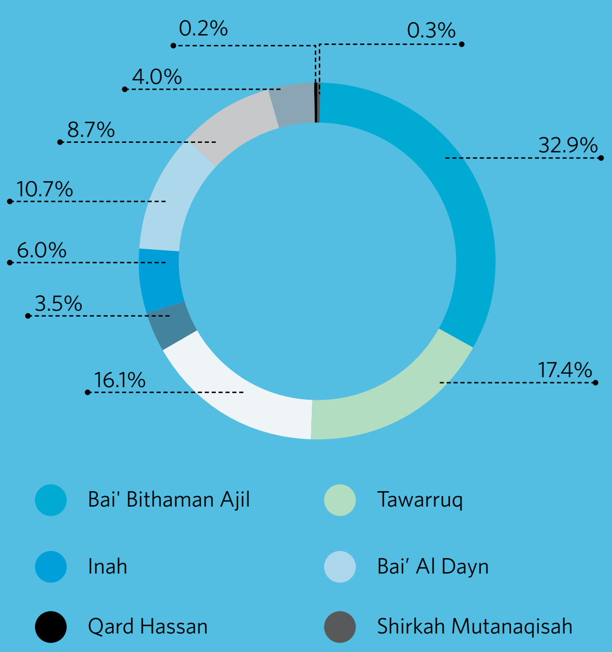
Asset Quality

TOTAL ASSETS



Total assets of BMMB rose by RM1.6 billion or 9.5% from RM16.7 billion as at 31 March 2010 to RM18.3 billion as at 31 March 2011. This was mainly due to an increase in cash and short-term funds amounting to RM0.6 billion and financing to customers amounting to RM0.5 billion. BMMB's total assets as at 31 March 2011 mainly consist of financing to customers (39.0%), cash and short-term funds (35.2%) and securities (23.8%).

FINANCING BY CONTRACT



By Islamic financing contracts, Bai' Bithaman Ajil (32.9% deferred payment sale), Tawarruq (17.4%, commodity murabahah) and Ijarah Thumma Al-Bai (16.1%, lease ending with purchase) are main concepts in its portfolio.

COMPONENTS	2006 RM MILLION	2007 RM MILLION	2008 RM MILLION	2010 RM MILLION	2011 RM MILLION
Assets					
– Gross Financing	5,373.3	5,870.6	6,427.7	7,037.1	**7,483.4**
– Investment in Securities	2,850.9	3,333.2	2,901.9	4,041.0	**4,360.1**
– Cash and Short-Term Funds	4,995.8	4,466.2	5,067.3	5,775.4	**6,447.3**
Gross NPF*	354.5	506.2	592.2	513.8	**378.3**
			%		
Gross NPF Ratio	6.6%	8.1%	8.7%	6.9%	**4.8%**
Industry Average	7.4%	5.6%	4.1%	3.6%	**3.3%**
Financing Loss Reserve	63.5%	56.4%	67.6%	79.7%	**89.0%**
Industry Average*	64.8%	69.5%	76.5%	75.0%	**90.8%**

** Bank Negara Malaysia's February 2011 Monthly Statistical Bulletin*

From 2006 to 2011, BMMB's gross non-performing ratio peaked in 2008 at 8.7% and thereafter was on a downward trend to 4.8% as at 31 March 2011. This was due to the introduction of better credit risk management practices and aggressive recoveries.

Increasing trend of the financing loss reserve ratio is in line with the increasing trend of consumer financing and implementation of FRS 139, where full provisioning is done upon impairment instead of staggered provisioning under the old GP3.

IMPAIRMENT OF FINANCING

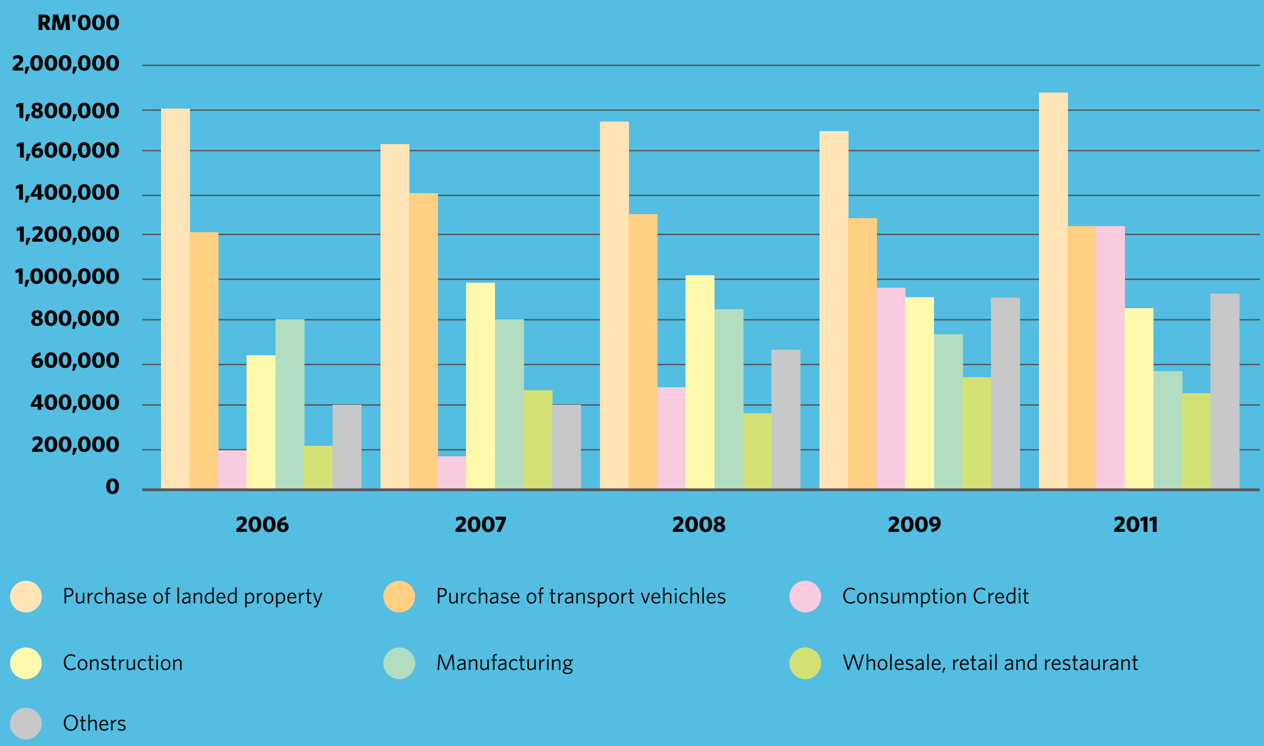
Upon the introduction of FRS 139 beginning 1 January 2010, BMMB has adopted Bank Negara Malaysia's transitional revised GP3 option for financial year 31 March 2011. BMMB will move towards full FRS 139 adoption, come 1 April 2012.
Current provisioning under the Revised GP3 regime is as follows:

- **Individual Assessment**
  For business financing above RM500,000, individual assessment is performed where financing is impaired and impairment loss is deemed to be incurred if, and only if, there is objective evidence that loss event(s) has occurred. The amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective profit rate.

- **Collective Assessment**
  Collective assessment in BMMB under Revised GP3 has four elements namely:
  - **Collective Provisioning 1**
    Profit-in-Suspense
  - **Collective Provisioning 2**
    Full provisioning of accounts (unsecured portion) not under individual assessment where months in areas are greater than 3
  - **Collective Provisioning 3**
    General provision of 1.5% for outstanding financing balance, net of individual impairment provisions and collective provisioning 1, 2 and 4
  - **Collective Provisioning 4**
    Restructured and Rescheduled accounts

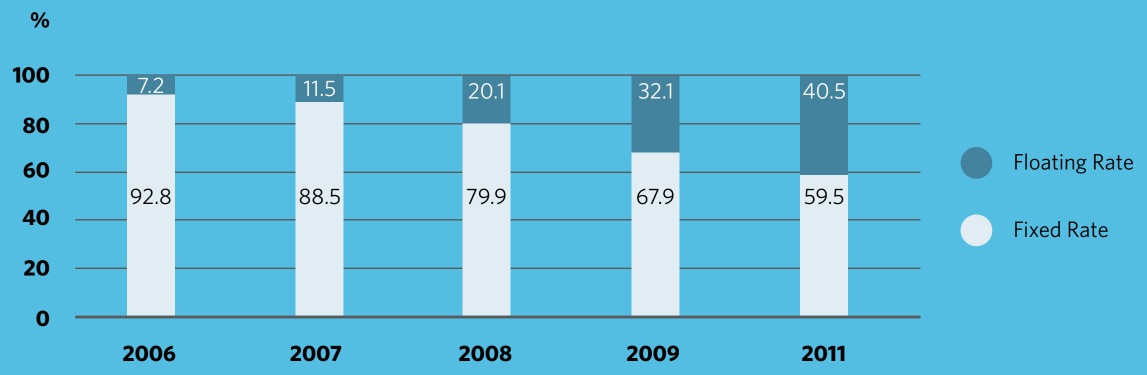
Asset Quality

DIRECTION OF FINANCING



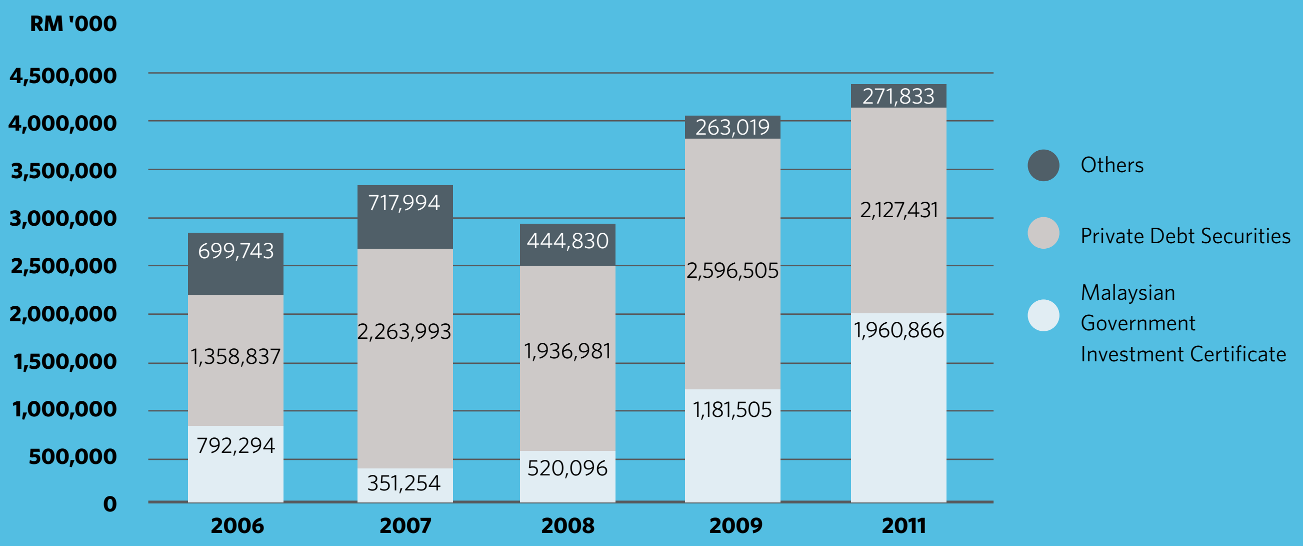
BMMB's main composition of financing as at 31 March 2011 was purchase of landed property (25.5%), purchase of transport vehicles (16.1%) and consumption credit (17.6%). Relative to last financial period, gross financing increased by RM446.3 million or 6.3%. Segments recording significant increase during the financial year include electricity, gas and water (RM78.0 million or 116.9%), purchase of landed property (RM200.9 million or 11.8%), consumption credit (RM363.2 million or 38.1%), community, social and personal service (RM96.1 million or 29.8%) and wholesale, retail and restaurant (RM63.7 million or 11.8%),. During the five year period from 2006 to 2011, main sources of increase in financing would be from consumption credit (RM1.1 billion) and community, social and personal service (RM0.4 billion). Adversely, substantial decrease was recorded for manufacturing amounting to RM0.1 billion, reflecting the emerging trend towards consumer financing.

FIXED AND FLOATING FINANCING



As at 31 March 2011, fixed rate financing is the major portion of BMMB's total financing at 59.5%. These are predominantly structured under Bai' Bithaman Ajil, Ijarah Thumma Al-Bai and Murabahah contracts, which together predominantly consist of 57.7% of BMMB's portfolio. The fixed rate nature of such financing gives rise to re-pricing gap risk and in order to mitigate this, BMMB will increase its current and savings account ("CASA") deposits, have high level of capital holdings and rebalance its portfolio of fixed and floating financing. As a result of BMMB's increasing efforts to rebalance its portfolio from fixed rate to floating rate, the composition of fixed to floating rate has changed from 93:7 to 60:40 from 2006 to 2011. This will make BMMB more resilient in facing any future upward movement in rates.

SECURITIES

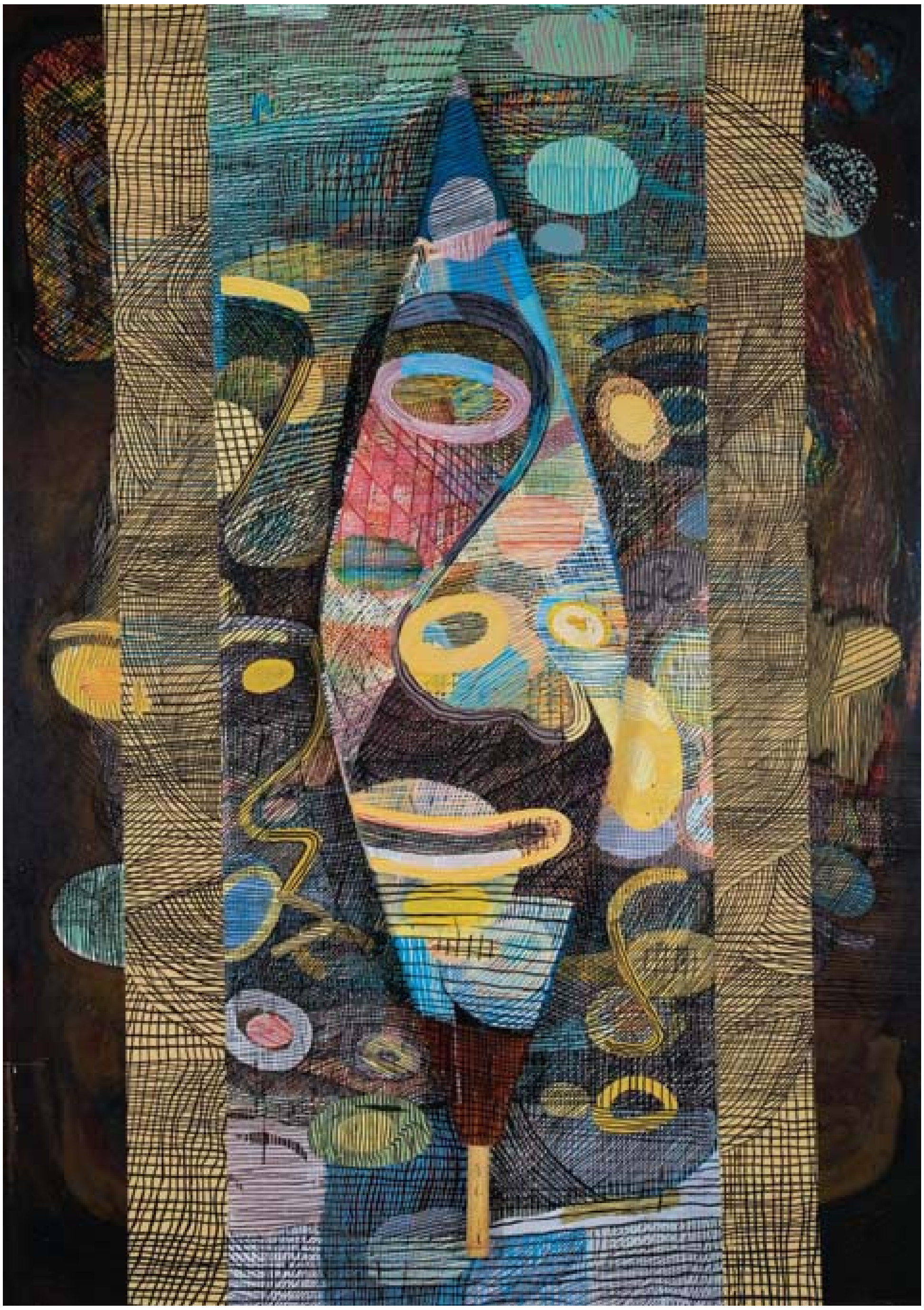


BMMB has been reducing its holdings of Private Debt Securities (PDS) in place of Malaysian Government Investment Certificate as a consequence of an increasing rate environment. Proportion of PDS holdings has reduced from 64.2% to 48.7% from 2010 to 2011. This will help reduce exposure to credit defaults and price movements due to changes in rates. Out of BMMB's holding of RM2.3 billion of non-money market debt securities held as at end March 2011, 63.8% comprised of AAA and AA papers, followed by A (16.4%), BBB (7.8%) and unrated (11.3%).

PROVISIONING

BMMB's provisioning and classification of securities is in line with FRS 139.

ZAINON ABDULLAH Mohon Petunjuk 2010
Acrylic on Canvas



Art piece courtesy of: National Art Gallery (Malaysia)

care

Without a sense of caring,
there can be no sense of community.
Caring for our stakeholders is
both our reason for existing and
our most basic responsibility.

Board of Directors

STANDING FROM LEFT TO RIGHT

TENGKU DATO' SERI HASMUDDIN TENGKU OTHMAN
DATO' HAJI MOHD REDZA SHAH ABDUL WAHID
DATO' AZMI ABDULLAH
HAJI ABDUL JABBAR ABDUL MAJID
HAJI ISMAIL IBRAHIM

SITTING FROM LEFT TO RIGHT

HAJI MOHD IZANI GHANI
TAN SRI DATO' DR MOHD MUNIR ABDUL MAJID
DATO' SRI HAJI MOHD KHAMIL JAMIL

Profile of Board of Directors

TAN SRI DATO' DR MOHD MUNIR ABDUL MAJID
CHAIRMAN

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

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

Dr Munir joined the New Straits Times Press (NST) at the end of 1978 as leader writer and progressed to become Group Editor. During his time at the NST, he published numerous articles on national and international politics, and economics. He left NST in 1986 to become CEO of a small merchant bank, Pertanian Baring Sanwa (PBS), whose name he changed to Commerce International Merchant Bankers (CIMB) which was then transformed into one of Malaysia's leading merchant banks. He was invited by the Government of Malaysia to establish and become the first and founding Executive Chairman of the Securities Commission in 1993, where he served for two terms until 1999. In 1997, he received the Cranfield Management Excellence award. After leaving the Securities Commission, he served as Senior Independent Non-Executive Director of Telekom Malaysia Berhad for 4 years until June 2004, and was Chairman of its mobile subsidiary Celcom (M) Berhad from 2002-2004.

In June 2004, Dr Munir joined the Malaysian Airline System Berhad Board of Directors and later in August 2004 was appointed its Non-Executive Chairman.

He has served on various governmental boards and committees, such as Malaysian Industrial Development Authority (MIDA), Kuala Lumpur Stock Exchange (KLSE, now Bursa Malaysia), Foreign Investment Committee (FIC), as well as various private sector companies and organizations such as Kuala Lumpur Options and Financial Futures Exchange (KLOFFE), Council of the Association of Merchant Banks Malaysia (AMBM), Malaysian International Chamber of Commerce and Industry (MICCI).

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

In December 2005, he was made an Honorary Fellow of the London School of Economics and Political Science. Dr. Munir is President of the LSE Alumni Society of Malaysia. In 2008 he was made a Senior Visiting Fellow at LSE IDEAS (Centre for the Study of International Affairs, Diplomacy and Strategy) where he heads the Southeast Asia International Affairs Programme. Dr Munir is Adjunct Professor of Universiti Utara Malaysia (UUM).

Dr Munir is also a member Board of Trustees of PINTAR Foundation (a body designed to oversee voluntary educational activities in schools by government-linked companies) and Malaysia-Europe Forum. He is a member of the International Institute for Strategic Studies (IISS) in London. He conceived a TV programme, Fast Forward, on Radio Television Malaysia (RTM)1, which he has hosted.

Born in Penang in 1948, Dr Munir received his early education at St Mark's Primary School in Butterworth and the Bukit Mertajam High School. He received his upper secondary education at the Royal Military College in Sungei Besi near Kuala Lumpur where he was awarded the Commandant's Prize for being the best all-round student in 1967. He left for London the next year.

DATO' SRI HAJI MOHD KHAMIL JAMIL
NON-EXECUTIVE NON-INDEPENDENT DIRECTOR

Dato' Sri Haji Mohd Khamil Jamil was appointed as a Non-Executive Non-Independent Director, nominated by DRB-HICOM Berhad on 27 May 2008. He holds a Bachelor of Laws (Honours) Degree from University of London and is a Barrister-at-Law from Gray's Inn, England and was called to the English Bar in 1983. He is a member of the Nomination, Remuneration and Veto Committees.

Dato' Sri Haji Mohd Khamil had his first executive career with Bank Bumiputra Malaysia Berhad from August 1980 until December 1989. He was called to the Malaysian Bar in September 1990 and was a practicing partner of several legal firms before venturing into business in 2001.

Dato' Sri Haji Mohd Khamil also sits on the boards of DRB-HICOM Berhad Group, Edaran Otomobil Nasional Berhad Group and several private limited companies.

Profile of Board of Directors

DATO' HAJI MOHD REDZA SHAH ABDUL WAHID
DIRECTOR/CHIEF EXECUTIVE OFFICER

Dato' Haji Mohd Redza Shah Abdul Wahid was appointed as Director/ Chief Executive Officer of Bank Muamalat Malaysia Berhad on 1 November 2008.

Prior to joining Bank Muamalat Malaysia Berhad, he was the Executive Director and Group Chief Operating Officer of DRB-HICOM since 1 March 2006. He holds a Bachelor of Science in Economics in Industry and Trade (Honours) from London School of Economics, University of London. He, also holds a Master of Science Economics in International Banking and Finance from University of Wales, Cardiff. He is an Associate Chartered Accountant (ACA), member of the Institute of Chartered Accountants in England and Wales (ICAEW), member of Accounting Board (AAOIFI) and FSTEP Steering Committee.

He also sits on the Boards of Malaysian Electronic Payment System Sdn Bhd (MEPS) and Bank Muamalat Malaysia Berhad's subsidiaries. Dato' Haji Mohd Redza Shah was appointed the President of Association of Islamic Banking Institutions Malaysia (AIBIM) since 12 December 2010.

Prior to joining DRB-HICOM, he was the Group Chief Executive Officer of Tradewinds Corporation Berhad from 2002 to November 2005 and Acting Chief Executive Officer of Tradewinds (M) Berhad from 2004 to 2005. He has also served at several other companies such as Silterra Malaysia Sdn. Bhd., Khazanah Nasional Berhad, Arab Malaysia Corporation Berhad and Touche Ross & Co., London.

HAJI ISMAIL IBRAHIM
NON-EXECUTIVE NON-INDEPENDENT DIRECTOR,

Haji Ismail Ibrahim was appointed as a Non-Executive Non-Independent Director nominated by Khazanah Nasional Berhad on 23 March 2001. He is also a member of the Board Audit, Remuneration and Veto Committees.

He holds a Degree in Accounting from Universiti Kebangsaan Malaysia and a member of the Malaysian Institute of Accountants. He is currently the Vice President of Khazanah Nasional Berhad. He joined Khazanah Nasional Berhad as Accountant/Finance Manager in 1995. He started his career in 1985 with the Accountant General's Department during which he served as Treasury Accountant in the Investment and Loan Division until 1991 and subsequently, he was appointed as Assistant Director in the Funds Management Division until 1995.

Profile of Board of Directors

HAJI MOHD IZANI GHANI
NON-EXECUTIVE NON-INDEPENDENT DIRECTOR

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

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

He is currently the Director/Chief Financial Officer of Khazanah Nasional Berhad. He joined Khazanah in March 2005, initially handling funding and treasury operations. On funding front, he was deeply involved in the issuance of the world's first exchangeable sukuk for USD750 million in 2006, followed by other landmark exchangeable sukuks in 2007 and 2008. In relation to RM funding, he was instrumental in the setting up of various sukuk programmes.

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

He is currently a director in the special purpose companies, which are wholly owned by Khazanah Nasional Berhad i.e. Rantau Abang Capital Berhad, Feringghi Capital Ltd, Klebang Capital Ltd, Lido Capital Ltd and Cenang Capital Ltd. He is also a director of Malaysia Airports Holdings Berhad.

HAJI ABDUL JABBAR ABDUL MAJID
NON-EXECUTIVE INDEPENDENT DIRECTOR

Haji Abdul Jabbar Abdul Majid was appointed as a Non-Executive Independent Director of Bank Muamalat Malaysia Berhad since 13 October 2004. He is a Fellow Member of the Institute of Chartered Accountants, Australia, as well as a member of the Malaysian Institute of Accountants. He is also a member of the Executive Council of the Malaysian Institute of Certified Public Accountants ("MICPA").

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

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

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

He also sits on the Boards of Tradewinds Corporation Berhad and Opcom Holdings Berhad.

Profile of Board of Directors

TENGKU DATO' SERI HASMUDDIN TENGKU OTHMAN
NON-EXECUTIVE INDEPENDENT DIRECTOR

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

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

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

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

He is also a member of Task Force on Islamic Finance for Labuan IOFC, Member of Jawatankuasa Pemantauan dan Pengawasan Syarikat Jaminan Pembiayaan Perniagaan Berhad and Investment Committee Member of Amanahraya-Reit.

DATO' AZMI ABDULLAH
NON-EXECUTIVE INDEPENDENT DIRECTOR

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

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

Dato' Azmi graduated with a B.A. (Hons) Degree in Economics from Universiti Kebangsaan Malaysia (UKM) in 1974. He is presently a Director of Universiti Kebangsaan Malaysia and a Council Member of Hospital UKM, Malaysia, the Tax Review Panel Ministry of Finance and a member of Investment Committee of Amanah Raya Berhad.

Shariah Committee

FROM LEFT TO RIGHT

ASSOCIATE PROFESSOR DR. MOHAMAD SABRI HARON
MEMBER OF SHARIAH COMMITTEE

YM ENGKU AHMAD FADZIL ENGKU ALI
ALTERNATE CHAIRMAN/MEMBER OF SHARIAH COMMITTEE

DATO' HJ. MD SALEH HAJI MD @ AHMAD
MEMBER OF SHARIAH COMMITTEE

TN HAJI AZIZI CHE SEMAN
CHAIRMAN OF SHARIAH COMMITTEE

DR. ZULKIFLI MOHAMAD AL-BAKRI
MEMBER OF SHARIAH COMMITTEE

DR. AB. HALIM MUHAMMAD
MEMBER OF SHARIAH COMMITTEE

Profile of Shariah Committee

HAJI AZIZI CHE SEMAN
Haji Azizi Che Seman is currently a lecturer at the Islamic Studies Academy, University of Malaya, a position he has held since 2002. He has been with Bank Muamalat Malaysia Berhad since 1 April 2005. Until now, he is entrusted to be the Chairman for Bank Muamalat Malaysia Berhad's Shariah Committee. In terms of qualification, he is now pursuing his studies in the field of Sukuk (Bond), he holds a Master Degree in Economics from International Islamic University of Malaysia in 2001 and a Bachelor of Islamic Studies from University Malaya in 1996. His specialization areas are in Islamic Capital Market, Islamic Economics, Fiqh Muamalat and Research Methodology.

DATO' HAJI MD SALEH HAJI MD @ AHMAD
Dato' Haji Md Saleh Haji Md @ Ahmad has been engaged as a Shariah Committee of Bank Muamalat Malaysia Berhad since 2002. He obtained a Bachelor Degree in Shariah from Yayasan Pengajian Tinggi Islam Kelantan in 1974 and the same degree from University of al-Azhar, Cairo. Currently, he is designated as a Senior Academic Fellow in Ahmad Ibrahim Kuliyyah of Laws, International Islamic University of Malaysia. Prior to that, he has served as a lecturer at University of Malaya from 1981-2004. Other than Bank Muamalat Malaysia Berhad, he is also involved as a committee member of Perak Islamic Affairs Council, Islamic Religious Council of Penang, Shariah Research Panel of Jabatan Kemajuan Islam Malaysia and several other councils.

ASSOC. PROF. DR. MOHAMAD SABRI HARON
Assoc. Prof. Dr. Mohamad Sabri Haron is a lecturer at the Centre of General Studies, National University of Malaysia. He is also an Associate Senior Fellow at Institute of West Asian Studies. He obtained a Diploma in Islamic Studies from Kolej Sultan Zainal Abidin in 1985 and Bachelor of Islamic Studies (al-Quran and al-Sunnah) from National University of Malaysia in 1988. He has completed his Master of Comparative Law at International Islamic University of Malaysia in 1993. He succeeded in obtaining his Ph.D. in Islamic Law (Fiqh and Usul Fiqh) in 1998 from University of Jordan. He has been with Bank Muamalat Malaysia Berhad since December 2003. His specialization areas are in Islamic Economics and Islamic Civilization. He also has been seconded to the Securities Commission as the senior manager in Islamic Capital market starting from 1 June 2009 until 31 May 2010.

ENGKU AHMAD FADZIL ENGKU ALI
Engku Ahmad Fadzil Engku Ali has obtained his early education at Malay College Kuala Kangsar until 1986. He has furthered his study in a Bachelor Degree in Laws (Second Class Honors Upper) from International Islamic University of Malaysia and graduated in 1993. In the subsequent year, he graduated from the same university with a Bachelor Degree in Shariah Law with First Class Honors. He was called to the bar, admitted and enrolled as an Advocate and Solicitor of the High Court of Malaya in 1995. He then pursued his studies at Jordan University and in the year 2000, he successfully obtained a Masters Degree in Islamic Judiciary. Since then, he served as a lecturer at International Islamic University of Malaysia. Some of the subjects that he teaches are Islamic Law of Successions, Islamic Jurisprudence and Islamic Criminal Laws. He has been a member of Bank Muamalat Malaysia Berhad's Shariah Committee since 2005.

DR. AB. HALIM MUHAMMAD
Dr. Ab. Halim Muhammad graduated in 1972 with a Bachelor's Degree of Shari'ah from al-Azhar University, Cairo Egypt and completed his study in Ph. D. of Shariah at St. Andrew, Scotland University in 1977. Since then, he served as a lecturer and become Head of Department of Quran & Sunnah, Faculty of Islamic Studies Universiti Kebangsaan Malaysia. Some of the subjects that he teaches are Islamic Jurisprudence (Muamalat, Islamic Banking & Islamic Finance and Takaful), Principles of Islamic Jurisprudence and Islamic Criminal Laws. However, he has retired as lecturer now. He used to be the first Chairman of Shariah Committee of Bank Muamalat Malaysia Berhad prior to joining National Shariah Advisory Council of Bank Negara Malaysia in 2004. Currently, he is also a member of Shariah Committee of Security Commission. He has been re-appointed as a member of Bank Muamalat Malaysia Berhad's Shariah Committee since 30 November 2009.

DR. ZULKIFLI MOHAMAD AL-BAKRI
Dr. Zulkifli Mohamad Al-Bakri is a prominent scholar in our country. He has obtained his early education at Sek. Men. Agama (Atas) Sultan Zainal Abidin, Terengganu and has furthered his study in a Bachelor's Degree at Universiti Islam Madinah, Arab Saudi prior to enter Universiti Ilmu-Ilmu Islam Dan Arab, Syria to finish his Master. He succeeded in obtaining his Ph.D. in USM, Pulau Pinang in 2004. He has served as a Lecturer in Universiti Sains Islam Malaysia from 2006-2009. He is now focusing more on writing and has wrote many books in Fatwa, Islamic Law and Islamic Jurisprudence. He has a vast experience in Islamic Banking as he was formerly Chairman of Shariah Committee of Bank Pertanian Malaysia prior to joining Bank Muamalat Malaysia Berhad effectively on 1 April 2011. He is also an expert and capable in providing fatwa, as he served as a member of Fatwa's Committee for state of Negeri Sembilan and the Chairman for Shariah Committee in World Fatwa Management and Research Institute (INFAD) at USIM.

Shariah Committee

TERMS OF REFERENCE OF SHARIAH COMMITTEE

Bank Muamalat Malaysia Berhad's ("Bank Muamalat") business activities are subject to the Shariah compliance and conformation by the Shariah Committee consisting of five members appointed by the Board of Directors ("the Board") for a two (2) year term. The duties and responsibilities of the Shariah Committee are governed by the Shariah Governance Framework for Islamic Financial Institution issued by the Bank Negara Malaysia ("BNM").

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

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

2 **Endorse Shariah policies and procedures**
The Shariah Committee is expected to endorse Shariah policies and procedures prepared by Bank Muamalat and to ensure that the contents do not contain any elements which are not in compliant with Shariah.

3 **Endorse and validate relevant documentations**
To ensure that the products of Bank Muamalat comply with Shariah principles, the Shariah Committee must approve:

i The terms and conditions contained in the forms, contracts, agreements or other legal documentations used in executing the transactions; and
ii The product manual, marketing advertisements, sales illustrations and brochures used to describe the product.

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

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

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

7 **Provide Written Shariah Opinions**
The Shariah Committee is required to provide written Shariah opinions in circumstances where Bank Muamalat makes reference to the SAC for further deliberation, or where Bank Muamalat submits applications to BNM for new product approval.

8 Provide Bank Muamalat with guidelines and advice on religious matters to ensure that Bank Muamalat's overall activities are in line with Shariah.

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

10 Report to the shareholders and the depositors that all Bank Muamalat's activities are in accordance with Shariah.

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

12 Scrutinize and endorse the annual financial report of the Bank.

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

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

15 The Shariah Committee shall maintain the confidentiality of Bank Muamalat'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 Bank Muamalat or required by law.

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

Most of the issues submitted to the Shariah Committee for deliberation are resolved via meetings. For the 2010, 24 series of meetings were held. The details of their attendance are as follows:

SHARIAH COMMITTEE MEMBERS	ATTENDANCE
Haji Azizi Che Seman (Chairman)	24/24
Dato' Haji Md Saleh Haji Md @ Ahmad	14/24
Assoc. Prof. Dr. Mohamad Sabri Haron	24/24
Engku Ahmad Fadzil Engku Ali	24/24
Dr Ab Halim Muhammad	18/24

Chairman of Shariah Committee's Statement

PRAISE BE TO ALLAH AND BLESSINGS AND PEACE BE UPON THE PROPHET.

Bank Muamalat Malaysia Berhad ("Bank Muamalat")'s consciousness on the importance of shariah took a significant step with the attempt to move forward further to position Bank Muamalat as one of the top leading Shariah compliant bank's. This strategic initiative exemplifies Bank Muamalat's deep concern and seriousness on shariah compliance as to be the true Shariah bank that promotes and upholds the role of Islamic banking and finance in the industry at large as per emphasized in the Shariah Governance Framework (SGF) for Islamic Financial Institution (IFI) issued by Bank Negara Malaysia ("BNM").

We would like to record our sincerest congratulations to the Board of Directors ("the Board") and the management for showing genuine concern and strong passion to ensure not only the productivity and profitability of Bank Muamalat but also that the shariah's dictates and requirements are, in so performing, properly observed and adhered to.

As the Shariah Committee of Bank Muamalat, we give and contribute our utmost dedication to quality and demonstrate our commitment to achieve the above-mentioned objective in terms of products, process, documentations and other related matters.

Indeed, we are very thankful and proud with such cooperation received from the management especially and from the relevant staffs generally, in providing the committee with the adequate information and materials in ensuring that our deliberation on each and every issue would be resolved correctly and accordingly.

Consequently, it is highly hoped and reasonably anticipated that Bank Muamalat becomes profitably successful in business while upholding the Shariah implementation and application in the Islamic Banking and Finance Institution without undermining the never-ending quest for the ultimate goal of gaining Allah's blessing and pleasure.

Thanks and regards.

THE SHARIAH COMMITTEE


Bank Muamalat

Senior Management

FROM LEFT TO RIGHT

FARIDAH HASHIM
EVP, HUMAN RESOURCE MANAGEMENT

DATO' HAJI MOHD REDZA SHAH ABDUL WAHID
CEO

MOHD ASRI AWANG
CHIEF RISK OFFICER

MUSA ABDUL MALEK
DEPUTY CEO

LIM TECK GAM
EVP, CREDIT MANAGEMENT

PEERMOHAMED IBRAMSHA
EVP, FINANCE

Profile of Senior Management

MUSA ABDUL MALIK

Musa joined the Bank as Deputy Chief Executive Officer on 1 September 2010. He oversees the business departments namely Business Banking, Consumer Banking, Investment Banking and Brand and Proposition.

Prior to joining Bank Muamalat Malaysia Berhad he was the Executive Director and Chief Executive Officer of HSBC Amanah Malaysia Berhad, the Islamic banking subsidiary of HSBC Bank Malaysia Berhad. He was responsible in building HSBC Amanah from a small unit to an Islamic Banking subsidiary including the opening of 6 dedicated Islamic branches for the bank. Musa was with the HSBC Group for 31 years of which 10 years was in HSBC Amanah.

He holds a degree in Business Administration.

MOHD ASRI AWANG

Asri currently serves as Chief Risk Officer and has direct portfolio responsibilities covering risk management, credit assessment and the regional approving centre. He is a member of the Bank's Management Committee, Executive Risk Management Committee, Investment Committee and Credit Committee. Prior to this appointment he was the Executive Vice President, Wholesale Banking and was responsible for investment banking, private equity, treasury and capital market, asset management as well as corporate and commercial banking.

Prior to joining Bank Muamalat Malaysia Berhad, Asri was the Chief Executive Officer of Malaysian Rating Corporation, a domestic rating agency. His previous appointments include being the Head of Corporate Planning and Business Development at MIDF Berhad, a Malaysian financial services group overseeing the group's formulation of strategic plans, business acquisition, joint ventures and strategic alliances; Country Treasurer and Vice President of the then Chase Manhattan Bank Malaysia; General Manager, Treasury and Southern Region of a domestic commercial bank; CEO of a domestic finance company and Treasurer of a merchant bank. He also sits on the board of the asset management and venture capital subsidiaries of the Bank.

Asri is an Economics graduate from Macquarie University, Sydney.

PEERMOHAMED IBRAMSHA

PeerMohamed Ibramsha currently serves as Executive Vice President, Finance. His current portfolio covers Finance, Treasury & Capital Market, Information Technology, Project Finance Monitoring and Project Management. He holds a Bachelor Degree in Accountancy and also a member of Malaysian Institute of Accountant and a Fellow Certified Practicing Accountant with CPA Australia. He has been seconded from the holding company, DRB HICOM since November 2008. Prior to this, he was the CFO of Alam Flora Sdn Bhd for approximately 2 years and CFO of HICOM Properties Sdn Bhd Group of companies for approximately 10 years.

LIM TECK GAM

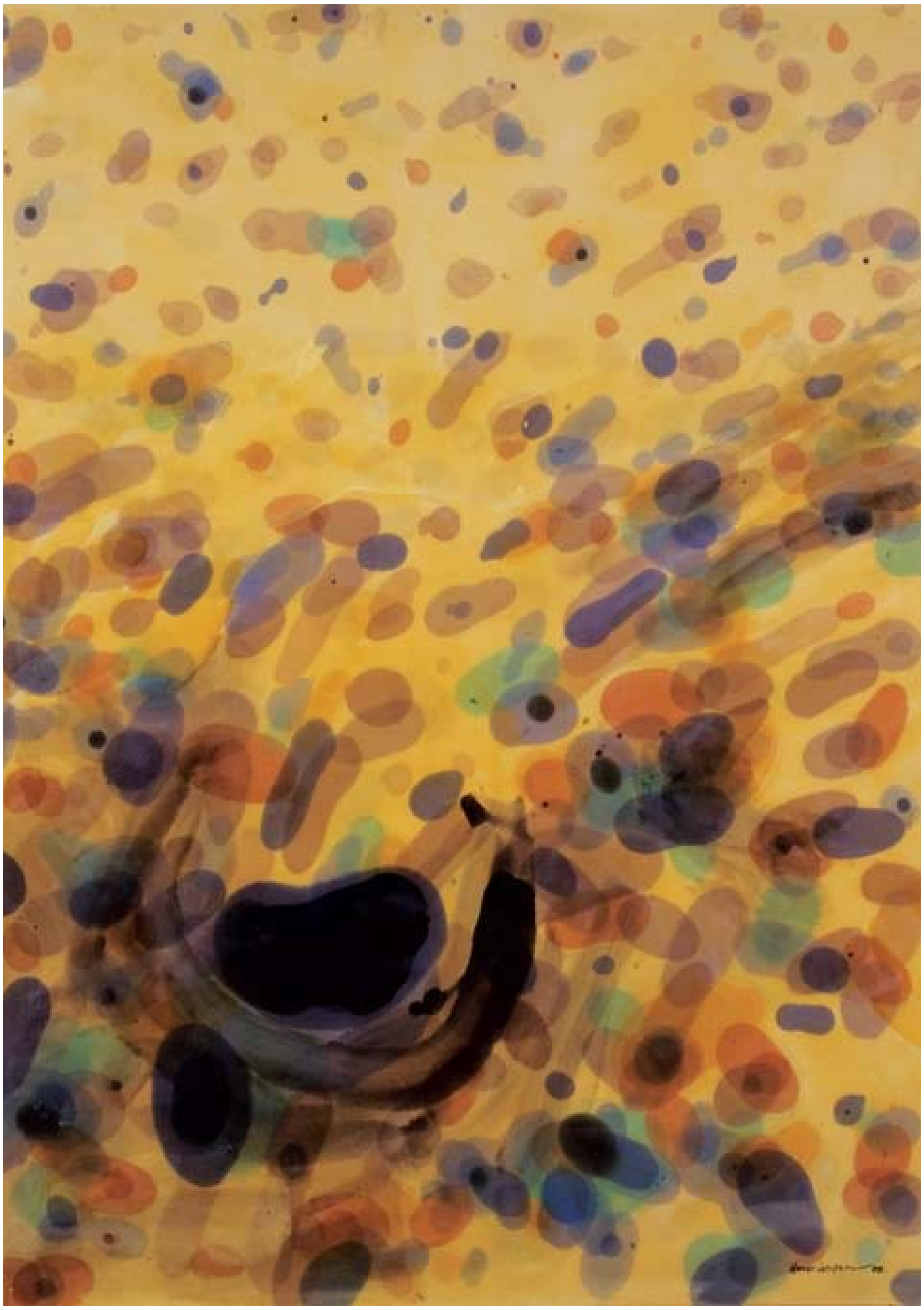
Lim Teck Gam is currently the Executive Vice President of Credit Management Division. He joined Bank Muamalat Malaysia Berhad in November 2008 as Senior Vice President of Business Support Division. Teck Gam holds a Bachelor of Business from Royal Melbourne Institute of Technology University, Australia.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

FARIDAH HASHIM

Faridah Hashim joined Bank Muamalat Malaysia Berhad as Executive Vice President of Human Resources in September 2010. Her portfolio covers Talent Management, Learning & Development, Organizational Development, Manpower Planning, Recruitment, Reward & Compensation Management and Employee & Industrial Relations.

She holds a Master in Business Administration from the University of Bath, United Kingdom. She has over 25 years of working experience in the various functions, mostly in the Human Resources in the banking industry. Prior to joining Bank Muamalat Malaysia Berhad, she worked with several commercial local banks, merchant banks and foreign Islamic bank.

HAMIDI HADI Landscape: Drop 'ii' 2008
Industrial Paint on Canvas



Art piece courtesy of: National Art Gallery (Malaysia)

innovation

At Bank Muamalat, we empower talented and motivated individuals to act on their inspirations, putting bright ideas into practice. Such constant innovation is what gives us the edge and keeps us ahead of the game.

TAN SRI DATO' DR MOHD MUNIR ABDUL MAJID
CHAIRMAN

Chairman's Statement

DEAR FELLOW STAKEHOLDERS,

It is with great pleasure that I present to you the Annual Report and Statement of Accounts for the financial year ended 31 March 2011.

I am happy to report a consecutive year of record profit. We continued to put in a robust performance despite the increasingly challenging environment. This result reflects sustained improvement in the management and business activities of the bank. Through uplifting the quality of our personnel, we have been able to instil discipline in executing the business plan that emphasises a measured pace of growth, strong capitalisation and a keen commitment to risk management.

Chairman's Statement

MACRO ECONOMIC DEVELOPMENTS

The macro economic environment remained challenging notwithstanding the better than expected national growth achieved. While Malaysia registered a sturdy economic rebound in 2010, with Gross Domestic Product growth of 7.2% on an annualised basis to reverse the 1.7% decline the preceding year, the external economic trends were far from encouraging.

Domestic drivers provided the greater economic impetus in the year under review and compensated for the softened contribution from external demand. In particular sustained strength in public sector investments made up for the weak external demand.

A series of national transformational initiatives were unveiled during the year, under the *Economic Transformation Programme*, a comprehensive effort aimed at elevating the nation into a high-income economy by the year 2020. The programme provides strong focus on a few key growth engines, via national key economic areas, with the broad objective of transforming Malaysia into a service-based economy.

However, inflationary pressures generated by the rising prices of primary commodities, kept the overall sentiment in check. The monetary policy stance shifted during the period under review and the tightening trend has been most evident in the emerging economies.

On the local front, domestic interest rates were hiked on several occasions in 2010 as the central bank moved towards monetary normalisation, where the benchmark interest rate, the Overnight Policy Rate (OPR) rose by 75 basis points to 2.75%, even if admittedly from an historic low base. This is an understandable response to inflationary pressures that have been building up.

REALISING THE BUSINESS PLAN

Despite the many external distractions, the bank has achieved a great deal since it embarked on its 5-year business plan in 2009. Importantly, the bank has remained focussed on its business objectives under the plan, currently in phase two of the three-phased programme.

The discipline in its execution and the progressive reviews to ensure the broad objectives remained relevant, feasible and competitive have paid dividends, as evidenced by the bank's steady performance and sustained improvement.

The first key feature of the business plan was to strengthen the foundation on which its business activity is based. The organisational structure has been streamlined and strengthened. New key roles were identified and new blood brought in aimed at instilling greater balance, efficiency as well as dynamism and experience in the day to day operations of the bank. Better balance means greater stability, strength and agility, the primary catalysts to sustainable progress.

The changes are consistent with the objective of taking the organization to greater heights and have armed the bank with enhanced control and flexibility in the engagement of its strategic objectives.

Still, realising the remaining half of the 5-year business plan remains challenging. There have been initiatives that the bank had completed as scheduled but there were also those that are taking longer than anticipated. The bank must crack these hard nuts and resolve stubborn issues to ensure it remains on course in its business plan.

PERFORMANCE REVIEW

The bank finished the year with strong profitability and a sound balance sheet. This result reflects positively on the management and staff who have put in strong efforts toward improving the bank's competitiveness in the industry, in line with the objective of the bank's 5-year business plan.

For the financial year ended 31 March 2011, net profits were sustained at a historical high, increasing to RM134.0 million, breaching the RM100 million mark for the first time in its 11–year history. On an annualised basis, net profit advanced by 71.8%. Previously, the bank made a profit of RM97.5 million for the 15-month period ended 31 March 2010.

Steady business growth and enhanced asset quality contributed to the improved performance. Total income increased to RM491.3 million in the year under review, increasing 40.4% on an annualised basis, underpinned by increased contribution from financing based businesses as well as enhanced asset quality, the latter referring to substantially narrower allowance made for impairment of financing assets, amounting to RM36.1 million compared to RM161.1 million in the preceding financial year.

At the same time, there were comparable enhancements made in the recovery of non-financing assets where the bank registered a net write-back on previously impaired investments, contributing RM59.7 million to the bottom-line compared to a net impairment loss of RM39.2 million previously.

The bank reached similar milestones in terms of profit before taxation and payment of zakat when it surpassed the RM200 million level, a historical high, in the latest financial year under review. PBT had increased to RM204.3 million or equivalent to an increase of 82.0% on an annualised basis.

Total assets of the bank, meanwhile, increased to RM18.3 billion as at 31 March 2011, increasing 9.4% from a year ago. Growth was underpinned by steady rise in variable rate financing, which grew by almost RM800 million during the period under review or equivalent to an annualised increase of 35.3%.

The latest financing trend characterised the bank's effort at building broader consumer based financing underpinned by increased appetite for home and personal financing offerings. The bank's variable rate financing has since increased its share to 40.6% of total financing, up from 32% a year ago, giving the bank greater flexibility in managing its overall profit margins in light of the higher funding cost environment.

The latest financial year also witnessed significant improvements in the enhancement of asset quality. Recovery efforts made during the past year, including asset disposal exercises via write-offs and property auctions, have had a substantial impact on the overall results. Impaired financing outstanding narrowed by more almost 30.0% during the period under review. The ratio of gross impaired financing to total financing has similarly narrowed, declining to 4.7% as at 31 March 2011, compared to 6.9% previously. The improvements were realised despite the modest growth achieved in total financing, which reflects positively on the asset quality of the bank.

The bank's capital strength is reassuring, with core capital ratio at 14.8% and risk-weighted capital ratio at 19.2%, both of which are well above the industry averages of 12.4% and 14.1%, respectively.

Chairman's Statement

PROSPECTS 2011/2012

The world economy has passed its worst economic downturn since the Great Depression. Many industrialised economies however remain in recovery phase. It is the emerging markets that have been pivotal in keeping up the momentum for global growth.

This phenomenon augurs well for economic prospects in the dynamic Asia-Pacific region of the emerging economies. At the same time, the strengthening domestic economy with the slew of governmental initiatives and the encouraging trends in private economic activities, on the back of a resilient financial sector, underpin improved business sentiment.

Islamic finance in Malaysia, meanwhile, continued to register robust growth during the past year. Its total assets advanced to RM351 billion in 2010, or almost 16% higher from a year ago. Broadly, the progressive stance in reinforcing Malaysia as a leading international centre for Islamic finance continues to position the bank favourably going forward.

This should serve as a positive endorsement of the bank's universal Islamic banking model, and the growth that the bank has enjoyed in recent times should provide vindication for the implementation of its business plan. The bank is well on its way to achieving its vision of becoming the preferred Islamic financial services provider.

Still, while performance has exceeded many targets, there is much work to be done and complacency must be avoided. Infrastructure strengthening efforts must continue to be a key priority for the bank to ensure that it is able to consistently remain relevant in an increasingly competitive industry. Strategically driven efforts to diversify the bank's business portfolio, as well as to enhance workforce capabilities to meet new targets, are important in ensuring sustainable growth and performance.

Although the Malaysian economy is expected to expand at a slower rate of 5%-6% in 2011, there are still plenty of opportunities for Bank Muamalat to maintain its performance and growth heading into the new financial year.

ACKNOWLEDGEMENTS

On behalf of the board, I wish to offer my appreciation to the management and staff of Bank Muamalat for their stellar efforts in building on the successes of the previous year. They have helped tremendously to ensure that the bank is on solid footing.

I would like also to express the board's gratitude to Datin Azizah Mohd Jaafar, who stood down as director in October 2010 after having served the bank so well since 2001. We wish her the very best in her future endeavours.

I would further like to thank the other members of the board for their guidance and generosity in sharing their experience with me.

Our sincerest gratitude goes out to our business partners and shareholders for their support and confidence in the bank.

We wish to thank all our long-term customers for their continued patronage, and our new customers for choosing our services.

Finally, we wish to thank the relevant authorities for providing the necessary assistance, support and guidance in our operations, particularly Bank Negara Malaysia, the Securities Commission and the Ministry of Finance.

Consumer Banking

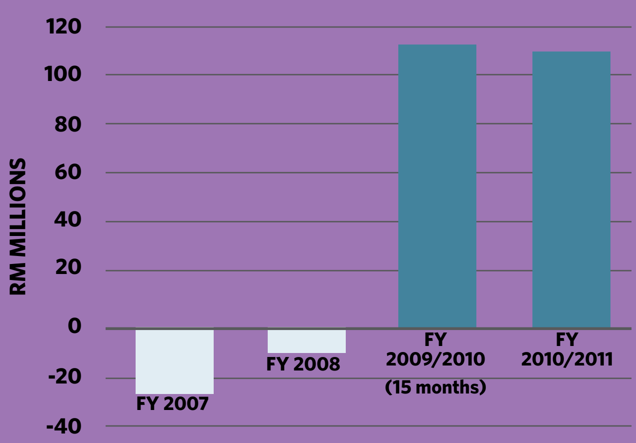
During the Financial Year under review, Consumer Banking remains a highly competitive sector and was regarded as the most competitive in the whole of the Financial Services Industry. In large part, this can be attributed to the continued focus of Commercial Banks, both Conventional and Islamic, on Consumer Business for long term sustainability in revenue. As financial institutions were competing to increase their respective market share in the profitable consumer segment, competitive pricing and flexible terms were the two biggest challenges, despite rising operational cost. This market environment will continue to evolve and undergo significant market change with gradual shift of competitive focus towards product and service diversification, greater online and off-bank channel usage and personalised and hassle-free banking services that are able to deepen relationships with existing customers, as well as attract and convert new profitable prospects.

Recognising the current and future market evolution, Consumer Banking has taken its first initial step during the Financial Year under review by being bold and daring to compete in the selected profitable Consumer Segments without sacrificing its banking prudent. At the same time, Consumer Banking has strengthened itself in selected markets where it has a significant edge over the growing number of competitors. The two strategic approaches were proven to be effective as Consumer Banking managed to achieve the desired financial performance.

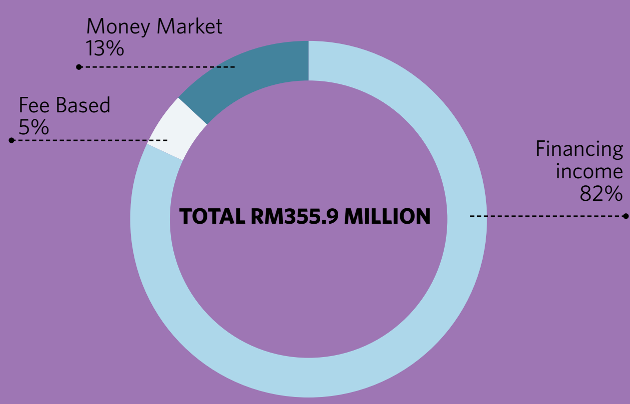
PERFORMANCE REVIEW

Under the review period, Consumer Banking recorded a profit before tax and zakat of RM109.6 million, contributing slightly more than 50% of the Bank's total profit before tax and zakat of RM209.2 million. This achievement was largely attributed to the positive growth in our consumer financing and deposits as well as stable asset quality.

CONSUMER BANKING: PROFIT BEFORE TAX TREND



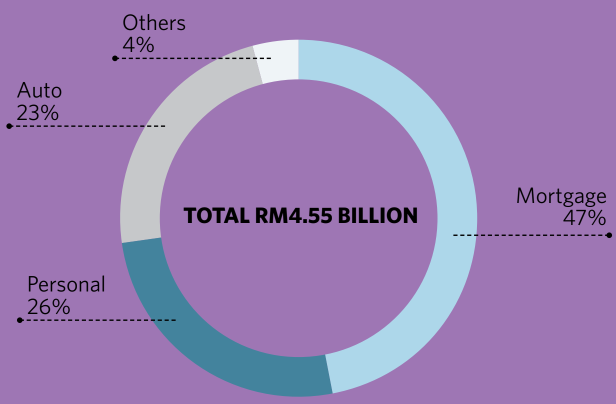
CONSUMER BANKING: INCOME COMPOSITION AS AT FY 2010/2011



Consumer Banking

Consumer financing asset grew by 11.3% from RM4.09 billion to RM4.56 billion vis-à-vis previous Financial Year growth of 8.9%. The strong growth for the Financial Year was driven by the expansion of our property financing, which recorded a growth of 11.1% (RM215.84 million) from RM1.94 billion (FY2009/2010) to RM2.16 billion (FY2010/2011), amidst the competitive property financing market. The steadily improving economy, accommodative interest rate policy and healthy liquidity conditions supported consumer financing and a buoyant property market. This is reflected in the domestic banking industry's annualised growth in residential property financings of 13.0% in 2010 as compared to 9.3% in 2009. With the robust demand for residential houses, the Bank's financing to the property sector increased by 11.1% or RM215.84 million to stand at RM2.16 billion as at the end of FY2010/2011 and accounted for 47% of the Consumer's total financing portfolio.

CONSUMER BANKING: FINANCING COMPOSITION AS AT FY 2010/2011

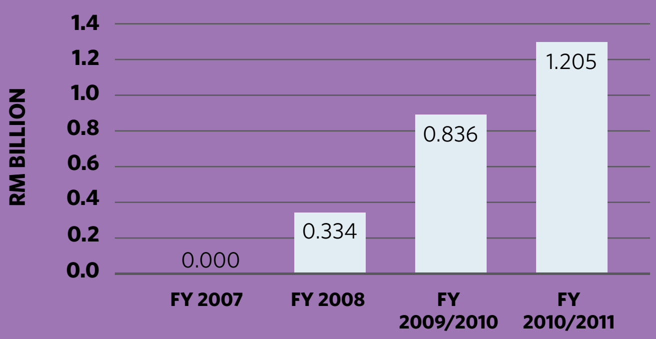


CONSUMER BANKING: TOTAL FINANCING ASSET TREND

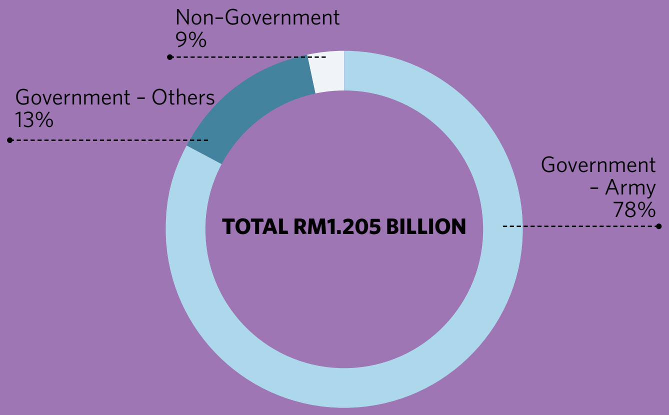
The Bank's ability to maintain a lower risk exposure in residential property financing mainly stems from its prudent credit evaluation and approval processes which take into account the location of the properties, the pricing of residential properties and the track record of developers. The bank continued to offer special end-financing packages with attractive and flexible terms in order to be the preferred financial solutions provider for individuals looking to acquire their homes. The recent implementation of a maximum loan-to-value ("LTV") ratio of 70% for buyers' third residential property financing by Bank Negara Malaysia is expected to have minimal impact on the Bank's property financing business as the Business Unit already enforces a lower LTV ratio on property financings for the purpose of investing in multiple residential properties.

Personal Financing (PF) continued to record a stunning performance by achieving a double digit growth despite challenging market and stiff competition among major players. As at 31 March 2011, net PF outstanding stood at RM1.20 billion, an increase of 44.1% (grew by RM368.95 million) compared to the same period ending March 2010. Business Unit constantly monitors the risk concentration of PF portfolio to ensure the impaired asset remain low at under 1%. Our major customer segment remains healthy of which government segment represented about 91% of total PF portfolio.

CONSUMER BANKING: PERSONAL FINANCING TREND

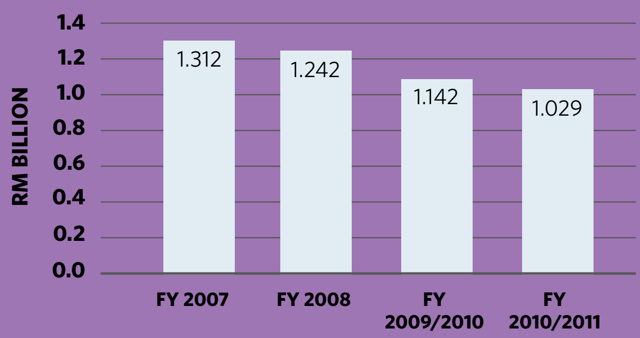


CONSUMER BANKING: PERSONAL FINANCING COMPOSITION AS AT FY 2010/2011

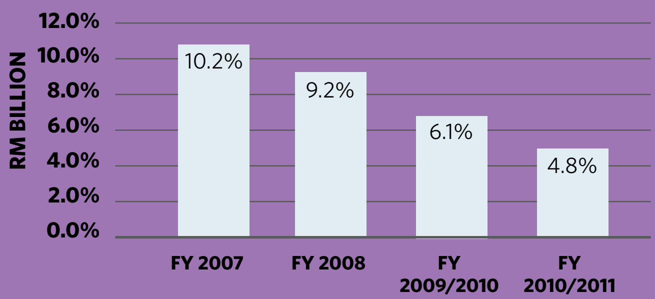


As opposed to House Financing and Personal Financing, financing for purchase of transport vehicles has further declined by 9.9% a decreased of RM112.79 million from RM1.17 billion (FY2009/2010) to RM1.14 billion (FY2010/2011). However, the decline has been anticipated as the competition especially on pricing has been very stiff. This is in line with the strategy to rebalance the financing portfolio and to focus on higher profitable business segments.

CONSUMER BANKING: AUTO FINANCING TREND



CONSUMER BANKING: OVERALL NPF RATIO TREND



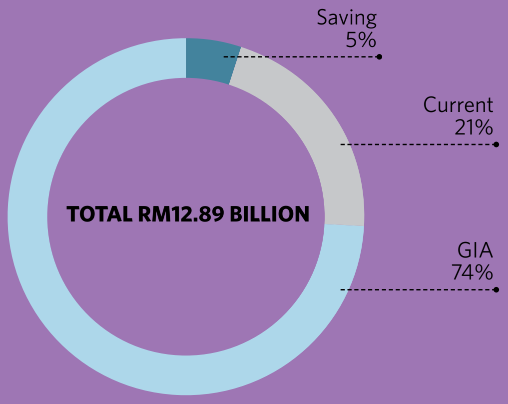
Consumer Banking

Over the past four years, the Consumer Division's gross impaired loans ratios had consistently improved from 10.2% as at the end of FY 2007 to 6.1% as at the end of FY 2009/2010 under the old GP3 classification of impaired loans when they are past due for three (3) months or more. Based on the more stringent criteria on classification of impaired loans under FRS 139, the Consumer Banking's gross impaired loans ratio has also improved to 4.8% as at the end of FY2010/2011 from 6.1% as at the beginning of 2010.

Whilst the Consumer Banking reported a RM463 million growth in total gross advances and financing, total gross impaired financings dropped by RM29.5 million to RM217.5 million as at the end of FY 2010/2011 as compared to RM247.1 million a year ago.

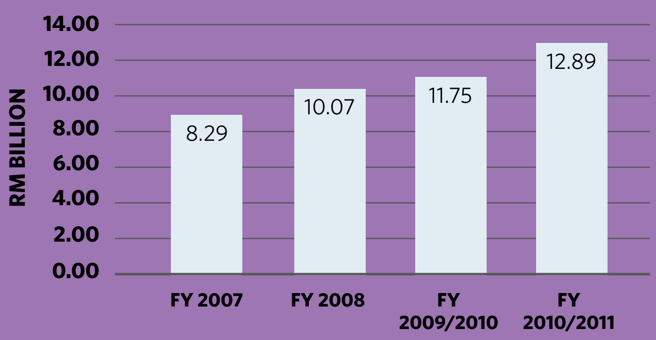
The Bank's core customer deposits comprising of demand deposits, savings deposits and fixed deposits grew by 9.3% (increased by RM1.10 billion) in FY 2010/2011 as compared to the domestic banking industry's annualised growth of 7.7% in 2010. The healthy core customer deposit growth is mainly supported by steady inflows of deposits as part of the Bank's continued strategy of improving funding profile by placing higher emphasis on growth of current accounts and savings accounts ("CASA"). In particular, the Bank's fixed deposits and savings deposits grew by 7.7% and 12.1% respectively in FY 2010/2011 which were significantly higher than the domestic industry's annualised growth rate of 6.4% and 2.6% respectively.

CONSUMER BANKING: CORE DEPOSIT COMPOSITION AS AT FY 2010/2011

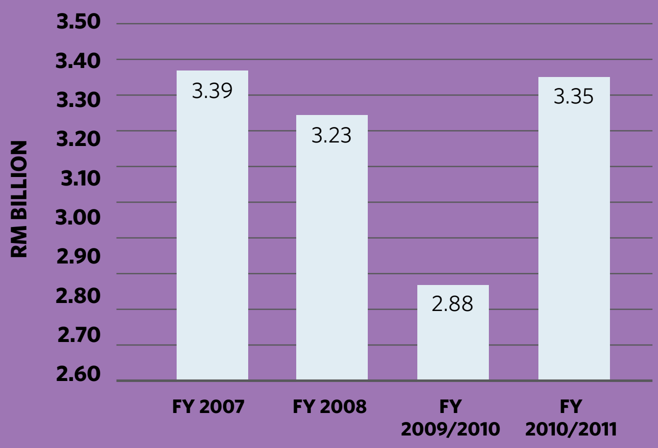


Term/Investment deposits continue to make up the majority of customer deposits, constituting 74.0% of total customer deposits. Transactional customer deposits, comprising current accounts and savings accounts grew 12.1% and 14.8%, respectively. In consequence, CASA proportion to total customer deposit grew to 14.2%, reflecting ongoing efforts to grow low cost deposits by targeting business and corporate clients and mass affluent segments for retail..

CONSUMER BANKING: CORE DEPOSIT TREND



CONSUMER BANKING: CASA DEPOSIT TREND



Macro Environment of Consumer Banking Market remain competitive, price war intensified and focus on Liability–deposits. Competition in the consumer banking segment is intensifying as consumer financing growth slows down and continuous pricing onslaught puts pressure on margins. Opportunities are shrinking and competitors have embarked on extensive sales and marketing efforts. Sustaining margins is a challenge, given that the impact from Bank Negara's reductions in overnight policy rates was further exacerbated by pricing competition. Banks need to weigh the consequences of price cutting, which may contribute to share gains in the market but will potentially hurt returns on equity and long-term profitability.

Key challenges to financial stability in 2011 are likely to be largely externally driven, as global economic conditions remain fragile. While expected to be more moderate than in 2010, domestic growth will continue to be underpinned by strong economic fundamentals and further expansion in consumption and investment, although developments in commodity and energy prices will affect cost of living, particularly for average Malaysians living in urban areas.

Financial institutions will continue to face pressures to generate returns under the ample domestic liquidity conditions. The enforcement of responsible lending practices will act to counter overly aggressive behaviours by financial institutions. Nonetheless, the growing influence and significance of non-bank lenders will need to be managed to avoid excessive build-up of leverage among certain borrower segments. Given that the recent trend of rising commodity and oil prices is expected to contribute to higher cost of living and cost of inputs for production, it will be particularly important for financial institutions to monitor risk developments in these segments, and to act pre-emptively to assist affected borrowers. This will also contribute towards preserving the overall quality of the Bank's financing portfolio. In addition, the existence of the AKPK to facilitate individual borrowers in managing their debts and finances will provide additional support to households.

DRIVERS OF SUCCESS

Consumer Banking portfolio is going to be the key driver of success for BMMB for the coming years with direct banking channels had seen strong growth with online banking soaring moderately. We believe that the business success will not only be determined by how many branches are opened, but where these branches are based. Therefore we are going to execute branch upgrading and relocation plan to enhance our visibility and market reach. BMMB will begin targeting the country's unbanked population as the number of people in employment rises.

Sales leadership and excellent management continuity is relatively important with other key drivers as differential product profitability, efficiency of IT systems, successful people management, with a combination of re-pricing, improved asset quality, expanding the product line can raise ROE. Looking to the future, Consumer Banking strategies will focus on deposit-gathering, cross-selling to existing clients, new client acquisition, and developing systems which enable management to track customer needs and relative profitability. The customer's profile has been raised to be a relatively stable and profitable business for the upcoming years.

CONSUMER STRATEGIES

Consumer Banking is to develop a liability led business, complemented with asset growth in certain segments and products, and grow scale in wealth management in both Mass and Mass Affluent segments. The focus is to grow the business in identified and selected segments of the market where we can establish sustainable and superior levels of profitability and to support the Bank's key priority of growing the deposits base. We will continue to deliver customer value propositions catering around the themes of friendliness, simplicity and convenience.

Consumer Banking

Moving forward, we will continue to leverage on our strengths and capabilities to build a sustainable consumer business in the face of market challenges. The pillars consist of the following tenets:

- **Sales Transformation Programme**
  People capabilities are our strongest asset. We have been successful in building a consumer banking benchstrength with an emphasis on strong and continuity of leadership, team work and impactful talent management. Implemented Sales Culture driven to all service level at head office and branches.

- **Customer Centricity**
  Upgrading of branches with new branch design, revamping of our internet banking for more user friendly and implement Customer Service Oriented culture to all Consumer staffs. To offer best customer experience through quality services, highly reachable channels and innovative products.

- **Expansion of Reach**
  Our foremost priority is to transform our branches to become a differentiating marketing and distribution capability for the Bank and a pillar of our relationships with customers and the community. Opening additional new branches and kiosks at selected area to catch new market segment. Relocate some of existing branches to bigger premises to cater to high customer traffic and to provide a more comfortable branch environment. Renovate some of branches to offer a fresh look-and-feel fitting to current market trends.

- **Continue to Introduce New Innovative Products**
  The emphasis remains focused on developing a broad spectrum of relevant and innovative consumer driven product offerings and quality customer service levels.

- **Bank Takaful and Wealth Management**
  To increase product holding per customer through active and proactive cross-selling and referral approach for Wealth Management business, Bank Muamalat aspires to be the preferred Islamic wealth manager for bancassurance and investment products through consistent professionalism in need-based selling by sales force.

- **Enhance Sales & Marketing Programme**
  Focused on direct marketing activities at branches. These programmes focus on increasing visibility and awareness of our consumer products, building relationships and being closer to the community. To attain a leading position in Financial Management Solution and Investment Planning segment with excellent service delivery to customers. Sales force reward system pegged against performance through a robust sales incentive scheme. All sales force executives equipped with notebooks with ability to access front end application system via web.

Consumer Banking strategy would synergise with other businesses such as small and medium-sized enterprises (SMEs) and wealth management. More important is a clear articulation of a retail bank's culture and strategy as well as an understanding of the customer's needs with attractive product dimension and sustainable product differentiation as we are going to extend our product reach to Islamic Pawnbroking, Bank Takaful and Wealth Management to boost revenues. The product focus is on cross-selling more products to the existing client base.

Management's central focus is thus on the existing customer relationship. Customer satisfaction indices are the universal metric for performance measurement to understand the needs and behavior of individual clients. Through our IT Transformation Plan of new core-banking system, best practice is to have a single customer view incorporating all services used by the client. Major efforts are being made to match customer needs with the preferred distribution channel.

The branch system is widely viewed as the key element of attracting and serving clients who demand advice, while direct channels are increasingly used to execute transactions. Achieving a seamless interface among channels is a challenge and equipped our branch staff to provide advice and 'customer experience' is also a priority in our Sales Transformation Program.

Business Banking

In line with Bank Muamalat Malaysia Berhad ("Bank Muamalat")'s direction to strengthen the business model, Bank Muamalat has decided to merge three departments, namely, Corporate Banking, Commercial Banking and Trade Finance Centre into a division, named, Business Banking Division. The division which took effect on 1 February 2011, reports directly to En Musa Abdul Malek, the Deputy Chief Executive Officer. En Musa who joined the Bank in September 2010 from HSBC Amanah Berhad, is currently driving Bank Muamalat's business sector.

Under the new business model, Trade Finance is now being transformed into a profit centre with higher responsibilities which includes sales for trade finance services. The Trade Finance team works closely with the account managers to ensure higher utilisation of trade facilities and also to ensure maintaining close rapport between Bank Muamalat and ITS clients.

The new structure is expected to provide synergies as follows:

- Streamlined, dynamic and integrated operational process;
- Focused marketing effort;
- Enhanced span of control – holistic approach in client management;
- Cross selling-synergies;
- Enhanced performances through appropriate empowerment; and
- Cross – pollination of skills and knowledge

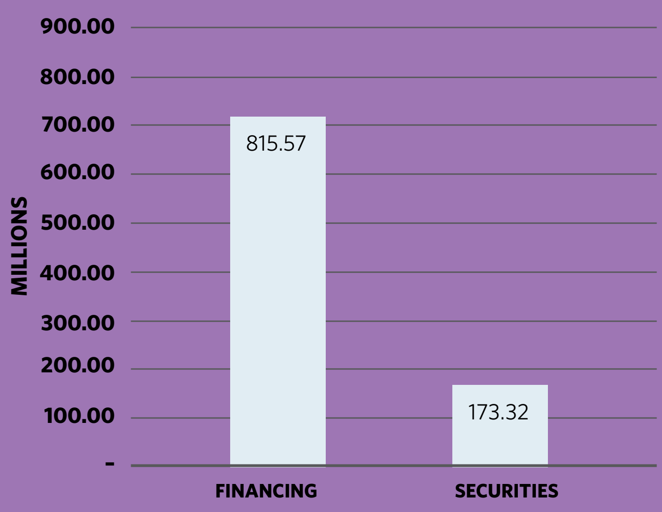
The migration of the Trade Finance Centre from a support unit to a profit centre is mainly driven by the robustness of market forces. Additionally, Bank Muamalat aims to harness the business potential through doubling its current portfolio in the next two years. This initiative is expected to:

- Boost utilisation of trade finance facilities;
- Create a focused sales team;
- Foster closer working relationship with account managers;
- Seek new trade finance opportunities; and
- Develop all-round trade finance officers and create a pool of talent in trade finance

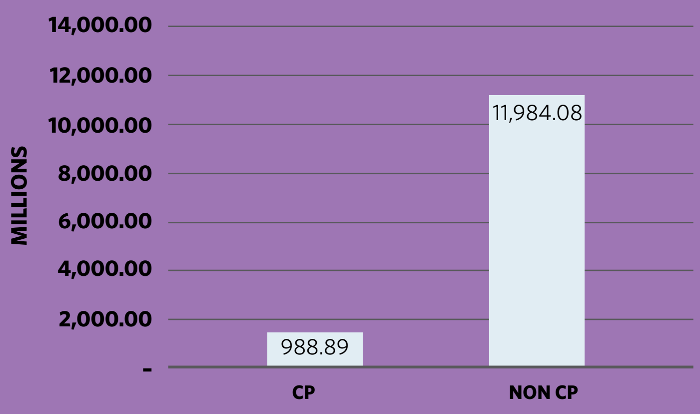
Notwithstanding the merger of the three departments, Bank Muamalat will continue to serve the commercial and retails sectors. In Bank Muamalat's effort to reach to the Bumiputra's small and medium sized businesses, Bank Muamalat has collaborated with the Majlis Amanah Rakyat (MARA) to form a scheme called *Skim Jaminan Usahawan Mara.* Under this scheme, Bank Muamalat will provide business financing of up to RM2.0 million of which MARA will guarantee up to 80% of the financing amount.

Business Connected Parties Transaction

CONNECTED PARTIES EXPOSURE AS AT MARCH 2011

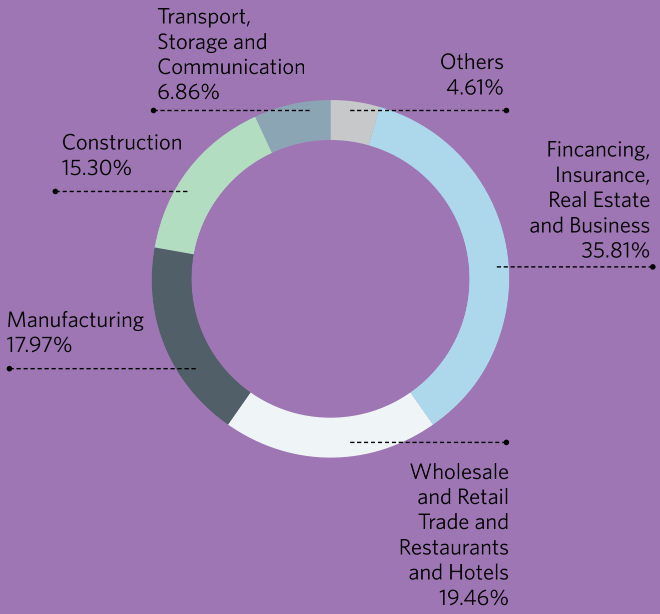


CONNECTED PARTIES VS NON CONNECTED PARTIES EXPOSURE AS AT MARCH 2011



Note: This includes financing and securities

COMPOSITION OF CONNECTED PARTIES BY SECTOR



The Bank's total outstanding credit exposures to all connected parties (including credit exposures through subsidiaries or other entities that are under the Bank's control), except those under exemption, shall not exceed 100% of the capital base or 25% of total outstanding credit exposures, whichever is lower as per BNM Guidelines on Credit Transactions and Exposures with Connected Parties.

As at 31st March 2011, Connected Parties (CP) exposure totalled RM988.89 million from the total credit exposure of RM12.97 billion (7.62%). Of the CP exposure, financing formed the bulk at RM815.57 million (82.47%), and followed by securities at RM173.32 million (17.53%). Percentage wise the CP exposure stood at 61.92% against the bank's capital base of RM 1.59 billion.

Based on the performance of internal rating, the weighted average rating distribution for CP exposures is one notch better than Non-CP exposures where the mode of Non-CP customer is under "Average" rating classification. There is no record of non-performing financing (NPF) for Connected Parties to date.

Information Technology Transformation

The use of technology has featured prominently in Bank Muamalat Malaysia Berhad ("Bank Muamalat")'s transformation agenda and we will continue to leverage heavily on it to drive Bank Muamalat's growth. In the year under review, Bank Muamalat's IT Roadmap concentrates on several strategic initiatives namely:

- Centralisation of ID Management;
- Improvement of Delivery Channels;
- Improvement to IT Security and Governance; and
- Improvement to IT Human Capital.

CENTRALISATION OF ID MANAGEMENT

Bank – wide operational identity services strategy and implementation roadmap was built on efforts of identity management assessment and process analysis. An extensible identity services architecture infrastructure will facilitate in enabling the implementation of both near-term and long-term identity services needs/initiatives which have been defined. The identity services foundation and associated implementation plan have also been executed. This initiative serve to establish a centralised ID managed environment to further improve system access and control.

IMPROVEMENTS OF DELIVERY CHANNELS

Our series of improving our delivery channels saw us successfully rolling out the first Shariah Compliance Western Union ("WU") product and services by an Islamic Bank in Malaysia in August 2010. In December 2010, our Desktop Banking was upgraded from an intranet to an internet based framework. These improvements were intended to improve Bank Muamalat service delivery to our customers and to increase the fee – based income particularly from foreign exchange transactions.

IMPROVEMENTS TO IT SECURITY & GOVERNANCE

The year also saw us completing a security assessment of the Bank's IT system, infrastructure and establishing key security improvement projects based on the findings of the Security Assessment Report from an independent third party apart from in – house initiatives. Various endorsed security policies and implemented standard operating procedures have been enforced as well as practiced to support the IT security or compliance initiatives. Bank Muamalat will continue to strive for improvement to its IT security as part of our commitment to continuously assure the protection of the Bank's IT information assets, compliant with regulatory requirements and maintaining stakeholders' and customers' confidence.

IMPROVEMENTS TO IT HUMAN CAPITAL

We are actively recruiting external talent to fill in the gap for key areas in IT, primarily on the IT infrastructure and application development. This is an essential prerequisite for the day-to-day running of Bank Muamalat's IT operations as well as the smooth implementation of infrastructure and information support requirements. An experienced and well – versed team of IT professionals will drive the implementation of IT plan and all related initiatives undergo a smooth transition from the vision to implementation stage.

Enterprise Content Management

Enterprise Content Management (ECM) is a new initiative of Bank Muamalat Malaysia Berhad ("Bank Muamalat") which aims to further improve business performance and customer service with better information management and additionally, to gain competitive footing in the marketplace. It also provides significant improvements to compliance efforts as well as internal business processes.

There are three major parts under the ECM initiative, namely:

Part A: ECM Solution – The enterprise solution for document management that stores and manages all digital documents for easy monitoring and retrieval.

Part B: Capturing & Imaging – The activities that involve scanning and indexing of Bank Muamalat's physical documents. Relevant documentation is converted into digital format and assigned with respective index/barcode for fast searching and retrieval.

Part C: Offsite Storage & Logistic – The depot where all Bank Muamalat's financing files and security documents are to be stored, tracked and managed. It also facilitates "borrow and return" process of the Bank's physical documents.

The implementation road map has been divided into two phases:

1. **Immediate Plan**
   The collateral and legal documents will be scanned and bar coded to ease monitoring and retrieval. The storage of financing files, collateral and legal documents will be outsourced and managed by a certified third party – the physical documents will be stored off-premise at a centralised location. This exercise is to cater for Part A & B of the ECM initiative and is expected to complete in 2012.

2. **Long Term Plan**
   Ultimately for Part A, all paper – based records will be converted and transferred into electronic files. It involves all types of documents such as origination of financing; operational and transactional documents; financing and operational processing documents; credit management document; collateral/legal documents; and internal and external critical documents. Planning for its implementation is underway.

Upon successful implementation and proper governance, Bank Muamalat hopes to attain the organisational, economical and technical benefits of ECM.

Human Capital

As a provider of Islamic financial services, Bank Muamalat Malaysia Berhad ("Bank Muamalat") is as good as its employees. The quality of our employees and the culture that we promote will ultimately determine the success of Bank Muamalat. People are our greatest asset and it is their passion, professionalism, talent and commitment that form the backbone of our success.

The financial services industry landscape, in particular Islamic banking, has evolved significantly and the pace and magnitude of transformation have been rapid to the extent that the main challenges facing Bank Muamalat prior to this moment such as better performance management, attracting, developing and retaining talents, increasing productivity and developing human capability are still the subject of concern and relevant to this very day. Therefore, it is imperative that we continue our commitment to ensure that the challenges have been addressed extensively with the following initiatives undertaken throughout the last financial year.

BUILD AND SUSTAIN A PERFORMANCE – DRIVEN CULTURE

Instilling a results – oriented culture has been shown to increase performance, motivate individuals and teams and increase satisfaction and loyalty of employees and customers. Bank Muamalat has been committed in implementing a performance management system that effectively plans, monitors, develops, assesses and rewards employee performance.

As in the precedent year, we continued the setting of the Corporate KPIs which focuses on the objectives and goals of the year in line with the strategic direction of the organisation and has been an integral part of our Performance Management System besides the Core and Leadership competencies in determining the level of skills required by all employees. In addition, the performance system differentiated between high and low levels of performance and link individual/unit/departmental performance to organisational goals and desired results.

Consequently, the Performance Management System will ensure that supervisors and managers use performance results to offer feedback, identify developmental needs to help improve employee performance and address instances of poor performance.

ATTRACT AND RETAIN TALENTS

Develop effective and innovative strategies to recruit and retain a highly skilled workforce to meet customer needs and to transform Bank Muamalat into the Employer of Choice remain one of the top priorities of Bank Muamalat. We persists on implementing effective and innovative recruitment strategies and tools in sourcing and identifying the right talent and deploy them into new and existing business activities.

Against the backdrop of war on talents and in strengthening Bank Muamalat's internal capacity and capability, we continue investing in our Talent Management initiative which sought talent within Bank Muamalat and continuously equipped them with pertinent internal and external programmes comprises of technical and soft skills including leadership courses to enhance their competency capabilities.

In retaining and motivating our high performers and potential leaders and to serve the needs of the individual aspirations, we conducted a promotion exercise and promoted a total of 156 hard working and committed employees within Bank Muamalat both from the Non–Executive and Executive level.

As the country's talent pool for Islamic banking is relatively small with vicious competition from other financial centres aspiring to grow coupled with their superior compensation programmes, the pace and size of human capital migration is quite alarming. Without a competitive human capital compensation, we will continue to lose the edge in attracting and retaining skillful and talented employees. Therefore, we have embarked into refining and enhancing our compensation package by reviewing and improving our benefits for all levels in the Bank.

MAINTAIN EFFICIENCY AND EFFECTIVENESS

Improving productivity of the workforce remains one of the key operating goals of any organisation. Maintaining a high level of efficiency in operational, functional and tactical roles which are recognized as a critical component of the bank's mission must be aligned and measured to achieve the bank's goals. Higher productivity entails less workforce and operating cost in the long run.

Realising the effect, we have embarked into enhancing our Human Resource Information System (HRIS) which will enhance the capability of our human resource data in terms of its accuracy and efficiency in deriving the information. In addition, it will also improve the data quality and substantially reduce administrative processes in a paperless environment with the additional introduction of new self – service modules for employees.

Without compromising the preceding entitlement limit of medical benefits to the employees, we have effectively outsourced our medical administration to a third party administrator. The outsourcing will undoubtedly reduce the cost and eventually improve the bottom line for Bank Muamalat. Equally important, it will improve the quality of the services to the employees in terms of the efficiency of generating the Guarantee Letter and payments of claims. Through outsourcing, employees presently have more options in terms of the availability of clinics which are currently more than 3,000 compared to 210 previously.

To reinforce the efficiency and effectiveness of our services to the internal and external clients, we have initiated the process of reviewing the Human Resource policies and procedures. Policies are an integral part of an organisation which stipulates the practices particularly in adhering to the statutory and regulatory requirements. Processes and procedures are enhanced to improve the quality and the turnaround time of its services comprises of all HR spectrums namely recruitment, training and development, compensation and benefits in particular the staff financing and payroll and its employee relations.

BUILDING HUMAN CAPABILITY

Develop, promote and retain a culture of continuous learning is crucial to ensure that the workplace has the knowledge, skills and abilities to achieve the corporate goals and to ensure that Bank Muamalat remains well positioned to face the challenges domestically and globally. In addition, to retain the best employees, we not only reward them fairly but also help them to grow, develop and build their potential.

Numerous learning activities have been put in place to strengthen the employees' competencies particularly in the area of Shariah, Credit, Risk and Compliance. Some of the key training activities are:

i. Shariah training to all employees through Shariah Application in Islamic Banking (SAIB);
ii. Structured modular training matrix for Business Banking and Consumer Banking;
iii. On-the-job training/attachment at Credit Assessment Department for Business Banking employees to enable the employee to enhance their knowledge and skills in assessing various industries and to meet the standards imposed by the Bank before approval;
iv. Continually conduct CCP training. An exam based credit program which ensures the minimum professional standard of core competency in credit;
v. Continuous AMLA awareness training and refresher course to all employees; and
vi. Implement E-Learning for Islamic Banking and AMLA.

Corporate Responsibility Initiatives

Bank Muamalat Malaysia Berhad has always given a lot of emphasis on the importance of cultivating good corporate social responsibility practices besides being involved in its business functions in the pursuit of business excellence. As a full-fledged Islamic financial service provider, it is our obligation to serve you with good business ethics upholding it with our core values of Care, Integrity, Innovative, Service Oriented and Respect.

Our Corporate Responsibility (CR) practice focuses on the key areas: the workplace, marketplace and the community. CR forms an integral part of our business culture as we believe that if it is consistently applied in our daily work related activities, the results will contribute significantly to our economic prosperity and the growth of our community. To this end, we pledge to strengthen our commitment to be a responsible and accountable organisation.

AT THE WORKPLACE

Our CR initiative stretches far beyond our banking products and service. To us, our employees are our most valuable assets and we take pride in ensuring that they are technically competent in meeting the Islamic banking industry's requirement. We strive to develop a constructive work culture among our staff by offering them compellingly attractive propositions, from human capital development to safe working environment, open door communication and performance – based remuneration structure. We take great effort in ensuring that our staff members are imbued with a desire to compete by conducting various development and training programmes and seminars, which will help enhance employees' skills and increase their performance level. This is our long – term human capital investment to help create an effective workforce and therefore facilitating sustainable development for our bank.

To improve their exposure to the external business environment whilst enhancing their understanding of the market demands, trends and issues, as well as to build their business networking across the banking industry, our employees are also sent for external trainings. Bank Muamalat enhances and maintains open communication with all employees through the Internal Communication Portal (ICP). The ICP has been an effective intermediary communicating tool for a two – way communication and dissemination of information between our employees and the management.

Rewards act as catalysts to spur employees to attain higher productivity in their performance level. Each year Bank Muamalat organises an employee relations programme called "Seruan Kaabah". In this appreciation programme, our employees nationwide are given opportunities to nominate another employee to perform Umrah to Mecca. From this exercise, ten employees will get to bring their spouses for an all-paid-for 2-weeks Umrah trip during the month of Ramadhan.

To help motivate the children of our staff to excel in public examinations, monetary rewards are given to the higher achievers who score straight A's in their UPSR, PMR and SPM examinations. This recognition programme is our continuous employee relations practice.

CARING FOR THE COMMUNITY AND MARKETPLACE

Delivering the awareness and a better understanding of Islamic banking to the masses has always been Bank Muamalat's untiring effort. We embark on various community projects in our attempts to create a better understanding on the Islamic banking system. Recognising that our employees would be our ideal goodwill ambassadors, we demonstrate our commitment through initiatives by the Shariah Department by providing and volunteering public lectures at universities, mosques, community events and during Friday prayer's sermon.

Television programmes such as "Forum Perdana" are used as platforms to educate the public about Islamic Banking through a series of Tazkirah. Throughout the 30 days of the fasting month Ramadhan, a 60 seconds religious – slated information called "Tazkirah Ramadhan" was given during the commercial break of the 8 o'clock TV3's Buletin Utama. Every Thursday evening from July to September 2010, a 60 – seconds capsule was used during the 8 o'clock TV3's Buletin Utama with Special Tazkirah. From July to September in 2010. 60 – seconds spot at TV9 's 8 o'clock news was used to educate the public on Islamic Banking.

As an advocate of an initiative to eradicate poverty in this world, Bank Muamalat emphasise the need to provide help to the poor regardless of the location in this world. Bank Muamalat established an employee volunteer programme which was participated by 40 employees nationwide called "Kembara Qurban Kemboja". The objective was to offer help to the Islamic community in Cambodia in conjunction with the Hari Raya Aidil Adha celebration.

We will strive to improve our operations and business outcome through good corporate governance and adherence to CR principles. We acknowledge that to be relevant in the competitive financial service industry, we have to strike excellent relationship with our customers, employees, suppliers, shareholders, regulators as well as the community.

Calender Significant of Events


13 DECEMBER 2010


23 DECEMBER 2010


30 NOVEMBER 2010


13 – 14 OCTOBER 2010

10 AUGUST 2010


15 MAY 2010


11 JULY 2010

15 May 2010
Gotong-royong program at headquarter's level

11 July 2010
Official opening ceremony of new branch at Jeli, Kelantan

10 August 2010
Signing Ceremony BMMB & Westen Union 2010

13 – 14 October 2010
Islamic Banking and Finance Conference 2010 (ibaf 2010)

30 November 2010
International Shariah Investment Convention (isic)2010. Nikko hotel Jln Ampang KL

13 December 2010
MOU Signing Ceremony between BMMB & USIM

23 December 2010
Prize Giving Bonanza 2010 PKNS


18 JANUARY 2011


19 JANUARY 2011

18 January 2011
Riba' Seminar and Asset Management in collaboration with Secretary of State Office, Perlis

19 January 2011
Dewan Perdagangan Islam Malaysia

12 February 2011
Friendly Golf Tournament between BMMB & JPM

4 March 2011
Maulidur Rasul 1432H Talk

19 March 2011
MOU Signing Ceremony Between IIUM - BMMB & CERDAS

21 March 2011
MOU Signing Ceremony Between Bank Muamalat & SAS

12 FEBRUARY 2011


4 MARCH 2011


19 MARCH 2011

21 MARCH 2011

MUSTAFA KAMARUDIN MD SALLEH (Sri Tropika) Alam Pun Bersujud Pada Mu 2010
Acrylic on Canvas

Art piece courtesy of: National Art Gallery (Malaysia)

service

The concept of service lies at the heart of all our operations. We believe that it is only by a total dedication to service, and by consistently putting people first that we can earn the trust and confidence of our stakeholders.

Statement of Corporate Governance

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

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

BOARD OF DIRECTORS

Board Structure, Composition and Processes

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

The Board comprises of eight (8) members, comprising one (1) Chief Executive Officer ("CEO")/Executive Director and seven (7) Non-Executive Directors, of which four (4) are Independent. The Non-Independent Non-Executive Directors are the representatives of the shareholders namely DRB-HICOM Berhad and Khazanah Nasional Berhad. The current composition of the Board is in compliance with Revised BNM/GP1-i.

The Non-Executive Directors do not participate in the day-to-day management of Bank Muamalat and do not engage in any business dealing or other relationship with Bank Muamalat. Due to the capability of the Directors exercising their independent judgement and act in the best interest of Bank Muamalat and its shareholders.

The brief profiles of the Directors are presented on pages 18 to 25 of this Annual Report.

Directors' Code of Ethics

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

Responsibilities of the Board

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

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

The key duties of the Board include the following:-

- Provides guidance on Bank Muamalat's annual business plans and the overall strategic direction;
- Approves Bank Muamalat's annual budget and carries periodic review of the progress made by the various operating divisions against their respective business targets;
- Oversight of Bank Muamalat's business operations and financial performance;
- Identifies and manages the principal risks of Bank Muamalat;
- Reviews the adequacy and integrity of Bank Muamalat's internal control system;
- Reviews and approves the appointments of directors and directors' emoluments and benefits in accordance with relevant guidelines;

- Reviews and approves the appointment and compensation of the Shariah Committee members and key senior management personnel holding the function of Chief Executive Officer and such other function as determined by the Board from time to time;
- Approves changes to the corporate organisation structure; and
- Institutes comprehensive policies, process and infrastructure to ensure Shariah compliance in all aspects of the Islamic bank's operations, products and activities;
- Ensures that the Islamic bank has a beneficial influence on the economic well-being of its community.

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

Board Meetings and Access to Information

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

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

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

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

The Board convened thirteen (13) meetings for the financial year ended 31 March 2011. The attendance of each director in office during the financial year is set out below:-

DIRECTORS	NUMBER OF MEETINGS AND ATTENDANCE
Tan Sri Dato' Dr Mohd Munir Abdul Majid (Chairman/Independent Non-Executive Director)	12/13
Dato' Sri Haji Mohd Khamil Jamil (Non-Independent Non-Executive Director)	12/13
Dato' Haji Mohd Redza Shah Abdul Wahid (Executive Director/Chief Executive Director)	12/13
Haji Ismail Ibrahim (Non-Independent Non-Executive Director)	12/13
Haji Mohd Izani Ghani (Non-Independent Non-Executive Director)	11/13
Haji Abdul Jabbar Abdul Majid (Independent Non-Executive Director)	13/13
Tengku Dato' Seri Hasmuddin Tengku Othman (Independent Non-Executive Director)	12/13
Dato' Azmi Abdullah (Independent Non-Executive Director)	13/13
Datin Azizah Mohd Jaafar (Independent Non-Executive Director) (Resigned as Director on 17 September 2010)	5/6

Statement of Corporate Governance

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

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

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

The Nomination Committee has, during the year under review evaluated and recommended the re-appointments of the following Directors to the Board of Bank Muamalat:-

- Haji Ismail Ibrahim (nominee of Khazanah Nasional Berhad) as a Non-Independent Non-Executive Director
- Tengku Dato' Seri Hasmuddin Tengku Othman as an Independent Non - Executive Director
- Dato' Sri Haji Mohd Khamil Jamil (nominee of DRB-HICOM Berhad) as a Non-Independent Non-Executive Director; and
- Tan Sri Dato' Dr Mohd Munir Abdul Majid as Chairman/ Independent Non-Executive Director

In addition, the Board also considered and approved the recommendation of the Nomination Committee on the re-appointments of the above named Directors.

The Board considers that the recent re-appointments of the above directors who bring their own unique skills, experience and knowledge in the commercial sector with exposure in the financial related industry will ensure that the critical competencies gaps identified by the Board are appropriately addressed and provide fresh insights that would help Bank Muamalat overcome challenges ahead.

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

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

Annual Board Assessment
One of the board responsibilities of the Nomination Committee is to provide a formal and transparent procedure for the assessment of effectiveness of individual Directors and the board as a whole. In line with the Revised BNM/GP1-i and for this purpose, the Nomination Committee conducted and established clear selection criteria, processes and procedures to assess each director's ability towards contribute to the effective decision making of the Board. In addition, assessment will also be undertaken to gauge the effectiveness of the relevant Board Committees.

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

BOARD COMMITTEES

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

The Board Committees in Bank Muamalat are as follows:-

1 **Board Audit Committee**

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

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

The composition of the Board Audit Committee and the attendance of the meetings held in the year under review are as follows:-

MEMBERS OF AUDIT COMMITTEE	NUMBER OF MEETINGS AND ATTENDANCE
Haji Abdul Jabbar Abdul Majid (Chairman/Independent Non-Executive Director)	18/18
Haji Ismail Ibrahim (Non-Independent Non-Executive Director)	18/18
Tengku Dato' Seri Hasmuddin Tengku Othman (Independent Non-Executive Director)	17/18
Dato' Azmi Abdullah (Independent Non-Executive Director) (Appointed as a member on 13 October 2010)	8/8
Datin Azizah Mohd Jaafar (Independent Non-Executive Director) (Resigned as a member on 17 September 2010)	9/9

The objectives and activities carried out by the Board Audit Committee during the year under review is summarised in the Statement of Internal Control as stated in page 66 of this Annual Report.

2 **Nomination Committee**

The Nomination Committee provides a formal and transparent procedure for the appointment of Directors, Chief Executive Officer and members of Shariah Committee as well as assessment of effectiveness of the board as a whole, Shariah Committee members and performance of Chief Executive Officer and key senior Management Officers.

The Nomination Committee comprises of Non–Executive directors, the Chairman and majority of who are Independent. Meetings are held as and when required for the Nomination Committee to deliberate on related matters. The members of the Nomination Committee and the attendance for the year under review are as follows:-

MEMBERS OF NOMINATION COMMITTEE	NUMBER OF MEETINGS AND ATTENDANCE
Tengku Dato' Seri Hasmuddin Tengku Othman (Chairman/Independent Non-Executive Director)	5/5
Dato' Sri Haji Mohd Khamil Jamil (Non-Independent Non-Executive Director)	4/5
Haji Mohd Izani Ghani (Non-Independent Non-Executive Director)	5/5
Haji Abdul Jabbar Abdul Majid (Independent Non-Executive Director)	5/5
Dato' Azmi Abdullah (Independent Non-Executive Director) (Appointed as a member on 13 October 2010)	2/2
Datin Azizah Mohd Jaafar (Independent Non-Executive Director) (Resigned as a member on 17 September 2010)	2/2

Statement of Corporate Governance

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

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

3 Remuneration Committee

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

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

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

MEMBERS OF REMUNERATION COMMITTEE	NUMBER OF MEETINGS AND ATTENDANCE
Dato' Azmi Abdullah (Chairman/ Independent Non-Executive Director) (Appointed as Chairman on 1 April 2010)	5/5
Dato' Sri Haji Mohd Khamil Jamil (Non-Independent Non-Executive Director)	5/5
Haji Ismail Ibrahim (Non-Independent Non-Executive Director)	3/5
Haji Abdul Jabbar Abdul Majid (Independent Non-Executive Director) (Resigned as Chairman of the Committee on 1 April 2011)	5/5
Tengku Dato' Seri Hasmuddin Tengku Othman (Independent Non-Executive Director)	5/5

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

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

4 Board Risk Management Committee

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

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

MEMBERS OF RISK MANAGEMENT COMMITTEE	NUMBER OF MEETINGS AND ATTENDANCE
Dato' Azmi Abdullah (Independent Non-Executive Director) (Appointed as Chairman on 1 June 2010)	14/15
Haji Mohd Izani Ghani (Non-Independent Non-Executive Director)	15/15
Haji Abdul Jabbar Abdul Majid (Independent Non-Executive Director)	15/15
Tengku Dato' Seri Hasmuddin Tengku Othman (Independent Non-Executive Director)	15/15
Datin Azizah Mohd Jaafar (Independent Non-Executive Director) (Resigned as Chairman of the Committee on 1 June 2010 and as a member on 17 September 2010)	8/8

Statement of Corporate Governance

The objectives and activities carried out by the Board Risk Management Committee during the year under review are summarised in the Risk Management Statement as stated in pages 70 to 73 of this Annual Report.

5 Shariah Committee

The Shariah Committee was established in accordance with the requirements of the Islamic Banking Act, 1983 as well as Bank Muamalat's Articles of Association, which prescribe the setting up a Shariah body to ensure that Bank Muamalat's conduct its affairs in accordance with the Shariah principles. Members of the Shariah are scholars renowned for their knowledge and experience in Fiqh Muamalat.

Further details of this Shariah Committee are set out on pages 28 to 32 of this Annual Report.

6 Internal Audit and Control Activities

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

The Statement on Internal Control and activities of Bank Muamalat are summarised on page 68 of this Annual Report.

7 Related Party Transactions

The details of related party transactions of Bank Muamalat are disclosed on page 151 under the Audited Financial Statement for the financial year ended 31 March 2011 of this Annual Report.

8 Management Reports

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

9 Corporate Responsibility

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

Further details of the Corporate Responsibility Initiatives are set out on pages 54 to 55 of this Annual Report.

Board Audit Committee

FROM LEFT TO RIGHT

HAJI ISMAIL IBRAHIM

TENGKU DATO' SERI HASMUDDIN TENGKU OTHMAN

HAJI ABDUL JABBAR ABDUL MAJID

DATO' AZMI ABDULLAH

Statement on Internal Control

The Board Audit Committee ("BAC") affirms their responsibility to ensure that Bank Muamalat Malaysia Berhad ("Bank Muamalat")'s system of internal control is adequate and effective to manage the risk profile within the Bank's risk appetite, and recognises the need for and the value of a sound system of internal controls Bank-wide.

For the financial year under review up to the issuance date of the annual report and financial statements, the BAC is of the view that the system of internal controls in place is sound and adequate to safeguard the stakeholder's interest and the Group's assets.

The BAC is supported by the Internal Audit Department ("IAD"), which forms an integral part of the governance processes in Bank Muamalat. The IAD assists BAC by providing reasonable assurance and value-added recommendations on the adequacy, integrity and effectiveness of the system of internal controls and financial reporting, and compliance with internal policies, procedures, and external applicable rules and regulations.

The IAD conducts independent risk-based audits based on annual audit plan approved by BAC. In preparation of the audit plan, IAD has taken into consideration the strategy, objectives, risk and internal controls environment of Bank Muamalat, and its operating and support units.

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

The BAC reviews all the significant findings, recommendations and action plans reported by the IAD, Management, external auditors and regulators. BAC also reviews the internal audit functions with particular emphasis on the adequacy of staffing, scope, quality of audits, and independence of the IAD.

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

Board Risk Management Committee

FROM LEFT TO RIGHT

TENGKU DATO' SERI HASMUDDIN TENGKU OTHMAN

DATO' AZMI ABDULLAH

HAJI MOHD IZANI GHANI

HAJI ABDUL JABBAR ABDUL MAJID

Statement on Risk Management

OVERVIEW

The integrated risk management system enables Bank Muamalat Malaysia Berhad ("Bank Muamalat") to achieve a single view of risks across its various business operations and in order to gain strategic competitive advantage from its capabilities. It can be described as the strategy and technique of managing risks by taking a holistic approach towards risk management process, which includes risk identification, measurement and management. It also aims at integrating the control and optimisation of the principal risk areas of Market Risk ("MR"), Asset and Liability Management ("ALM"), Credit Risk ("CR"), Operational Risk ("OR") and Shariah Compliance Risk; and building the requisite risk management organisation, infrastructure, process and technology with the objective of advancing Bank Muamalat towards value protection and creation.

Generally, the objectives of Bank Muamalat's integrated risk management system include the following:

- Identifying all the risks exposures and their impact;
- Establishment of sound policies and procedures in line with Bank Muamalat's strategy, lines of business and nature of operations;
- Set out an enterprise – wide organization structure and defining the appropriate roles and responsibilities; and
- Instill the risk culture within Bank Muamalat.

Risk Governance

A stabile enterprise – level organisation structure for risk management is necessary to ensure a uniform view of risks across Bank Muamalat and form strong risk governance.

	RISK MANAGEMENT ORGANISATION STRUCTURE			AUDIT COMMITTEE
BOARD *Establish risk Appetite & Policy*		Board of Directors (BOD)		Board Audit Committee (BAC)
	Board Risk Management Committee (BRMC)		Shariah Committee (SC)	
MANAGEMENT *Ensure Implementation of Policy & Compliance*	Executive Risk Management Committee (ERMC)	Asset – Liability Management Committee (ALCO)	Credit Committee (CC)	Internal Audit Committee (IAC)
	Investment Committee (IC)		Operational Risk Management Committee	
WORKING LEVEL *Implement & Comply with Risk Policy*	Risk Management Department (RMD)	Credit Assessment Department (CAD)	Retail Approving Centre (RAC)	Internal Audit Department (IAD)
	Compliance Department	Shariah Department (SC)	Bank's Line Management	

CREDIT RISK

Credit Risk is defined as the potential loss to Bank Muamalat as a result of default in payment by counterparties in respect of its financing and investment activities.

The administration of credit risk is governed by a full set of credit – related policies, namely the Credit Risk Policy ("CRP") and Guidelines to Credit Risk Policies ("GCRP") and related operating procedures, which incorporates risk policies and prudential limits, risk rating and financing – granting standards, delegated approving authority, risk mitigation, review, rehabilitation and restructuring, and provisioning for impaired financing. These policies are periodically reviewed, updated and approved by Executive Risk Management Committee ("ERMC"), Board Risk Management Committee ("BRMC") and the Board of Directors ("the Board") to ensure its efficacy and continued relevance in ensuring that Bank Muamalat's exposure to credit are kept within its risk appetite and risk tolerance level.

Risk Management Approach

Bank Muamalat credit risk exposures are controlled and managed through well-defined financing granting criteria which include the assessment of an identifiable and adequate source of payments or income generation from the customer, structuring of an effective financing package and incorporation of appropriate risk mitigants. As a supporting tool for the credit assessment process, Bank Muamalat adopts a credit risk rating/grading (internal/external) mechanism. The internal risk rating/grading mechanism is consistent with the nature, size and complexity of Bank Muamalat's activities and is in compliance with the regulatory authority's requirements. To enhance its risk assessment and grading methodology, Bank Muamalat has acquired a credit scoring/grading application which is based on analytical and statistical approaches.

Classification of impaired financing and provisioning is made on Bank Muamalat's financing assets upon determination of the existence of "objective evidence of impairment" and categorisation into individual and collective assessment (as prescribed under the FRS 139). As an interim measure, Bank Muamalat has adopted the Transitional Provision as prescribed by Bank Negara Malaysia ("BNM") in determining the classification of impaired financing assets and its provisioning.

Bank Muamalat's credit portfolios are managed and monitored against stipulated portfolio exposure limits with the objective to avoid credit concentrations and over exposure in the portfolios and to preserve the credit portfolios' quality through timely and appropriate corrective actions.

Credit Risk report is produced on monthly basis to monitor the exposure limits along with Risk Profiling Analysis report on periodical basis to analyse on asset quality and concentrations in the portfolio. Stress Test on Credit Risk is used as a tool to identify possible event of future changes in the financial and economy conditions based on historical and hypothetical scenarios that could have unfavourable effects on Bank Muamalat's exposures and also to assess Bank Muamalat's ability to withstand such changes in relation to the capacity of capital and earnings to absorb potentially significant losses.

MARKET RISK AND ASSETS – LIABILITY MANAGEMENT

Objective, Strategies and Process

Bank Muamalat's market risk management and ALM objectives are to:

- Ensure the implementation of an effective market risk management system in Bank Muamalat;
- Assume an appropriate balance between the level of risk and the level of return desired in order to maximise the return to shareholders' funds;
- Ensure prudent management of Bank Muamalat's resources to support the growth of Bank Muamalat's economic value; and
- Proactively manage Bank Muamalat's balance sheet in order to maximise earnings and attain its strategic goal within the overall risk/return preferences.

Statement on Risk Management

In order for Bank Muamalat to achieve its objectives, Bank Muamalat has put in place an effective market risk and ALM management process which include risk identification, measurement, mitigation, monitoring and reporting. This process translated into a comprehensive Market Risk & ALM Policies and Guidelines ("MRAPG") that governs all market risks and ALM risks assumed by Bank Muamalat, both in trading and banking book.

Sources Rate of Return Risk

- ***Benchmark Rate Risk***

  REPRICING RISK:
  The risk arises from timing differences in the maturity and repricing of Bank Muamalat's assets, liabilities and off-balance-sheet position.

  YIELD CURVE RISK:
  Yield curve risk arises when unanticipated shifts of the yield curve have adverse effects on a Bank's income or underlying economic value.

  BASIS RISK:
  Arises from imperfect correlation in the adjustment of rates earned and paid on different instruments with otherwise similar repricing characteristics.

- ***Optionality***
  The risk arises from option embedded in many Bank's assets, liabilities and off-balance-sheet portfolio.

- ***Displaced Commercial Risk***
  Displace commercial risk arises from the risk that Bank Muamalat may confront under commercial pressure to pay returns that exceed the rate that has been earned on its assets financed by investment account holders. Bank Muamalat forgoes part or its entire share of profit in order to retain its fund providers and dissuade them from withdrawing their funds.

Liquidity Risk

As stated in Bank Muamalat's policy, liquidity risk can be divided into two types which are:-

- ***Funding Liquidity Risk***
  Refers to the potential inability of Bank Muamalat to meet its funding requirements arising from cash flow mismatches at a reasonable cost.

- ***Market Liquidity Risk***
  Refers to Bank Muamalat's potential inability to liquidate positions quickly and insufficient volumes, at a reasonable price.

Bank Muamalat monitors the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times. Bank Muamalat's ability to maintain a stable liquidity profile is primarily on account of its success in retaining and growing its customer deposit base.

OPERATIONAL RISK MANAGEMENT

Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, people, systems and external events. The objective of Operational Risk Management is to effectively manage its operational risk to minimise possible financial losses due to the operational risk definition. This is being discharged via the implementation of an Operational Risk Management Framework of Bank Muamalat.

Processes

The processes of Operational Risk Management includes the Identification, Assessment, Reporting, Management and Monitoring to manage its operational risks effectively which include risk identification, assessment, reporting, management and monitoring.

Governance Organisational Structure

The responsibility of managing operational risks is the responsibility of all employees which is premised on the concept of 3 Lines of Defense as below:-

- 1st Line of Defense – Business/Support units who are primary Operational risk owners, responsible for managing operational risk exposures on a day-to-day basis.
- 2nd Line of Defense – Operational Risk Management Unit with the responsibility of developing the overall Operational Risk Management Framework encompassing measurement and monitoring tools, methodologies and facilitating identification of operational risks.
- 3rd Line of Defense – Internal Audit tasked to provide independent assurance on the adequacy and effectiveness of the Operational Risk Management Framework and ensuring compliance to the framework.

The implementation of Operational Risk Management Framework is also assisted via the formation of Operational Risk Management Committee ("ORMC"), that comprises of Department Heads of respective business/support units that deliberate, review and recommend all policies on Operational Risk Management.

Measurement, Monitoring and Reporting

The methodology and tools being used to measure and monitor Operational Risks include:-

- Risk Control Self Assessment – Operational risk are being identified, assessed, monitored together with the corresponding mitigation plans via the Risk Agents/representatives of the respective business/support units, ie. dedicated personnel within each Business/support units responsible in assisting in the implementation of the Operational Risk in their respective business units. These risks are then being reviewed by Operational Risk Management unit and challenged at ORMC meetings; and
- Operational risk incident data collection – Reporting of operational risk incidents that can be used to assess Bank Muamalat's operational risk exposure.

Significant operational risks are being reported on a quarterly basis to ORMC, ERMC and BRMC of which the progress of the mitigation plans are being updated with the respective owners and monitored via the same reporting. The operational risk data are also being reported to Management annually.

Business Continuity Management (BCM)

Bank Muamalat adopts BNM Guidelines on Business Continuity Management Business Continuity Management entails enterprise wide planning and arrangements of key resources and procedures that enable the institution to respond and continue to operate critical business functions across a broad spectrum of interruptions to business, arising from internal or external events.

Statement on Compliance

COMPLIANCE FRAMEWORK

Bank Muamalat Malaysia Berhad ("Bank Muamalat") recognises that regulatory compliance risk and obligations have to be managed proactively and effectively, with the culture of compliance embedded across all business activities of Bank Muamalat. Regulatory compliance risk is defined as risk or failure to comply with applicable regulatory requirements impacting Bank Muamalat's operations.

The Board of Directors ("the Board"), Chief Executive Officer ("CEO") and senior Management have adopted the Compliance Framework and Charter built on the following principles:

- Commitment to comply with relevant regulatory requirements and ensuring that Bank Muamalat's operations, internal policies and procedures, code of conduct and standards applicable to its banking activities are conducted in line with regulatory requirements.
- Shared responsibility for regulatory compliance, premised on the concept of 3 lines of defence:
  - o The 1st line of defense is formed by management, the business and support units. These are the primary parties responsible for managing compliance risk and obligations, and the delivery of compliant outcomes;
  - o The 2nd line of defense is formed by the management assurance functions, primarily Risk Management and Compliance Departments, to ensure Bank Muamalat manages risk holistically, including compliance risks; and
  - o The 3rd line of defense is formed by the Internal Audit Department ("IAD"), who will provide an independent assurance to the Board that the overall Compliance Framework operates as intended.
- Dedicated compliance function coordinates the management of Bank Muamalat's compliance risk; implement a compliance programme across Bank Muamalat to ensure effective operationalisation of the Compliance Framework.
- Embedding the Compliance Framework within the operations of Bank Muamalat, thus making regulatory compliance risk management an integral part of Bank Muamalat's business activities.

The Board and management of Bank Muamalat further pledge to ensure the implementation of the following drivers of effective compliance culture:

- Leadership commitment, engagement and sponsorship of the compliance programme;
- Education and communication to ensure compliance knowledge and awareness;
- Implementation of policies, procedures and internal controls to effectively manage compliance risk;
- Appropriate mechanisms to identify, capture, escalate, analyse and respond to issues or breaches associated to compliance obligations;
- Promotion of an environment that encourages employees to seek guidance, raise concerns and report potential non-compliance incidences; and
- Demonstration of active enforcement of penalties for non-compliance

In managing compliance risk, proactive actions has been taken to engage various stakeholder in communicating the requirements, identifying the impact and monitoring the action plans with status periodically escalated to Senior Management and the Board for deliberations.

Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT)

Bank Muamalat also explicitly recognises the importance of maintaining continuous efforts and initiatives in assisting the Government and Bank Negara Malaysia ("BNM") in combating illicit and money laundering activities as well as the financing of terrorist activities through the use of the banking system. With infrastructure and processes in place, Bank Muamalat has demonstrated its full commitment and support in ensuring compliance with Anti-Money Laundering and Terrorist Financing Act, 2001 (AMLATFA) as one of the responsible Reporting Institution ("RI").

The building blocks of the infrastructure are the AML/CFT Policy and the Internal Guidelines that sets out the following:

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

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

SABRI MOHD SALLEH Semesta Bersujud dan Bertawaduk Pada Mu 2010
Mixed Media on Canvas

Art piece courtesy of: National Art Gallery (Malaysia)

respect

Respect is the bond that links us with each of our stakeholders. A profound sense of respect for people and for the environment is fundamental to our ability to enrich the lives of those around us.

Financial Statements

Basel II – Pillar 3 Disclosures

Directors' Report

The directors of the 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 2011.

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	133,577	134,014

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 priod. The directors do not recommend the payment of any dividend in respect of the current financial period.

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
Datin Azizah Mohd. Jaafar (resigned 17 September 2010)
Haji Abdul Jabbar Abdul Majid
Tengku Dato' Seri Hasmuddin Tengku Othman
Haji Mohd Izani Ghani
Dato' Azmi Abdullah

Directors' Report

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 1.4.2010	ACQUIRED	DISPOSAL	AS AT 31.3.2011
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 period, 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.

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 bad and 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 bad and 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.

(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.

BUSINESS REVIEW 2010/2011

The Group registered a profit before tax and zakat of RM204.3 million for the year ended 31 March 2011, higher by 43.8% in contrast to the profit recorded in the prior corresponding period in 2010 amounting to RM142.1 million. The increase in profit was mainly due to significant improvements in allowance for losses on financing and writeback of impairment on financial asset.

Total assets of the Group grew in the twelve months period to RM18.3 billion as compared to RM16.7 billion last year. The increase was mainly due to an increase in amount of securities held, cash and short term fund and financing of customer.

PROSPECTS 2011/2012

The world economy has passed its worst economic downturn since the Great Depression. Many industrialised economies remains in recovery phase but the emerging markets have been pivotal in reviving the momentum.

The enhanced economic environment has augured positively for the prospects ahead. The strengthening domestic economy and the encouraging trends in private economic activities, on the back of sustained resilience in the financial sector, appears to underpin the improved sentiment.

Islamic finance in Malaysia, meanwhile, continued to register robust growth during the past year. Its total assets advanced to RM351 billion in 2010, or almost 16% higher from a year ago. Broadly, the progressive stance in reinforcing Malaysia as a leading international centre for Islamic finance continues to position the bank favourably going forward.

Directors' Report

RATING BY EXTERNAL RATING AGENCIES

Details of the Bank's ratings are as follows:

RATING AGENCY	DATE	CLASSIFICATION	RECEIVED
Rating Agency Malaysia Berhad	May 2011	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 5 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, 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.

(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.

DISCLOSURE OF SHARIAH COMMITTEE (cont'd)

(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.

(o) The Shariah Committee shall maintain the confidentiality of the BMMB's' internal information and shall responsible for the safe guarding of confidential information. He or she should maintain all information in strict confidence, except when disclosure is authorised by the Bank or required by law.

(p) 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 29 April 2011.

TAN SRI DATO' DR. MOHD MUNIR ABDUL MAJID

DATO' HAJI MOHD REDZA SHAH ABDUL WAHID

Kuala Lumpur, 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 88 to 191 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 2011 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 29 April 2011.

TAN SRI DATO' DR. MOHD MUNIR ABDUL MAJID

DATO' HAJI MOHD REDZA SHAH ABDUL WAHID

Kuala Lumpur, Malaysia

Statutory Declaration

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

I, PeerMohamed Ibramsha being the officer primarily responsible for the financial management of Bank Muamalat Malaysia Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 88 to 191 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 Ibramsha
at Kuala Lumpur in Federal Territory
on 29 April 2011

PEERMOHAMED IBRAMSHA

Before me,

Commissioner for Oaths

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 2011. 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 2011 that we have reviewed are in compliance with the Shariah principles;

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

3 all earnings that have been realised from sources or by means prohibited by the Shariah principles have been considered for disposal to charitable causes; 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 2011 have been conducted in conformity with the Shariah principles.

Signed on behalf of the Shariah Committee,

AZIZI CHE SEMAN

ENGKU AHMAD FADZIL ENGKU ALI

Date: 29 April 2011
Kuala Lumpur, Malaysia

Independent Auditors' Report

TO THE MEMBERS OF BANK MUAMALAT MALAYSIA BERHAD
(INCORPORATED IN MALAYSIA)

We have audited the financial statements of Bank Muamalat Malaysia Berhad, which comprise the statements of financial position as at 31 March 2011 of the Group and the Bank, and the income statements, statements of comprehensive income, statements of changes in equity and statements 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 88 to 191.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards, as modified by Bank Negara Malaysia Guidelines and Shariah principles and the Companies Act, 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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 and fair presentation of the financial statements 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.

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 principle 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 2011 and of its financial performance and cash flows for the period then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the Act.

(b) We are satisfied that the accounts of the 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 accounts 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
29 April 2011

Statements of Financial Position

AS AT 31 MARCH 2011 (26 RABIUL AKHIR 1432H)

		GROUP		BANK	
	NOTE	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
ASSETS					
Cash and short-term funds	4	**6,447,295**	5,775,383	**6,447,295**	5,775,383
Financial investment held-to-maturity	5 (a)	**28,224**	28,224	**28,224**	28,224
Financial investment available-for-sale	5 (b)	**4,331,906**	4,012,805	**4,321,106**	4,012,805
Islamic derivative financial assets	6	**2,154**	17,763	**2,154**	17,763
Financing of customers	7	**7,148,160**	6,630,159	**7,166,034**	6,630,405
Other assets	8	**113,866**	68,697	**106,811**	68,209
Statutory deposits with Bank Negara Malaysia	9	**94,121**	87,821	**94,121**	87,821
Deferred tax assets (net)	10	**38,240**	27,915	**38,240**	27,915
Investment in subsidiaries	11	**–**	–	**6,484**	6,402
Property, plant and equipment	12	**101,521**	84,079	**101,516**	84,034
Prepaid land lease payment	13	**255**	260	**255**	260
TOTAL ASSETS		**18,305,742**	16,733,106	**18,312,240**	16,739,221
LIABILITIES					
Deposits from customers	14	**16,171,772**	14,920,856	**16,178,389**	14,927,848
Deposits and placements of banks and other financial institutions	15	**14,993**	16,361	**14,993**	16,361
Islamic derivative financial liabilities	6	**1,018**	18,894	**1,018**	18,894
Bills and acceptances payable	16	**291,375**	92,224	**291,375**	92,224
Other liabilities	17	**209,926**	96,422	**209,950**	96,297
Provision for zakat and taxation	18	**5,228**	19,218	**5,228**	19,143
Subordinated bonds	19	**250,000**	250,000	**250,000**	250,000
TOTAL LIABILITIES		**16,944,312**	15,413,975	**16,950,953**	15,420,767
SHAREHOLDERS' EQUITY					
Share capital	20	**1,000,000**	1,000,000	**1,000,000**	1,000,000
Reserves	21	**361,430**	319,131	**361,287**	318,454
TOTAL SHAREHOLDERS' EQUITY		**1,361,430**	1,319,131	**1,361,287**	1,318,454
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**18,305,742**	16,733,106	**18,312,240**	16,739,221
COMMITMENTS AND CONTINGENCIES	37	**5,745,824**	5,732,029	**5,745,824**	5,732,029
CAPITAL ADEQUACY *	40				
Core capital ratio		**15.2%**	13.9%	**15.2%**	13.9%
Risk-weighted capital ratio		**19.2%**	17.6%	**19.2%**	17.5%

* 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.

Income Statements

FOR THE YEAR ENDED 31 MARCH 2011 (26 RABIUL AKHIR 1432H)

	NOTE	GROUP 1.4.2010 TO 31.3.2011 RM'000	GROUP 1.1.2009 TO 31.3.2010 RM'000	BANK 1.4.2010 TO 31.3.2011 RM'000	BANK 1.1.2009 TO 31.3.2010 RM'000
Income derived from investment of depositors' funds and others	22	**758,404**	860,052	**758,404**	860,052
Income derived from investment of shareholders' funds	23	**64,888**	82,668	**64,803**	81,973
Allowance for impairment on financing	24	**(36,127)**	(161,189)	**(36,127)**	(161,065)
(Provision)/writeback for commitments and contingencies	17	**(32,861)**	82	**(32,861)**	82
Impairment writeback/(loss) on investments	25	**59,617**	(37,779)	**59,699**	(39,152)
Islamic profit rate swap		**(158)**	(4,527)	**(158)**	(4,527)
Other expenses directly attributable to the investment of the depositors' and shareholders' funds		**(21,521)**	(29,641)	**(21,521)**	(29,739)
TOTAL DISTRIBUTABLE INCOME		**792,242**	709,666	**792,239**	707,624
Income attributable to depositors	26	**(301,091)**	(269,956)	**(300,948)**	(270,109)
TOTAL NET INCOME		**491,151**	439,710	**491,291**	437,515
Personnel expenses	27	**(154,497)**	(152,086)	**(153,789)**	(151,636)
Other overheads and expenditures	30	**(116,718)**	(126,032)	**(117,090)**	(125,714)
Finance cost	31	**(15,625)**	(19,531)	**(15,625)**	(19,531)
Profit before zakat and taxation		**204,311**	142,061	**204,787**	140,634
Zakat	32	**(8,174)**	(241)	**(8,174)**	(241)
Taxation	33	**(62,560)**	(42,986)	**(62,599)**	(42,865)
NET PROFIT FOR THE YEAR/PERIOD		**133,577**	98,834	**134,014**	97,528
Earnings per share attributable to share holders of the Bank (sen):	34	**13.4**	11.0		

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

Statements of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2011 (26 RABIUL AKHIR 1432H)

	GROUP		BANK	
	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000
Profit for the year/period	**133,577**	98,834	**134,014**	97,528
Other comprehensive income/(loss):				
Net gain/(loss) on revaluation of financial investment available-for-sale	**18,386**	24,316	**18,376**	24,541
Income tax relating to components of other comprehensive income	**(5,526)**	(5,064)	**(5,526)**	(5,064)
Exchange fluctuation reserve	**1,083**	(1,191)	**1,083**	(1,191)
Other comprehensive income for the year/period, net of tax	**13,943**	18,061	**13,933**	18,286
Total comprehensive income for the year/period	**147,520**	116,895	**147,947**	115,814

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

Consolidated Statements of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2011 (26 RABIUL AKHIR 1432H)

GROUP	← ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK →						
	← SHARE CAPITAL →		← NON-DISTRIBUTABLE →				
	ORDINARY SHARES RM'000	MUSHARAKAH IRREDEEMABLE NON-CUMULATIVE CONVERTIBLE PREFERENCE SHARES RM'000	STATUTORY RESERVE* RM'000	EXCHANGE FLUCTUATION RESERVE RM'000	AVAILABLE-FOR-SALE RESERVE RM'000	DISTRIBUTABLE RETAINED PROFITS RM'000	TOTAL EQUITY RM'000
At 1 April 2010, as previously stated	**1,000,000**	**-**	**206,105**	**(530)**	**(52,973)**	**166,529**	**1,319,131**
Effect of FRS 139 adoption	**-**	**-**	**-**	**-**	**-**	**(105,221)**	**(105,221)**
At 1 April 2010, as restated	**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	**1,000,000**	**-**	**272,893**	**553**	**(40,113)**	**128,097**	**1,361,430**
At 1 January 2009	397,275	102,725	156,688	661	(72,225)	117,112	702,236
Total comprehensive income for the period	-	-	-	(1,191)	19,252	98,834	116,895
Transfer to statutory reserve	-	-	49,417	-	-	(49,417)	-
Issued during the period	500,000	-	-	-	-	-	500,000
Converted to ordinary shares during the period	102,725	(102,725)	-	-	-	-	-
At 31 March 2010	1,000,000	-	206,105	(530)	(52,973)	166,529	1,319,131

* 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.

Statements of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2011 (26 RABIUL AKHIR 1432H)

BANK	ORDINARY SHARES RM'000	MUSHARAKAH IRREDEEMABLE NON-CUMULATIVE CONVERTIBLE PREFERENCE SHARES RM'000	STATUTORY RESERVE* RM'000	EXCHANGE FLUCTUATION RESERVE RM'000	AVAILABLE-FOR-SALE RESERVE RM'000	DISTRIBUTABLE RETAINED PROFITS RM'000	TOTAL EQUITY RM'000
	ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK						
	SHARE CAPITAL		NON-DISTRIBUTABLE				
At 1 April 2010, as previously stated	**1,000,000**	**-**	**204,596**	**(530)**	**(52,824)**	**167,212**	**1,318,454**
Effect of FRS 139 adoption	**-**	**-**	**-**	**-**	**-**	**(105,114)**	**(105,114)**
At 1 April 2010, as restated	**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	**1,000,000**	**-**	**271,603**	**553**	**(39,974)**	**129,105**	**1,361,287**
At 1 January 2009	397,275	102,725	155,832	661	(72,301)	118,448	702,640
Total comprehensive income for the period	-	-	-	(1,191)	19,477	97,528	115,814
Transfer to statutory reserve	-	-	48,764	-	-	(48,764)	-
Issued during the period	500,000	-	-	-	-	-	500,000
Converted to ordinary shares during the period	102,725	(102,725)	-	-	-	-	-
At 31 March 2010	1,000,000	-	204,596	(530)	(52,824)	167,212	1,318,454

* 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.

Statements of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2011 (26 RABIUL AKHIR 1432H)

	GROUP		BANK	
	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before zakat and taxation	**204,311**	142,061	**204,787**	140,634
Adjustment for				
Amortisation of prepaid land and lease payment	**5**	5	**5**	5
Depreciation of property, plant and equipment	**13,638**	14,504	**13,612**	14,467
Gain on disposal of property, plant and equipment	**-**	(21)	**-**	(21)
Property, plant and equipment written off	**748**	16	**748**	-
Islamic profit rate swap and Islamic cross currency swap	**1 58**	4,527	**158**	4,527
Amortisation of premium less accretion of discount	**14,584**	12,547	**14,584**	12,547
Net gain from sale of financial investment available-for-sale	**(626)**	(2,974)	**(626)**	(2,974)
Net gain from sale of financial investment held-for-trading	**(1,170)**	(14,255)	**(1,170)**	(14,255)
Net gain on revaluation of foreign exchange transaction	**(14,034)**	(17,567)	**(14,034)**	(17,567)
Net (gain)/loss from foreign exchange derivatives	**(2,502)**	510	**(2,502)**	510
(Writeback)/additional impairment on investments	**(59,617)**	37,779	**(59,699)**	39,152
Allowance for impairment on financing	**53,897**	170,784	**53,897**	170,660
Provision/(writeback) for commitment and contingencies	**32,861**	(82)	**32,861**	(82)
Finance cost	**15,625**	19,531	**15,625**	19,531
Gross dividend income	**(2,000)**	(5,141)	**(2,000)**	(5,141)
Operating profit before working capital changes	**255,878**	362,224	**256,246**	361,993
(Increase)/decrease in operating assets:				
Islamic derivative financial assets	**18,111**	-	**18,111**	-
Financing of customers	**(674,386)**	(773,651)	**(691,907)**	(758,396)
Statutory deposits with Bank Negara Malaysia	**(6,300)**	163,950	**(6,300)**	163,950
Other assets	**(47,439)**	2,936	**(40,872)**	(2,281)
Increase/(decrease) in operating liabilities:				
Deposits from customers	**1,250,916**	2,472,886	**1,250,541**	2,463,150
Deposits and placements of banks and other financial institutions	**(1,368)**	(234,064)	**(1,368)**	(234,064)
Islamic derivative financial liabilities	**(15,763)**	-	**(15,763)**	-
Bills and acceptances payable	**199,151**	(559,692)	**199,151**	(559,692)
Other liabilities	**96,618**	621	**96,654**	604
Cash generated from operation	**1,075,418**	1,435,210	**1,064,493**	1,435,264
Zakat paid	**(3,402)**	-	**(3,402)**	-
Tax paid	**(66,768)**	(23,168)	**(66,619)**	(23,122)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**1,005,248**	1,412,042	**994,472**	1,412,142

Statements of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2011 (26 RABIUL AKHIR 1432H)

	GROUP		BANK	
	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Net purchase of financial investment	**(1,344,303)**	(1,892,997)	**(1,333,513)**	(1,892,997)
Proceed from disposal of property, plant and equipment	**32**	176	**18**	176
Purchase of property, plant and equipment	**(31,860)**	(54,932)	**(31,860)**	(54,932)
Additional investment in a subsidiary	-	-	**-**	(100)
Redemption of AFS securities	**1,056,160**	758,202	**1,056,160**	758,202
Dividend income	**2,000**	5,141	**2,000**	5,141
NET CASH USED IN INVESTING ACTIVITIES	**(317,971)**	(1,184,410)	**(307,195)**	(1,184,510)
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividend paid on islamic subordinated bond	**(15,365)**	(19,531)	**(15,365)**	(19,531)
Proceeds from issuance of ordinary shares	**-**	500,000	**-**	500,000
NET CASH GENERATED FROM FINANCING ACTIVITIES	**(15,365)**	480,469	**(15,365)**	480,469
NET INCREASE IN CASH AND CASH EQUIVALENTS	**671,912**	708,101	**671,912**	708,101
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD	**5,775,383**	5,067,282	**5,775,383**	5,067,282
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	**6,447,295**	5,775,383	**6,447,295**	5,775,383
CASH AND CASH EQUIVALENTS CONSIST OF:				
Cash and short term funds (Note 4)	**6,447,295**	5,775,383	**6,447,295**	5,775,383

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

Notes to the Financial Statements

31 MARCH 2011 (26 RABIUL AKHIR 1432H)

1 CORPORATE INFORMATION

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

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

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

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 29 April 2011.

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 January 2010 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.

Notes to the Financial Statements

31 MARCH 2011 (26 RABIUL AKHIR 1432H)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs

The accounting policies adopted by the Group and the Bank are consistent with those adopted in previous years, except as follows:-

The Group and the Bank adopted the following FRSs, amendments to FRSs and IC Interpretations beginning on or after 1 January 2010:

FRSs, AMENDMENTS AND INTERPRETATIONS		EFFECTIVE FOR FINANCIAL PERIOD BEGINNING ON OR AFTER
FRS 7	Financial Instruments: Disclosures	1 January 2010
FRS 101	Presentation of Financial Statements	1 January 2010
FRS 123	Borrowing Costs	1 January 2010
FRS 139	Financial Instruments: Recognition and Measurement	1 January 2010
Amendments to FRS 1	First-time Adoption of Financial Reporting Standards and FRS 127: Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2010
Amendments to FRS 2	Share-based Payment: Vesting Conditions and Cancellations	1 January 2010
Amendments to FRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2010
Amendments to FRS 7	Financial Instruments: Disclosures and IC Interpretation 9: Reassessment of Embedded Derivatives	1 January 2010
Amendments to FRS 8	Operating Segments	1 January 2010
Amendments to FRS 107	Cash Flow Statements	1 January 2010
Amendments to FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2010
Amendments to FRS 110	Events After the Balance Sheet Date	1 January 2010
Amendments to FRS 117	Leases	1 January 2010
Amendments to FRS 118	Revenue	1 January 2010
Amendments to FRS 119	Employee Benefits	1 January 2010
Amendments to FRS 120	Accounting for Government Grants	1 January 2010
	and Disclosure of Government Assistance	1 January 2010
Amendments to FRS 123	Borrowing Costs	
Amendments to FRS 127	Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2010
Amendments to FRS 128	Investments in Associates	1 January 2010
Amendments to FRS 129	Financial Reporting in Hyperinflationary Economies	1 January 2010
Amendments to FRS 131	Interest in Joint Ventures	1 January 2010
Amendments to FRS 132	Financial Instruments: Presentation	1 January 2010
Amendments to FRS 134	Interim Financial Reporting	1 January 2010
Amendments to FRS 136	Impairment of Assets	1 January 2010
Amendments to FRS 138	Intangible Assets	1 January 2010
Amendments to FRS 140	Investment Property	1 January 2010

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (cont'd)

FRSs, AMENDMENTS AND INTERPRETATIONS		EFFECTIVE FOR FINANCIAL PERIOD BEGINNING ON OR AFTER
IC Interpretation 9	Reassessment of Embedded Derivatives	1 January 2010
IC Interpretation 10	Interim Financial Reporting and Impairment	1 January 2010
IC Interpretation 11 FRS 2	Group and Treasury Share Transactions	1 January 2010
IC Interpretation 14 FRS 119	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2010
Amendments to IC Interpretation 9	Reassessment of Embedded Derivatives	1 January 2010
TRi-3	Presentation of Financial Statements of Islamic Financial Institutions	1 January 2010
Amendments to FRS 132	Classification of Rights Issues	1 March 2010
Amendments to FRS 132	Financial Instruments: Presentation	1 March 2010

3.2.1 Impact due to adoption of new standards

FRS 4 and Amendments to FRS 129 are not applicable to the Group and the Bank. The adoption of the above standards and interpretation did not have any effects on the financial performance or the position of the Group and the Bank except as discussed below:

(a) FRS 7 Financial Instruments: Disclosures

Prior to 1 January 2010, information about financial instruments was disclosed in accordance with the requirements of FRS 132 Financial Instruments: Disclosure and Presentation. FRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

The Group and the Bank have applied FRS 7 prospectively in accordance with the transitional provisions. Hence, the new disclosures have not been applied to the comparatives. The new disclosures are included throughout the the Group's and the Bank's financial statements for the year ended 31 March 2011.

Notes to the Financial Statements

31 MARCH 2011 (26 RABIUL AKHIR 1432H)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (cont'd)

3.2.1 Impact due to adoption of new standards (cont'd)

(b) FRS 101 Presentation of Financial Statements (Revised)

The revised FRS 101 introduces changes in the presentation and disclosures of financial statements. The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. The Standard also introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group and the Bank have elected to present this statement as two linked statements.

In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the classification of items in the financial statements.

The revised FRS 101 also requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

The revised FRS 101 was adopted retrospectively by the Group and the Bank.

(c) FRS 139 Financial Instruments: Recognition and Measurement

FRS 139 establishes the principles for the recognition, derecognition and measurement of an entity's financial instruments and for hedge accounting. However, since the adoption of BNM's revised BNM/GP8i – Guidelines on Financial Reporting for Islamic Licensed Institutions on 1 January 2005, certain principles in connection with the recognition, derecognition and measurement of financial instruments, including derivative instruments, and hedge accounting which are similar to those prescribed by FRS 139 have already been adopted by the Group and the Bank. Therefore, the adoption of FRS 139 on 1 April 2010 has resulted in the following material changes in accounting policies as follows:

(i) Impairment of financing

The adoption of FRS 139 has resulted in a change in the accounting policy relating to the assessment for impairment of financial assets, particularly financing. The existing accounting policies relating to the assessment of impairment of other financial assets of the Group and the Bank are already largely in line with those of FRS 139. Prior to the adoption of FRS 139, allowances for impaired financing (previously referred to as non-performing financing) were computed in conformity with the Bank Negara Malaysia ("BNM/GP3") Guidelines on Classification of Non-Performing financings and Provision for Substandard, Bad and Doubtful Debts. Upon the adoption of FRS 139, the Group and the Bank assesses at the end of each reporting period whether there is any objective evidence that a financing or group of financing is impaired. The financing or group of financing is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the financing (an incurred 'loss event') and that the loss event has an impact on future estimated cash flows of the financing or group of financing that can be reliably estimated.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (cont'd)

3.2.1 Impact due to adoption of new standards (cont'd)

(c) FRS 139 Financial Instruments: Recognition and Measurement (cont'd)

(i) Impairment of financing (cont'd)

The Group and the Bank first assess individually whether objective evidence of impairment exists individually for financing which are individually significant, and collectively for financing which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financing, the financing is included in a group of financing with similar credit risk characteristics and collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financing's carrying amount and the present value of the estimated future cash flows. The carrying amount of the financing is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

In the Amendments to FRS 139 listed above, Malaysian Accounting Standards Board (MASB) has included an additional transitional arrangement for entities in the financial sector, whereby BNM may prescribe an alternative basis for collective assessment of impairment by banking institutions. This transitional arrangement is prescribed in BNM's guidelines on Classification and Impairment Provisions for Loans/Financing issued on 8 January 2010, whereby banking institutions are required to maintain collective assessment allowances of at least 1.5% of total outstanding loans/financing, net of individual impairment allowance. Subject to the written approval by BNM, banking institutions are allowed to maintain a lower collective assessment allowance. The collective assessment allowance of the Bank as at the reporting date have been arrived at based on this transitional arrangement issued by BNM.

The changes in accounting policy above have been accounted for prospectively, in line with the transitional arrangements under para 103AA of FRS 139, with adjustments to the carrying values of financial assets affecting the income statement as at the beginning of the current financial period being adjusted to opening retained earnings. As a result of the adoption of the financings impairment basis under FRS 139 and the transitional arrangements under BNM's guidelines on Classification and Impairment Provisions for Loans/Financing, the Group and the Bank has recognised an additional allowance of RM106,092,000 and RM105,985,000 respectively against the retained earnings as at 1 April 2010. Any further collective assessment allowance and individual assessment allowance charged subsequent to the initial adoption of FRS 139 is recognised as allowance for impairment on financing and financing in the income statement.

Notes to the Financial Statements

31 MARCH 2011 (26 RABIUL AKHIR 1432H)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (cont'd)

3.2.1 Impact due to adoption of new standards (cont'd)

(c) FRS 139 Financial Instruments: Recognition and Measurement (cont'd)

(ii) Classification of financing as impaired

Prior to the adoption of FRS 139, financing were classified as non-performing when principal or profit or both are past due for more than three (3) months. The Group and the Bank now assess at the end of each reporting period whether there is any objective evidence that a financing or a group of financing is impaired, as a result of one or more events that have occurred after the initial recognition. Allowances for financing impairment are determined either via the individual assessment or collective assessment basis. The change in the criteria for classification of impaired financings has resulted in an increase in opening impaired financings of RM78,234,152 for the Group and the Bank.

(iii) Profit income recognition

Financial assets classified as held-to-maturity and financing and receivables are measured at amortised cost using the effective profit method. Profit income from financing which were previously recognised on contractual profit rates are now recognised using effective profit rates. Profit-in-suspense is also no longer recognised on financing. The change in the profit income recognition has resulted in an increase in opening retained earnings of RM4,245,533 for the Group and the Bank.

(d) TR i-3 Presentation of Financial Statements of Islamic Financial Institutions

This technical release is to be read in conjunction with FRS 101 Presentation of Financial Statements. The overall requirements are the same as that of FRS 101, except for the additional guidance specific to Islamic financial institutions. The application of this technical release does not have any financial impact on the Group and the Bank as the changes introduced are presentational in nature.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (cont'd)

3.2.1 Impact due to adoption of new standards (cont'd)

The following are effects arising from the above changes in accounting policies:

(i) Statement of financial position

	INCREASE/(DECREASE) GROUP AS AT 1.4.2010 RM'000	BANK AS AT 1.4.2010 RM'000
ASSETS		
Financial investment available-for-sale	(38,412)	(38,412)
Financing of customers		
– reversal of specific allowance (Note 7 (ii))	300,304	300,304
– reversal of general allowance (Note 7 (ii))	106,663	106,770
– reversal of income in suspense	35,156	35,156
– recognition of individual impairment (Note 7 (ii))	(324,997)	(324,997)
– recognition of collective impairment (Note 7 (ii))	(223,218)	(223,218)
– recomputation of income based on effective profit rate	4,245	4,245
	(140,259)	(140,152)
Tax impact	35,038	35,038
SHAREHOLDERS' EQUITY		
Retained profits	(105,221)	(105,114)

Notes to the Financial Statements

31 MARCH 2011 (26 RABIUL AKHIR 1432H)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.3 Standards issued but not yet effective

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

DESCRIPTION		EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER
FRS 1	First-time Adoption of Financial Reporting Standards	1 July 2010
FRS 3	Business Combinations (revised)	1 July 2010
Amendments to FRS 2	Share-based Payment	1 July 2010
Amendments to FRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 July 2010
Amendments to FRS 127	Consolidated and Separate Financial Statements	1 July 2010
Amendments to FRS 138	Intangible Assets	1 July 2010
Amendments to IC Interpretation 9	Reassessment of Embedded Derivatives	1 July 2010
IC Interpretation 12	Service Concession Arrangements	1 July 2010
IC Interpretation 15	Agreements for the Construction of Real Estate	1 July 2010
IC Interpretation 16	Hedges of a Net Investment in a Foreign Operation	1 July 2010
IC Interpretation 17	Distributions of Non-cash Assets to Owners	1 July 2010
Amendments to FRS 1	Limited Exemption from Comparative	1 January 2011
FRS 7	Disclosures for First-time Adopters	
Amendments to FRS 7	Improving Disclosures about Financial Instruments	1 January 2011
Amendments to FRS 7	Financial Instruments: Disclosure	1 January 2011
Amendments to FRS 101	Presentation of Financial Statements	1 January 2011
Amendments to FRS 121	The Effects of Changes in Foreign Exchange Rates	1 January 2011
Amendments to FRS 128	Investments in Associates	1 January 2011
Amendments to FRS 131	Interests in Joint Ventures	1 January 2011
Amendments to FRS 132	Financial Instruments: Presentation	1 January 2011
Amendments to FRS 134	Interim Financial Reporting	1 January 2011
Amendments to FRS 139	Financial Instruments: Recognition and Measurement	1 January 2011
IC Interpretation 4	Determining Whether an Arrangement Contains a Lease	1 January 2011
IC Interpretation 18	Transfers of Assets from Customers	1 January 2011
Amendments to IC Interpretation 13	Customer Loyalty Programmes	1 January 2011
TR 3	Guidance on Disclosures of Transition to IFRSs	1 January 2011
TR i-4	Shariah Compliant Sale Contracts	1 January 2011
IC Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2011
Amendments to IC Interpretation 14	Prepayments of a Minimum Funding Requirement	1 July 2011
FRS 124	Related Party Disclosures	1 January 2012
IC Interpretation 15	Agreements for the Construction of Real Estate	1 January 2012

The directors expect that the adoption of the standards and interpretation above will have no material impact on the financial statements in the period of initial application.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

(ii) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries 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 are eliminated in full. Uniform 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. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. 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 interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss.

Minority interest represents the portion of income statement and net assets in subsidiaries not held by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of the changes in the subsidiaries' equity since then.

Notes to the Financial Statements

31 MARCH 2011 (26 RABIUL AKHIR 1432H)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Summary of significant accounting policies (cont'd)

(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 income statement. 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 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.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value throughincome statements 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, financing and receivables, held-to-maturity investments and available-for-sale financial assets.

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)

(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.

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 on financing".

(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.

Notes to the Financial Statements

31 MARCH 2011 (26 RABIUL AKHIR 1432H)

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)

(iii) Financial investment held-to-maturity (cont'd)

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.

(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 income statement. 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.

If an available-for-sale investment is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is recognised in profit or 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.

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 instruments 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 the equity are taken to the income statement.

(d) Financial liabilities

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

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 recognised at amortised cost. Financial liabilities measured at amortised cost include deposits from customers, debt securities issued and other borrowed fund.

Financial liabilities are derecognised when they are redeemed or extinguished.

(e) Impairment of financial assets

(i) Financing

Classification of impaired financing

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;

(2) where a financing is in arrears for less than three (3) months, the financing exhibits indications of credit weaknesses; or

(3) where an impaired financing has been rescheduled or restructured, the financing will continue to be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for a period of three (3) months.

Notes to the Financial Statements

31 MARCH 2011 (26 RABIUL AKHIR 1432H)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Summary of significant accounting policies (cont'd)

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

(i) Financing (cont'd)

Classification of impaired financing (cont'd)

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.

De-classification of an impaired account shall be supported by a credit assessment of the repayment capabilities, cash flow and financial position of the borrower. The Group must be satisfied that once the account is declassified, 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 the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). 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 income statement. 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. 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 insome is recorded as part of 'profit income'.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Summary of significant accounting policies (cont'd)

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

(i) Financing (cont'd)

Impairment allowances (cont'd)

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 income statement.

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 assessment allowance.

(ii) Financial investment held-to-maturity

The Group assess at each reporting date whether objective evidence of impairment of held-to-maturity investments exists as a result of one or more loss events and that loss event has an impact on the estimated future cash flows of the financial investment or group of financial investments that can be reliably estimated.

Where there is objective evidence of impairment, an impairment loss is recognised as the difference between the amortised cost and the present value of the estimated future cash flows, less any impairment previously recognised.

(iii) Financial investment available-for-sale

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

In the case of quoted investments, a significant and 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 income statement. 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 through the income statement.

For debt instruments, impairment is assessed based on the same criteria as other available-for-sale financial investments. Where impairment losses have been previously recognised in the income statement, 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 financing was recognised in the profit or loss, the impairment loss is reversed through income statement.

Notes to the Financial Statements

31 MARCH 2011 (26 RABIUL AKHIR 1432H)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Summary of significant accounting policies (cont'd)

(f) Equity instruments

An equity instrument is any contract that evidences a residual interest 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.

(g) Derivatives

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 income statement unless they are part of a hedging relationship which qualifies for hedge accounting where the gain or loss is recognised as follows:

(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.

(ii) Cash flow hedge

Gains and losses on the hedging instrument, to the extent that the hedge is effective, are deferred in a separate component of equity. The ineffective part of any gain or loss is recognised in the income statement. The deferred gains and losses are released to the income statement in the periods when the hedged item affects the income statement.

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.

(h) Inventories

Inventories are stated at lower of cost and net realisable value.

Cost is determined using the first in, first out method.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Summary of significant accounting policies (cont'd)

(i) Property, plant and equipment and depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. 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.

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 life, at the following annual rates:

Buildings	3%
Long term leasehold land	3%
Office furniture and equipment	15%
Building improvements and renovations	20%
Motor vehicles	20%
Computer equipment	20% – 33.3%

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

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.

Notes to the Financial Statements

31 MARCH 2011 (26 RABIUL AKHIR 1432H)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Summary of significant accounting policies (cont'd)

(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

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the year.

(iii) Consolidation of financial statements of foreign operations

The results and financial position of the Group's foreign operations in the Federal Territory of Labuan, whose functional currencies are not the presentation currency, are translated into the presentation currency at average exchange rates for the year and at the closing exchange rate as at reporting date respectively. All resulting exchange differences are recognised in a separate component of equity as a foreign currency translation reserve and are subsequently recognised in the income statement upon disposal of the foreign operation.

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

	2011	2010
USD1	**3.0253**	3.2638

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Summary of significant accounting policies (cont'd)

(k) 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.

(l) Provision for liabilities

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

(m) Impairment of non-financial assets

For non-financial assets other than goodwill, such as property and equipment, investments in subsidiary and associated companies and foreclosed properties, are assessed for impairment annually, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where such indications exist, the carrying amount of the asset is written down to its recoverable amount, which is the higher of the fair value less costs to sell and the value-in-use.

The impairment loss is recognised in the income statement, and is reversed only if there is change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying value that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

Impairment of goodwill is discussed under the accounting policy on goodwill in Note 3.4(b).

(n) Cash and cash equivalent

Cash and cash equivalents consist of cash and bank balances with banks and other financial institutions, and short term deposits maturing within one (1) month.

Notes to the Financial Statements

31 MARCH 2011 (26 RABIUL AKHIR 1432H)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Summary of significant accounting policies (cont'd)

(o) Contingent liabilities and contingent assets

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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

(p) Employee benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group and the Bank. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plan

Defined contribution plans are post-employment benefit plans under which the Group and the Bank pay fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, companies in Malaysia make such contributions to theEmployees Provident Fund ("EPF").

(q) Income recognition

Income is recognised to the extent that it is probable that the economic benefits will flow to the Group and the Bank and the income can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Profit and income from financing

For all financial instruments measured at amortised cost, profit bearing financial assets classified as 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, repayment 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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Summary of significant accounting policies (cont'd)

(q) Income recognition (cont'd)

(ii) Fee and other income recognition

Financing arrangement, management and participation fees, underwriting commissions and brokerage fees are recognised as income based on contractual arrangements. Guarantee fee is recognised as income upon issuance of the guarantee. Fees from advisory and corporate finance activities are recognised net of service taxes and discounts on completion of each stage of the assignment.

Dividend income from securities is recognised when the Bank's right to receive payment is established.

(r) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the financial position date. Deferred tax is recognised as income or expense and included in the statement of comprehensive income for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

(s) Zakat

This represents business zakat. It is an obligatory amount payable by the Bank to comply with the principles of Shariah. Zakat provision is calculated based on 2.5% of the shareholders' funds growth method.

Notes to the Financial Statements

31 MARCH 2011 (26 RABIUL AKHIR 1432H)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.5 Significant accounting estimates and judgements

Preparation of the financial statements involved making certain estimates and assumptions concerning the future judgements. They affect the accounting policies applied, amounts of assets, liabilities, income and expenses reported and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Changes in these estimates and assumptions by management may have an effect on the balances as reported in financial statements. The most significant uses of judgement and estimates are as follows:-

(a) Going concern

The Bank's management has made an assessment to the bank's ability to continue as a going concern and is satisfied that the bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(b) Fair value of financial instruments

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. The valuation of financial instruments is described in more detail in Note 43.

(c) Impairment losses on financing

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.

For financing of the Bank and its domestic banking subsidiary companies 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 financings is disclosed in more detail in Note 24.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.5 Significant accounting estimates and judgements (cont'd)

(d) Impairment of financial investment available-for-sale (Note 5)

The bank reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment 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 judgement. In making this judgement, 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.

(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.

4 CASH AND SHORT-TERM FUNDS

	GROUP		BANK	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Cash and balances with banks and other financial institutions	**169,013**	152,804	**169,013**	152,804
Money at call and interbank placements with remaining maturity not exceeding one month	**6,278,282**	5,622,579	**6,278,282**	5,622,579
	6,447,295	5,775,383	**6,447,295**	5,775,383

Notes to the Financial Statements

31 MARCH 2011 (26 RABIUL AKHIR 1432H)

5 FINANCIAL INVESTMENT

	GROUP AND BANK 2011 RM'000	GROUP AND BANK 2010 RM'000
(a) Held-to-maturity		
At amortised cost		
Corporate bonds	**30,285**	30,285
Accumulated impairment loss	**(2,061)**	(2,061)
Total held-to-maturity securities	**28,224**	28,224

	GROUP 2011 RM'000	GROUP 2010 RM'000	BANK 2011 RM'000	BANK 2010 RM'000
(b) Available-for-sale				
At fair value				
Quoted securities:				
Malaysian Government Investment Certificate	**1,960,866**	1,181,505	**1,960,866**	1,181,505
Cagamas bonds	**135,713**	115,647	**135,713**	115,647
Islamic private debt securities	**2,127,431**	2,596,505	**2,127,431**	2,596,505
Sukuk	**58,087**	115,043	**58,087**	115,043
Quoted shares	**24,994**	–	**24,994**	–
Unit trust	**9,910**	–	**9,910**	–
	4,317,001	4,008,700	**4,317,001**	4,008,700
Unquoted securities:				
Shares	**14,905**	4,105	**4,105**	4,105
Total available-for-sale securities	**4,331,906**	4,012,805	**4,321,106**	4,012,805
Stated at net of impairment amounting to	**100,270**	122,009	**100,270**	122,009

5 FINANCIAL INVESTMENT (cont'd)

A reconciliation of impairment by class of financial assets are as follows:

	GROUP		BANK	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
At 1 April 2010/1 January 2009, as previously stated	**122,009**	84,428	**122,009**	84,428
Effect of FRS 139 adoption				
– Sukuk	**38,412**	–	**38,412**	–
At 1 April 2010/1 January 2009, as restated	**160,421**	84,428	**160,421**	84,428
Impairment made during the year/period				
– Sukuk	**31,885**	48,803	**31,885**	48,803
Impairment written back during the year/period				
– Sukuk	**(91,080)**	(11,222)	**(91,080)**	(11,222)
Foreign exchange difference	**(956)**	–	**(956)**	–
At 31 March	**100,270**	122,009	**100,270**	122,009

6 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 2011 RM'000	FAIR VALUE ASSETS 2011 RM'000	FAIR VALUE LIABILITIES 2011 RM'000	CONTRACT/ NOTIONAL AMOUNT 2010 RM'000	FAIR VALUE ASSETS 2010 RM'000	FAIR VALUE LIABILITIES 2010 RM'000
Trading derivatives:						
Foreign exchange contracts						
– Currency forwards						
Less than one year	**52,994**	**770**	**(302)**	290,088	9,071	(2,127)
– Currency swaps						
Less than one year	**256,702**	**1,384**	**(558)**	750,308	8,692	(16,767)
	309,696	**2,154**	**(860)**	1,040,396	17,763	(18,894)
Islamic profit rate swap (IPRS)						
More than one year	**75,000**	**-**	**(158)**	–	–	–
Total	**384,696**	**2,154**	**(1,018)**	1,040,396	17,763	(18,894)

Notes to the Financial Statements

31 MARCH 2011 (26 RABIUL AKHIR 1432H)

6 DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Derivative often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of asset, rate, or index underlying a derivative contract may have a significant impact on the profit or loss of the bank.

Over-the-counter derivatives may expose the bank to the risks associated with the absence of an exchange market on which to close out an open position.

The Bank's exposure under derivative contracts is closely monitored as part of the overall management of the bank's market risk (see also Note 38).

Islamic profit rate swaps:

The Islamic profit rate swap allows two parties to exchange a series of profit payments in a single currency in exchange for another series of payments in the same currency. For example, it allows for the exchange of profit rate cash flows between a fixed rate party and a floating rate party or vice versa implemented through the execution of a series of underlying contracts to trade certain assets under the Shariah principles of either Murabahah, Bai Bithaman Ajil (BBA), Mudharabah, Bai-el-inah and many others.

Each party's payment obligation is computed using a different pricing formula. In an IPRS, the notional principal is never exchanged as it is netted off. Swap typically refers to the difference in the price over and above the notional principal in which one party pays a fixed rate and another pays a floating rate.

The minimum amount for IPRS transaction is RM5 million, with the maximum amount subject to the counterparty client's limit. Meanwhile transaction tenors can range from a minimum period of minimum 6 months maximum tenors on market dynamics.

Islamic Cross Currency Swaps:

The Islamic Cross Currency Swap (ICCS) provides customers with a Shariah compliant instrument to manage multi-currency swaps. It is essentially an agreement between 2 parties to exchange profit and principal payment, which is denominated in different currencies. It will facilitate investors in Islamic finance instruments to manage both foreign currency and interest rate risks.

The instrument allows the parties to exchange a series of profit related payments in one currency for another denominated in a different currency, based on a notional principal amount over an agreed period. Net profit is settled between 2 counterparties where if:

1. The fixed rate is higher than the floating rate; the fixed rate receiver (offerer) will be receiving net of the fixed rate minus the floating rate.

2. The fixed rate is lower than the floating rate; the fixed rate receiver (offerer) will be paying net of the floating rate minus the fixed rate.

3. Day count : Actual /365.

7 FINANCING OF CUSTOMERS

(i) By type

	GROUP 2011 RM'000	GROUP 2010 RM'000	BANK 2011 RM'000	BANK 2010 RM'000
Cash line	**367,763**	428,225	**367,763**	428,225
Term financing				
– Home financing	**4,828,099**	4,076,724	**4,828,099**	4,076,724
– Syndicated financing	**143,617**	164,712	**143,617**	164,712
– Hire purchase receivables	**1,397,081**	1,564,836	**1,397,081**	1,564,836
– Leasing receivables	**191,584**	205,120	**191,584**	205,120
– Other term financing	**4,294,681**	3,428,178	**4,312,555**	3,428,531
Trust receipts	**147,916**	140,769	**147,916**	140,769
Claims on customers under acceptance credits	**779,186**	730,361	**779,186**	730,361
Staff financing	**94,761**	89,202	**94,761**	89,202
Revolving credit	**356,088**	498,891	**356,088**	498,891
	12,600,776	11,327,018	**12,618,650**	11,327,371
Less : Unearned income	**(4,753,075)**	(3,909,046)	**(4,753,075)**	(3,909,046)
	7,847,701	7,417,972	**7,865,575**	7,418,325
Less : Financing sold to Cagamas	**(364,308)**	(380,846)	**(364,308)**	(380,846)
Gross financing	**7,483,393**	7,037,126	**7,501,267**	7,037,479
Less : Allowance for bad and doubtful financing:				
– General allowance	**-**	(106,663)	**-**	(106,770)
– Specific allowance	**-**	(300,304)	**-**	(300,304)
– Collective assessment allowance	**(226,702)**	-	**(226,702)**	-
– Individual assessment allowance	**(108,531)**	-	**(108,531)**	-
Total net financing	**7,148,160**	6,630,159	**7,166,034**	6,630,405

Notes to the Financial Statements

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7 FINANCING OF CUSTOMERS (cont'd)

(ii) By contract

	GROUP 2011 RM'000	GROUP 2010 RM'000	BANK 2011 RM'000	BANK 2010 RM'000
Bai' Bithaman Ajil (deferred payment sale)	**2,465,728**	2,192,508	**2,465,728**	2,192,508
Ijarah (lease)	**260,690**	126,525	**260,690**	126,525
Ijarah Thumma Al-Bai (lease ended with purchase)	**1,207,059**	1,339,247	**1,207,059**	1,339,247
Inah (sale and buyback)	**449,754**	664,587	**449,754**	664,587
Tawarruq (commodity murabahah)	**1,301,019**	873,560	**1,301,019**	873,560
Bai Al Dayn (purchase of debt)	**805,213**	724,830	**805,213**	724,830
Murabahah (cost-plus)	**652,739**	655,260	**652,739**	655,260
Istisna' (sale order)	**301,566**	426,367	**301,566**	426,367
Qard Hasan (benevolent loan)	**16,344**	4,844	**16,344**	11,948
Shirkah Mutanaqisah (diminishing partnership)	**23,281**	29,398	**41,155**	22,647
	7,483,393	7,037,126	**7,501,267**	7,037,479

(iii) By type of customer

	GROUP 2011 RM'000	GROUP 2010 RM'000	BANK 2011 RM'000	BANK 2010 RM'000
Domestic non-banking institutions	**37,042**	36,818	**37,042**	36,818
Domestic business enterprises				
– Small business enterprises	**728,478**	1,162,500	**728,478**	1,162,500
– Others	**2,336,206**	2,013,136	**2,347,158**	2,020,239
Government and statutory bodies	**135,190**	104,825	**142,112**	98,075
Individuals	**4,224,569**	3,698,733	**4,224,569**	3,698,733
Other domestic entities	**5,520**	3,295	**5,520**	3,295
Foreign entities	**16,388**	17,819	**16,388**	17,819
	7,483,393	7,037,126	**7,501,267**	7,037,479

7 FINANCING OF CUSTOMERS (cont'd)

(iv) By profit rate sensitivity

	GROUP		BANK	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Fixed rate:				
Home financing	**485,065**	596,980	**485,065**	596,980
Hire purchase receivables	**1,201,348**	1,285,372	**1,201,348**	1,285,372
Others	**2,764,311**	2,896,580	**2,769,263**	2,903,683
Variable rate:				
Home financing	**1,114,763**	828,603	**1,114,763**	828,603
Others	**1,917,906**	1,429,591	**1,930,828**	1,422,841
	7,483,393	7,037,126	**7,501,267**	7,037,479

(v) By sector

	GROUP		BANK	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Agriculture	**75,846**	138,739	**75,846**	138,739
Mining and quarrying	**4,049**	3,975	**4,049**	3,975
Manufacturing	**670,143**	738,168	**675,095**	738,168
Electricity, gas and water	**144,710**	66,706	**144,710**	66,706
Construction	**810,779**	906,148	**816,779**	906,148
Purchase of landed property:				
– Residential	**1,651,418**	1,432,596	**1,651,418**	1,432,596
– Non-residential	**255,963**	273,849	**255,963**	273,849
Real estate	**16,937**	15,234	**16,937**	15,234
Wholesale, retail and restaurant	**601,139**	537,409	**601,139**	537,409
Transport, storage and communication	**155,913**	172,225	**155,913**	172,463
Finance, insurance and business services	**154,028**	190,991	**154,028**	190,991
Purchase of securities	**86**	128	**86**	128
Purchase of transport vehicles	**1,207,546**	1,285,372	**1,207,546**	1,285,372
Consumption credit	**1,316,730**	953,558	**1,316,730**	953,558
Community, social and personal service	**418,106**	322,028	**425,028**	322,143
	7,483,393	7,037,126	**7,501,267**	7,037,479

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31 MARCH 2011 (26 RABIUL AKHIR 1432H)

7 FINANCING OF CUSTOMERS (cont'd)

(vi) By residual contractual maturity

	GROUP 2011 RM'000	GROUP 2010 RM'000	BANK 2011 RM'000	BANK 2010 RM'000
Maturity				
within one year	**2,470,365**	1,470,364	**2,470,365**	1,470,364
more than one to five years	**2,866,870**	1,411,592	**2,866,870**	1,411,592
more than five years	**2,146,158**	4,155,170	**2,164,032**	4,155,523
	7,483,393	7,037,126	**7,501,267**	7,037,479

(vii) By geographical area

	GROUP 2011 RM'000	GROUP 2010 RM'000	BANK 2011 RM'000	BANK 2010 RM'000
Domestic	**7,388,918**	6,913,284	**7,406,792**	6,913,637
Labuan Offshore	**94,475**	123,842	**94,475**	123,842
	7,483,393	7,037,126	**7,501,267**	7,037,479

(viii) By economic purpose

	GROUP 2011 RM'000	GROUP 2010 RM'000	BANK 2011 RM'000	BANK 2010 RM'000
Purchase of securities	**86**	128	**86**	128
Purchase of transport vehicles	**1,207,546**	1,285,372	**1,207,546**	1,285,372
Purchase of landed properties of which:				
– residential	**1,651,418**	1,432,596	**1,651,418**	1,432,596
– non-residential	**255,963**	273,849	**255,963**	273,849
Purchase of fixed assets (excluding landed properties)	**448,398**	359,268	**448,398**	359,268
Personal use	**1,316,730**	953,558	**1,316,730**	953,558
Construction	**810,779**	906,148	**816,779**	906,148
Working capital	**239,508**	251,228	**239,508**	251,228
Other purposes	**1,552,965**	1,574,979	**1,564,839**	1,575,332
	7,483,393	7,037,126	**7,501,267**	7,037,479

7 FINANCING OF CUSTOMERS (cont'd)

Impaired financing

(i) Movements in the impaired financing

	GROUP AND BANK 2011 RM'000	2010 RM'000
As at 1 April 2010/1 January 2009, as previously stated	**513,753**	592,168
Effect of FRS 139 adoption	**78,235**	–
At 1 April 2010/1 January 2009, as restated	**591,988**	592,168
Classified as impaired during the year/period	**457,633**	611,265
Reclassified as performing during the year/period	**(265,609)**	(405,239)
Recovered during the year/period	**(142,588)**	(126,951)
Written off during the year/period	**(263,081)**	(157,490)
As at 31 March	**378,343**	513,753
Ratio of gross impaired/non performing financing to total financing	**4.8%**	6.9%
Gross impaired financing as % of gross financing as at 1 April 2010, restated for the effect of FRS 139 adoption	**7.9%**	

(ii) Movements in the allowance for impaired financing

	GROUP 2011 RM'000	GROUP 2010 RM'000	BANK 2011 RM'000	BANK 2010 RM'000
General allowance				
As at 1 April 2010/1 January 2009, as previously stated	**106,663**	97,330	**106,770**	97,561
– Effect of FRS 139 adoption	**(106,663)**	–	**(106,770)**	-
At 1 April 2010/1 January 2009, as restated	**–**	97,330	**–**	97,561
Allowance made during the period	**–**	9,333	**–**	9,209
As at 31 March	**–**	106,663	**–**	106,770
As % of gross financing, less specific allowance	**–**	1.5%	**–**	1.5%

Notes to the Financial Statements

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7 FINANCING OF CUSTOMERS (cont'd)

Impaired financing (cont'd)

(ii) Movements in the allowance for impaired financing (cont'd)

	GROUP		BANK	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Specific allowance				
As at 1 April 2010/1 January 2009, as previously stated	**300,304**	302,901	**300,304**	302,901
Effect of FRS 139 adoption	**(300,304)**	–	**(300,304)**	–
At 1 April 2010/1 January 2009, as restated	**–**	302,901	**–**	302,901
Allowance made during the period	**–**	230,498	**–**	230,498
Amount recovered	**–**	(97,127)	**–**	(97,127)
Amount written off	**–**	(135,968)	**–**	(135,968)
As at 31 March	**–**	300,304	**–**	300,304
Collective assessment				
As at 1 April 2010/1 January 2009, as previously stated	**–**	–	**–**	–
Effect of FRS 139 adoption	**223,218**	–	**223,218**	–
At 1 April 2010/1 January 2009, as restated	**223,218**	–	**223,218**	-
Allowance made during the year	**250,047**	–	**250,047**	-
Amount recovered	**(224,291)**	–	**(224,291)**	–
Amount written off	**(22,272)**	–	**(22,272)**	-
As at 31 March	**226,702**	–	**226,702**	–
As % of gross financing, less individual assessment allowance	**3.1%**	–	**3.1%**	-
Individual assessment allowance				
As at 1 April 2010/1 January 2009, as previously stated	**–**	–	**–**	–
Effect of FRS 139 adoption	**324,997**	–	**324,997**	–
At 1 April 2010/1 January 2009, as restated	**324,997**	–	**324,997**	–
Allowance made during the year	**89,776**	–	**89,776**	-
Amount recovered	**(70,129)**	–	**(70,129)**	–
Amount written off	**(236,113)**	–	**(236,113)**	–
As at 31 March	**108,531**	–	**108,531**	–

7 FINANCING OF CUSTOMERS (cont'd)

Impaired financing (cont'd)

(iii) Impaired financing by sector

	GROUP AND BANK	
	2011 RM'000	2010 RM'000
Manufacturing	**24,660**	92,031
Construction	**71,810**	127,757
Purchase of landed property:		
– Residential	**159,345**	172,493
– Non-residential	**12,206**	19,210
Wholesale and retail and restaurant	**33,360**	26,533
Transport, storage and communication	**45**	518
Finance, insurance and business services	**9,713**	11,302
Purchase of securities	**84**	127
Purchase of transport vehicles	**34,933**	37,969
Consumption credit	**23,928**	24,491
Community, social and personal service	**8,259**	1,322
	378,343	513,753

(iv) Impaired financing by geographical area

	GROUP AND BANK	
	2011 RM'000	2010 RM'000
Domestic	**372,045**	507,496
Labuan Offshore	**6,298**	6,257
	378,343	513,753

Notes to the Financial Statements

31 MARCH 2011 (26 RABIUL AKHIR 1432H)

7 FINANCING OF CUSTOMERS (cont'd)

Impaired financing (cont'd)

(v) Impaired financing by economic purpose

	GROUP AND BANK 2011 RM'000	2010 RM'000
Purchase of securities	**84**	127
Purchase of transport vehicles	**34,933**	37,969
Purchase of landed properties of which:		
– residential	**159,345**	172,493
– non-residential	**12,206**	19,210
Purchase of fixed assets (excluding landed properties)	**1,553**	1,651
Personal use	**23,928**	24,491
Construction	**71,810**	127,757
Working capital	**867**	1,391
Other purposes	**73,617**	128,664
	378,343	513,753

8 OTHER ASSETS

	GROUP		BANK	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Deposits	**4,876**	3,015	**4,721**	2,860
Prepayments	**2,428**	1,693	**2,409**	1,672
Income receivables	**51,278**	53,297	**44,579**	53,182
Tax recoverable	**15,726**	38	**15,611**	–
Other debtors	**39,558**	10,654	**39,491**	10,495
	113,866	68,697	**106,811**	68,209

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 (NET)

	GROUP AND BANK	
	2011 RM'000	2010 RM'000
At 1 April 2010/1 January 2009, as previously stated	**27,915**	35,580
Effect of FRS 139 adoption	**35,038**	–
At 1 April 2010/1 January 2009, as restated	**62,953**	35,580
Recognised in the income statement (Note 33)	**(30,239)**	(1,056)
Recognised in the equity	**5,526**	(6,609)
At 31 March	**38,240**	27,915

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	
	2011 RM'000	2010 RM'000
Deferred tax assets	**46,855**	34,332
Deferred tax liabilities	**(8,615)**	(6,417)
	38,240	27,915

Notes to the Financial Statements

31 MARCH 2011 (26 RABIUL AKHIR 1432H)

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:

	COLLECTIVE ASSESSMENT ALLOWANCE FOR BAD AND DOUBTFUL FINANCING RM'000	PROVISION FOR LIABILITIES RM'000	OTHER TEMPORARY DIFFERENCES RM'000	TOTAL RM'000
At 1 January 2009	25,289	1,948	11,023	38,260
Recognised in income statements	2,779	(95)	(3)	2,681
Recognised in the equity	–	–	(6,609)	(6,609)
At 31 March 2010	28,068	1,853	4,411	34,332
At 1 April 2010, as previously stated	**28,068**	**1,853**	**4,411**	**34,332**
Effect of FRS 139 adoption	**–**	**–**	**35,038**	**35,038**
	28,068	**1,853**	**39,449**	**69,370**
Recognised in income statements	**640**	**6,362**	**(35,043)**	**(28,041)**
Recognised in the equity	**–**	**–**	**5,526**	**5,526**
At 31 March 2011	**28,708**	**8,215**	**9,932**	**46,855**

Deferred tax liabilities of the Group and the Bank:

	PROPERTY, PLANT AND EQUIPMENT RM'000	TOTAL RM'000
At 1 January 2009	(2,680)	(2,680)
Recognised in the income statement	(3,737)	(3,737)
At 31 March 2010	(6,417)	(6,417)
At 1 April 2010	**(6,417)**	**(6,417)**
Recognised in the income statement	**(2,198)**	**(2,198)**
At 31 March 2011	**(8,615)**	**(8,615)**

11 INVESTMENT IN SUBSIDIARIES

	BANK 2011 RM'000	BANK 2010 RM'000
Unquoted shares at cost		
– in Malaysia	**10,823**	10,823
Less: Impairment loss	**(4,339)**	(4,421)
	6,484	6,402

Details of the subsidiary companies that are all incorporated in Malaysia are as follows:

NAME	PRINCIPAL ACTIVITIES	PERCENTAGE OF EQUITY HELD 2011 %	2010 %	PAID UP CAPITAL 2011 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**

Notes to the Financial Statements

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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
ACCUMULATED DEPRECIATION					
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	**2,958**	**16,049**	**182,841**	**40,410**	**242,258**
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	**914**	**4,143**	**135,680**	**-**	**140,737**
CARRYING AMOUNT AT 31 MARCH 2011	**2,044**	**11,906**	**47,161**	**40,410**	**101,521**
AT 31 MARCH 2010					
COST					
At 1 January 2009	2,958	14,092	139,914	2,009	158,973
Additions	-	1,957	18,106	34,869	54,932
Disposals	-	-	(363)	-	(363)
Write off	-	-	(45)	-	(45)
Reclassification	-	-	3,047	(3,047)	-
At 31 March 2010	2,958	16,049	160,659	33,831	213,497
ACCUMULATED DEPRECIATION					
At 1 January 2009	748	3,263	111,140	-	115,151
Charge for the period	132	439	13,933	-	14,504
Disposals	-	-	(208)	-	(208)
Write off	-	-	(29)	-	(29)
At 31 March 2010	880	3,702	124,836	-	129,418
CARRYING AMOUNT AT 31 MARCH 2010	2,078	12,347	35,823	33,831	84,079

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 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)**
Write off	**–**	**–**	**(533)**	**(621)**	**(1,154)**
Reclassification	**–**	**–**	**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 period	**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**
AT 31 MARCH 2010					
COST					
At 1 January 2009	2,958	14,092	139,722	2,009	158,781
Additions	–	1,957	18,077	34,898	54,932
Disposals	–	–	(365)	–	(365)
Reclassification	–	–	3,047	(3,047)	–
At 31 March 2010	2,958	16,049	160,481	33,860	213,348
ACCUMULATED DEPRECIATION					
At 1 January 2009	748	3,263	111,046	–	115,057
Charge for the year	132	439	13,896	–	14,467
Disposals	–	–	(210)	–	(210)
At 31 March 2010	880	3,702	124,732	–	129,314
CARRYING AMOUNT AT 31 MARCH 2010	2,078	12,347	35,749	33,860	84,034

Notes to the Financial Statements

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13 PREPAID LAND LEASE PAYMENTS

	GROUP AND BANK	
	2011 RM'000	2010 RM'000
At 1 April 2010/1 January 2009	**260**	265
Amortisation	**(5)**	(5)
As at 31 March	**255**	260
Analysed as:		
Long term leasehold land	**255**	260

14 DEPOSITS FROM CUSTOMERS

(i) By type of deposits

	GROUP		BANK	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
NON-MUDHARABAH FUND				
Demand deposits	**2,733,229**	2,578,074	**2,739,846**	2,579,066
Savings deposits	**474,725**	510,621	**474,725**	510,621
Negotiable Islamic debt certificate	**1,500,971**	1,299,566	**1,500,971**	1,299,566
Others	**17,582**	18,776	**17,582**	18,776
	4,726,507	4,407,037	**4,733,124**	4,408,029
MUDHARABAH FUND				
Demand deposits	**217,094**	96,361	**217,094**	96,361
Savings deposits	**222,945**	115,524	**222,945**	115,524
General investment deposits	**9,543,630**	8,857,771	**9,543,630**	8,863,771
Special general investment deposits	**1,461,596**	1,444,163	**1,461,596**	1,444,163
	11,445,265	10,513,819	**11,445,265**	10,519,819
	16,171,772	14,920,856	**16,178,389**	14,927,848

14 DEPOSITS FROM CUSTOMERS (cont'd)

(ii) By type of customer

	GROUP		BANK	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Government and statutory bodies	**3,767,238**	2,290,788	**3,767,238**	2,290,788
Business enterprises	**6,632,146**	6,980,829	**6,632,146**	6,987,821
Individuals	**1,024,490**	952,655	**1,024,490**	952,655
Others	**4,747,898**	4,696,584	**4,754,515**	4,696,584
	16,171,772	14,920,856	**16,178,389**	14,927,848

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

	GROUP AND BANK	
	2011 RM'000	2010 RM'000
Due within six months	**11,080,128**	10,380,162
More than six months to one year	**1,405,514**	1,200,532
More than one year to three years	**20,555**	26,806
	12,506,197	11,607,500

15 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2011 RM'000	2010 RM'000
NON-MUDHARABAH		
Bank Negara Malaysia	**14,993**	16,361

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.

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17 OTHER LIABILITIES

	GROUP		BANK	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Sundry creditors	**38,402**	21,746	**38,378**	21,704
Income payable to depositors	**46,718**	28,651	**46,718**	28,651
Provision for commitments and contingencies (Note (a))	**40,273**	7,412	**40,273**	7,412
Provision for bonus	**30,605**	31,141	**30,527**	31,095
Others	**53,928**	7,472	**54,054**	7,435
	209,926	96,422	**209,950**	96,297

(a) Movement in provision for commitments and contingencies

	GROUP AND BANK	
	2011 RM'000	2010 RM'000
At 1 April 2010/1 January 2009	**7,412**	7,494
Provision made during the year		
Charge/(write back) during the year/period	**32,861**	(82)
At 31 March	**40,273**	7,412

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	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Zakat	**5,228**	456	**5,228**	456
Taxation	**-**	18,762	**-**	18,687
	5,228	19,218	**5,228**	19,143

19 SUBORDINATED BONDS

On 5 September 2006, the Bank issued RM250,000,000 Subordinated Bonds under the Shariah principle of Bai' Bithaman Ajil. The Bonds are 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 has the option to redeem the Bonds on the 5th anniversary or any semi-annual date thereafter. Should the Bank decide not to exercise its option to redeem the bonds, the holders of the Bonds will be entitled to an annual incremental step-up profit rate from the beginning of the 6th year to the final maturity date.

20 SHARE CAPITAL

	NUMBER OF SHARES OF RM1 EACH 2011 RM'000	2010 RM'000	AMOUNT 2011 RM'000	2010 RM'000
AUTHORISED:				
Ordinary shares	**3,000,000**	3,000,000	**3,000,000**	3,000,000
MUSHARAKAH IRREDEEMABLE NON-CUMULATIVE CONVERTIBLE PREFERENCE SHARES	**1,000,000**	1,000,000	**1,000,000**	1,000,000
TOTAL	**4,000,000**	4,000,000	**4,000,000**	4,000,000
ISSUED AND FULLY PAID:				
Ordinary shares				
At 1 April 2010/1 January 2009	**1,000,000**	397,275	**1,000,000**	397,275
Converted during the year/period	**-**	102,725	**-**	102,725
Issued during the period	**-**	500,000	**-**	500,000
At 31 March	**1,000,000**	1,000,000	**1,000,000**	1,000,000
MUSHARAKAH IRREDEEMABLE NON-CUMULATIVE CONVERTIBLE PREFERENCE SHARES				
At 1 April 2010/1 January 2009	**-**	102,725	**-**	102,725
Converted during the year/period	**-**	(102,725)	**-**	(102,725)
At 31 March	**-**	-	**-**	-
TOTAL	**1,000,000**	1,000,000	**1,000,000**	1,000,000

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21 RESERVES

		GROUP		BANK	
	NOTE	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Statutory reserve	(a)	**272,893**	206,105	**271,603**	204,596
Retained profit	(b)	**128,097**	166,529	**129,105**	167,212
Exchange fluctuation reserve		**553**	(530)	**553**	(530)
Net unrealised losses on financial investment available-for-sale		**(40,113)**	(52,973)	**(39,974)**	(52,824)
		361,430	319,131	**361,287**	318,454

(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 2011 and 31 March 2010, the Bank has sufficient credit in the 108 balance to pay franked dividends out of its entire retained earnings.

22 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	GROUP AND BANK	
	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000
INCOME DERIVED FROM INVESTMENT OF:		
(i) General investment deposits	**493,164**	559,379
(ii) Other deposits	**265,240**	300,673
	758,404	860,052

(i) Income derived from investment of general investment deposits

	GROUP AND BANK	
	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000
FINANCE INCOME AND HIBAH:		
Income from financing	**309,492**	342,680
Financial investment held-for-trading	**4**	87
Financial investment held-for-maturity	**170**	691
Financial investment available-for-sale	**97,803**	118,470
Money at call and deposit with financial institutions	**77,312**	70,304
	484,781	532,232
Amortisation of premium less accretion of discounts	**(9,438)**	(7,188)
Total finance income and hibah	**475,343**	525,044
OTHER OPERATING INCOME:		
Net gain from sale of:		
– financial investment available-for-sale	**1,042**	1,999
– financial investment held-for-trading	**761**	9,271
	1,803	11,270
FEES AND COMMISSION		
Guarantee fees	**3,076**	9,304
Processing fees	**9,824**	12,456
Commission	**3,118**	1,305
	16,018	23,065
Total	**493,164**	559,379
Of which:		
Financing income earned on impaired financing	**829**	–

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22 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS (cont'd)

(ii) Income derived from investment of other deposits

	GROUP AND BANK	
	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000
FINANCE INCOME AND HIBAH		
Income from financing	**166,455**	184,199
Financial investment held-for-trading	**2**	47
Financial investment held-for-maturity	**91**	371
Financial investment available-for-sale	**52,602**	63,678
Money at call and deposit with financial institutions	**41,581**	37,790
	260,731	286,085
Amortisation of premium less accretion of discounts	**(5,076)**	(3,864)
Total finance income and hibah	**255,655**	282,221
OTHER OPERATING INCOME		
Net gain from sale of:		
– Financial investment available-for-sale	**560**	1,074
– Financial investment held-for-trading	**409**	4,984
	969	6,058
FEES AND COMMISSION		
Guarantee fees	**1,654**	5,000
Processing fees	**5,284**	6,693
Commission	**1,678**	701
	8,616	12,394
Total	**265,240**	300,673
Of which :		
Financing income earned on impaired financing	**447**	–

23 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	GROUP		BANK	
	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000
FINANCE INCOME AND HIBAH				
Financial investment available-for-sale	**35,477**	50,573	**35,477**	50,573
Amortisation of premium less accretion of discounts	**(70)**	(1,495)	**(70)**	(1,495)
Total finance income and hibah	**35,407**	49,078	**35,407**	49,078
OTHER OPERATING INCOME				
Net gain/(loss) from foreign exchange derivatives	**2,502**	(510)	**2,502**	(510)
Net gain on revaluation of foreign exchange transaction	**14,034**	17,567	**14,034**	17,567
Net loss from sale of financial investment available-for-sale	**(976)**	(99)	**(976)**	(99)
Gross dividend income	**2,000**	5,141	**2,000**	5,141
	17,560	22,099	**17,560**	22,099
FEES AND COMMISSION				
Processing fees	**1,608**	977	**1,608**	977
Corporate advisory fees	**5,613**	2,296	**5,662**	2,296
Service charges and fees	**720**	697	**586**	697
Commission	**1,793**	1,825	**1,793**	1,825
Others	**1,198**	1,491	**1,198**	796
	10,932	7,286	**10,847**	6,591
OTHER INCOME				
Rental income	**989**	4,184	**989**	4,184
Gain on disposal of property, plant and equipment	**-**	21	**-**	21
	989	4,205	**989**	4,205
Total	**64,888**	82,668	**64,803**	81,973

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24 ALLOWANCE FOR IMPAIRMENT ON FINANCING

	GROUP		BANK	
	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000
Allowance for impaired financing:				
(a) Individual assessment allowance				
Made during the year	**89,776**	–	**89,776**	–
Written back during the year	**(70,129)**	–	**(70,129)**	–
	19,647	–	**19,647**	–
(b) Collective assessment allowance				
Made during the year	**250,047**	–	**250,047**	–
Written back during the year	**(224,291)**	–	**(224,291)**	–
	25,756	–	**25,756**	–
(c) Specific allowance:				
Made during the period	**–**	230,498	**–**	230,498
Written back during the period	**–**	(97,127)	**–**	(97,127)
	–	133,371	–	133,371
(d) General allowance:				
Made during the period	**–**	9,333	–	9,209
	–	9,333	–	9,209
Bad debts on financing:				
Written off	**8,494**	28,080	**8,494**	28,080
Recovered	**(17,770)**	(9,595)	**(17,770)**	(9,595)
	(9,276)	18,485	**(9,276)**	18,485
Total	**36,127**	161,189	**36,127**	161,065

25 IMPAIRMENT (WRITE BACK)/LOSS ON INVESTMENTS

	GROUP		BANK	
	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000
Impairment (write back)/loss on corporate bonds included under available-for-sale financial investment	**(59,617)**	37,779	**(59,617)**	37,779
Impairment (write back)/loss on investment in subsidiary	**–**	–	**(82)**	1,373
	(59,617)	37,779	**(59,699)**	39,152

26 INCOME ATTRIBUTABLE TO DEPOSITORS

	GROUP		BANK	
	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000
Deposits from customers				
– Mudharabah funds	**237,669**	212,425	**237,526**	212,578
– Non-Mudharabah funds	**51,600**	12,018	**51,600**	12,018
Deposits and placements of banks and other financial institutions				
– Mudharabah funds	**388**	1,532	**388**	1,532
– Non-Mudharabah funds	**11,434**	43,981	**11,434**	43,981
	301,091	269,956	**300,948**	270,109

27 PERSONNEL EXPENSES

	GROUP		BANK	
	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000
Salaries and wages	**87,747**	86,531	**87,232**	86,177
Contributions to defined contribution plan	**18,040**	20,091	**17,972**	20,048
Social security contributions	**908**	939	**908**	937
Allowances and bonuses	**28,783**	30,800	**28,673**	30,754
Mutual Separation Scheme	**107**	578	**107**	578
Others	**18,912**	13,147	**18,897**	13,142
	154,497	152,086	**153,789**	151,636

Included in personnel expenses of the Group and of the Bank are executive director's remuneration amounting to RM2,315,000 (1.1.2009 to 31.03.2010: RM1,365,000) as further disclosed in Note 28.

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28 DIRECTORS' REMUNERATION

	GROUP AND BANK	
	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000
EXECUTIVE DIRECTOR/CHIEF EXECUTIVE OFFICER		
Salaries and wages	**985**	1,085
Contributions to defined contribution plan	**343**	199
Bonuses	**924**	23
Benefits-in-kind	**63**	58
	2,315	1,365
NON-EXECUTIVE DIRECTORS		
Fees	**517**	620
Other remunerations	**373**	493
	890	1,113
SHARIAH COMMITTEE MEMBERS		
Allowance	**200**	207
Other remunerations	**54**	-
	254	207
Total	**3,459**	2,685

28 DIRECTORS' REMUNERATION (cont'd)

The total remuneration (including benefits-in-kind) of the Directors of the Bank are as follows:

GROUP AND BANK 2011	SALARY RM'000	FEES RM'000	BONUS RM'000	OTHER EMOLUMENTS RM'000	BENEFITS-IN-KIND RM'000	TOTAL RM'000
	REMUNERATION RECEIVED FROM THE BANK					
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

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28 DIRECTORS' REMUNERATION (cont'd)

The total remuneration (including benefits-in-kind) of the Directors of the Bank are as follows:

GROUP AND BANK 2010	SALARY RM'000	FEES RM'000	BONUS RM'000	OTHER EMOLUMENTS RM'000	BENEFITS-IN-KIND RM'000	TOTAL RM'000
	← REMUNERATION RECEIVED FROM THE BANK →					
Executive Directors:						
Dato' Haji Mohd Redza Shah Abdul Wahid	1,085	-	23	199	58	1,365
Non-Executive Directors:						
Tan Sri Dato' Dr Mohd Munir Abdul Majid	–	227	–	37	–	264
Dato' Sri Haji Mohd Khamil Jamil *	–	62	–	46	–	108
Haji Ismail Ibrahim **	–	62	–	83	–	145
Haji Mohd Izani Ghani **	–	54	–	42	–	96
Haji Abdul Jabbar Abdul Majid	–	62	–	95	–	157
Tengku Dato' Seri Hasmuddin Tengku Othman	–	62	–	71	–	133
Dato' Azmi Abdullah	–	29	–	24	–	53
Datin Azizah Mohd Jaafar	–	62	–	95	–	157
	–	620	–	493	–	1,113
Total Directors' remuneration	1,085	620	23	692	58	2,478

* Director's Fees payable to DRB Hicom Berhad
** Director's Fees payable to Khazanah Nasional Berhad

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	
	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000
Short-term employees benefits	**4,450**	3,923
Included in the total key management personnel are:		
Directors' remuneration (Note 28)	**2,315**	1,365

30 OTHER OVERHEADS AND EXPENDITURES

	GROUP		BANK	
	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000
Promotion				
Advertisement and publicity	**8,660**	8,549	**8,656**	8,549
Establishment				
Rental	**7,794**	9,524	**7,794**	9,524
Depreciation	**13,638**	14,504	**13,612**	14,467
EDP expenses	**31,332**	38,594	**31,332**	38,594
Amortisation of land and prepaid lease payment	**5**	5	**5**	5
Hire of equipment	**4,820**	5,618	**4,820**	5,618
	57,589	68,245	**57,563**	68,208

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30 OTHER OVERHEADS AND EXPENDITURES (cont'd)

	GROUP		BANK	
	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000
General expenses				
Auditors' fees				
– statutory audit				
– current year	**251**	240	**236**	225
– underprovision in prior year	**–**	65	**–**	60
– non-audit work	**638**	121	**481**	117
Professional fees	**6,200**	2,883	**5,846**	2,798
Legal expenses	**1,416**	1,427	**1,416**	1,427
Repair and maintenance	**2,799**	1,886	**2,792**	1,844
Insurance	**4,426**	9,074	**4,426**	9,074
Utilities expenses	**4,789**	5,125	**4,789**	5,125
Security guard expenses	**5,786**	5,583	**5,786**	5,583
Telephone	**2,785**	2,584	**2,471**	2,447
Stationery and printing	**2,605**	2,497	**2,602**	2,493
Postage and courier	**1,826**	1,660	**1,826**	1,660
Travelling	**4,853**	3,759	**4,843**	3,747
Directors remuneration and Shariah Committee allowance	**2,508**	2,799	**2,501**	2,761
Others	**9,587**	9,535	**10,856**	9,596
	50,469	49,238	**50,871**	48,957
	116,718	126,032	**117,090**	125,714

31 FINANCE COST

	GROUP		BANK	
	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000
Subordinated bonds	**15,625**	19,531	**15,625**	19,531

32 ZAKAT

	GROUP AND BANK	
	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000
Provision for zakat for the year/period	**5,228**	241
Under provision in prior year	**2,946**	–
	8,174	241

33 TAXATION

	GROUP		BANK	
	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000
Current income tax	**32,360**	40,121	**32,360**	40,000
Under provision in prior period	**(36)**	1,809	**–**	1,809
	32,324	41,930	**32,360**	41,809
Deferred tax:				
Relating to origination and reversal of temporary differences	**26,190**	(1,722)	**26,193**	(1,722)
Under provision in prior years/period	**4,046**	2,778	**4,046**	2,778
	30,236	1,056	**30,239**	1,056
	62,560	42,986	**62,599**	42,865

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33 TAXATION (cont'd)

Domestic current income tax is calculated at the statutory tax rate of 25% (31.03.2010: 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	
	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000
Profit before taxation	**204,311**	142,061	**204,787**	140,634
Taxation at Malaysian statutory tax rate 25% (2010: 25%)	**51,078**	35,515	**51,197**	35,159
Effect of different tax rates in other tax jurisdiction	**4,541**	1,084	**4,541**	1,084
Income not subject to tax	**-**	-	**-**	-
Expenses not deductible for tax purposes	**2,931**	1,800	**2,815**	2,035
Under provision of income tax in prior years/period	**(36)**	1,809	**-**	1,809
Under provision of deferred tax in prior years/period	**4,046**	2,778	**4,046**	2,778
Income tax expense for the years/period	**62,560**	42,986	**62,599**	42,865

	GROUP	
	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000
Unused tax losses	**2,052**	2,104
Unabsorbed capital allowances	**9**	28
	2,061	2,132

The unused tax losses of the Group amounting to RM2,052,000 (2010: RM2,104,000) 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.

34 EARNINGS PER SHARE

	GROUP	
BASIC	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000
Profit attributable to ordinary equity holders of the Bank (RM'000)	**133,577**	98,834
Weighted average number of ordinary shares in issue ('000)	**1,000,000**	900,000
Basic earnings per share (sen)	**13.4**	11.0

35 RELATED PARTY TRANSACTIONS

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

	GROUP AND BANK	
	1.4.2010 TO 31.3.2011 RM'000	1.1.2009 TO 31.3.2010 RM'000
Related companies *		
Income		
– profit on financing	**1,314**	7,385
Expenditure		
– hibah on deposit	**4,650**	1,416
– seconded staff salary and related expenses	**3,023**	1,564
– purchase of property, plant and equipment	**2,357**	1,815
– others	**604**	-
Amounts due to		
– deposits	**277,320**	563,292
Amounts due from		
– financing	**265,225**	281,846
Other related companies **		
Income		
– profit on financing	**18,283**	16,395
Expenditure		
– hibah on deposit	**12,997**	5,747
– security services and equipment	**1,969**	-
– insurance expenses	**5,852**	9,074
– others	**593**	–
Amounts due to		
– deposits	**889,574**	451,565
Amounts due from		
– financing	**720,441**	733,520

* 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.

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36 CREDIT EXPOSURES ARISING FROM CREDIT TRANSACTIONS WITH CONNECTED PARTIES

	GROUP 2011 RM'000	GROUP 2010 RM'000
Outstanding credit exposures with connected parties	**988,892**	1,017,628
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	**6.4%**	6.6%
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 loan 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.

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 2011			31 MARCH 2010		
THE COMMITMENTS AND CONTINGENCIES CONSTITUTE THE FOLLOWING:	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
Contingent liabilities						
Direct credit substitutes	**11**	**11**	**11**	609	609	612
Trade-related contingencies	**45,914**	**9,183**	**9,025**	80,091	16,018	13,996
Transaction related contingencies	**871,491**	**435,745**	**371,611**	1,993,954	996,977	490,906
Obligations under an on-going underwriting agreement	**65,000**	**32,500**	**6,500**	75,000	37,500	7,500
Housing financing sold directly and indirectly to Cagamas with recourse	**364,308**	**364,308**	**174,040**	380,846	380,846	194,646

37 COMMITMENTS AND CONTINGENCIES (cont'd)

	GROUP AND BANK					
	31 MARCH 2011			31 MARCH 2010		
THE COMMITMENTS AND CONTINGENCIES CONSTITUTE THE FOLLOWING:	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
Commitments						
Credit extension commitment:						
– Maturity within one year	**323,002**	**64,600**	**55,443**	993,178	–	–
– Maturity exceeding one year	**2,242,093**	**1,121,047**	**391,538**	993,599	496,799	301,332
Bills of collection	**37,009**	**-**	**-**	–	–	–
Foreign exchange related contracts – Spot	**1,487,300**	**-**	**-**	174,356	–	–
Derivative financial instruments						
Foreign exchange related contracts	**309,696**	**2,131**	**1,608**	1,040,396	29,819	15,362
	5,745,824	**2,029,525**	**1,009,776**	5,732,029	1,958,568	1,024,354

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 organisation, infrastructure, process and technology with the objective of advancing the Group and Bank towards value protection and creation.

Generally, the objectives of the Group and Bank integrated risk management system include the following:

- Identifying all the risks exposures and their impact.
- Establishment of sound policies and procedures in line with the Group and Bank strategy, lines of business and nature of operations.
- Set out an enterprise-wide organisation structure and defining the appropriate roles and responsibilities.
- Instill the risk culture within the Group and Bank.

Notes to the Financial Statements

31 MARCH 2011 (26 RABIUL AKHIR 1432H)

38 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

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.

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 ("ORM")	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.

38 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

RISK GOVERNANCE (cont'd)

(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 Risk Management Department (RMD) and Senior Management via Executive Risk Management Committee (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.

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 non-performing financing (NPF) / impaired assets 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.

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38 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(a) Credit Risk (cont'd)

(i) 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.

GROUP 2011	GOVERNMENT AND STATUTORY BODIES RM'000	FINANCE, INSURANCE AND BUSINESS SERVICES RM'000	AGRICULTURE, MANU-FACTURING, WHOLESALE, RETAIL AND RESTAURANT RM'000	CON-STRUCTION 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	-	6,447,295	-	-	-	-	6,447,295
Financial investment held-to-maturity	575	-	-	-	-	27,649	28,224
Financial investment available-for-sale	2,276,090	212,121	454,709	258,995	-	1,104,997	4,306,912
Islamic derivative financial assets	-	2,154	-	-	-	-	2,154
Financing of customers (gross)	135,190	154,028	1,347,128	827,716	1,207,546	3,811,785	7,483,393
Statutory deposits with Bank Negara Malaysia	94,121	-	-	-	-	-	94,121
Other financial assets	-	-	-	-	-	81,710	81,710
	2,505,976	6,815,598	1,801,837	1,086,711	1,207,546	5,026,141	18,443,809
Commitments and contingencies							
Contingent liabilities	121,166	429,308	90,285	351,919	-	354,046	1,346,724
Commitments	1,378,834	1,487,300	419,604	450,840	15,604	337,222	4,089,404
Derivative financial instruments	-	309,696	-	-	-	-	309,696
	1,500,000	2,226,304	509,889	802,759	15,604	691,268	5,745,824
Total credit exposures	4,005,976	9,041,902	2,311,726	1,889,470	1,223,150	5,717,409	24,189,633

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 sector analysis

BANK 2011	GOVERNMENT AND STATUTORY BODIES RM'000	FINANCE, INSURANCE AND BUSINESS SERVICES RM'000	AGRICULTURE, MANU-FACTURING, WHOLESALE, RETAIL AND RESTAURANT RM'000	CON-STRUCTION 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	-	6,447,295	-	-	-	-	6,447,295
Financial investment held-to-maturity	575	-	-	-	-	27,649	28,224
Financial investment available-for-sale	2,276,090	212,121	449,909	252,995	-	1,104,997	4,296,112
Islamic derivative financial assets	-	2,154	-	-	-	-	2,154
Financing of customers (gross)	142,112	154,028	1,352,080	833,716	1,207,546	3,811,785	7,501,267
Statutory deposits with Bank Negara Malaysia	94,121	-	-	-	-	-	94,121
Other financial assets	-	-	-	-	-	74,790	74,790
	2,512,898	6,815,598	1,801,989	1,086,711	1,207,546	5,019,221	18,443,963
Commitments and contingencies							
Contingent liabilities	121,166	429,308	90,285	351,919	-	354,046	1,346,724
Commitments	1,378,834	1,487,300	419,604	450,840	15,604	337,222	4,089,404
Derivative financial instruments	-	309,696	-	-	-	-	309,696
	1,500,000	2,226,304	509,889	802,759	15,604	691,268	5,745,824
Total credit exposures	4,012,898	9,041,902	2,311,878	1,889,470	1,223,150	5,710,489	24,189,787

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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
2011				
On Balance Sheet				
Exposures				
Cash and short-term funds	6,302,125	145,170	6,302,125	145,170
Financial investment held-to-maturity	28,224	-	28,224	-
Financial investment available-for-sale	4,248,825	58,087	4,238,025	58,087
Islamic derivative financial assets	2,154	-	2,154	-
Financing of customers	7,388,918	94,475	7,406,792	94,475
Statutory deposits with Bank Negara Malaysia	94,121	-	94,121	-
Other financial assets	81,037	673	74,117	673
	18,145,404	298,405	18,145,558	298,405
Commitments and contingencies				
Contingent liabilities	1,346,724	-	1,346,724	-
Commitments	4,089,404	-	4,089,404	-
Derivative financial instruments	309,696	-	309,696	-
	5,745,824	-	5,745,824	-
Total credit exposures	23,891,228	298,405	23,891,382	298,405

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 2011	NEITHER PAST DUE NOR IMPAIRED GOOD RM'000	NEITHER PAST DUE NOR IMPAIRED SATISFACTORY RM'000	PAST DUE BUT NOT IMPAIRED RM'000	IMPAIRED FINANCING RM'000	TOTAL 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
Total	**5,834,714**	**1,091,017**	**179,319**	**378,343**	**7,483,393**

BANK 2011	NEITHER PAST DUE NOR IMPAIRED GOOD RM'000	NEITHER PAST DUE NOR IMPAIRED 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
Total	**5,852,588**	**1,091,017**	**179,319**	**378,343**	**7,501,267**

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31 MARCH 2011 (26 RABIUL AKHIR 1432H)

38 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(a) Credit risk (cont'd)

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

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.

Rescheduled/restructured financing

Rescheduling or restructuring activities include extended payment arrangements, and the modification and deferral of payments. The carrying amount by type of financing that would otherwise be past due or impaired whose terms have been renegotiated are as follows:

GROUP AND BANK	2011 RM'000
Term financing	
- Home financing	140,755
- Hire purchase receivables	14,955
- Other term financing	100,492
Other financing	3,032
Total	**259,234**

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 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**

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	2011 RM'000
Purchase of transport vehicles	47,133
Purchase of landed properties of which:	
–residential	77,700
–non-residential	9,661
Personal use	12,980
Construction	1,156
Working capital	2,018
Other purpose	28,671
	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). At the moment, the Group's and Bank's is adopting the transitional provision as prescribed by BNM in determining the classification of impairing financing assets and its provisioning.

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 repayments based on the rescheduled and restructured terms have been observed continuously for a minimum period of three (3) months.

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31 MARCH 2011 (26 RABIUL AKHIR 1432H)

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

Allowances are assessed collectively for losses on financing that are not individually significant (including residential and unsecured consumer financing) and for individually significant financing that have been assessed individually and found not to be impaired.

The Group and Bank generally analyses its financing with similar characteristics will be collectively assessed and subject to impairment provisions, based on the banking institution's historical loss performance. Compliance with the revised guidelines is slated for 1 January 2012. Meanwhile, the Group and Bank are providing collective impairment at 1.5% of their gross financing, net of individual impairment provisions. For financing facilities below the recommended threshold, the Group and Bank will make full provision net of collateral if the facility has been more than 3 months in arrears, instead of applying the 1.5% of gross financing, net of individual impairment provisions, to arrive at the collective assessment allowance.

Collective assessment allowance is being assessed on monthly basis based on each portfolio.

The amount and type of collateral required depends on as 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.

38 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(a) Credit risk (cont'd)

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

Collateral and other credit enhancements

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

Repossessed collateral

GROUP AND BANK	2011 RM'000
Residential properties	81,006
Non-residential properties	2,792
	83,798

It is the Group's and the Bank's policy to dispose of repossessed collateral in an orderly manner. The proceeds are used to reduce or repay the outstanding balance of financing and securities. Collateral repossessed are subject to disposal 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 repossessed properties for its business use.

(iii) Credit quality of financial investment

Set out below are the credit quality of non-money market instruments-debt securities analysed by ratings from external credit ratings agencies:

	FINANCIAL INVESTMENT HELD-TO-MATURITY NON MONEY MARKET INSTRUMENT – DEBT			FINANCIAL INVESTMENT AVAILABLE-FOR-SALE NON MONEY MARKET INSTRUMENT – DEBT		
2011	INTERNATIONAL RATINGS RM'000	DOMESTIC RATINGS RM'000	TOTAL RM'000	INTERNATIONAL RATINGS RM'000	DOMESTIC RATINGS RM'000	TOTAL RM'000
Group						
AAA+ to AA-	-	-	-	-	1,490,255	1,490,255
A+ to A-	-	-	-	4,306	378,674	382,980
BBB+ to BB-	-	-	-	32,805	151,026	183,831
Unrated	-	28,224	28,224	-	264,772	264,772
Defaulted	-	-	-	7,229	7,068	14,297
Total	-	28,224	283,224	44,340	2,291,795	2,336,135

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31 MARCH 2011 (26 RABIUL AKHIR 1432H)

38 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(a) Credit risk (cont'd)

(iii) Credit quality of financial investment (cont'd)

Set out below are the credit quality of non-money market instruments-debt securities analysed by ratings from external credit ratings agencies:

	FINANCIAL INVESTMENT HELD-TO-MATURITY NON MONEY MARKET INSTRUMENT – DEBT			FINANCIAL INVESTMENT AVAILABLE-FOR-SALE NON MONEY MARKET INSTRUMENT – DEBT		
2011	INTERNATIONAL RATINGS RM'000	DOMESTIC RATINGS RM'000	TOTAL RM'000	INTERNATIONAL RATINGS RM'000	DOMESTIC RATINGS RM'000	TOTAL RM'000
Bank						
AAA+ to AA-	-	-	-	-	1,490,255	1,490,255
A+ to A-	-	-	-	4,306	378,674	382,980
BBB+ to BB-	-	-	-	32,805	151,026	183,831
Unrated	-	28,224	28,224	-	253,972	253,972
Defaulted	-	-	-	7,229	7,068	14,297
Total	-	28,224	28,224	44,340	2,280,995	2,325,335

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 RM14,297,000, 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 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, consists primarily of 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.

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.

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 RMC.

The following tables indicate the effective profit rates at the reporting date and the Group's and the Bank's sensitivity to profit rates by time band based on the earlier of contractual repricing date and maturity date. Actual repricing dates may differ from contractual repricing dates due to prepayment of financings or early withdrawal of deposits.

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31 MARCH 2011 (26 RABIUL AKHIR 1432H)

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
ASSETS				
Cash and short-term funds	6,027,270	190,506	60,506	–
Financial investment held-to-maturity	–	–	–	–
Financial investment available-for-sale	153,867	287,499	689,365	1,094,217
Financing of customers:*				
– non-impaired	2,810,063	98,603	201,621	232,423
– impaired	–	–	–	–
Other non-profit sensitive balances	–	–	–	–
TOTAL ASSETS	8,991,200	576,608	951,492	1,326,640
LIABILITIES AND EQUITY				
Deposits from customers	8,707,922	5,654,500	1,782,268	3,434
Deposits and placements of banks and other financial institutions	–	–	800	4,505
Bills and acceptances payable	–	–	–	–
Subordinated bond	–	–	250,000	–
Other non-profit sensitive balances	–	–	–	–
Total Liabilities	8,707,922	5,654,500	2,033,068	7,939
Equity attributable to shareholders of the Bank	–	–	–	–
TOTAL LIABILITIES AND EQUITY	8,707,922	5,654,500	2,033,068	7,939
On-balance sheet profit sensitivity gap	283,278	(5,077,892)	(1,081,576)	1,318,701
Off-balance sheet profit sensitivity gap (profit rate swaps)	–	–	–	–
TOTAL PROFIT SENSITIVITY GAP	283,278	(5,077,892)	(1,081,576)	1,318,701

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

>2-3 YEARS RM'000	>3-4 YEARS RM'000	>4-5 YEARS RM'000	OVER 5 YEARS RM'000	NON-PROFIT SENSITIVE RM'000	TOTAL RM'000	EFFECTIVE PROFIT RATE %
-	-	-	-	169,013	6,447,295	2.5%
-	-	-	-	28,224	28,224	-
513,889	763,973	192,931	571,990	64,175	4,331,906	4.4%
420,784	181,873	463,920	2,566,578	-	6,975,865	6.3%
-	-	-	-	172,295	172,295	
-	-	-	-	350,157	350,157	
934,673	945,846	656,851	3,138,568	783,864	18,305,742	
1,132	1,051	3,883	-	17,582	16,171,772	2.3%
6,638	2,401	650	-	-	14,993	1.5%
-	-	-	-	291,375	291,375	
-	-	-	-	-	250,000	6.3%
-	-	-	-	216,172	216,172	
7,770	3,452	4,533	-	525,129	16,944,312	
-	-	-	-	1,361,430	1,361,430	
7,770	3,452	4,533	-	1,886,559	18,305,742	
926,903	942,394	652,318	3,138,568	(1,102,695)	-	
-	-	-	-	-	-	
926,903	942,394	652,318	3,138,568	(1,102,695)	-	

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31 MARCH 2011 (26 RABIUL AKHIR 1432H)

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 2010	UP TO 1 MONTH RM'000	>1-3 MONTHS RM'000	>3-12 MONTHS RM'000	>1-2 YEARS RM'000
ASSETS				
Cash and short-term funds	5,592,396	–	30,183	–
Financial investment held-to-maturity	–	–	–	–
Financial investment available-for-sale	–	78,050	642,990	882,317
Financing of customers:*				
– non-impaired	1,705,322	227,010	231,407	182,814
– impaired	–	–	–	–
Other non-profit sensitive balances	–	–	–	–
TOTAL ASSETS	7,297,718	305,060	904,580	1,065,131
LIABILITIES AND EQUITY				
Deposits from customers	8,328,893	4,907,382	1,651,944	10,847
Deposits and placements of banks and other financial institutions	7,971	8,390	–	–
Bills and acceptances payable	–	–	–	–
Subordinated bond	–	–	–	250,000
Other non-profit sensitive balances	–	–	–	–
Total Liabilities	8,336,864	4,915,772	1,651,944	260,847
Equity attributable to shareholders of the Bank	–	–	–	–
TOTAL LIABILITIES AND EQUITY	8,336,864	4,915,772	1,651,944	260,847
On-balance sheet profit sensitivity gap	(1,039,146)	(4,610,712)	(747,364)	804,284
Off-balance sheet profit sensitivity gap (profit rate swaps)	–	–	–	–
TOTAL PROFIT SENSITIVITY GAP	(1,039,146)	(4,610,712)	(747,364)	804,284

* This is arrived at after deducting general allowance and specific allowance from the outstanding gross financing.

>2-3 YEARS RM'000	>3-4 YEARS RM'000	>4-5 YEARS RM'000	OVER 5 YEARS RM'000	NON-PROFIT SENSITIVE RM'000	TOTAL RM'000	EFFECTIVE PROFIT RATE %
–	–	–	–	152,804	5,775,383	2.3%
28,224	–	–	–	–	28,224	–
855,115	307,173	280,777	966,383	–	4,012,805	4.5%
242,077	392,438	609,323	2,526,016	–	6,116,407	6.4%
–	–	–	–	513,752	513,752	
–	–	–	–	286,535	286,535	
1,125,416	699,611	890,100	3,492,399	953,091	16,733,106	
1,020	895	1,100	–	18,775	14,920,856	2.7%
–	–	–	–	–	16,361	2.3%
–	–	–	–	92,224	92,224	
–	–	–	–	–	250,000	6.3%
–	–	–	–	134,534	134,534	
1,020	895	1,100	–	245,533	15,413,975	
–	–	–	–	1,319,131	1,319,131	
1,020	895	1,100	–	1,564,664	16,733,106	
1,124,396	698,716	889,000	3,492,399	(611,573)	–	
–	–	–	–	–	–	
1,124,396	698,716	889,000	3,492,399	(611,573)	–	

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31 MARCH 2011 (26 RABIUL AKHIR 1432H)

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
ASSETS				
Cash and short-term funds	6,027,270	190,506	60,506	-
Financial investment held-to-maturity	-	-	-	-
Financial investment available-for-sale	153,867	287,499	689,365	1,094,217
Financing of customers:*				
– non-impaired	2,810,063	98,603	201,621	232,423
– impaired	-	-	-	-
Other non-profit sensitive balances	-	-	-	-
TOTAL ASSETS	8,991,200	576,608	951,492	1,326,640
LIABILITIES AND EQUITY				
Deposits from customers	8,714,539	5,654,500	1,782,268	3,434
Deposits and placements of banks and other financial institutions	-	-	800	4,505
Bills and acceptances payable	-	-	-	-
Subordinated bond	-	-	250,000	-
Other non-profit sensitive balances	-		-	-
Total Liabilities	8,714,539	5,654,500	2,033,068	7,939
Equity attributable to shareholders of the Bank	-	-	-	-
TOTAL LIABILITIES AND EQUITY	8,714,539	5,654,500	2,033,068	7,939
On-balance sheet profit sensitivity gap	276,661	(5,077,892)	(1,081,576)	1,318,701
Off-balance sheet profit sensitivity gap (profit rate swaps)	-	-	-	-
TOTAL PROFIT SENSITIVITY GAP	276,661	(5,077,892)	(1,081,576)	1,318,701

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

>2-3 YEARS RM'000	>3-4 YEARS RM'000	>4-5 YEARS RM'000	OVER 5 YEARS RM'000	NON-PROFIT SENSITIVE RM'000	TOTAL RM'000	EFFECTIVE PROFIT RATE %
–	–	–	–	169,013	6,447,295	2.5%
–	–	–	–	28,224	28,224	–
513,889	763,973	192,931	571,990	53,375	4,321,106	4.4%
420,784	181,873	463,920	2,584,452	–	6,993,739	6.3%
–	–	–	–	172,295	172,295	
–	–	–	–	349,581	349,581	
934,673	945,846	656,851	3,156,442	772,488	18,312,240	
1,132	1,051	3,883	–	17,582	16,178,389	2.3%
6,638	2,401	650	–	–	14,993	1.5%
–	–	–	–	291,375	291,375	
–	–	–	–	–	250,000	6.3%
–	–	–	–	216,196	216,196	
7,770	3,452	4,533	–	525,153	16,950,953	
–	–	–	–	1,361,287	1,361,287	
7,770	3,452	4,533	–	1,886,440	18,312,240	
926,903	942,394	652,318	3,156,442	(1,113,952)	–	
–	–	–	–	–	–	
926,903	942,394	652,318	3,156,442	(1,113,952)	–	

Notes to the Financial Statements

31 MARCH 2011 (26 RABIUL AKHIR 1432H)

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 2010	UP TO 1 MONTH RM'000	>1-3 MONTHS RM'000	>3-12 MONTHS RM'000	>1-2 YEARS RM'000
ASSETS				
Cash and short-term funds	5,592,396	–	30,183	–
Financial investment held-to-maturity	–	–	–	–
Financial investment available-for-sale	–	78,050	642,990	882,317
Financing of customers:*				
– non-impaired	1,705,322	227,010	231,407	182,814
– impaired	–	–	–	–
Other non-profit sensitive balances	–	–	–	–
TOTAL ASSETS	7,297,718	305,060	904,580	1,065,131
LIABILITIES AND EQUITY				
Deposits from customers	8,335,885	4,907,382	1,651,944	10,847
Deposits and placements of banks and other financial institutions	7,971	8,390	–	–
Bills and acceptances payable	–	–	–	–
Subordinated bond	–	–	–	250,000
Other non-profit sensitive balances	–	–	–	–
Total Liabilities	8,343,856	4,915,772	1,651,944	260,847
Equity attributable to shareholders of the Bank	–	–	–	–
TOTAL LIABILITIES AND EQUITY	8,343,856	4,915,772	1,651,944	260,847
On-balance sheet profit sensitivity gap	(1,046,138)	(4,610,712)	(747,364)	804,284
Off-balance sheet profit sensitivity gap (profit rate swaps)	–	–	–	–
TOTAL PROFIT SENSITIVITY GAP	(1,046,138)	(4,610,712)	(747,364)	804,284

* This is arrived at after deducting general allowance and specific allowance from the outstanding gross financing.

>2-3 YEARS RM'000	>3-4 YEARS RM'000	>4-5 YEARS RM'000	OVER 5 YEARS RM'000	NON-PROFIT SENSITIVE RM'000	TOTAL RM'000	EFFECTIVE PROFIT RATE %
–	–	–	–	152,804	5,775,383	2.3%
28,224	–	–	–	–	28,224	–
855,115	307,173	280,777	966,383	–	4,012,805	4.5%
242,077	392,438	609,323	2,526,262	–	6,116,653	6.4%
–	–	–	–	513,752	513,752	
–	–	–	–	292,404	292,404	
1,125,416	699,611	890,100	3,492,645	958,960	16,739,221	
1,020	895	1,100	–	18,775	14,927,848	2.7%
–	–	–	–	–	16,361	2.3%
–	–	–	–	92,224	92,224	
–	–	–	–	–	250,000	6.3%
–	–	–	–	134,334	134,334	
1,020	895	1,100	–	245,333	15,420,767	
–	–	–	–	1,318,454	1,318,454	
1,020	895	1,100	–	1,563,787	16,739,221	
1,124,396	698,716	889,000	3,492,645	(604,827)	–	
–	–	–	–	–	–	
1,124,396	698,716	889,000	3,492,645	(604,827)	–	

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31 MARCH 2011 (26 RABIUL AKHIR 1432H)

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.

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

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 2011 INCREASE/(DECREASE) IN BASIS POINTS	EFFECT ON PROFIT AFTER TAX RM'000	EFFECT ON OTHER COMPREHENSIVE INCOME RM'000	EFFECT ON EQUITY RM'000
-50	4,050	49,047	53,097
+50	(10,403)	(49,047)	(59,450)

Foreign exchange risk

Foreign currency exchange risk refers to adverse movements on foreign currency positions originating from treasury money market activities and from the Group's investments and retained earnings.

GROUP AND BANK 2011	CHANGE IN CURRENCY RATE	EFFECT ON PROFIT AFTER TAX	EFFECT ON EQUITY
CURRENCY			
RM	12%	1,938	1,938
USD	12%	249	249
AUD	13%	24	24
CAD	8%	35	35
CHF	10%	2	2
EUR	12%	82	82
GBP	25%	365	365
JPY	20%	99	99
SGD	5%	44	44

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31 MARCH 2011 (26 RABIUL AKHIR 1432H)

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 2011 based on contractual undiscounted repayment obligation (using behavioural method on deposits).

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 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	1,494,870	190,506	60,506	-	-	6,447,295
Financial investment held-to-maturity	-	-	-	-	-	28,224	28,224
Financial investment available-for-sale	-	188,771	287,499	437,491	254,286	3,163,859	4,331,906
Financing of customers	-	773,147	661,746	383,617	516,622	4,813,028	7,148,160
Other assets	-	-	-	-	116,020	234,137	350,157
TOTAL ASSETS	4,701,413	2,456,788	1,139,751	881,614	886,928	8,239,248	18,305,742
LIABILITIES AND EQUITY							
Deposits from customers	1,865,816	6,842,106	5,654,500	1,315,137	467,131	27,082	16,171,772
Deposits and placements of banks and other financial institutions	-	-	-	300	500	14,193	14,993
Other liabilities	-	430,423	-	250,000	76,966	158	757,547
TOTAL LIABILITIES	1,865,816	7,272,529	5,654,500	1,565,437	544,597	41,433	16,944,312
NET MATURITY MISMATCH	2,835,597	(4,815,741)	(4,514,749)	(683,823)	342,331	8,197,815	1,361,430

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31 MARCH 2011 (26 RABIUL AKHIR 1432H)

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 2010	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	3,967,138	1,778,062	–	30,183	–	–	5,775,383
Financial investment held-to-maturity	–	–	–	–	–	28,224	28,224
Financial investment available-for-sale	–	–	78,009	261,527	381,655	3,291,614	4,012,805
Financing of customers	292,848	518,200	250,477	137,361	115,306	5,315,967	6,630,159
Other assets	–	67,079	–	–	27,915	191,541	286,535
TOTAL ASSETS	4,259,986	2,363,341	328,486	429,071	524,876	8,827,346	16,733,106
LIABILITIES AND EQUITY							
Deposits from customers	2,003,315	6,325,645	4,907,421	1,284,786	367,052	32,637	14,920,856
Deposits and placements of banks and other financial institutions	7,971	–	8,390	–	–	–	16,361
Other liabilities	–	149,379	–	–	77,379	250,000	476,758
TOTAL LIABILITIES	2,011,286	6,475,024	4,915,811	1,284,786	444,431	282,637	15,413,975
NET MATURITY MISMATCH	2,248,700	(4,111,683)	(4,587,325)	(855,715)	80,445	8,544,709	1,319,131

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	1,494,870	190,506	60,506	-	-	6,447,295
Financial investment held-to-maturity	-	-	-	-	-	28,224	28,224
Financial investment available-for-sale	-	153,867	287,499	437,491	254,286	3,187,963	4,321,106
Financing of customers	-	773,146	661,746	383,617	516,622	4,830,903	7,166,034
Other assets	-	-	-	-	108,965	240,616	349,581
TOTAL ASSETS	4,701,413	2,421,883	1,139,751	881,614	879,873	8,287,706	18,312,240
LIABILITIES AND EQUITY							
Deposits from customers	1,872,433	6,842,106	5,654,500	1,315,137	467,131	27,082	16,178,389
Deposits and placements of banks and other financial institutions	-	-	-	300	500	14,193	14,993
Other liabilities	-	430,526	-	250,000	76,887	158	757,571
TOTAL LIABILITIES	1,872,433	7,272,632	5,654,500	1,565,437	544,518	41,433	16,950,953
NET MATURITY MISMATCH	2,828,980	(4,850,749)	(4,514,749)	(683,823)	335,355	8,246,273	1,361,287

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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 2010	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	3,967,138	1,778,062	–	30,183	–	–	5,775,383
Financial investment held-to-maturity	–	–	–	–	–	28,224	28,224
Financial investment available-for-sale	–	–	78,009	261,527	381,655	3,291,614	4,012,805
Financing of customers	292,848	518,200	250,477	137,361	115,305	5,316,214	6,630,405
Other assets	–	67,079	–	–	27,915	197,410	292,404
TOTAL ASSETS	4,259,986	2,363,341	328,486	429,071	524,875	8,833,462	16,739,221
LIABILITIES AND EQUITY							
Deposits from customers	2,010,307	6,325,645	4,907,421	1,284,786	367,052	32,637	14,927,848
Deposits and placements of banks and other financial institutions	7,971	–	8,390	–	–	–	16,361
Other liabilities	–	149,379	–	–	77,179	250,000	476,558
TOTAL LIABILITIES	2,018,278	6,475,024	4,915,811	1,284,786	444,231	282,637	15,420,767
NET MATURITY MISMATCH	2,241,708	(4,111,683)	(4,587,325)	(855,715)	80,644	8,550,825	1,318,454

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:

	DEPOSIT FROM CUSTOMERS						
	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
GROUP							
2011							
By contractual maturity	1,865,816	6,842,106	5,654,500	1,315,137	467,131	27,082	16,171,772
By behavioural maturity	1,761,183	1,573,731	1,452,317	141,860	395,721	10,846,960	16,171,772
Difference	104,633	5,268,375	4,202,183	1,173,277	71,410	(10,819,878)	-
BANK							
2011							
By contractual maturity	1,872,433	6,842,106	5,654,500	1,315,137	467,131	27,082	16,178,389
By behavioural maturity	1,767,800	1,573,731	1,452,317	141,860	395,721	10,846,960	16,178,389
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 are financial liabilities of RM16,909,000, all of which relate to Non-Innovative Tier I Stapled Securities whereby the interest payments are computed up to the first optional redemption date.

Notes to the Financial Statements

31 MARCH 2011 (26 RABIUL AKHIR 1432H)

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)

The cash flows of commitments and contingent liabilities are not presented on an undiscounted basis as the total outstanding contractual amounts do not represent future cash requirements since the Group and the Bank expect many of these contingencies to expire or be unconditionally cancelled without being called or drawn upon and many of the contingent liabilities are reimbursable by customers.

GROUP 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
Deposits from customers	1,761,183	1,573,731	1,452,317	141,860	395,721	10,846,960	16,171,772
Deposits and placements of banks and other financial institutions	-	-	55	356	612	14,526	15,549
Other financial liabilities	-	430,423	-	250,000	41,211	158	721,792
Total Liabilities	1,761,183	2,004,154	1,452,372	392,216	437,544	10,861,644	16,909,113
BANK 2011							
Deposits from customers	1,767,800	1,573,731	1,452,317	141,860	395,721	10,846,960	16,178,389
Deposits and placements of banks and other financial institutions	-	-	55	356	612	14,526	15,549
Other financial liabilities	-	430,526	-	250,000	41,133	158	721,817
Total Liabilities	1,767,800	2,004,257	1,452,372	392,216	437,466	10,861,644	16,915,755

(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 Capital and other commitments

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

	GROUP AND BANK 2011 RM'000	2010 RM'000
Approved and contracted for	**6,002**	8,210
Approved but not contracted for	**42,981**	64,496
	48,983	72,706

40 CAPITAL ADEQUACY

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

	GROUP 2011 RM'000	2010 RM'000	BANK 2011 RM'000	2010 RM'000
Computation of total risk- weighted assets ("RWA")				
Total credit RWA	**7,948,103**	8,684,382	**7,934,560**	8,677,935
Total market RWA	**75,061**	63,805	**75,061**	63,805
Total operational RWA	**960,106**	922,973	**953,244**	916,064
Total RWA	**8,983,270**	9,671,160	**8,962,865**	9,657,804
Computation of capital ratios				
Tier-I capital				
Paid-up ordinary share capital	**1,000,000**	1,000,000	**1,000,000**	1,000,000
Statutory reserve	**272,893**	206,105	**271,603**	204,596
Retained profits	**128,097**	166,529	**129,105**	167,212
Less: Deferred tax assets (net)	**(38,240)**	(27,915)	**(38,240)**	(27,915)
Total Tier-I Capital	**1,362,750**	1,344,719	**1,362,468**	1,343,893
Tier-II capital				
Subordinated bonds	**250,000**	250,000	**250,000**	250,000
Collective assessment allowance*/ General allowance for bad and doubtful financing	**114,833**	106,663	**114,833**	106,770
Total Tier-II Capital	**364,833**	356,663	**364,833**	356,770
Less: Investment in subsidiaries	**-**	-	**(6,484)**	(6,402)
Capital Base	**1,727,583**	1,701,382	**1,720,817**	1,694,261
Core capital	**1,362,750**	1,344,719	**1,362,468**	1,343,893
Capital base	**1,727,583**	1,701,382	**1,720,817**	1,694,261
Core capital ratios	**15.2%**	13.9%	**15.2%**	13.9%
Risk-weighted capital ratio	**19.2%**	17.6%	**19.2%**	17.5%

Notes to the Financial Statements

31 MARCH 2011 (26 RABIUL AKHIR 1432H)

40 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 RM111.9 million.

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

	GROUP			
	2011		2010	
	TOTAL EXPOSURE AFTER NETTING AND CREDIT RISK MITIGATION RM'000	TOTAL RISK WEIGHTED ASSETS RM'000	TOTAL EXPOSURE AFTER NETTING AND CREDIT RISK MITIGATION RM'000	TOTAL RISK WEIGHTED ASSETS RM'000
0%	**9,101,082**	**-**	6,888,420	-
20%	**1,883,668**	**376,734**	2,725,625	545,125
35%	**534,458**	**187,060**	-	-
50%	**1,041,868**	**520,934**	805,789	402,894
75%	**3,499,816**	**2,624,862**	3,846,912	2,885,184
100%	**4,136,883**	**4,136,883**	2,961,073	2,961,074
150%	**67,754**	**101,630**	1,260,069	1,890,105
Risk weighted assets for credit risk	**20,265,529**	**7,948,103**	18,487,888	8,684,382
Risk weighted assets for market risk		**75,061**		63,805
Risk weighted assets for operational risk		**960,106**		922,973
Total risk weighted asset		**8,983,270**		9,671,160

40 CAPITAL ADEQUACY (cont'd)

	BANK			
	2011		2010	
	TOTAL EXPOSURE AFTER NETTING AND CREDIT RISK MITIGATION RM'000	TOTAL RISK WEIGHTED ASSETS RM'000	TOTAL EXPOSURE AFTER NETTING AND CREDIT RISK MITIGATION RM'000	TOTAL RISK WEIGHTED ASSETS RM'000
0%	**9,101,082**	**–**	6,888,420	–
20%	**1,883,668**	**376,734**	2,725,625	545,125
35%	**534,458**	**187,060**	–	–
50%	**1,041,868**	**520,934**	805,789	402,894
75%	**3,499,816**	**2,624,862**	3,846,912	2,885,184
100%	**4,123,340**	**4,123,340**	2,954,626	2,954,627
150%	**67,754**	**101,630**	1,260,069	1,890,105
Risk weighted assets for credit risk	**20,251,986**	**7,934,560**	18,481,441	8,677,935
Risk weighted assets for market risk		**75,061**		63,805
Risk weighted assets for operational risk		**953,244**		916,064
Total risk weighted assets		**8,962,865**		9,657,804

41 CAPITAL MANAGEMENT

The capital injection worth of RM500 million of Tier-1 capital in 2009, had ensured that the Bank's 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.

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 3. Much has been deliberated as regulators global wide 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.

For year 2011, the Bank plans to raise additional Subordinated Sukuk to boost further its capitalisation.

Notes to the Financial Statements

31 MARCH 2011 (26 RABIUL AKHIR 1432H)

42 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.

Other business segments include rental services, none of which is of a sufficient size to be reported separately.

GROUP 2011	WHOLESALE BANKING RM'000	RETAIL BANKING RM'000	OTHERS RM'000	TOTAL RM'000
Total income	406,597	409,647	5,301	821,545
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				6,125,741
Total assets				18,305,742
Segment liabilities	7,165,843	9,031,131	-	16,196,974
Unallocated corporate liabilities				747,338
Total liabilities				16,944,312
Other segment items				
Capital expenditure	398	7,438	24,024	31,860
Depreciation	1,436	8,816	3,386	13,638

42 SEGMENT INFORMATION (cont'd)

(a) Business segments (cont'd)

GROUP 2010	WHOLESALE BANKING RM'000	RETAIL BANKING RM'000	OTHERS RM'000	TOTAL RM'000
Total income	447,013	485,970	5,002	937,985
Result				
Segment result	115,903	116,180	(90,022)	142,061
Zakat and taxation				(43,227)
Net profit for the financial year				98,834
Other information				
Segment assets	8,559,493	4,877,633	–	13,437,126
Unallocated corporate assets				3,295,980
Total assets				16,733,106
Segment liabilities	6,854,447	8,089,403	–	14,943,850
Unallocated corporate liabilities				470,125
Total liabilities				15,413,975
Other segment items				
Capital expenditure	153	12,152	42,627	54,932
Depreciation	1,697	8,575	4,232	14,504

Notes to the Financial Statements

31 MARCH 2011 (26 RABIUL AKHIR 1432H)

42 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	4,182	820,426
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				6,132,239
Total assets				18,312,240
Segment liabilities	7,147,258	9,031,131	-	16,178,389
Unallocated corporate liabilities				772,564
Total liabilities				16,950,953
Other segment items				
Capital expenditure	398	7,438	24,024	31,860
Depreciation	1,436	8,816	3,360	13,612

42 SEGMENT INFORMATION (cont'd)

(a) Business segments (cont'd)

BANK 2010	WHOLESALE BANKING RM'000	RETAIL BANKING RM'000	OTHERS RM'000	TOTAL RM'000
Total income	447,013	485,970	4,056	937,039
Result				
Segment result	115,903	116,180	(91,449)	142,634
Zakat and taxation				(43,106)
Net profit for the financial year				97,528
Other information				
Segment assets	8,559,852	4,877,633	–	13,437,485
Unallocated corporate assets				3,301,736
Total assets				16,739,221
Segment liabilities	6,854,806	8,089,403	–	14,944,209
Unallocated corporate liabilities				476,558
Total liabilities				15,420,767
Other segment items				
Capital expenditure	153	12,152	42,627	54,932
Depreciation	1,697	8,575	4,195	14,467

(b) Geographical segment

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

Notes to the Financial Statements

31 MARCH 2011 (26 RABIUL AKHIR 1432H)

43 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

	2011		2010	
	CARRYING AMOUNT RM'000	FAIR VALUE RM'000	CARRYING AMOUNT RM'000	FAIR VALUE RM'000
GROUP				
Financial assets				
Financial investment held-to-maturity	**28,224**	**28,224**	28,224	28,224
Financing of customers	**7,148,160**	**8,338,198**	6,630,159	7,659,898
BANK				
Financial assets inancial investment held-to-maturity	**28,224**	**28,224**	28,224	28,224
Financing of customers	**7,166,034**	**8,356,072**	6,630,405	7,660,251
GROUP AND BANK				
Financial liabilities				
Subordinated obligations	**250,000**	**250,025**	250,000	248,457

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.

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.

43 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (cont'd)

FINANCING TO CUSTOMERS

The fair values of financing to customers 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 OBLIGATIONS

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.

44 COMPARATIVES

The income statements, statement of changes in equity, statements of cash flows and related notes to the financial statements are for the twelve months period from 1 April 2010 to 31 March 2011. Accordingly, comparative amounts are not comparable as the 2010 figures are for the fifteen months period from 1 January 2009 to 31 March 2010.

Basel II
Pillar 3 Disclosures

ABBREVIATIONS

A-IRB	Advanced-Internal Ratings Based
ALCO	Asset-Liability Management Committee
ALM	Asset and Liability Management
BCM	Business Continuity Management
BCP	Business Continuity Plan
BIA	Business Impact Analysis
BOD	Board of Director
BNM	Bank Negara Malaysia
BRMC	Board Risk Management Committee
BU	Business Unit
CAFIB	Capital Adequacy Framework for Islamic Banks
CBs	Corporate Bonds
CC	Credit Committee
CCR	Counterparty Credit Risk
CEO	Chief Executive Officer
CPs	Commercial Papers
CR	Credit Risk
CRP	Credit Risk Policy
CRM	Credit Risk Mitigation
CSRD	Credit Supervision and Recovery Department
EAR	Earning At Risk
ECAI	External Credit Assessment Institutions
ERMC	Executive Risk Management Committee
EVE	Economic Value Perspective
FRS139	Financial Reporting Standards 139
FDI	Foreign Direct Investments
GCRP	Guidelines to Credit Risk Policies
IC	Investment Committee
ICAAP	Internal Capital Adequacy Assessment process
IFIs	Islamic Financial Institutions
IFSB-10	Institute Offering Islamic Financial Services
IPRS	Islamic Profit Rate Swap
IRB Approach	Internal Ratings Based Approach
MARC	Malaysian Rating Corporation Berhad
MDB	Multilateral Development Bank
MISB	Muamalat Invest Sdn Bhd
MR	Market Risk
OR	Operational Risk
ORM	Operational Risk Management
ORMC	Operational Risk Management Committee
PDS	Private Debt Securities
PSEs	Non–Federal Government Public Sector Entities
RA	Risk Assessment
RII Inc	Rating and Investment Information, Inc
R&I	Rating and Investment Information, Inc
RAM	RAM Rating Services Berhad
RORBB	Rate of Return Risk in Banking Book
RMD	Risk Management Department
RWA	Risk Weighted Assets
RWCAF	Risk Weighted Capital Adequacy Framework
TBPS	Trading Book Policy Statement
SC	Shariah Committee
S&P	Standard and Poor's
SRP	Shariah Review Program
SU	Support Unit
VaR	Value at Risk

OVERVIEW

Pillar 3's objective is to improve market discipline through effective public disclosure to complement requirements for Pillar 1 and Pillar 2. To that end, Pillar 3 is a substantial public disclosure requirements, which represent a significant increase in the amount of information made publicly available by Bank Muamalat Malaysia Berhad and its subsidiaries (hereinafter refers as "the Group and the Bank") around capital structure, capital adequacy, risk management and risk measurement.

BASEL II

Improved soundness and stability

PILLAR 1 MINIMUM CAPITAL	PILLAR 2 SUPERVISORY REVIEW	PILLAR 3 MARKET DISCIPLINE

CREDIT RISK
• Standardised method, or
• Internal rating based approach (IRB or A-IRB)
• Risk quantification (PD, LGD, EAD)
 	
OPERATIONAL RISK
• Standardised methods, or
• Advanced measurement (AM)
• Loss event segmentation by type and business unit
• Quantification of losses
• Process development
 	
MARKET RISK
• Focus on specific risk and model validation
	• Risk measurement of all risks
	• Stress testing of risks
	• Financial plan and down turn scenario
	• Assessment of capital adequacy management
	• Capital plan and capital alert plan
	• Board and senior management oversight
		• Policies and procedures regarding disclosure frequency and materiality
		• Capital structure
		• Capital adequacy
		• Risk exposure and assessment
		  • Credit Risk
		  • Market Risk
		  • Operational Risk
		  • Equities in the banking book
		  • Rate of return risk in the banking book

1.0 SCOPE OF APPLICATION

The Pillar 3 Disclosures is prepared on a consolidated basis and comprises information on Bank Muamalat Malaysia Berhad and its subsidiaries. Information on subsidiaries of the Bank is available in Note 11 to the financial statements.

The basis of consolidation for financial accounting purposes is described in Notes 3.4 (a) to the financial statements, and differs from that used for regulatory capital purposes. The investment in subsidiary companies is deducted from regulatory capital at entity level and consolidated at group level.

There are no significant restrictions or impediments on the transfer of funds or regulatory capital within the Group.

There were no capital deficiencies in any of the subsidiary companies of the Group as at the financial year end.

All information in the ensuing paragraphs is based on the Group's position. Certain information on capital adequacy relating to the Group and the Bank is presented on a voluntary basis to provide additional information to users. The capital adequacy-related information of the Group and the Bank, which is presented on a global basis, includes its offshore banking activities in Labuan as determined under the RWCAF.

Basel II
Pillar 3 Disclosures

1.0 SCOPE OF APPLICATION (cont')

The Group has applied the position in paragraph 7.2 of Bank Negara Malaysia's guidelines on CAFIB – Disclosures Requirements (Pillar 3) whereby the Group has been exempted from disclosing comparative information on a first time adaption of this requirement. These disclosures have been reviewed and verified by internal auditors and approved by the Board and Directors of the Group.

Objectives

The objectives of Pillar 3 disclosures are:
- To facilitate decision making process for market participants,
- To enhance market discipline,
- To further build and enhance market position of the Group and the Bank,
- To build positive image of the Group and the Bank in upholding the principle of transparency, honesty and commitment.
- To incentivise the Group and the Bank in implementing robust risk management systems, in fulfilling the requirement to provide detailed information on risk exposures; how risks are managed and how these relate to capital.

Scope of disclosures

The disclosures covers the following areas

QUALITATIVE DISCLOSURES	QUANTITATIVE DISCLOSURES
• Disclosures should be consistent with the scale, complexity and sophistication of the Group and the Bank approaches to risk management and capital adequacy assessments. Accordingly, more disclosures would be expected of the Group and the Bank using the more sophisticated approaches under the CAFIB such as the internal ratings based (IRB) approach.	• Basic information on, entities form the capital group and other entities for regulatory purposes, capital relations between the entities within capital group, information on equity, basic information on features for all items related to own funds, information on major shareholders as well as quantitative information on their own funds structure.
• Descriptions of strategies and processes for particulars risk types.	• Amounts of 8% of risk-weighted exposures, separately for each class of exposure, with method for calculation of risk-weighted exposures.
• Descriptions of structure and organization of management for particular risk types.	• Quantitative data on minimal capital requirements concerning particular risk types.
• Scope and type of reporting and risk measurement systems.	• Methods of calculation of capital requirements, accompanied by quantitative information on approach and calculation principles for each risk type.
• Risk hedging and mitigating policy and monitoring of the hedging effectiveness and risk mitigating.	• Detailed data concerning risk exposure, for each risk type separately, in breakdown appropriate for particular risk types.
• Description of the method and processes applied by the Group and the Bank for its capital adequacy assessment.	• Comparative information regarding quantitative disclosures for the preceding financial year must be reported.
• Description of strategies and processes as well as detailed date on risk mitigation techniques applied.	

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1.0 SCOPE OF APPLICATION (cont')

The detailed scope of published disclosures is subjected to the following classification of information:

- Insignificant, i.e. its exclusion or distortion cannot influence the assessment or decision of a person using such information to make economic decisions, or influence such an assessment or decision,
- Reserved, i.e. its public distribution might adversely influence the position of the Group and the Bank on the market according to regulations on competition and consumer protection,
- Subject to law-protected confidentiality, such information is not published. In case of not publishing reserved information or the one which is subject to law-protected confidentiality, the Group and the Bank disclose information which is less detailed.

2.0 CAPITAL MANAGEMENT

The capital injection worth of RM500 million of Tier-1 capital in 2009, 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 Group's and the Bank's capital requirement vis-à-vis the development of the Group and the Bank as well as the broad environment, i.e. regulatory and macroeconomic setting.

Latest review exercise revealed that the management of the Group's and 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 3. Much has been deliberated as regulators global wide strive to address reform in banking supervision, especially in the quality of capital and liquidity standards.

The Group and the Bank have 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 Group's and the Bank's capital requirements under plausible and worst case stress scenarios to assess the Group's and the Bank's capital to withstand the shocks. Subsequently, the same approach is applied for internal capital adequacy assessment process ("ICAAP").

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2.0 CAPITAL MANAGEMENT (cont'd)

For year 2011, the Bank plans to raise additional Subordinated Sukuk to boost further its capitalisation.

Capital Adequacy Ratios

The table below presents the capital adequacy ratios of the Group and Bank:

	GROUP		BANK	
	2011	2010	2011	2010
Core Capital Ratio	**15.2%**	13.9%	**15.2%**	13.9%
Risk-weighted capital ratio	**19.2%**	17.6%	**19.2%**	17.5%

Capital Structure

The constituents of total eligible capital are set out in BNM's Guideline on 'Risk-Weighted Capital Adequacy Framework and Capital Adequacy Framework for Islamic Banks (General Requirements and Capital Components)' Part C and Part D. These include shareholders' fund, after regulatory-related adjustments, and eligible capital instruments issued by the Bank.

The following table represents the Group and Bank's capital position as at 31 March 2011. Details on capital instruments, including share capital and reserves are found in notes 19 to 21 of the financial statements:

	GROUP		BANK	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Tier-I capital				
Paid-up ordinary share capital	**1,000,000**	1,000,000	**1,000,000**	1,000,000
Statutory reserve	**272,893**	206,105	**271,603**	204,596
Retained profits	**128,097**	166,529	**129,105**	167,212
Less: Deferred tax assets (net)	**(38,240)**	(27,915)	**(38,240)**	(27,915)
Total Tier-I Capital	**1,362,750**	1,344,719	**1,362,468**	1,343,893
Tier-II capital				
Subordinated bonds	**250,000**	250,000	**250,000**	250,000
Collective assessment allowance*/ General allowance for bad and doubtful financing	**114,833**	106,663	**114,833**	106,770
Total Tier-II Capital	**364,833**	356,663	**364,833**	356,770
Less: Investment in subsidiaries	**-**	-	**(6,484)**	(6,402)
Capital Base	**1,727,583**	1,701,382	**1,720,817**	1,694,261

* Excludes collective assessment allowance on impaired financing restricted from Tier II capital by BNM of the Group and the Bank of RM111.9 million.

2.0 CAPITAL MANAGEMENT (cont'd)

The following tables present the minimum regulatory capital requirement to support the Group's and the Bank's risk-weighted assets:

	2011		2010	
	RISK WEIGHTED ASSETS RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000	RISK WEIGHTED ASSETS RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000
GROUP				
Credit Risk	**7,948,103**	**635,848**	8,684,382	694,750
Market Risk	**75,061**	**6,005**	63,805	5,104
Operational Risk	**960,106**	**76,808**	922,973	73,838
Total	**8,983,270**	**718,662**	**9,671,160**	**773,692**

	2011		2010	
	RISK WEIGHTED ASSETS RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000	RISK WEIGHTED ASSETS RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000
BANK				
Credit Risk	**7,934,560**	**634,765**	8,677,935	694,235
Market Risk	**75,061**	**6,005**	63,805	5,104
Operational Risk	**953,244**	**76,260**	916,064	73,285
Total	**8,962,865**	**717,029**	**9,657,804**	**772,624**

The Group and the Bank do not have any capital requirement for Large Exposure Risk as there is no amount in excess of the lowest threshold arising from equity holdings as specified in the BNM's RWCAF.

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2.0 CAPITAL MANAGEMENT (cont'd)

Minimum capital requirements on credit risk as at 31 March 2011 of the Group:

GROUP 31 MARCH 2011	GROSS EXPOSURES RM'000	*NET EXPOSURES RM'000	RISK WEIGHTED ASSETS RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000
(i) Credit Risk (Standardised Approach)				
(a) On Balance Sheet Exposures				
Sovereign/Central Banks	8,259,774	8,259,774	-	-
PSEs	120,182	110,595	22,119	1,770
Banks, Development Financial Institution & MDBs	330,064	330,064	66,015	5,281
Corporates	5,057,286	4,967,236	3,569,027	285,522
Regulator Retail	2,855,703	2,851,111	2,138,333	171,067
Residential Real Estate	1,147,875	1,147,875	651,529	52,122
Higher Risk Assets	11,308	11,308	16,962	1,357
Other Assets	322,069	322,069	230,761	18,461
Defaulted Exposures	235,973	235,973	243,581	19,486
	18,340,232	18,236,004	6,938,327	555,066
(b) Off-Balance Sheet Exposures**				
Credit-related off-balance sheet exposure	2,027,394	2,027,394	1,008,169	80,654
Derivative financial instruments	2,131	2,131	1,608	129
	2,029,525	2,029,525	1,009,776	80,782
Total Credit Exposures	**20,369,757**	**20,265,529**	**7,948,103**	**635,848**

	LONG POSITION	SHORT POSITION	RISK WEIGHTED ASSETS	CAPITAL REQUIREMENT
(ii) Market Risk (Standardised Approach)				
Benchmark Rate Risk	366	(1,725)	68,022	5,442
Foreign Currency Risk	563	(7,040)	7,040	563
			75,061	**6,005**
(iii) Operational Risk (Basic Indicators Approach)			**960,106**	**76,808**
(iv) Total RWA and Capital Requirements			**8,983,270**	**718,662**

* After netting and credit risk mitigation

** Credit Risk of off balance sheet items

2.0 CAPITAL MANAGEMENT (cont'd)

Minimum capital requirements on credit risk as at 31 March 2010 of the Group:

GROUP 31 MARCH 2010	GROSS EXPOSURES RM'000	*NET EXPOSURES RM'000	RISK WEIGHTED ASSETS RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000
(i) Credit Risk (Standardised Approach)				
(a) On Balance Sheet Exposures				
Sovereign/Central Banks	6,074,593	6,074,593	–	–
PSEs	96,547	83,556	16,712	1,336
Banks, Development Financial Institution & MDBs	802,394	802,394	196,171	15,694
Corporates	4,632,501	4,565,979	2,758,682	220,695
Regulator Retail	3,027,843	3,026,171	2,269,628	181,570
Residential Real Estate	402,394	402,394	301,795	24,144
Higher Risk Assets	988,497	937,037	1,386,438	110,915
Other Assets	236,159	236,159	168,912	13,513
Defaulted Exposures	401,037	401,037	470,701	37,656
	16,661,965	16,529,320	7,569,039	605,523
(b) Off-Balance Sheet Exposures**				
Credit-related off-balance sheet exposure	1,928,750	1,928,750	1,099,981	87,998
Derivative financial instruments	29,819	29,819	15,362	1,229
	1,958,569	1,958,569	1,115,343	89,227
Total Credit Exposures	**18,620,534**	**18,487,888**	**8,684,382**	**694,750**

	LONG POSITION	SHORT POSITION	RISK WEIGHTED ASSETS	CAPITAL REQUIREMENT
(ii) Market Risk (Standardised Approach)				
Benchmark Rate Risk	957	2,063	52,739	4,219
Foreign Currency Risk	1,483	(11,066)	11,066	885
			63,805	**5,104**
(iii) Operational Risk (Basic Indicators Approach)			**922,973**	**73,838**
(iv) Total RWA and Capital Requirements			**9,671,160**	**773,692**

* After netting and credit risk mitigation

** Credit Risk of off balance sheet items

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2.0 CAPITAL MANAGEMENT (cont'd)

Minimum capital requirements on credit risk as at 31 March 2011 of the Bank:

BANK 31 MARCH 2011	GROSS EXPOSURES RM'000	*NET EXPOSURES RM'000	RISK WEIGHTED ASSETS RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000
(i) Credit Risk (Standardised Approach)				
(a) On Balance Sheet Exposures				
Sovereign/Central Banks	8,259,774	8,259,774	-	-
PSEs	120,182	110,595	22,119	1,770
Banks, Development Financial Institution & MDBs	330,064	330,064	66,015	5,281
Corporates	5,057,286	4,967,236	3,569,027	285,522
Regulator Retail	2,855,703	2,851,111	2,138,333	171,067
Residential Real Estate	1,147,875	1,147,875	651,529	52,122
Higher Risk Assets	11,308	11,308	16,962	1,357
Other Assets	308,526	308,526	217,218	17,377
Defaulted Exposures	235,973	235,973	243,581	19,486
	18,326,689	18,222,461	6,924,784	553,983
(b) Off-Balance Sheet Exposures**				
Credit-related off-balance sheet exposure	2,027,394	2,027,394	1,008,169	80,654
Derivative financial instruments	2,131	2,131	1,608	129
	2,029,525	2,029,525	1,009,776	80,782
Total Credit Exposures	**20,356,214**	**20,251,986**	**7,934,560**	**634,765**

	LONG POSITION	SHORT POSITION	RISK WEIGHTED ASSETS	CAPITAL REQUIREMENT
(ii) Market Risk (Standardised Approach)				
Benchmark Rate Risk	366	(1,725)	68,022	5,442
Foreign Currency Risk	563	(7,040)	7,040	563
			75,061	**6,005**
(iii) Operational Risk (Basic Indicators Approach)			**953,244**	**76,260**
(iv) Total RWA and Capital Requirements			**8,962,865**	**717,029**

* After netting and credit risk mitigation

** Credit Risk of off balance sheet items

2.0 CAPITAL MANAGEMENT (cont'd)

Minimum capital requirements on credit risk as at 31 March 2010 of the Bank:

BANK 31 MARCH 2010	GROSS EXPOSURES RM'000	*NET EXPOSURES RM'000	RISK WEIGHTED ASSETS RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000
(i) Credit Risk (Standardised Approach)				
(a) On Balance Sheet Exposures				
Sovereign/Central Banks	6,074,593	6,074,593	-	-
PSEs	96,547	83,556	16,712	1,337
Banks, Development Financial Institution & MDBs	802,394	802,394	196,171	15,694
Corporates	4,632,501	4,565,979	2,758,682	220,695
Regulator Retail	3,027,843	3,026,171	2,269,628	181,570
Residential Real Estate	402,394	402,394	301,795	24,144
Higher Risk Assets	988,497	937,037	1,386,438	110,915
Other Assets	229,712	229,712	162,465	12,997
Defaulted Exposures	401,037	401,037	470,701	37,656
	16,655,518	16,522,873	7,562,592	605,008
(b) Off-Balance Sheet Exposures**				
Credit-related off-balance sheet exposure	1,928,750	1,928,750	1,099,981	87,998
Derivative financial instruments	29,819	29,819	15,362	1,229
	1,958,569	1,958,569	1,115,343	89,227
Total Credit Exposures	**18,614,087**	**18,481,442**	**8,677,935**	**694,235**

	LONG POSITION	SHORT POSITION	RISK WEIGHTED ASSETS	CAPITAL REQUIREMENT
(ii) Market Risk (Standardised Approach)				
Benchmark Rate Risk	957	2,063	52,739	4,219
Foreign Currency Risk	1,483	(11,066)	11,066	885
			63,805	**5,104**
(iii) Operational Risk (Basic Indicators Approach)			**916,064**	**73,285**
(iv) Total RWA and Capital Requirements			**9,657,804**	**772,624**

* After netting and credit risk mitigation
** Credit Risk of off balance sheet items

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3.0 RISK MANAGEMENT

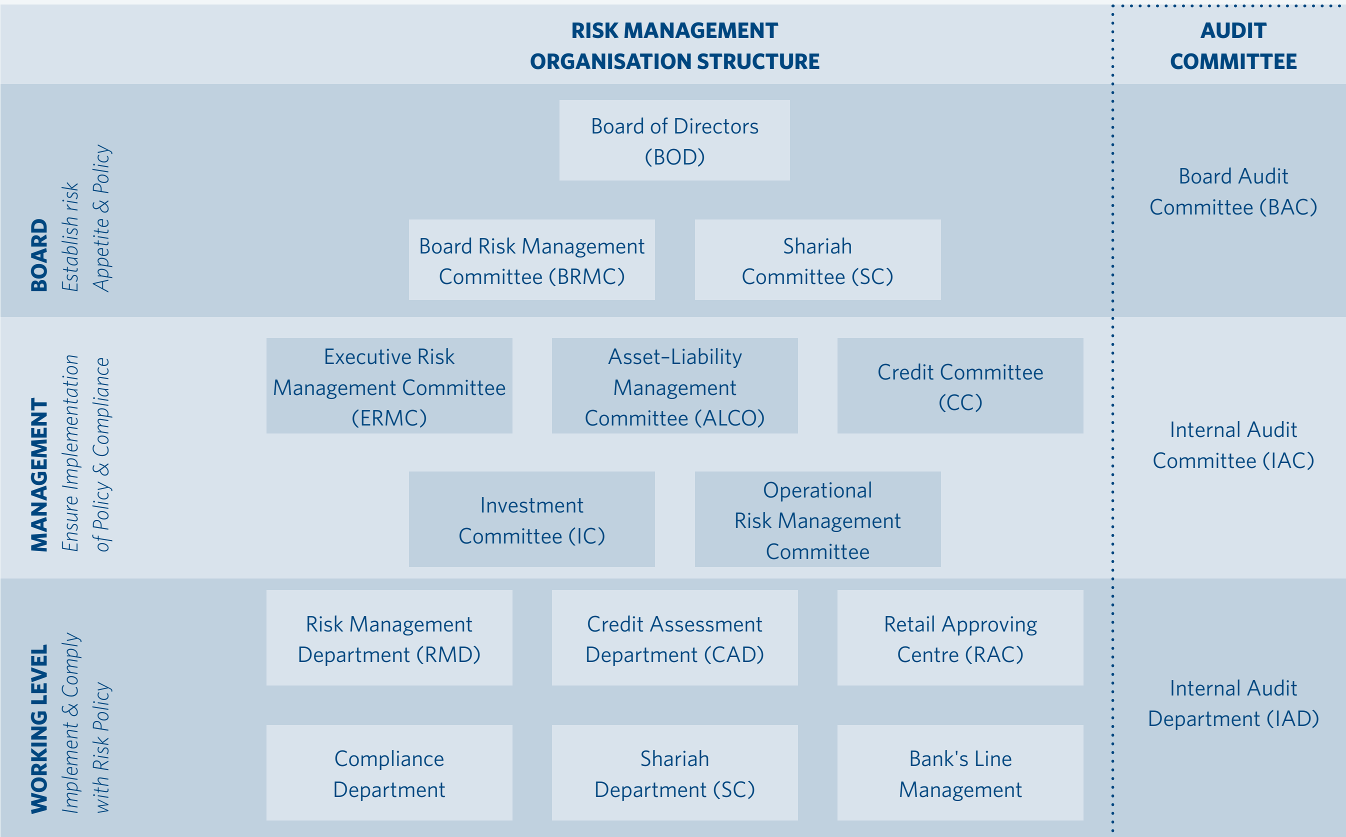
Overview

The integrated risk management system enables the Group and the 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 the Bank towards value protection and creation.

Generally, the objectives of the Group's and the Bank's 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's and the Bank's strategy, lines of business and nature of operations.
- Set out an enterprise-wide organisation structure and defining the appropriate roles and responsibilities.
- Instill the risk culture within the Group and the 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 the Bank and form strong risk governance.

3.0 RISK MANAGEMENT (cont'd)

***Risk Governance* (cont'd)**

The Board of Directors has the overall responsibility for understanding the risks undertaken by the Group and the Bank and ensuring that these risks are properly managed. While the Board of Directors is ultimately responsible for risk management of the Group and the Bank, it has entrusted the Board Risk Management Committee (BRMC) to carry out its functions. BRMC, which is chaired by an independent director of the Board, oversees the overall management of risks.

The execution of the Board's risk strategies and policies is the responsibility of the Group's and the Bank's Management and the conduct of these functions are being exercised under a committee structure, namely the Executive Risk Management Committee (ERMC), which is chaired by the Chief Executive Officer (CEO). The Committee focuses on the overall business strategies and day-to-day business operations of the Group and the 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.

There are other risk committees at the management level to oversee specific risk areas and control function and the following is the detail:

COMMITTEE	OBJECTIVE
Asset-Liability Management Committee ("ALCO")	To ensure that all strategies conform to the Group's and the Bank's risk appetite and levels of exposure as determined by the BRMC. These include areas of capital management, funding and liquidity management and market risk of non-trading portfolio.
Credit Committee ("CC")	Authority for approving and reviewing business financing.
Investment Committee ("IC")	To manage the Group's and 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.

4.0 CREDIT RISK (GENERAL DISCLOSURE)

Credit Risk is defined as the potential loss to the Group and the Bank as a result of default in payment by counterparties in respect of its financing and investment activities. The Bank's Risk Management Department (RMD) and Senior Management implement and execute the strategies and policies approved by ERMC, BRMC and the Board in managing credit risk to ensure that the Group's and the Bank's exposure to credit are kept within its risk appetite and risk tolerance level.

The administration of credit risk is governed by a full set of credit-related policies, namely the Credit Risk Policy (CRP) and Guidelines to Credit Risk Policies (GCRP) and related operating procedures, which incorporates risk policies and prudential limits, risk rating and financing underwriting standards, delegated approving authority, risk mitigation, review, rehabilitation and restructuring, and provisioning for impaired financing. These policies are periodically reviewed and updated to ensure its efficacy and continued relevance.

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4.0 CREDIT RISK (GENERAL DISCLOSURE) (cont'd)

Credit Risk Exposures and Credit Risk Concentration

The following table presents the credit exposures of financial assets of the Group analysed by sector distribution as at 31 March 2011:

GROUP 31 MARCH 2011	GOVERNMENT AND STATUTORY BODIES RM'000	FINANCE, INSURANCE AND BUSINESS SERVICES RM'000	AGRICULTURE, MANU-FACTURING, WHOLESALE, RETAIL AND RESTAURANT RM'000	CON-STRUCTION 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	-	6,447,295	-	-	-	-	6,447,295
Financial investment held-to-maturity	575	-	-	-	-	27,649	28,224
Financial investment available-for-sale	2,276,090	212,121	454,709	258,995	-	1,104,997	4,306,912
Islamic derivative financial assets	-	2,154	-	-	-	-	2,154
Financing of customers (gross)	135,190	154,028	1,347,128	827,716	1,207,546	3,811,785	7,483,393
Statutory deposits with Bank Negara Malaysia	94,121	-	-	-	-	-	94,121
Other financial assets	-	-	-	-	-	81,710	81,710
	2,505,976	6,815,598	1,801,837	1,086,711	1,207,546	5,026,141	18,443,809
Commitments and Contingencies							
Contingent liabilities	121,166	429,308	90,285	351,919	-	354,046	1,346,724
Commitments	1,378,834	1,487,300	419,604	450,840	15,604	337,222	4,089,404
Derivative financial instruments	-	309,696	-	-	-	-	309,696
	1,500,000	2,226,304	509,889	802,759	15,604	691,268	5,745,824
Total Credit Exposures	4,005,976	9,041,902	2,311,726	1,889,470	1,223,150	5,717,409	24,189,633

4.0 CREDIT RISK (GENERAL DISCLOSURE) (cont'd)

Credit Risk Exposures and Credit Risk Concentration (cont'd)

The following table presents the credit exposures of financial assets of the Bank analysed by sector distribution as at 31 March 2011:

BANK 31 MARCH 2011	GOVERNMENT AND STATUTORY BODIES RM'000	FINANCE, INSURANCE AND BUSINESS SERVICES RM'000	AGRICULTURE, MANU-FACTURING, WHOLESALE, RETAIL AND RESTAURANT RM'000	CON-STRUCTION 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	-	6,447,295	-	-	-	-	6,447,295
Financial investment held-to-maturity	575	-	-	-	-	27,649	28,224
Financial investment available-for-sale	2,276,090	212,121	449,909	252,995	-	1,104,997	4,296,112
Islamic derivative financial assets	-	2,154	-	-	-	-	2,154
Financing of customers (gross)	142,112	154,028	1,352,080	833,716	1,207,546	3,811,785	7,501,267
Statutory deposits with Bank Negara Malaysia	94,121	-	-	-	-	-	94,121
Other financial assets	-	-	-	-	-	74,790	74,790
	2,512,898	6,815,598	1,801,989	1,086,711	1,207,546	5,019,221	18,443,963
Commitments and Contingencies							
Contingent liabilities	121,166	429,308	90,285	351,919	-	354,046	1,346,724
Commitments	1,378,834	1,487,300	419,604	450,840	15,604	337,222	4,089,404
Derivative financial instruments	-	309,696	-	-	-	-	309,696
	1,500,000	2,226,304	509,889	802,759	15,604	691,268	5,745,824
Total Credit Exposures	4,012,898	9,041,902	2,311,878	1,889,470	1,223,150	5,710,489	24,189,787

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4.0 CREDIT RISK (GENERAL DISCLOSURE) (cont'd)

Credit Risk Exposures and Credit Risk Concentration (cont'd)

The credit exposures of financial assets of the Group and the Bank as at 31 March 2011 by geographical distribution:

31 MARCH 2011	GROUP DOMESTIC RM'000	GROUP LABUAN RM'000	BANK DOMESTIC RM'000	BANK LABUAN RM'000
On Balance Sheet Exposures				
Cash and short-term funds	6,302,125	145,170	6,302,125	145,170
Financial investment held-to-maturity	28,224	-	28,224	-
Financial investment available-for-sale	4,248,825	58,087	4,238,025	58,087
Islamic derivative financial assets	2,154	-	2,154	-
Financing of customers	7,388,918	94,475	7,406,792	94,475
Statutory deposits with Bank Negara Malaysia	94,121	-	94,121	-
Other financial assets	81,037	673	74,117	673
	18,145,404	298,405	18,145,558	298,405
Commitments and Contingencies				
Contingent liabilities	1,346,724	-	1,346,724	-
Commitments	4,089,404	-	4,089,404	-
Derivative financial instruments	309,696	-	309,696	-
	5,745,824	-	5,745,824	-
Total Credit Exposures	23,891,228	298,405	23,891,382	298,405

4.0 CREDIT RISK (GENERAL DISCLOSURE) (cont'd)

The credit exposures of financial assets of the Group and the Bank as at 31 March 2011 by maturity distribution:

Maturities of financial assets by remaining contractual maturity profile

GROUP 31 MARCH 2011	UP TO 6 MONTHS RM'000	> 6 - 12 MONTHS RM'000	> 1 - 5 YEARS RM'000	OVER 5 YEARS RM'000	TOTAL RM'000
On-Balance Sheet Exposures					
Cash and short-term funds	6,447,295	–	–	–	6,447,295
Financial investment held-to-maturity	–	–	28,224	–	28,224
Financial investment available-for-sale	913,761	254,286	2,555,702	583,163	4,306,912
Islamic derivative financial assets	1,384	770	–	–	2,154
Financing of customers (gross)	1,923,413	546,952	2,866,870	2,146,158	7,483,393
Statutory deposits with Bank Negara Malaysia	–	–	–	94,121	94,121
Other financial assets	–	–	81,710	–	81,710
Total On-Balance Sheet Exposures	**9,285,853**	**802,008**	**5,532,506**	**2,823,442**	**18,443,809**

Maturities of assets and liabilities by remaining contractual maturity profile

BANK 31 MARCH 2011	UP TO 6 MONTHS RM'000	> 6 - 12 MONTHS RM'000	> 1 - 5 YEARS RM'000	OVER 5 YEARS RM'000	TOTAL RM'000
On-Balance Sheet Exposures					
Cash and short-term funds	6,447,295	–	–	–	6,447,295
Financial investment held-to-maturity	–	–	27,649	575	28,224
Financial investment available-for-sale	913,761	254,286	2,544,902	583,163	4,296,112
Islamic derivative financial assets	1,384	770	–	–	2,154
Financing of customers (gross)	1,923,413	546,952	2,866,870	2,164,032	7,501,267
Statutory deposits with Bank Negara Malaysia	–	–	–	94,121	94,121
Other financial assets	–	–	74,790	–	74,790
Total On-Balance Sheet Exposures	**9,285,853**	**802,008**	**5,514,211**	**2,841,891**	**18,443,963**

Credit Risk Management Approach

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

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4.0 CREDIT RISK (GENERAL DISCLOSURE) (cont'd)

Credit Risk Management Approach (cont'd)

The above credit risk exposures are controlled and managed through well-defined financing granting criteria which include the assessment of an identifiable and adequate source of payments or income generation from the customer, structuring of an effective financing package and incorporation of appropriate risk mitigants. As a supporting tool for the credit assessment process, the Group and the Bank adopt a credit risk rating/grading (internal/external) mechanism. The internal risk rating/grading mechanism is consistent with the nature, size and complexity of the Group's and the Bank's activities and is in compliance with the regulatory authority's requirements. To enhance its risk assessment and grading methodology, the Bank has acquired a credit scoring/grading application which is based on analytical and statistical approaches. The Group's and the Bank's credit-origination and granting activities are segregated according to customer and financing types, namely Business Banking for corporate and commercial customers, Consumer/Retail Banking for retail consumers and SMEs and Investment Banking for credit syndication and capital market instruments. These departments are responsible for marketing, developing and managing the Group's and the Bank's financing assets as well as ensuring the quality and timely delivery of its products and services.

The Bank has an established structure to facilitate the credit approval process which defines the appropriate level of authority and limits. The approving authority and limits are duly sanctioned by the Board and are subject to periodic reviews to assess its effectiveness as well as compliance. Independent credit reviews and risk assessments are carried out by the relevant credit assessment departments on the financing proposals from the origination departments prior to approval by the respective approving authority to enhance the risk identification process and ensure quality of the proposals.

The Bank's Credit Supervision and Recovery Dept (CSRD) is responsible for monitoring and recovery of delinquent and problematic financing. Apart from rescheduling and restructuring of facilities as part of its rehabilitation strategy, an Early Care unit has also been instituted to monitor and undertake pre-emptive measures to prevent further deterioration and safeguard the quality of the Group's and the Bank's financing assets.

Classification of impaired financing and provisioning is made on the Group's and the Bank's financing assets upon determination of the existence of "objective evidence of impairment" and categorisation into individual and collective assessment (as prescribed under the FRS139). At the moment, the Group and the Bank are adopting the Transitional Provision as prescribed by BNM in determining the classification of impairing financing assets and its provisioning.

The Group's and the Bank's credit portfolios are managed and monitored against stipulated portfolio exposure limits with the objective to avoid credit concentrations and over exposure in the portfolios and to preserve the credit portfolios' quality through timely and appropriate corrective actions.

Credit Risk report is produced on monthly basis to monitor the exposure limits along with Risk Profiling Analysis report on periodical basis to analyze on asset quality and concentrations in the portfolio. Stress Test on Credit Risk is used as a tool to identify possible event of future changes in the financial and economy conditions based on historical and hypothetical scenarios that could have unfavourable effects on the Group's and the Bank's exposures and also to assess the Group's and the Bank's ability to withstand such changes in relation to the capacity of capital and earnings to absorb potentially significant losses.

Credit quality financing of customers

The credit quality for financing of customers is managed by the Bank using the internal credit ratings. The following table shows the credit quality for financing of customers exposed to credit risk, based on the Group's and the Bank's internal credit ratings.

4.0 CREDIT RISK (GENERAL DISCLOSURE) (cont'd)

Credit quality financing of customers (cont'd)

Financing of customers are analysed as follows:

GROUP 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	1,046,164	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
Total	**5,834,714**	**1,091,017**	**179,319**	**378,343**	**7,483,393**

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
Total	**5,852,588**	**1,091,017**	**179,319**	**378,343**	**7,501,267**

(i) Neither Past Due Nor Impaired

Gross financing and advances which are neither past due nor impaired are identified into the following grades:

- "Good Grade" refers to financing and advances which are neither past due nor impaired in the last six months and have never undergone any rescheduling or restructuring exercise previously.
- "Satisfactory Grade" refers to financing and advances which may have been past due or impaired during the last six months or have undergone a rescheduling or restructuring exercise previously.

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4.0 CREDIT RISK (GENERAL DISCLOSURE) (cont'd)

Credit quality financing of customers (cont'd)

(ii) Rescheduled/restructured financing

Rescheduling or restructuring activities include extended payment arrangements, and the modification and deferral of payments. The carrying amounts by type of financing that would otherwise be past due or impaired whose terms have been renegotiated are as follows:

GROUP AND BANK	2011 RM'000
Term financing	
– Home financing	140,755
– Hire purchase receivables	14,955
– Other term financing	100,492
Other financing	3,032
Total	**259,234**

(iii) Past Due But Not Impaired

Past due but not impaired financing of customers refers to where the customer has failed to make a principal or profit payment after the contractual due date for more than one day but less than three (3) months.

Aging analysis of past due but not impaired is as follows:

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**

4.0 CREDIT RISK (GENERAL DISCLOSURE) (cont'd)

Credit quality financing of customers (cont'd)

(iii) Past Due But Not Impaired (cont'd)

The following table presents an analysis of the past due but not impaired financing by economic purpose.

GROUP AND BANK	2011 RM'000
Purchase of transport vehicles	47,133
Purchase of landed properties of which:	
-residential	77,700
-non-residential	9,661
Personal use	12,980
Construction	1,156
Working capital	2,018
Other purpose	28,671
Total	**179,319**

The following table presents an analysis of the past due but not impaired financing by geographical area:

GROUP AND BANK	2011 RM'000
Domestic	179,319
Labuan Offshore	-
Total	**179,319**

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4.0 CREDIT RISK (GENERAL DISCLOSURE) (cont'd)

Credit quality financing of customers (cont'd)

(iv) Impaired financing (cont'd)

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 repayments based on the rescheduled and restructured terms have been observed continuously for a minimum period of three (3) months.

In addition, for all financing those are considered individually significant, the Group and the Bank assess on a case-by-case basis at each reporting date whether there is any objective evidence that a financing is impaired. The criteria that the Group and the Bank use 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, 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

Impairment assessment

For accounting purposes, the Group and the Bank use an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss even has been observed.

This approach differs from the expected loss model used for regulatory capital purposes in accordance with Basel II.

4.0 CREDIT RISK (GENERAL DISCLOSURE) (cont'd)

Credit quality financing of customers (cont'd)

(iv) Impaired financing (cont'd)

Individual assessment allowance

The Group and the Bank determine the allowances appropriate for each individually significant financing or advance on an individual basis, including any overdue payments of profit credit rating downgrades, or infringement of the original term of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty’s business plan, its ability to improve performance once financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on financing and advances and for held-to-maturity securities investments that are not individually significant (including residential and unsecured consumer financing) and for individually significant financing and advances that have been assessed individually and found not to be impaired.

The Group and the Bank generally analyse it’s financing with similar characteristics will be collectively assessed and subject to impairment provisions, based on the banking institution's historical loss performance. Compliance with the revised guidelines is slated for 1 January 2012. Meanwhile, the Group and the Bank are providing collective impairment at 1.5% of their gross financing, net of individual impairment provisions. For financing facilities below the recommended threshold, the Group and the Bank will make full provision net of collateral if the facility has been more than 3 months in arrears - instead of applying the 1.5% of gross financing, net of individual impairment provisions - to arrive at the collective impairment charges.

Collective assessment allowance is being assessed on monthly basis based on each portfolio.

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4.0 CREDIT RISK (GENERAL DISCLOSURE) (cont'd)

Credit quality financing of customers (cont'd)

(iv) Impaired financing (cont'd)

The following table presents an analysis of the impaired financing by economic purpose:

GROUP AND BANK	2011 IMPAIRED FINANCING RM'000	INDIVIDUAL ASSESSMENT ALLOWANCE AT 1 APRIL RM'000	NET CHARGE FOR THE YEAR RM'000	AMOUNT WRITTEN OFF/OTHER MOVEMENT RM'000	INDIVIDUAL ASSESSMENT ALLOWANCE AT 31 MARCH RM'000	COLLECTIVE ASSESSMENT ALLOWANCE AT 31 MARCH RM'000	TOTAL IMPAIRMENT ALLOWANCE FOR FINANCING AND ADVANCES RM'000	2010 NON-PERFORMING FINANCING RM'000
Purchase of securities	84	-	-	-	-	16	16	127
Purchase of transport vehicles	34,933	1,714	(96)	537	1,081	50,355	51,436	37,969
Purchase of landed properties of which:								
- residential	159,345	-	1,792	-	1,792	65,641	67,433	172,493
- non-residential	12,206	128	154	-	282	6,553	6,835	19,210
Purchase of fixed assets (excluding landed properties)	1,553	-	-	-	-	-	-	1,651
Personal use	23,928	-	-	-	-	38,802	38,802	24,491
Construction	71,810	102,682	(4,391)	56,831	41,460	26,008	67,468	127,757
Working capital	867	174,893	3,490	-	15,319	13,311	28,630	1,391
Other purpose	73,617	45,580	18,698	178,745	48,597	26,016	74,613	128,664
Total	**378,343**	**324,997**	**19,647**	**236,113**	**108,531**	**226,702**	**335,233**	513,753

The following table presents an analysis of the past due but not impaired financing by geographical area:

GROUP AND BANK	2011 IMPAIRED FINANCING RM'000	INDIVIDUAL ASSESSMENT ALLOWANCE AT 1 APRIL RM'000	NET CHARGE FOR THE YEAR RM'000	AMOUNT WRITTEN OFF/OTHER MOVEMENT RM'000	INDIVIDUAL ASSESSMENT ALLOWANCE AT 31 MARCH RM'000	COLLECTIVE ASSESSMENT ALLOWANCE AT 31 MARCH RM'000	TOTAL IMPAIRMENT ALLOWANCE FOR FINANCING AND ADVANCES RM'000	2010 NON-PERFORMING FINANCING RM'000
Domestic	372,045	318,314	19,192	236,113	101,393	222,034	323,427	507,496
Labuan offshore	6,298	6,683	455	-	7,138	4,668	11,806	6,257
Total	**378,343**	**324,997**	**19,647**	**236,113**	**108,531**	**226,702**	**335,233**	513,753

4.0 CREDIT RISK (GENERAL DISCLOSURE) (cont'd)

Credit quality financing of customers (cont'd)

(iv) Impaired financing (cont'd)

Collateral and other credit enhancements

The amount and type of collateral required depends on 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 2011 the fair value of collateral that the Group and Bank hold relating to financing of customers individually determined to be impaired amounts to RM217,193,000. The collateral consists of cash, securities, letters of guarantee and properties.

(v) Repossessed Collateral

Assets obtained by taking possession of collateral held as security against financing & advances, and held as at the end of the year are as follows.

GROUP AND BANK	2011 RM'000
Residential properties	**81,006**
Non-residential properties	**2,792**
Total	**83,798**

It is the Group's and the Bank's policy to dispose of repossessed collateral in an orderly manner. The proceeds are used to reduce or repay the outstanding balance of financing and securities. Collateral repossessed 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 repossessed properties for its business use.

5.0 CREDIT RISK (DISCLOSURES FOR PORTFOLIO UNDER THE STANDARDISED APPROACH)

The Group and the Bank use the external rating agencies such as MARC, RAM, Moody's, Standard & Poors, Fitch and R&I for rating of commercial papers (CPs) and corporate bonds (CBs) or participation of syndication or underwriting of PDS issuance etc.

Each ECAI is used based on the types of exposures as described per Capital Adequacy Framework for Islamic Banks (CAFIB). The Group's and the Bank's credit exposures are presently not mapped to the ECAI ratings and are depicted below as unrated. Rating for financing exposure based on the obligor rating and treasury exposure based on issue rating of the exposure.

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5.0 CREDIT RISK (DISCLOSURES FOR PORTFOLIO UNDER THE STANDARDISED APPROACH) (cont'd)

Rating distribution on credit exposures as at 31 March 2011 of the Group:

GROUP 2011

	RATING BY APPROVED ECAIS			
EXPOSURE CLASS	AAA RM'000	AA+ RM'000	AA RM'000	AA- RM'000
On and Off Balance-Sheet Exposures				
Credit Exposures-Standardised Approach				
Sovereigns/Central Banks	-	-	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions & MDBs	-	-	-	205,633
Corporates	950,730	672	385,672	32,706
Regulatory Retail	-	-	-	-
Residential Mortgages	-	-	-	-
Higher Risk Assets	-	-	-	-
Other Assets	-	-	-	-
Total	950,730	672	385,672	238,338

Rating distribution on credit exposures as at 31 March 2010 of the Group:

GROUP 2010

	RATING BY APPROVED ECAIS			
EXPOSURE CLASS	AAA RM'000	AA+ RM'000	AA RM'000	AA- RM'000
On and Off Balance-Sheet Exposures				
Credit Exposures-Standardised Approach				
Sovereigns/Central Banks	-	-	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions & MDBs	-	74,098	-	-
Corporates	855,957	1,547	786,050	29,211
Regulatory Retail	-	-	-	-
Residential Mortgages	-	-	-	-
Higher Risk Assets	-	-	-	-
Other Assets	-	-	-	-
Total	855,957	75,645	786,050	29,211

A RM'000	BBB RM'000	BB+ TO BB- RM'000	P1/MARC1 RM'000	UNRATED RM'000	OTHERS RM'000	GRAND TOTAL RM'000
–	**–**	**–**	**–**	**9,009,774**	**–**	**9,009,774**
–	**–**	**–**	**–**	**127,038**	**–**	**127,038**
–	**–**	**–**	**–**	**125,273**	**–**	**330,905**
607,099	**200,151**	**–**	**42,757**	**3,799,426**	**–**	**6,019,213**
–	**–**	**–**	**–**	**–**	**2,920,317**	**2,920,317**
–	**–**	**–**	**–**	**–**	**1,629,134**	**1,629,134**
–	**–**	**–**	**–**	**11,308**	**–**	**11,308**
–	**–**	**–**	**–**	**–**	**322,069**	**322,069**
607,099	**200,151**	**–**	**42,757**	**13,072,818**	**4,871,519**	**20,369,757**

A RM'000	BBB RM'000	BB+ TO BB- RM'000	P1/MARC1 RM'000	UNRATED RM'000	OTHERS RM'000	GRAND TOTAL RM'000
–	–	–	–	6,821,172	–	6,821,172
–	–	–	–	103,840	–	103,840
46,311	–	–	9,029	691,109	–	820,547
634,115	12,793	7,719	14,851	4,265,489	–	6,607,732
–	–	–	–	–	3,099,966	3,099,966
–	–	–	–	–	930,922	930,922
–	–	–	–	197	–	197
–	–	–	–	–	236,160	236,160
680,426	**12,793**	**7,719**	**23,880**	**11,881,807**	**4,267,048**	**18,620,536**

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5.0 CREDIT RISK (DISCLOSURES FOR PORTFOLIO UNDER THE STANDARDISED APPROACH) (cont'd)

Rating distribution on credit exposures as at 31 March 2011 of the Bank:

BANK 2011

EXPOSURE CLASS	RATING BY APPROVED ECAIS AAA RM'000	AA+ RM'000	AA RM'000	AA- RM'000
On and Off Balance-Sheet Exposures				
Credit Exposures-Standardised Approach				
Sovereigns/Central Banks	-	-	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions & MDBs	-	-	-	205,633
Corporates	950,730	672	385,672	32,706
Regulatory Retail	-	-	-	-
Residential Mortgages	-	-	-	-
Higher Risk Assets	-	-	-	-
Other Assets	-	-	-	-
Total	**950,730**	**672**	**385,672**	**238,338**

Rating distribution on credit exposures as at 31 March 2010 of the Bank:

BANK 2010

EXPOSURE CLASS	RATING BY APPROVED ECAIS AAA RM'000	AA+ RM'000	AA RM'000	AA- RM'000
On and Off Balance-Sheet Exposures				
Credit Exposures-Standardised Approach				
Sovereigns/Central Banks	-	-	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions & MDBs	-	74,098	-	-
Corporates	855,957	1,547	786,050	29,211
Regulatory Retail	-	-	-	-
Residential Mortgages	-	-	-	-
Higher Risk Assets	-	-	-	-
Other Assets	-	-	-	-
Total	**855,957**	**75,645**	**786,050**	**29,211**

A RM'000	BBB RM'000	BB+ TO BB- RM'000	P1/MARC1 RM'000	UNRATED RM'000	OTHERS RM'000	GRAND TOTAL RM'000
–	**–**	**–**	**–**	**9,009,774**	**–**	**9,009,774**
–	**–**	**–**	**–**	**127,038**	**–**	**127,038**
–	**–**	**–**	**–**	**125,273**	**–**	**330,905**
607,099	**200,151**	**–**	**42,757**	**3,799,426**	**–**	**6,019,213**
–	**–**	**–**	**–**	**–**	**2,920,317**	**2,920,317**
–	**–**	**–**	**–**	**–**	**1,629,134**	**1,629,134**
–	**–**	**–**	**–**	**11,308**	**–**	**11,308**
–	**–**	**–**	**–**	**–**	**308,526**	**308,526**
607,099	**200,151**	**–**	**42,757**	**13,072,818**	**4,857,976**	**20,356,214**

A RM'000	BBB RM'000	BB+ TO BB- RM'000	P1/MARC1 RM'000	UNRATED RM'000	OTHERS RM'000	GRAND TOTAL RM'000
–	–	–	–	6,821,172	–	6,821,172
–	–	–	–	103,840	–	103,840
46,311	–	–	9,029	691,109	–	820,547
634,115	12,793	7,719	14,851	4,265,489	–	6,607,732
–	–	–	–	–	3,099,966	3,099,966
–	–	–	–	–	930,922	930,922
–	–	–	–	197	–	197
–	–	–	–	–	229,713	229,713
680,426	**12,793**	**7,719**	**23,880**	**11,881,807**	**4,260,601**	**18,614,089**

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5.0 CREDIT RISK (DISCLOSURES FOR PORTFOLIO UNDER THE STANDARDISED APPROACH) (cont'd)

Rating distribution on credit exposures as at 31 March 2011 of the Bank:

GROUP/BANK
31 MARCH 2011

		RATINGS OF CORPORATE BY APPROVED ECAIS				
	MOODY'S	AAA TO AA3	A1 TO A3	BAA1 TO BA3	B1 TO C	UNRATED
	S&P	AAA TO AA-	A+ TO A-	BBB+ TO BB-	B+ TO D	UNRATED
	FITCH	AAA TO AA-	A+ TO A-	BBB+ TO BB-	B+ TO D	UNRATED
	RAM	AAA TO AA3	A TO A3	BBB1 TO BB3	B TO D	UNRATED
	MARC	AAA TO AA-	A+ TO A-	BBB+ TO BB-	B+ TO D	UNRATED
EXPOSURE CLASS	RII INC	AAA TO AA-	A+ TO A-	BBB+ TO BB-	B+ TO D	UNRATED
On and Off Balance-Sheet Exposures						
Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		–	–	–	–	127,038
Insurance Cos, Securities Firms & Fund Managers		–	–	–	–	
Corporates		1,369,780	607,099	200,151	–	3,803,456
Total		**1,369,780**	**607,099**	**200,151**	**–**	**3,930,494**

GROUP/BANK
31 MARCH 2010

		RATINGS OF CORPORATE BY APPROVED ECAIS				
	MOODY'S	AAA TO AA3	A1 TO A3	BAA1 TO BA3	B1 TO C	UNRATED
	S&P	AAA TO AA-	A+ TO A-	BBB+ TO BB-	B+ TO D	UNRATED
	FITCH	AAA TO AA-	A+ TO A-	BBB+ TO BB-	B+ TO D	UNRATED
	RAM	AAA TO AA3	A TO A3	BBB1 TO BB3	B TO D	UNRATED
	MARC	AAA TO AA-	A+ TO A-	BBB+ TO BB-	B+ TO D	UNRATED
EXPOSURE CLASS	RII INC	AAA TO AA-	A+ TO A-	BBB+ TO BB-	B+ TO D	UNRATED
On and Off Balance-Sheet Exposures						
Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		–	–	–	–	103,840
Insurance Cos, Securities Firms & Fund Managers		–	–	–	–	
Corporates		2,393,015	627,388	23,041	13,055	3,541,340
Total		**2,393,015**	**627,388**	**23,041**	**13,055**	**3,645,181**

5.0 CREDIT RISK (DISCLOSURES FOR PORTFOLIO UNDER THE STANDARDISED APPROACH) (cont'd)

Rating distribution on credit exposures: (cont'd)

GROUP/BANK
31 MARCH 2011

		SHORT TERM RATINGS OF BANKING INSTITUTIONS AND CORPORATE BY APPROVED ECAIS				
	MOODY'S	P-1	P-2	P-3	OTHERS	UNRATED
	S&P	A-1	A-2	A-3	OTHERS	UNRATED
	FITCH	F1+,F1	2	3	B TO D	UNRATED
	RAM	P-1	P-2	P-3	NP	UNRATED
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	UNRATED
EXPOSURE CLASS	RII INC	A-1+,A-1	A-2	A-3	B,C	UNRATED
On and Off Balance-Sheet Exposures						
Banks, MDBs and FDIs		318	–	–	–	–
			–	–	–	–
Credit Exposures (using Corporate Risk Weights)			–	–	–	–
Corporates		42,757	–	–	–	–
Total		**43,076**	–	–	–	–

GROUP/BANK
31 MARCH 2010

		SHORT TERM RATINGS OF BANKING INSTITUTIONS AND CORPORATE BY APPROVED ECAIS				
	MOODY'S	P-1	P-2	P-3	OTHERS	UNRATED
	S&P	A-1	A-2	A-3	OTHERS	UNRATED
	FITCH	F1+,F1	2	3	B TO D	UNRATED
	RAM	P-1	P-2	P-3	NP	UNRATED
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	UNRATED
EXPOSURE CLASS	RII INC	A-1+,A-1	A-2	A-3	B,C	UNRATED
On and Off Balance-Sheet Exposures						
Banks, MDBs and FDIs		16,942	–	–	–	–
		–	–	–	–	
Credit Exposures (using Corporate Risk Weights)			–	–	–	–
Corporates		9,892	–	–	–	–
Total		**26,834**	–	–	–	–

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5.0 CREDIT RISK (DISCLOSURES FOR PORTFOLIO UNDER THE STANDARDISED APPROACH) (cont'd)

Rating distribution on credit exposures: (cont'd)

GROUP/BANK
31 MARCH 2011

EXPOSURE CLASS	MOODY'S S&P FITCH RII INC	RATINGS OF SOVEREIGNS AND CENTRAL BANKS BY APPROVED ECAIS AAA TO AA3 AAA TO AA- AAA TO AA- AAA TO AA-	A1 TO A3 A+ TO A- A+ TO A- A+ TO A-	BAA1 TO BAA3 BBB+ TO BBB- BBB+ TO BBB- BBB+ TO BBB-	BA1 TO B3 BB+ TO B- BB+ TO B- BB+ TO B-	CAA1 TO C CCC+ TO D CCC+ TO D CCC+ TO C	UNRATED UNRATED UNRATED UNRATED
On and Off Balance-Sheet Exposures							
Sovereigns and Central Banks		–	–	–	–	–	9,009,774
Total		**–**	**–**	**–**	**–**	**–**	**9,009,774**

GROUP/BANK
31 MARCH 2010

EXPOSURE CLASS	MOODY'S S&P FITCH RII INC	RATINGS OF SOVEREIGNS AND CENTRAL BANKS BY APPROVED ECAIS AAA TO AA3 AAA TO AA- AAA TO AA- AAA TO AA-	A1 TO A3 A+ TO A- A+ TO A- A+ TO A-	BAA1 TO BAA3 BBB+ TO BBB- BBB+ TO BBB- BBB+ TO BBB-	BA1 TO B3 BB+ TO B- BB+ TO B- BB+ TO B-	CAA1 TO C CCC+ TO D CCC+ TO D CCC+ TO C	UNRATED UNRATED UNRATED UNRATED
On and Off Balance-Sheet Exposures							
Sovereigns and Central Banks		–	–	–	–	–	6,821,172
Total		**–**	**–**	**–**	**–**	**–**	**6,821,172**

5.0 CREDIT RISK (DISCLOSURES FOR PORTFOLIO UNDER THE STANDARDISED APPROACH) (cont'd)

Rating distribution on credit exposures: (cont'd)

GROUP/BANK
31 MARCH 2011

		RATINGS OF SOVEREIGNS AND CENTRAL BANKS BY APPROVED ECAIS					
	MOODY'S	AAA TO AA3	A1 TO A3	BAA1 TO BAA3	BA1 TO B3	CAA1 TO C	UNRATED
	S&P	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO B-	CCC+ TO D	UNRATED
	FITCH	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO B-	CCC+ TO D	UNRATED
EXPOSURE CLASS	RII INC	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO B-	CCC+ TO C	UNRATED
On and Off Balance-Sheet Exposures							
Banks, MDBs and FDIs	–	**205,633**	–	–	–	–	**124,954**
Total		**205,633**	–	–	–	–	**124,954**

GROUP/BANK
31 MARCH 2010

		RATINGS OF SOVEREIGNS AND CENTRAL BANKS BY APPROVED ECAIS					
	MOODY'S	AAA TO AA3	A1 TO A3	BAA1 TO BAA3	BA1 TO B3	CAA1 TO C	UNRATED
	S&P	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO B-	CCC+ TO D	UNRATED
	FITCH	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO B-	CCC+ TO D	UNRATED
EXPOSURE CLASS	RII INC	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO B-	CCC+ TO C	UNRATED
On and Off Balance-Sheet Exposures							
Banks, MDBs and FDIs	–	288,276	100,000	–	–	–	415,840
Total	–	**288,276**	**100,000**	–	–	–	**415,840**

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5.0 CREDIT RISK (DISCLOSURES FOR PORTFOLIO UNDER THE STANDARDISED APPROACH) (cont'd)

Credit risk disclosure by risk weights (including deducted exposures) as at 31 March of the Group, are as follows:

GROUP 2011	EXPOSURES AFTER NETTING AND CREDIT RISK MITIGATION			
	SOVEREIGN & CENTRAL BANKS RM'000	PUBLIC SECTOR ENTITIES RM'000	BANKS, MDBS AND FDIS RM'000	CORPORATE RM'000
Risk-Weights				
0%	9,009,774	-	-	-
20%	-	117,451	330,400	1,435,817
35%	-	-	-	-
50%	-	-	506	621,125
75%	-	-	-	-
100%	-	-	-	3,825,472
150%	-	-	-	46,749
Total	**9,009,774**	**117,451**	**330,906**	**5,929,163**

GROUP 2010	EXPOSURES AFTER NETTING AND CREDIT RISK MITIGATION			
	SOVEREIGN & CENTRAL BANKS RM'000	PUBLIC SECTOR ENTITIES RM'000	BANKS, MDBS AND FDIS RM'000	CORPORATE RM'000
Risk-Weights				
0%	6,821,172	-	-	-
20%	-	90,849	701,357	1,933,419
35%	-	-	-	-
50%	-	-	119,189	656,443
75%	-	-	-	-
100%	-	-	-	2,658,978
150%	-	-	-	165,392
Total	**6,821,172**	**90,849**	**820,546**	**5,414,232**

REGULATORY RETAIL RM'000	RESIDENTIAL REAL ESTATE RM'000	HIGHER RISK ASSETS RM'000	OTHER ASSETS RM'000	TOTAL EXPOSURES AFTER NETTING AND CREDIT RISK MITIGATION RM'000	TOTAL RISK WEIGHTED ASSETS RM'000
–	**–**	**–**	**91,308**	**9,101,082**	**–**
–	**–**	**–**	**–**	**1,883,668**	**376,734**
–	**534,458**	**–**	**–**	**534,458**	**187,060**
1,992	**418,245**	**–**	**–**	**1,041,868**	**520,934**
2,901,228	**598,588**	**–**	**–**	**3,499,816**	**2,624,862**
3,421	**77,229**	**–**	**230,761**	**4,136,883**	**4,136,883**
9,084	**613**	**11,308**	**–**	**67,754**	**101,629**
2,915,725	**1,629,133**	**11,308**	**322,069**	**20,265,529**	**7,948,103**

REGULATORY RETAIL RM'000	RESIDENTIAL REAL ESTATE RM'000	HIGHER RISK ASSETS RM'000	OTHER ASSETS RM'000	TOTAL EXPOSURES AFTER NETTING AND CREDIT RISK MITIGATION RM'000	TOTAL RISK WEIGHTED ASSETS RM'000
–	–	–	67,248	6,888,420	–
–	–	–	–	2,725,625	545,125
–	–	–	–	–	–
3,316	26,841	–	–	805,789	402,894
3,063,672	783,240	–	–	3,846,912	2,885,184
12,341	120,842	–	168,912	2,961,073	2,961,074
18,963	–	1,075,714	–	1,260,069	1,890,105
3,098,292	**930,923**	**1,075,714**	**236,160**	**18,487,888**	**8,684,382**

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5.0 CREDIT RISK (DISCLOSURES FOR PORTFOLIO UNDER THE STANDARDISED APPROACH) (cont'd)

Credit risk disclosure by risk weights (including deducted exposures) as at 31 March of the Bank, are as follows:

BANK 2011	EXPOSURES AFTER NETTING AND CREDIT RISK MITIGATION			
	SOVEREIGN & CENTRAL BANKS RM'000	PUBLIC SECTOR ENTITIES RM'000	BANKS, MDBS AND FDIS RM'000	CORPORATE RM'000
Risk-Weights				
0%	9,009,774	-	-	-
20%	-	117,451	330,400	1,435,817
35%	-	-	-	-
50%	-	-	506	621,125
75%	-	-	-	
100%	-	-	-	3,825,472
150%	-	-	-	46,749
Total	9,009,774	117,451	330,906	5,929,163

BANK 2010	EXPOSURES AFTER NETTING AND CREDIT RISK MITIGATION			
	SOVEREIGN & CENTRAL BANKS RM'000	PUBLIC SECTOR ENTITIES RM'000	BANKS, MDBS AND FDIS RM'000	CORPORATE RM'000
Risk-Weights				
0%	6,821,172	-	-	-
20%	-	90,849	701,357	1,933,419
35%	-	-	-	-
50%	-	-	119,189	656,443
75%	-	-	-	-
100%	-	-	-	2,658,978
150%	-	-	-	165,392
Total	6,821,172	90,849	820,546	5,414,232

REGULATORY RETAIL RM'000	RESIDENTIAL REAL ESTATE RM'000	HIGHER RISK ASSETS RM'000	OTHER ASSETS RM'000	TOTAL EXPOSURES AFTER NETTING AND CREDIT RISK MITIGATION RM'000	TOTAL RISK WEIGHTED ASSETS RM'000
–	**–**	**–**	**91,308**	**9,101,082**	–
–	**–**	**–**	**–**	**1,883,668**	**376,734**
–	**534,458**	**–**	**–**	**534,458**	**187,060**
1,992	**418,245**	**–**	**–**	**1,041,868**	**520,934**
2,901,228	**598,588**	**–**	**–**	**3,499,816**	**2,624,862**
3,421	**77,229**	**–**	**217,218**	**4,123,340**	**4,123,340**
9,084	**613**	**11,308**	**–**	**67,753**	**101,629**
2,915,725	**1,629,133**	**11,308**	**308,526**	**20,251,986**	**7,934,560**

REGULATORY RETAIL RM'000	RESIDENTIAL REAL ESTATE RM'000	HIGHER RISK ASSETS RM'000	OTHER ASSETS RM'000	TOTAL EXPOSURES AFTER NETTING AND CREDIT RISK MITIGATION RM'000	TOTAL RISK WEIGHTED ASSETS RM'000
–	–	–	67,248	6,888,420	–
–	–	–	–	2,725,625	545,125
–	–	–	–	–	–
3,316	26,841	–	–	805,789	402,894
3,063,672	783,240	–	–	3,846,912	2,885,184
12,341	120,842	–	162,465	2,954,626	2,954,627
18,963	–	1,075,714	–	1,260,069	1,890,105
3,098,292	**930,923**	**1,075,714**	**229,713**	**18,481,441**	**8,677,935**

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6.0 CREDIT RISK MITIGATION (CRM) DISCLOSURES UNDER THE STANDARDISED APPROACH

Upon assessment of the customer's credit standing and repayment capacity, and identification of the financing's source of repayment, the Group and the Bank may provide the financing facility on secured, partially secured or unsecured basis. In mitigating its credit exposure, the Group and the Bank may employ Credit Risk Mitigants (CRM) in the form of collaterals and other supports. Examples of these CRMs include charges over residential and commercial properties being financed; pledge over shares and marketable securities, ownership claims over vehicles being financed, and supports in the forms of debentures, assignments and guarantees. To this end, the Group and the Bank utilise specific techniques to identify eligible collaterals and securities and ascertain their value, and subsequently, implement adequate monitoring process to ensure continued coverage and enforceability.

Credit documentation, administration and disbursement are carried out under clear guidelines and procedures to ensure protection and enforceablility of collaterals and other credit risk mitigants. Valuation updates of collaterals are concurrently done during the periodic review of the financing facilities to reflect current market value and ensure adequacy and continued coverage.

Credit Risk Mitigation

The following tables present the credit exposures covered by eligible financial collateral as defined under the Standardised Approach. Eligible financial collateral consists primarily of cash, securities from listed exchange, unit trust or marketable securities. The Group and the Bank do not have any credit exposure which is reduced through the application of other eligible collateral.

Credit Risk Mitigation on credit exposures as at 31 March 2011 of the Group:

GROUP 31 MARCH 2011	GROSS EXPOSURES RM'000	TOTAL EXPOSURES COVERED BY ELIGIBLE FINANCIAL COLLATERAL RM'000	*NET EXPOSURES RM'000
Credit Risk			
(a) On Balance Sheet Exposures			
Sovereign/Central banks	8,259,774	-	8,259,774
Public sector entities	120,182	9,586	110,595
Banks, Development Financial Institution & MDBs	330,064	-	330,064
Corporates	5,057,286	90,050	4,967,236
Regulatory retail	2,855,703	4,592	2,851,111
Residential real estate	1,147,875	-	1,147,875
Higher risk assets	11,308	-	11,308
Other assets	322,069	-	322,069
Defaulted exposure	235,973	-	235,973
	18,340,232	104,229	18,236,004
(b) Off-Balance Sheet Exposures			
Credit-related off-balance sheet exposure	2,027,394	-	2,027,394
Derivative financial instruments	2,131	-	2,131
	2,029,525	-	2,029,525
Total Credit Exposures	20,369,757	104,229	20,265,529

Note:
* *After netting and credit risk mitigation*

6.0 CREDIT RISK MITIGATION (CRM) DISCLOSURES UNDER THE STANDARDISED APPROACH (cont'd)

Credit Risk Mitigation on credit exposures as at 31 March 2010 of the Group:

GROUP 31 MARCH 2010	GROSS EXPOSURES RM'000	TOTAL EXPOSURES COVERED BY ELIGIBLE FINANCIAL COLLATERAL RM'000	*NET EXPOSURES RM'000
Credit Risk			
(a) On Balance Sheet Exposures			
Sovereign/Central banks	6,074,593	–	6,074,593
Public sector entities	96,547	12,992	83,555
Banks, Development Financial Institution & MDBs	802,394	–	802,394
Corporates	4,632,501	66,522	4,565,979
Regulatory retail	3,027,843	1,672	3,026,171
Residential real estate	402,394	–	402,394
Higher risk assets	988,497	51,460	937,037
Other assets	236,159	–	236,159
Defaulted exposure	401,037	–	401,037
	16,661,965	132,646	16,529,319
(b) Off-Balance Sheet Exposures			
Credit-related off-balance sheet exposure	1,928,750	–	1,928,750
Derivative financial instruments	29,819	–	29,819
	1,958,569	–	1,958,569
Total Credit Exposures	**18,620,534**	**132,646**	**18,487,888**

Note:
* *After netting and credit risk mitigation*

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6.0 CREDIT RISK MITIGATION (CRM) (DISCLOSURES UNDER THE STANDARDISED APPROACH) (cont'd)

Credit Risk Mitigation on credit exposures as at 31 March 2011 of the Bank:

BANK 31 MARCH 2011	GROSS EXPOSURES RM'000	TOTAL EXPOSURES COVERED BY ELIGIBLE FINANCIAL COLLATERAL RM'000	*NET EXPOSURES RM'000
Credit Risk			
(a) On Balance Sheet Exposures			
Sovereign/Central Banks	8,259,774	-	8,259,774
Public Sector Entities	120,182	9,586	110,595
Banks, Development Financial Institution & MDBs	330,064	-	330,064
Corporates	5,057,286	90,050	4,967,236
Regulatory Retail	2,855,703	4,592	2,851,111
Residential Real Estate	1,147,875	-	1,147,875
Higher Risk Assets	11,308	-	11,308
Other Assets	308,526	-	308,526
Defaulted Exposures	235,973	-	235,973
	18,326,689	104,229	18,222,461
(b) Off-Balance Sheet Exposures			
Credit-related Off-Balance Sheet Exposure	2,027,394	-	2,027,394
Derivative Financial Instruments	2,131	-	2,131
	2,029,525	-	2,029,525
Total Credit Exposures	20,356,214	104,229	20,251,986

Note:
* *After netting and credit risk mitigation*

6.0 CREDIT RISK MITIGATION (CRM) (DISCLOSURES UNDER THE STANDARDISED APPROACH) (cont'd)

Credit Risk Mitigation on credit exposures as at 31 March 2010 of the Bank:

BANK 31 MARCH 2010	GROSS EXPOSURES RM'000	TOTAL EXPOSURES COVERED BY ELIGIBLE FINANCIAL COLLATERAL RM'000	*NET EXPOSURES RM'000
Credit Risk			
(a) On Balance Sheet Exposures			
Sovereign/Central Banks	6,074,593	–	6,074,593
Public Sector Entities	96,547	12,992	83,555
Banks, Development Financial Institution & MDBs	802,394	–	802,394
Corporates	4,632,501	66,522	4,565,979
Regulatory Retail	3,027,843	1,672	3,026,171
Residential Real Estate	402,394	–	402,394
Higher Risk Assets	988,497	51,460	937,037
Other Assets	229,712	–	229,712
Defaulted Exposures	401,037	–	401,037
	16,655,518	132,646	16,522,872
(b) Off-Balance Sheet Exposures			
Credit-related Off-Balance Sheet Exposure	1,928,750	–	1,928,750
Derivative Financial Instruments	29,819	–	29,819
	1,958,569	–	1,958,569
Total Credit Exposures	**18,614,087**	**132,646**	**18,481,441**

Note:
** After netting and credit risk mitigation*

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7.0 GENERAL DISCLOSURE FOR OFF-BALANCE SHEET EXPOSURE AND COUNTERPARTY CREDIT RISK (CCR)

Commitments and contingencies

In the normal course of business, the Group and the Bank make various commitments and incur certain contingent liabilities with legal recourse to its customers.

Notwithstanding the above, the Bank establishes specific limits to manage its exposure to off-balance sheet and counterparty risks, which are derived based on, amongst others, the respective counterparty's financial strength and credit rating, domicile country's risk rating, existing relationship with the Bank and utilisation trend of allocated limits. These limits are monitored and reviewed on a regular basis.

No material losses are anticipated as a result of these transactions. Risk weighted exposures of commitments and contingencies are as follows:

	GROUP AND BANK					
	2011			2010		
THE COMMITMENTS AND CONTINGENCIES CONSTITUTE THE FOLLOWING:	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
Contingent liabilities						
Direct credit substitutes	**11**	**11**	**11**	609	609	612
Trade-related contingencies	**45,914**	**9,183**	**9,025**	80,091	16,018	13,996
Transaction related contingencies	**871,491**	**435,745**	**371,611**	1,993,954	996,977	490,906
Obligations under an on-going underwriting agreement	**65,000**	**32,500**	**6,500**	75,000	37,500	7,500
Housing financing sold directly and indirectly to Cagamas with recourse	**364,308**	**364,308**	**174,040**	380,846	380,846	194,646
Commitments						
Credit extension commitment:						
– Maturity within one year	**323,002**	**64,600**	**55,443**	993,178	–	–
– Maturity exceeding one year	**2,242,093**	**1,121,047**	**391,538**	993,599	496,799	301,332
Bills of collection	**37,009**	**-**	**-**	–	–	-
Foreign exchange related contracts - Spot	**1,487,300**	**-**	**-**	174,356	–	-
Derivative financial instruments						
Foreign exchange related contracts	**309,696**	**2,131**	**1,608**	1,040,396	29,819	15,362
	5,745,824	**2,029,525**	**1,009,776**	5,732,029	1,958,568	1,024,354

7.0 GENERAL DISCLOSURE FOR OFF-BALANCE SHEET EXPOSURE AND COUNTERPARTY CREDIT RISK (CCR) (cont'd)

Commitments and contingencies (cont'd)

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 2011 RM'000	FAIR VALUE ASSETS 2011 RM'000	FAIR VALUE LIABILITIES 2011 RM'000	CONTRACT/ NOTIONAL AMOUNT 2010 RM'000	FAIR VALUE ASSETS 2010 RM'000	FAIR VALUE LIABILITIES 2010 RM'000
Trading derivatives:						
Foreign exchange contracts						
– Currency forwards Less than one year	**52,994**	**770**	**(302)**	290,088	9,071	(2,127)
– Currency swaps Less than one year	**256,702**	**1,384**	**(558)**	750,308	8,692	(16,767)
	309,696	**2,154**	**(860)**	1,040,396	17,763	(18,894)
Islamic profit rate swap (IPRS) More than one year	**75,000**	**–**	**(158)**	–	–	–
Total	**384,696**	**2,154**	**(1,018)**	1,040,396	17,763	(18,894)

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8.0 MARKET RISK AND ASSETS-LIABILITY MANAGEMENT (ALM)

Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices. ALM refers to the coordinated management of the Group's and the Bank's balance sheet, which includes assets, liabilities and capital. The main focus of ALM is on the Group's and the Bank's overall performance that can be measured in terms of net income. In turn, the primary determinant of net income will be the overall risk-return position of the Group and the Bank.

Objective, Strategies and Process

The Bank's market risk management and ALM objectives are to:

- Ensure the implementation of an effective market risk management system in the Group and the Bank;
- Assume an appropriate balance between the level of risk and the level of return desired in order to maximize the return to shareholders' funds;
- Ensure prudent management of the Group's and the Bank's resources to support the growth of the Group's and the Bank's economic value; and
- Proactively manage the Group's and the Bank's balance sheet in order to maximise earnings and attain its strategic goal within the overall risk/return preferences.

In order for the Group and the Bank to achieve its objectives, the Group and the Bank have put in place an effective market risk and ALM management process as depicted below:

8.0 MARKET RISK AND ASSETS-LIABILITY MANAGEMENT (ALM) (cont'd)

Market Risk and ALM Structure

Risk authorities are assigned to Board Risk Management Committee (BRMC) which will be responsible for establishing, documenting, enforcing and approving of all policies which relates to market risk. This includes approval of policies applicable to the measurement, management of risk and provision of detailed review of risk limits.

The Board of Directors (BOD) shall approve risk tolerance levels and broad-based limits in relation to market risk upon recommendations by BRMC. The BRMC delegates the execution of strategies and policies to the Group's and the Bank's management namely Executive Risk Management Committee (ERMC) chaired by the CEO and ALCO.

ERMC is supported at the working level by the independent Market Risk and ALM Section of Risk Management Department that ensures the effective management of market risk and asset-liability of the Group and the Bank.

Market Risk Measurement

Modified Duration

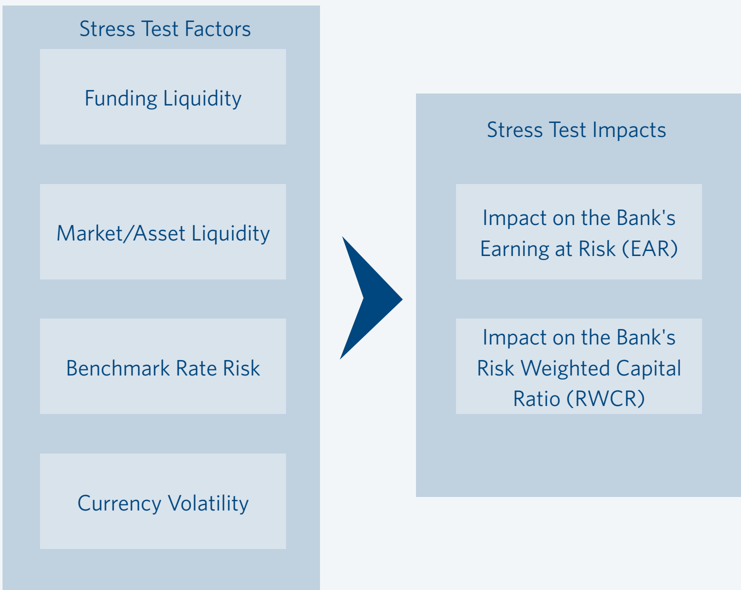
Modified duration is used to measure the sensitivity of the Group's and the Bank's portfolio in which it will ensure that the Group and the Bank are not exposed to excessive downside risk as a result of changes in market risk factors such as market prices and yield. The modified duration limit is set based on the overall portfolio and its impact towards the changes in the rate of returns. The Group and the Bank compute the modified duration on daily basis.

Other Risk Measures

Monte-Carlo Value at Risk (VaR) is widely used by the Group and the Bank as a tool to measure the risk of loss on a specific portfolio of financial assets, limit setting activities and market forecasting.

Stress Testing and Scenario Analyses

Stress testing and scenario analyses are used as market risk and ALM tools for evaluation of potential impact on the Group's and the Bank's performance under plausible extreme adverse conditions.



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8.1 MARKET RISK (DISCLOSURES FOR PORTFOLIOS UNDER THE STANDARDISED APPROACH)

The Group and the Bank clearly define and segregate the trading and banking book position through the Trading Book Policy Statement ("TBPS") as required by the Capital Adequacy Framework for Islamic Bank ("CAFIB") of Bank Negara Malaysia. The policy covers the definition of trading and banking book for financial instruments, classification, performance and limit monitoring, position valuation and hedging requirements.

Valuation Policy

The Group and the Bank to adhere to minimum prudent valuation practices as stipulated in CAFIB and FRS139. Broad guidelines are drawn out below:

- **Systems and Controls**
  The Group and the Bank have established and maintained adequate systems and controls sufficient to give management and the Group's and the Bank's supervisors the confidence that the valuation estimates are prudent and reliable.

  Clear and independent, i.e. independent of the front office, reporting lines for the department accountable for the valuation process. The reporting line should ultimately be to the Board.

- **Valuation Methodologies:**
  There are 3-level of fair value hierarchies to reflect the level of judgement involved in estimating fair values. The hierarchy is broken down into three levels:-

  i. LEVEL 1
  The preferred inputs to valuation efforts are available close out of quoted prices in the active markets for identical assets or liabilities that are sourced independently from various sources. If a quoted market price is not available, the Group and the Bank should make an estimate of fair value using the best information available in the circumstances. The resulting fair value estimate would then be classified in Level Two or Level Three.

  ii. LEVEL 2
  In the absence of quoted market price, the Group and the Bank should estimate the fair values based on market observables by using a valuation technique. Significant assumptions or inputs used in the valuation technique require the use of inputs that are observable in the market. Examples of observable market inputs include: quoted prices for similar assets, interest rates, yield curve, credit spreads, prepayment speeds, etc.

  iii. LEVEL 3
  Within this level, fair value is also estimated using a valuation technique on not observable inputs. Therefore, necessitates the use of internal information. This category allows "for situations in which there is little, if any, market activity for the asset or liability at the measurement date". Despite being "assumptions about assumptions", Level 3 inputs can provide useful information about fair values (and thus future cash flows) when they are generated logically and with best efforts without any attempt to influence users' decisions.

8.1 MARKET RISK (DISCLOSURES FOR PORTFOLIOS UNDER THE STANDARDISED APPROACH) (cont'd)

As at 31 March 2011, the Group and the Bank used the standardised approach in computing the market risk weighted assets of the trading book position of the Group and the Bank. The following is the minimum regulatory requirement for market risk.

GROUP/BANK 2011	LONG POSITION RM'000	SHORT POSITION RM'000	RISK WEIGHTED ASSETS RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000
Benchmark Rate Risk	**366**	**(1,725)**	**68,022**	**5,442**
Foreign Currency Risk	**563**	**(7,040)**	**7,040**	**563**
Total	**929**	**(8,764)**	**75,061**	**6,005**

GROUP/BANK 2010	LONG POSITION RM'000	SHORT POSITION RM'000	RISK WEIGHTED ASSETS RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000
Benchmark Rate Risk	957	2,063	52,739	4,219
Foreign Currency Risk	1,483	(11,066)	11,066	885
Total	**2,440**	**(9,003)**	**63,805**	**5,104**

8.2 EQUITIES (DISCLOSURES FOR BANKING BOOK POSITIONS)

The classification of equities purchased must be made at the point of transaction. The equities are classified as banking book when they were acquired and held for positive profit spread over average funding cost and(or) for capital growth purposes.

Muamalat Invest Sdn Bhd ("MISB") is a 100% owned subsidiary of the Bank, which is currently managing the holding of equities in banking book. The equity investment that consists of listed quoted shares and unit trusts are held for yield purposes, in which to benefit for positive changes in equity prices.

The supervision and decision of equity fund resides within Investment Committee ("IC") authority which includes purchase and sells of stocks and reviews of equity funds performance. MISB on monthly basis will be reporting to IC on the performance of the fund.

AS AT 31 MARCH 2011

PUBLICLY TRADED	GROSS CREDIT EXPOSURE RM'000	RISK WEIGHTED ASSETS RM'000	UNREALISED GAIN/(LOSSES) RM'000
Investment in Unit Trust Funds	**9,909.99**	**9,909.99**	**213.95**
Investment in Quoted Shares	**22,803.23**	**22,803.23**	**2,148.22**
Total	**32,713.22**	**32,713.22**	**2,362.16**

Basel II
Pillar 3 Disclosures

8.3 DISCLOSURES FOR RATE OF RETURN RISK IN BANKING BOOK ("RORBB")

8.3.1 SOURCES OF RATE OF RETURN RISK:

- **Benchmark Rate Risk**
  REPRICING RISK: The risk arises from timing differences in the maturity and repricing of the Group's and the Bank's assets, liabilities and off-balance-sheet position.

  YIELD CURVE RISK: Yield curve risk arises when unanticipated shifts of the yield curve have adverse effects on the Group's and the Bank's income or underlying economic value.

  BASIS RISK: Arises from imperfect correlation in the adjustment of rates earned and paid on different instruments with otherwise similar reprising characteristics.

- **Optionality**
  The risk arises from option embedded in many Group's and the Bank's assets, liabilities and off-balance-sheet portfolio.

- **Commercial Displacement Risk**
  Commercial displacement risk arises from the risk that the Group and the Bank may confront under commercial pressure to pay returns that exceed the rate that has been earned on its assets financed by investment account holders. The Group and the Bank forgo part or its entire share of profit in order to retain its fund providers and dissuade them from withdrawing their funds.

8.3.2 EFFECTS OF RATE OF RETURN RISK

Changes in rate of return can have adverse effects on both the Group's and the Bank's earnings and its economic value.

- **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 the 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 the Group and the Bank can be viewed as the present value of the Group's and the 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 the Bank's economic value to fluctuation in rate of return is particularly an important consideration of shareholders and management.

8.3 DISCLOSURES FOR RATE OF RETURN RISK IN BANKING BOOK ("RORBB") (cont'd)

8.3.3 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.

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's and the Bank's 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
- Short term funding decisions.

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8.3 DISCLOSURES FOR RATE OF RETURN RISK IN BANKING BOOK ("RORBB") (cont'd)

8.3.4 RATE OF RETURN RISK IN THE BANKING BOOK ("RORBB")

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 RORBB:

GROUP AND BANK 2011	EFFECT ON PROFIT AFTER TAX RM'000	EFFECT ON OTHER COMPREHENSIVE INCOME RM'000	EFFECT ON EQUITY RM'000
Increase/(decrease) in basis points			
-50	**4,050**	**49,047**	**53,097**
+50	**(10,403)**	**(49,047)**	**(59,450)**

8.4 LIQUIDITY RISK

As stated in the Group's and the Bank's policy, liquidity risk can be divided into two types which are:-

- **Funding Liquidity Risk**
  Refers to the potential inability of the Group and the Bank to meet its funding requirements arising from cash flow mismatches at a reasonable cost.

- **Market Liquidity Risk**
  Refers to the Group's and the Bank's potential inability to liquidate positions quickly and insufficient volumes, at a reasonable price.

The Group and the Bank monitor the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times. The Group's and the Bank's ability to maintain a stable liquidity profile is primarily on account of its success in retaining and growing its customer deposit base.

The marketing strategy of the Group and the Bank has ensured a balanced mix of deposits. Stability of the deposits base thus minimises the Group's and the Bank's dependence on volatile short-term receiving. Considering the effective maturities of deposits based on retention history (remaining contractual maturities method) and in view of the ready availability of liquidity investments, the Group and the 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 Group and the Bank. In addition the Group and the Bank apply the liquidity stress test which addresses strategic issues concerning liquidity risk.

The following table is the analysis of assets and liabilities of the Group and the Bank as at 31st March 2010 and 2011 based on contractual undiscounted repayment obligation (using behavioural method on deposits).

8.4 LIQUIDITY RISK (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	1,494,870	190,506	60,506	-	-	6,447,295
Financial investment held-to-maturity	-	-	-	-	-	28,224	28,224
Financial investment available-for-sale	-	188,771	287,499	437,491	254,286	3,163,859	4,331,906
Financing of customers	-	773,147	661,746	383,617	516,622	4,813,028	7,148,160
Other assets	-	-	-	-	116,020	234,137	350,157
TOTAL ASSETS	4,701,413	2,456,788	1,139,751	881,614	886,928	8,239,248	18,305,742
LIABILITIES AND EQUITY							
Deposits from customers	1,865,816	6,842,106	5,654,500	1,315,137	467,131	27,082	16,171,772
Deposits and placements of banks and other financial institutions	-	-	-	300	500	14,193	14,993
Other liabilities	-	430,423	-	250,000	76,887	158	757,547
TOTAL LIABILITIES	1,865,816	7,272,529	5,654,500	1,565,437	544,597	41,433	16,950,953
NET MATURITY MISMATCH	2,835,597	(4,815,741)	(4,514,749)	(683,823)	342,331	8,197,815	1,361,430

GROUP 2010	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	3,967,138	1,778,062	-	30,183	-	-	5,775,383
Financial investment held-to-maturity	-	-	-	-	-	28,224	28,224
Financial investment available-for-sale	-	-	78,009	261,527	381,655	3,291,614	4,012,805
Financing of customers	292,848	518,200	250,477	137,361	115,306	5,315,967	6,630,159
Other assets	-	67,079	-	-	27,915	191,541	286,535
TOTAL ASSETS	4,259,986	2,363,341	328,486	429,071	524,875	8,827,346	16,733,106
LIABILITIES AND EQUITY							
Deposits from customers	2,003,315	6,325,645	4,907,421	1,284,786	367,052	32,637	14,920,856
Deposits and placements of banks and other financial institutions	7,971	-	8,390	-	-	-	16,361
Other liabilities	-	149,379	-	-	77,179	250,000	476,558
TOTAL LIABILITIES	2,011,286	6,475,024	4,915,811	1,284,786	444,231	282,637	15,413,975
NET MATURITY MISMATCH	2,248,700	(4,111,683)	(4,587,325)	(855,715)	80,445	8,554,709	1,319,131

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8.4 LIQUIDITY RISK (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	1,494,870	190,506	60,506	-	-	6,447,295
Financial investment held-to-maturity	-	-	-	-	-	28,224	28,224
Financial investment available-for-sale	-	153,867	287,499	437,491	254,286	3,187,963	4,321,106
Financing of customers	-	773,146	661,746	383,617	516,622	4,830,903	7,166,034
Other assets	-	-	-	-	108,965	240,616	349,581
TOTAL ASSETS	4,701,413	2,421,883	1,139,751	881,614	879,873	8,287,706	18,312,240
LIABILITIES AND EQUITY							
Deposits from customers	1,872,433	6,842,106	5,654,500	1,315,137	467,131	27,082	16,178,389
Deposits and placements of banks and other financial institutions	-	-	-	300	500	14,193	14,993
Other liabilities	-	430,526	-	250,000	76,887	158	757,571
TOTAL LIABILITIES	1,872,433	7,272,632	5,654,500	1,565,437	544,518	41,433	16,950,953
NET MATURITY MISMATCH	2,828,980	(4,850,749)	(4,514,749)	(683,823)	335,355	8,246,273	1,361,287

BANK 2010	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	3,967,138	1,778,062	-	30,183	-	-	5,775,383
Financial investment held-to-maturity	-	-	-	-	-	28,224	28,224
Financial investment available-for-sale	-	-	78,009	261,527	381,655	3,291,614	4,012,805
Financing of customers	292,848	518,200	250,477	137,361	115,305	5,316,214	6,630,405
Other assets	-	67,079	-	-	27,915	197,410	292,404
TOTAL ASSETS	4,259,986	2,363,341	328,486	429,071	524,875	8,833,462	16,739,221
LIABILITIES AND EQUITY							
Deposits from customers	2,010,307	6,325,645	4,907,421	1,284,786	367,052	32,637	14,927,848
Deposits and placements of banks and other financial institutions	7,971	-	8,390	-	-	-	16,361
Other liabilities	-	149,379	-	-	77,179	250,000	476,558
TOTAL LIABILITIES	2,018,278	6,475,024	4,915,811	1,284,786	444,231	282,637	15,420,767
NET MATURITY MISMATCH	2,241,708	(4,111,683)	(4,587,325)	(855,715)	80,644	8,550,825	1,318,454

9.0 OPERATIONAL RISK MANAGEMENT("ORM") DISCLOSURES

9.1 ORM MINIMUM CAPITAL REQUIREMENT (PILLAR 1)

The Group and the Bank adopt Basic Indicator Approach (BIA) to determine its minimum capital requirement. Under this approach, the Group and the Bank set aside a fixed percentage (α or alpha factor) of 15% of positive annual average gross income, averaged over the previous three years. The Group and the Bank minimum capital is presented in table below:

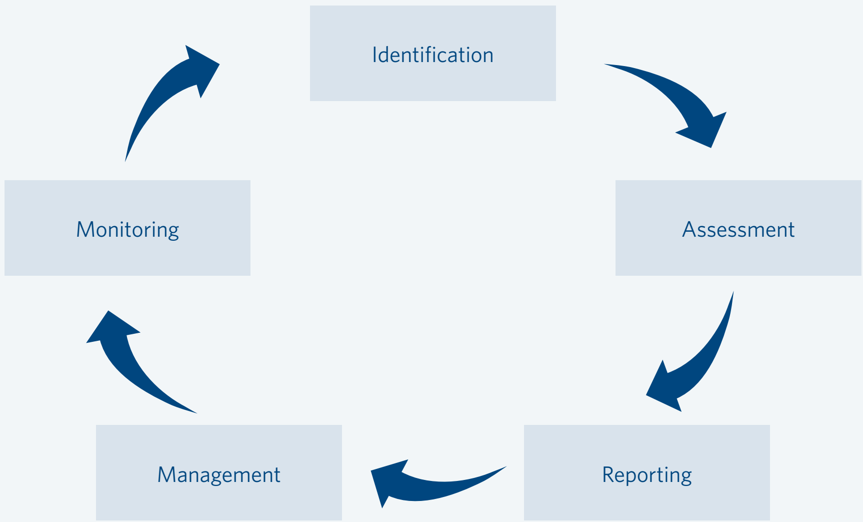
	2011		2010	
	RISK WEIGHTED ASSETS RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000	RISK WEIGHTED ASSETS RM'000	MINIMUM CAPITAL REQUIREMENT AT 8% RM'000
Group	**960,106**	**76,808**	922,973	73,838
Bank	**953,244**	**76,260**	916,064	73,285

9.2 OPERATIONAL RISK MANAGEMENT

Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, people, systems and external events. The objective of Operational Risk Management is to effectively manage its operational risk to minimise possible financial losses due to the operational risk definition. This is being discharged via the implementation of an Operational Risk Management Framework of the Group and the Bank.

Processes

The processes of Operational Risk Management includes the Identification, Assessment, Reporting, Management and Monitoring to manage its operational risks effectively, as depicted in the diagram below.



Basel II
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9.2 OPERATIONAL RISK MANAGEMENT (cont'd)

Governance Organisational Structure

The responsibility of managing operational risks is the responsibility of all employees which is premised on the concept of 3 Lines of Defense as below:-

- 1st Line of Defense – Business/Support units who are primary Operational risk owners, responsible for managing operational risk exposures on a day-to-day basis.
- 2nd Line of Defense – Operational Risk Management Unit with the responsibility of developing the overall Operational Risk Management Framework encompassing measurement and monitoring tools, methodologies and facilitating identification of operational risks.
- 3rd Line of Defense – Internal Audit tasked to provide independent assurance on the adequacy and effectiveness of the Operational Risk Management Framework and ensuring compliance to the framework.

The implementation of Operational Risk Management Framework is also assisted via the formation of Operational Risk Management Committee (ORMC), that comprises Department Heads of respective business/support units that deliberates, review and recommend all policies on Operational Risk Management.

Measurement, Monitoring and Reporting

The methodology and tools being used to measure and monitor Operational Risks include:-

- Risk Control Self Assessment – Operational risk are being identified, assessed, monitored together with the corresponding mitigation plans via the Risk Agents/representatives of the respective business/support units, ie. dedicated personnel within each Business/support units responsible in assisting in the implementation of the Operational Risk in their respective business units. These risks are then being reviewed by Operational Risk Management unit and challenged at ORMC meetings.

- Operational risk incident data collection – Reporting of operational risk incidents that can be used to assess the Group's and the Bank's operational risk exposure.

Significant operational risks are being reported on a quarterly basis to ORMC, ERMC and BRMC of which the progress of the mitigation plans are being updated with the respective owners and monitored via the same reporting. The operational risk data are also being reported to Management annually.

9.3 BUSINESS CONTINUITY MANAGEMENT (BCM)

The Group and the Bank adopt the Bank Negara Malaysia, Guidelines on Business Continuity Management.

Business Continuity Management entails enterprise wide planning and arrangements of key resources and procedures that enable the institution to respond and continue to operate critical business functions across a broad spectrum of interruptions to business, arising from internal or external events.

9.3 BUSINESS CONTINUITY MANAGEMENT (BCM) (cont'd)

BCM Methodology

The Bank prepares the Business Unit BCP by completing the Risk Assessment (RA) and the Business Impact Analysis (BIA). RA is a tool used to identify the potential threat on all business function. The likelihood of the identified threat than will be assess. A BIA will be carried out to identify critical business functions, resources and infrastructure of the institution. RA and BIA session is being conducted annually with business unit.

The life cycle of BCM

Our practices of BCM life cycle comprise of the following:

- Analyzing the Group and the Bank's business functions and their criticality through Risk Assessment (RA) and Business Impact Analysis (BIA) Report. The input in RA and BIA is completed by business user.
- Come out with appropriate BCM recovery strategies based on the RA and BIA.
- Developing and implementing the Business Continuity Plan (BCP).
- Testing the plans with result being communicated to Bank Negara Malaysia.
- Reviewing the plans annually.
- Conducting scheduler education on BCM.

Testing and Reporting

BCP test were tested at least once a year for critical business function. Prior to the test, a test script is prepared to determine the scenario, test goal, criteria and type of test. A post-test analysis report is prepared and sent to Bank Negara Malaysia.

10.0 SHARIAH GOVERNANCE DISCLOSURES

10.1 OVERVIEW

The Shariah Governance Structure of Bank Muamalat Malaysia Bhd is governed by BNM's Shariah Governance Framework for Islamic Financial Institutions (IFIs), and any related guidelines issued by the authorities, subject to any variation and amendments from time to time.

Shariah governance system as defined by The IFSB Guiding Principles on Shariah Governance System in Institutions Offering Islamic Financial Services (IFSB-10) refers to a set of institutional and organisational arrangements to oversee Shariah compliance aspects in IFIs.

In this context, Shariah compliance risk defined as "The risk that arises from the Group's and the Bank's failure to comply with the Shariah rules and principles determined by the relevant Shariah regulatory councils or committees."

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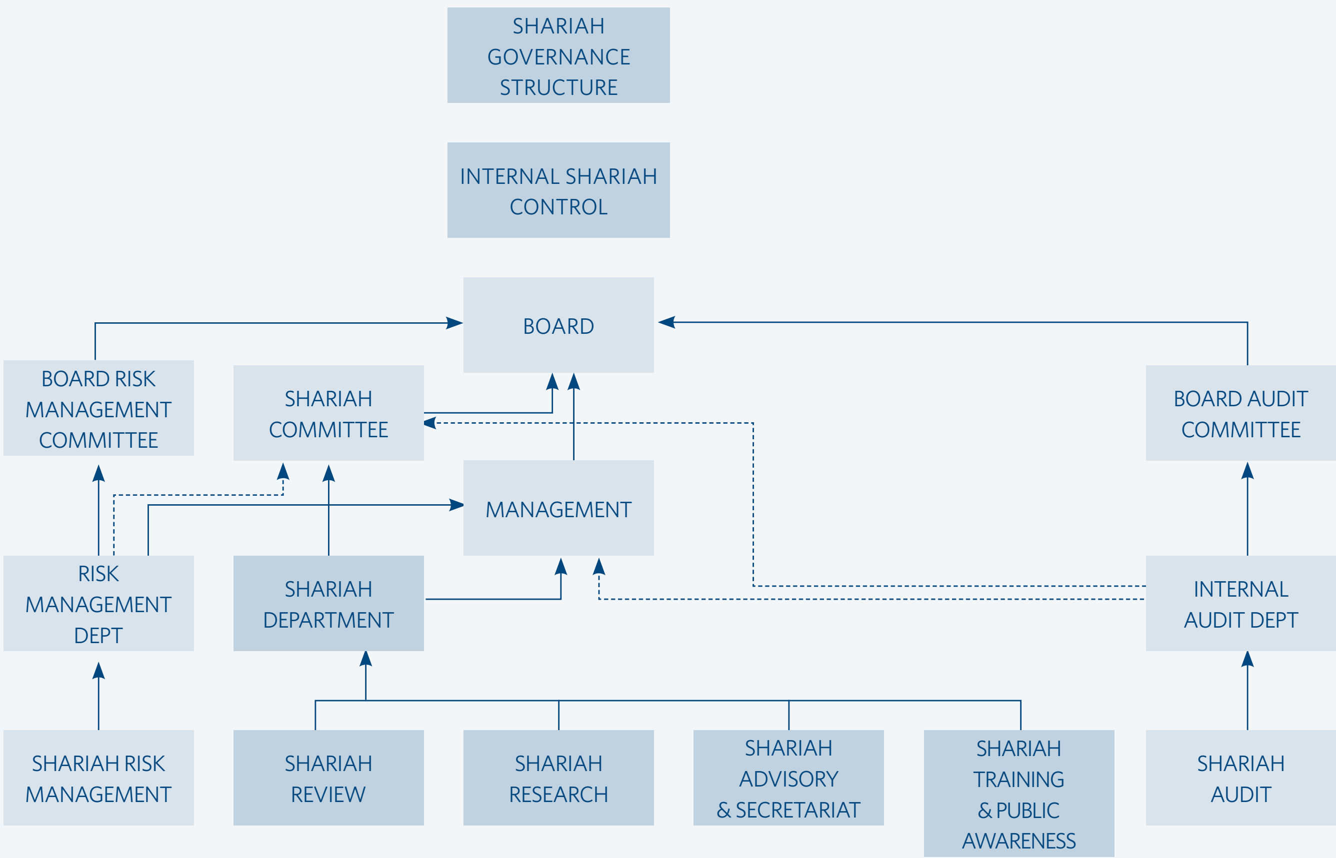
10.2 SHARIAH GOVERNANCE STRUCTURE

Internal Shariah Control

Shariah compliance management is driven top down from the BOD through Shariah Committee ("SC"), who has the responsibility of understanding the Shariah related matters in the activities assumed by the Group and the Bank.

The Group and the Bank shall realign its Shariah Management & Compliance organisational responsibilities with the objective of ensuring a single view of risks across the Group and the Bank and putting in place capabilities for integrated compliance management. The SC shall function independently and shall ensure the integration of compliance management.

To ensure that the Group's and the Bank's compliance management functions are able to provide an independent evaluation of its overall business decision and strategies, the functions shall then be segregated to the business operating units.



10.3 STRATEGIES AND PROCESSES FOR MANAGING SHARIAH COMPLIANCE RISK

Shariah compliance falls within a higher priority category as compared to other identified risks. Therefore, a structured approach for managing Shariah compliance risk will enable the Group and the Bank to make fully informed decisions to further enhance shareholders value without exposing the Group and the Bank to unacceptable level of risk.

The key processes of the Shariah Compliance in the Group and the Bank are as follows:

Shariah Risk Management Strategy

(a) Effectively provides Shariah advisory and consultancy, in ensuring the compliance of all matters towards Shariah.

(b) Inculcate Shariah compliance culture via the implementation of Shariah Review Program (SRP), and to ensure the implementation on the resolutions of the Shariah Committee in overall banking activities.

(c) Enhance Shariah knowledge and produce competent staff via various series of training suited to specified participants, and conduct research and development.

(d) Ensure that all the Group's and the Bank's activities and businesses are endorsed by the SC.

(e) Communicate to the relevant personnel the decisions resolved at the SC level, circulars or guidelines issued by BNM or SeC pertaining to Shariah issues.

(f) Identify, measure and recommend the solutions for the discrepancy/ies exist/s in the Group's and the Bank's products, documentation, processes including but not limited to legal documentation, manuals, brochures and its daily operations.

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10.4 REPORTING ON SHARIAH ISSUES / SHARIAH COMMITTEE'S DECISION

1. Shariah Review Program Report: to Shariah Committee, ERMC & BRMC
2. Shariah Quarter Board Report: to Board of Directors

10.5 MEASUREMENT TOOLS

1. Conducting Shariah Review Program (SRP) Fieldwork Visit to branches/business units (BU)/support unit (SU).

   Conduct the SRP as per following activities:
   - Ta'aruf Session/ Morning Tazkirah.
   - Brief the whole SRP activities to the staff.
   - Distribute SRP short test.
   - Discussion with Branch Manager/ Head of Department.
   - Interview session with the respective staff.
   - Marking the short test.
   - Perform files/documents checking based on the SRP Checklist and assessment form.
   - Exit review (will be performed during last day of visit).
   - Reporting to SC, ERMC and BRMC.
   - Inform and forward a copy of SRP report to respective parties for their onward action.
   - Monitor and control the actions taken by the related department/ branch and perform the updates status.

2. Circulating Shariah Short Test to all branches and regional office for the purpose to ensure a constant Shariah culture awareness and a wide-ranging Shariah compliance.

3. Reviewing end to end product development process

10.6 RATIFICATION OF INCOME

Earning and Expenditure Prohibited by Shariah

Any earning if it discovers to be prohibited by Shariah, for example: when involving the payment of interest, it is permissible for the Group and the Bank to accept such earning.

However, this earning shall not be utilised and expended for any private purpose of the Group and the Bank. Instead, it must be channelled to a designated account to be consumed for public benefit referred to as *Maslahah'Ammah.*

Year to date balance of this account as at 31 March 2011 amounted to RM186,092.

Branch Network

REGIONAL OFFICE FEDERAL TERRITORY
REGIONAL MANAGER
HASHIM SHAH BIN ALI AKBAR SHAH
Bank Muamalat Malaysia Berhad
Regional Office Federal Territory
1st Floor, No.32 & 33, Jalan Medan Pusat Bandar 4,
Seksyen 9, 43650 Bandar Baru Bangi, Selangor Darul Ehsan
Tel : 03-8925 1654
Fax : 03-8925 5894

BRANCHES/SERVICE CENTRES

WILAYAH PERSEKUTUAN

1. **JALAN MELAKA**
Branch Manager
AHMAD KHUSAIRY BIN MOHD TAIB
Asst. Branch Manager
AZAM AZIZI BIN MOHAMAD ZIN

1st Floor, Blok Podium
Menara Bumiputra
21, Jalan Melaka
50100 Kuala Lumpur.
Tel : 03-2032 4060/61/62
Fax : 03-2032 5997

2. **TAMAN SEGAR**
Branch Manager
MOHD AMIN BIN MASHURI
Asst. Branch Manager
KHAIRUL FAIZI BIN MUSLIM

No. 30, Jalan Manis 4
Taman Segar Off Jln Cheras,
56100 Kuala Lumpur.
Tel : 03-9131 5479
Fax : 03-9130 2007

3. **JALAN IPOH**
Branch Manager
YUSRI BIN MANSOR (RELIEF)
Asst. Branch Manager
KUPPUSAMY A/L MANIAM @ MOHANDAS

Ground Floor, Wisma TCT
No. 516-1, Batu 3, Jalan Ipoh,
51200 Kuala Lumpur.
Tel : 03-4041 1885
Fax : 03-4043 1467

4. **JALAN TAR**
Branch Manager
ANARUDDIN BIN ABAS
Asst. Branch Manager
NAZLEEM BINTI HJ MD ADNAN

No 399, Ground Floor,
Bangunan UMNO Lama,
Jln Tuanku Abdul Rahman,
50100 Kuala Lumpur.
Tel : 03-2697 7077
Fax : 03-2697 8020

5. **TAMAN MELAWATI**
Branch Manager
KAMARUZAIN BIN EKHWAN
Asst. Branch Manager
MOKHTAR BIN NAPI

268, 269 & 270,
Jalan Bandar 12
Taman Melawati,
53100 Kuala Lumpur.
Tel : 03-4108 1160
Fax : 03-4107 4625

6. **BANDAR TASIK SELATAN**
Branch Manager
MASDUKI BIN URMIN
Asst. Branch Manager
ZULKIFLI BIN AB. AZIZ

No 14, Ground & 1st Floor,
Jalan 4/146, Metro Center,
Bandar Tasik Selatan,
57000 Kuala Lumpur.
Tel : 03-9058 7129
Fax : 03-9058 1476

Branch Network

7. **PUTRAJAYA**
Branch Manager
NOORAINI BINTI MAT NOR
Asst. Branch Manager
KAMARIAH BINTI ALWI

No.2 & 4, Ground & 1st Floor,
Jalan Diplomatik 2,
Pusat Komersial Diplomatik,
Precinct 15, 62050 Putrajaya.
Tel : 03-8888 9778
Fax : 03-8889 2053

REGIONAL OFFICE SELANGOR & N.SEMBILAN
REGIONAL MANAGER
ABD. LATIFF BIN ABDULLAH
Bank Muamalat Malaysia Berhad
Regional Office Selangor & N.Sembilan
G-1, 2 & 3, Ground Floor,
Kompleks PKNS,
40000 Shah Alam.
Tel : 03-5510 6515
Fax : N/A

SELANGOR

1. **BATU CAVES**
Branch Manager
SALINA BINTI YAHAYA
Asst. Branch Manager
SITI HAJAR SIM BINTI ABDULLAH

No. 53, 53 (M), 51 & 51 (M)
Jalan SBC 1 Taman Sri Batu Caves
68100 Batu Caves, Selangor.
Tel : 03-6187 8235
Fax : 03-6186 2387

2. **KAJANG**
Branch Manager
NORMAN BIN MD SALLEH
Asst. Branch Manager
AHMAD BIN HARUN
No. 3 & 4, Jalan Dato' Seri P. Alagendra 1,
43000 Kajang, Selangor Darul Ehasan.
Tel : 03-8734 7341
Fax : 03-8734 7332

3. **KELANG**
Branch Manager
RAMLI BIN ABU BAKAR
Asst. Branch Manager
ISMAIL BIN HASSAN

Ground & 1st Floor,
Lot 46, Wisma Ban Guan Huat,
Jalan Kapar, 41400 Kelang
Tel : 03-3344 4148
Fax : 03-3344 4146

4. **PETALING JAYA**
Branch Manager (Acting)
SURIMAN HASBULLAH

45, Jalan SS 2/64,
47300 Petaling Jaya,
Selangor Darul Ehsan.
Tel : 03-7874 5722
Fax : 03-7874 5150

5. **SHAH ALAM, SEK 9**
Branch Manager
ROSSMINI BINTI MD HUSSAIN
Asst. Branch Manager :
N/A

28, Jalan Tengku
Ampuan Zabedah D9/D
40000 Shah Alam.
Tel : 03-5512 8830
Fax : 03-5512 8836

6. **RAWANG**
Branch Manager
YUSRI BIN MANSOR
Asst. Branch Manager
HALILAH BINTI OMAR

No. 9 & 11,
Jalan Bandar Rawang 1,
Bandar Baru Rawang,
48000 Rawang.
Tel : 03-6092 1680
Fax : 03-6092 1677

7. SHAH ALAM, PKNS
Branch Manager
ROSILAH BINTI SUBARI
Asst. Branch Manager
SALINA BINTI MAULAN

G-1, 2 & 3, Ground Floor,
Kompleks PKNS,
40000 Shah Alam.
Tel : 03-5510 6511
Fax : 03-5510 6611

8. SUBANG JAYA
Branch Manager
AHMAD HAMBALI BIN ZAINAL AHMAD
Asst. Branch Manager
JAMILAH BIBI BINTI GULAM NABI

9 & 11, Lot 4015 & 4017,
Jalan SS 15/5A,
47500 Subang Jaya.
Tel : 03-5634 3971
Fax : 03-5634 3954

9. BANDAR BARU BANGI
Branch Manager
MAZLAN BIN ABDUL HAMID
Asst. Branch Manager
MOHD YUSOP BIN SUJIMIN

Ground, 1st & 2nd Floor, D32 & D33,
Jalan Medan Pusat Bandar 4,
Seksyen 9, 43650 Bandar Baru Bangi,
Selangor Darul Ehsan.
Tel : 03-8925 0705/3879
Fax : 03-8925 5884/5894

10. UNIVERSITI ISLAM ANTARABANGSA
Branch Manager
ADNAN BIN ISMAIL
Asst. Branch Manager
N/A

Ground & First Floor, Azman Hashim Complex, PT 5063, Mukim Setapak, Universiti Islam Antarabangsa Malaysia, Jalan Gombak,
53300 Kuala Lumpur.
Tel : 03-6185 8102
Fax : 03-6187 8579

11. GLENMARIE, SHAH ALAM
Branch Manager
NOOR ZAMLAH BINTI MOHD YUNUS
Asst. Branch Manager
NORHAPIPAH BINTI AB RAHIM

No.2, Jalan Presiden F U1/F,
Accentra Glenmarie, Seksyen U1,
40150, Shah Alam.
Tel : 03-5569 1402/1403
Fax : 03-5569 1435

NEGERI SEMBILAN

1. SEREMBAN
Branch Manager
GANAPATHY A/L MARIAH
Asst. Branch Manager
ZAINAL BIN MD TAHIR

Lot 1522 & 1523, Jalan Tun Dr. Ismail,
70200 Seremban.
Tel : 06-765 1500
Fax : 06-762 7218

REGIONAL OFFICE NORTHERN
REGIONAL MANAGER
SARIMAH BINTI BASAH
Bank Muamalat Malaysia Berhad
Regional Office Northern,
Tingkat 2, Wisma Perkeso, 3012 Off Lebuh Tenggiri 2,
13700 Seberang Jaya, Prai, Pulau Pinang
Tel : 04-399 4770 / 04-399 4790
Fax : 04-399 4816

PERAK

1. IPOH
Branch Manager
HOUZEY OTHMAN BIN MOHD HASHIM
Asst. Branch Manager
MOHD ZAINI BIN MOHD NOOR

Ground & Mezzanine Floor,
Wisma Maju UMNO,
Jalan Sultan Idris Shah,
30000 Ipoh.
Tel : 05-249 8802
Fax : 05-243 4997

Branch Network

2. **PARIT BUNTAR**
   Branch Manager
   MAHAMAD NOOR SUKRI BIN MOHAMAD
   Asst. Branch Manager
   ALANG BIN AHMAD

   No. 17 & 19, Jalan Perwira,
   Pusat Bandar Baru,
   34200 Parit Buntar.
   Tel : 05-716 7201
   Fax : 05-716 7204

3. **SITIAWAN**
   Branch Manager
   ABDUL KHALIK DAIM BIN SHAHARUDDIN
   Asst. Branch Manager
   AZHAR BIN IBRAHIM

   Ground & 1st Floor,
   No. 392, Taman Samudera,
   32040 Seri Manjung, Perak.
   Tel : 05-688 4915
   Fax : 05-688 4931

4. **TAIPING**
   Branch Manager
   AZHAN SYAMIL BIN GHAZALI
   Asst. Branch Manager :
   MOHD. KHAIRI BIN OTHMAN

   98-100, Ground & 1st Floor,
   Jalan Kota, 34000 Taiping.
   Tel : 05-807 8372
   Fax : 05-807 8375

KEDAH

1. **ALOR SETAR**
   Branch Manager
   SHARIFAH SABRINA BINTI SYED MANSOR
   Asst. Branch Manager :
   SHAARI BIN MAT ISA

   Lot T-1, Ground
   & Mezanin Floor, Wisma PKNK,
   Jalan Sultan Badlishah,
   05000 Alor Setar.
   Tel : 04-731 5722
   Fax : 04-731 5724

2. **SOUQ AL-BUKHARY (SERVICE CENTRE)**
   Head:
   SYARIFAH NORASIAH AIDID BINTI SYED ABDULLAH

   Ground Floor,
   Bazaar Souq Al-Bukhary,
   No. 1, Jln Tun Abdul Razak,
   05200 Alor Setar.
   Tel : 04-731 5480
   Fax : 04-731 5546

3. **KULIM**
   Branch Manager
   MOHD HADAFI BIN ISMAIL
   Asst. Branch Manager
   IMZA FADLI BIN BAKAR

   No. 6, Bangunan Al-Ikhwan,
   Pusat Perniagaan Putra,
   Jalan Kilang Lama,
   09000 Kulim.
   Tel : 04-496 3500
   Fax : 04-490 7714

4. **SUNGAI PETANI**
   Branch Manager
   ZAINOORDIN BIN AHMAD
   Asst. Branch Manager
   ABDUL RAHIM BIN ZAKARIA
   No : 1 & 2, Ground & 1st Floor,
   Wisma OIB, Jalan Bank,
   08000 Sungai Petani.
   Tel : 04-420 4300
   Fax : 04-421 5007

PULAU PINANG

1. **BAYAN BARU**
   Branch Manager
   ALWI BIN MAHMUD
   Asst. Branch Manager
   KAMAIL BIN KASSIM

   No 24, 26 & 28,
   Ground & 1st Floor,
   Taman Seri Tunas, Jln Tengah,
   11950 Bayan Baru.
   Tel : 04-630 8100
   Fax : 04-641 1058

2. USM (SERVICE CENTRE)
Head :
ROSIDAWATI BINTI MOHAMED ROSE

Universiti Sains Malaysia
Bangunan D12, Minden Campus,
11800 Minden, Pulau Pinang.
Tel : 04-660 4600
Fax : 04-658 5945

3. SEBERANG JAYA
Branch Manager
SU'ADAH BINTI SAID
Asst. Branch Manager
NORLIZA BINTI MD DALI

Ground & 1st Floor,
Wisma Perkeso, 3012
Off Jalan Lebuh Tenggiri 2,
13700 Seberang Jaya, Perai,
Pulau Pinang.
Tel : 04-390 1292
Fax : 04-399 3797

4. KEPALA BATAS (SERVICE CENTRE)
Head :
MOHD FAIZAL BIN MOHD SALLEH (RELIEF)

Pusat Budi Penyayang,
Jalan Bertam 2, Kepala Batas,
Seberang Perai Utara,
13200 Pulau Pinang.
Tel : 04-575 3588
Fax : 04-575 5703

PERLIS

1. KANGAR
Branch Manager
SABERI BIN ABD RAHIM
Asst. Branch Manager
RUSLAN BIN HALIM

No. 11 & 13, Jalan Bukit Lagi,
01000 Kangar.
Tel : 04-976 4751
Fax : 04-976 4799

REGIONAL OFFICE EAST COAST
REGIONAL MANAGER
NIK MOHD HASHIM BIN ABDUL HAMID
Bank Muamalat Malaysia Berhad
Regional Office East Coast,
Tingkat 2,
Bangunan Perbadanan Menteri Besar Kelantan,
Jalan Kuala Krai,
15150 Kota Bharu,
Kelantan Darul Naim.
Tel : 09-743 3339 / 09-743 5050
Fax : 09-743 3993

TERENGGANU

1. KUALA TERENGGANU
Branch Manager
AMRI BIN AWANG
Asst. Branch Manager
T. ABDUL RAZAK BIN AWALUDDIN

1, Jalan Air Jerneh,
20300 Kuala Terengganu.
Tel : 09-622 2177
Fax : 09-622 3543

KELANTAN

1. KOTA BHARU
Branch Manager
YUSOFF BIN AWANG
Asst. Branch Manager
MOHD RAZI BIN ISMAIL

Lot 2 & 257,
Bangunan Perbadanan Menteri
Besar Kelantan (PMBK),
Jalan Kuala Krai, 15150 Kota Bharu.
Tel : 09-744 1711
Fax : 09-744 4622

2. KOK LANAS
Branch Manager
T. SHARIFAH MASTURA BINTI SYED ALI
Asst. Branch Manager
MAZELAN BIN MAHMUD

Ground & 1st Floor, Lot PT 5080 Kompleks Perniagaan Saidina Ali,
Jalan Kuala Kerai, Kok Lanas,
16450 Kota Bharu.
Tel : 09-788 6868
Fax : 09-788 6828

Branch Network

3. **JALAN SULTAN YAHYA PETRA**
Branch Manager
NIK ZAIDAH BINTI NIK ZAINI
Asst. Branch Manager
FARIDATUL AKMAR BINTI ABDUL WAHAB

Ground Floor, Lot PT 265 & PT, 266, Wisma Nik Kob,
Jalan Sultan Yahya Petra,
15200 Kota Bharu.
Tel : 09-747 3187
Fax : 09-747 3230

4. **JELI**
Branch Manager
ABDUL KARIM BIN MOHAMED
Asst. Branch Manager
A. RAZAK BIN ATAN

Ground & First Floor,
No. PT4646, Lot 2003,
PN 3523, 17600
Bandar Jeli, Kelantan
Tel : 09-944 1339
Fax : 09-944 8228

PAHANG

1. **KUANTAN**
Branch Manager
ROSNAH BINTI JAAFAR
Asst. Branch Manager
EDZARAAI BIN ABAS

B-114 & B-116,
Sri Dagangan Centre,
Jalan Tun Ismail, 25000 Kuantan.
Tel : 09-516 2782
Fax : 09-516 2853

2. **MENTAKAB**
Branch Manager
ZAINOL ABIDI BIN ABU BAKAR
Asst. Branch Manager
MOHAMAD GADDAFI BIN HUSIN

6 & 7, Jalan Tun Abd Razak,
28400 Mentakab.
Tel : 09-277 5917
Fax : 09-277 4940

3. **PEKAN**
Branch Manager :
WAN SHAMSUDDIN BIN WAN ABDULLAH
Asst. Branch Manager
MOHD RESDI BIN AB GHAPAR

G-02, Ground Floor,
Bangunan UMNO (Bahagian Pekan)
Jalan Teng Que,
26600, Pekan,
Pahang Darul Makmur
Tel : 09-422 4488/3751
Fax : 09-422 3751

REGIONAL OFFICE SOUTHERN
REGIONAL MANAGER
SAID AZMI BIN SAID ALI
Bank Muamalat Malaysia Berhad
Regional Office Southern,
Level 3, No. 30C, Jalan Tun Abdul Razak Susur Satu 80000 Johor Bahru, Johor
Tel : 07-222 7682/07-223 6067
Fax : 07-228 1550

MELAKA

1 **MELAKA**
Branch Manager
ABDUL AZIZ SAHAK
Asst. Branch Manager
ROZITA BINTI AZIZ

395, Taman Sinn, Jalan Semabuk,
75050 Melaka.
Tel : 06-282 8464
Fax : 06-286 7518

2. **TAMAN CHENG BARU**
Branch Manager
ABDUL RAZAK BIN ABDUL KARIM
Asst. Branch Manager
MOHD AMIN BIN HASHIM

Ground & 1st Floor,
No 92, Jln Cheng Baru,
Taman Cheng Baru,
75250 Melaka.
Tel : 06-312 5086
Fax : 06-312 5091/5092

JOHOR

1. JOHOR BAHRU
Branch Manager
YASIR BIN SALAM
Asst. Branch Manager
AZIZAH BINTI OMAR

Ground & 1st Floor Lot 1 & 2,
Kebun Teh Commercial City
Jalan Kebun Teh', 80250 Johor Bahru, Johor
Tel : 07-223 5822
Fax : 07-224 0811

2. BATU PAHAT
Branch Manager
UNGKU RUFAIDAH BINTI UNGKU ALI (RELIEF)
Asst. Branch Manager
HASHTEE BINTI AHAMAT

24-25, Ground & 1st Floor,
Jalan Kundang, Taman Bukit Pasir, 83000 Batu Pahat.
Tel : 07-432 5257
Fax : 07-432 4945

3. UNIVERSITI TUN HUSSEIN ONN MALAYSIA (UTHM) (SERVICE CENTRE)
Head :
NOR HISHAM BIN ABD. MAJID

Ground Floor,
Bangunan Pusat Khidmat Pelajar,
Universiti Tun Hussein Onn Malaysia,
86400 Parit Raja, Batu Pahat.
Tel : 07-453 6969
Fax : 07-453 6125

4. JOHOR JAYA
Branch Manager
MOHD ZAMRI BIN PARDI
Asst. Branch Manager
KHAIRIL AZREEN BIN JAMIAN

Ground & 1st Floor,
No. 17, Jalan Ros Merah 2/20,
Taman Johor Jaya,
81100 Johor Bahru.
Tel : 07-357 7451
Fax : 07-355 8106

5. KLUANG
Branch Manager
JAMILAH BINTI ABD HAMID
Asst. Branch Manager
N/A

No. 1, Jalan Persiaran Dato' Haji Ismail Hassan,
86000 Kluang.
Tel : 07-772 2487
Fax : 07-774 4419

6. KULAI
Branch Manager
SHAHROM BIN AHMAD
Asst. Branch Manager
NORSYIMAH BINTI AMBIA

18 & 19, Taman Seraya
Jalan Raya Kulai Besar, 81000 Kulai.
Tel : 07-663 8486
Fax : 07-663 8496

7. SEGAMAT
Branch Manager
SHAHRUL NIZAM BIN MD YATIM
Asst. Branch Manager
N/A

54, Jalan Genuang,
85000 Segamat.
Tel : 07-931 0540
Fax : 07-931 0542

8. TAMAN UNIVERSITI
Branch Manager
MOHD AZHAR BIN MD AZIZ
Asst. Branch Manager
AMIRUDDIN BIN MAHPOP

Ground & 1st Floor,
No 28, Jalan Kebudayaan 5,
Taman Universiti,
81300 Skudai.
Tel : 07-520 6875
Fax : 07-520 5503

Branch Network

REGIONAL OFFICE EAST MALAYSIA
REGIONAL MANAGER :
SULAIMAN BIN MD NOOR
Bank Muamalat Malaysia Berhad
Regional Office East Malaysia
Shop Lot No. 69, First Floor, Block H, Phase 1B, Asia City 88000 Kota Kinabalu
Tel : 088-233 024/088-233 025/088-233 026
Fax : 088-233 530

SARAWAK

1. **KUCHING**
Branch Manager
SUDARYO BIN OSMAN
Asst. Branch Manager
NORLELA BIN JAPAR (RELIEF)

Lot 543-545, Bangunan Cheema,
Jalan Tun Ahmad Zaidi Adruce, 93400 Kuching.
Tel : 082-25 7877
Fax : 082-41 4142

2. **BINTULU**
Branch Manager
MOHAMAD ZULKHAIRI BIN MORSHIDI
Asst. Branch Manager
ZALINA BINTI MUSTAM (ACTING ABM)

Ground 1st & 2nd Floor,
No. 73 Park City Commercial Centre,Jalan Tanjung Batu,
97012 Bintulu
Tel : 086-337 462
Fax : 086-337 461

3. **MIRI**
Branch Manager
ABDUL KHALID BIN SUAIDI
Asst. Branch Manager
FAISALUDDIN BIN ABDULLAH

433-434
Ground & 1st Floor,
Block F, Miri Concession Land District, 98000 Miri
Tel : 085-420 622
Fax : 085-418 111

SABAH

1. **KOTA KINABALU**
Branch Manager
AMJAH BIN KAKUNG
Asst. Branch Manager
ROOS@ROSS BINTI HARIDAS

Shoplot 69-72, Blok H, Asia City
88000 Kota Kinabalu
Tel : 088-239 122
Fax : 088-239 128

2. **LABUAN**
Branch Manager
N/A
Asst. Branch Manager
ROZMALAILY @ LAILY BINTI AIDY

UO 114, Ground Floor,
Jln OKK Awang Besar, 87000
Wilayah Persekutuan Labuan
Tel : 087-424 190
Fax : 087-424 204

Bank Muamalat Malaysia Berhad (6175-W)
Menara Bumiputra, Jalan Melaka
50100 Kuala Lumpur
www.muamalat.com.my