Company No. 301932 - A

THE ROYAL BANK OF SCOTLAND BERHAD
(Company No. 301932 - A)
(Incorporated in Malaysia)

REPORT OF THE DIRECTORS
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010
(In Ringgit Malaysia)

These Audited Financial Statements of the Bank with Unqualified Auditors' Report for the financial year ended 31 December 2010 were tabled at the Annual General Meeting/Adjourned Annual General Meeting held on 29 June 2011

Company No. 301932 - A

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

CONTENTS	**PAGE(S)**

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

REPORT OF THE DIRECTORS

The Directors hereby submit their report together with the audited financial statements of The Royal Bank of Scotland Berhad (the "Bank") and its subsidiaries (collectively the "Group") for the financial year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are banking and related financial services. The principal activities of the subsidiaries are disclosed in Note 12 to the financial statements. There have been no significant changes in the nature of the principal activities during the financial year other than the wound down of Retail and Commercial business during the financial year as disclosed in Note 39 to the financial statements.

RESULTS OF OPERATIONS

The results of operations of the Group and of the Bank for the financial year are as follows:

	Group RM'000	Bank RM'000
Loss before taxation	(7,424)	(5,130)
Taxation	(2,839)	(2,839)
Loss for the year	(10,263)	(7,969)

In the opinion of the Directors, the results of the operations of the Group and of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature, other than the wound down of Retail and Commercial business as disclosed in Note 39 to the financial statements.

DIVIDENDS

No dividend has been paid or declared by the Bank since the end of the previous financial year.

The Directors also do not recommend the payment of any dividend for the current financial year.

RESERVES AND PROVISIONS

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

ISSUE OF SHARES AND DEBENTURES

The Bank has not issued any new shares or debentures during the current financial year.

SHARE OPTIONS

No options have been granted by the Bank to any parties during the financial year to take up unissued shares of the Bank.

No shares have been issued during the financial year by virtue of the exercise of any option to take up unissued shares of the Bank. As of the end of the financial year, there were no unissued shares of the Bank under options.

DIRECTORS

The names of the Directors of the Bank in office since the date of the last report are:

General (Rtd) Tan Sri Dato' Mohd Ghazali Seth
Dato' Jorgen Bornhoft
Robert Ralph Davis
Tan Sri Datuk Asmat bin Kamaludin
Andrew Mark Sill
Madan Kumar Menon (appointed on 1 May 2011)
Muhammad Aurangzeb (resigned on 10 December 2010)

In accordance with Article 90A of the Bank's Articles of Association, Dato'Jorgen Bornhoft and Mr. Madan Kumar Menon retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

General (Rtd) Tan Sri Dato' Mohd Ghazali Seth, being over seventy years of age, retires in accordance with Section 129 (2) of the Companies Act, 1965. The Board recommends that he be re-appointed as a Director in accordance with Section 129 (6) of the Act until the conclusion of the following Annual General Meeting of the Bank.

DIRECTORS' INTERESTS

The shareholdings in the holding company of those who were directors at the end of the financial year, as recorded in the Register of Directors' shareholdings kept by the Company under Section 134 of the Companies Act, 1965, are as follows:

	No. of ordinary shares of £1.00 each			
	Balance as of 1.1.2010	**Bought**	**Sold**	**Balance as of 31.12.2010**
Shares in holding company, The Royal Bank of Scotland Group Plc				
Andrew Mark Sill	10,407	-	-	10,407

By virtue of the above director's interest in the shares of the holding company, the abovementioned director is deemed to have an interest in the shares of the Company to the extent the holding company has an interest.

None of the other Directors in office at the end of the financial year, according to the Register required to be kept under Section 134 of the Companies Act, 1965, held shares or had beneficial interest in the shares of the Bank or its related corporations during or at the beginning and end of the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the Directors of the Bank has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as disclosed in Note 27 of the financial statements, or the fixed salary of a full-time employee of the Bank) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

During and at the end of the financial year, no arrangement subsisted to which the Bank was a party whereby the Directors of the Bank might acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

COMPLIANCE WITH BANK NEGARA MALAYSIA'S EXPECTATIONS ON FINANCIAL REPORTING

In the preparation of the financial statements, the Directors have taken reasonable steps to ensure that Bank Negara Malaysia's expectations on financial reporting have been complied with as set out in the Guidelines on Financial Reporting for Banking Institutions and the Guidelines on Classification and Impairment Provisions for Loans/Financing.

NON-PERFORMING DEBTS AND FINANCING

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and financing and the making of allowances for non-performing debts and financing and have satisfied themselves that all known non-performing debts and financing had been written off and adequate allowance had been made for non-performing debts and financing.

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

CURRENT ASSETS

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that current assets, other than debts and financing, which were unlikely to realise in the ordinary course of business, have been written down to their estimated realisable values.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Group and of the Bank misleading.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen that render adherence to the existing methods of valuation of assets or liabilities in the financial statements of the Group and of the Bank misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

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 and secures the liabilities of any other person; or

(ii) any contingent liability in respect of the Group or of the Bank that has arisen since the end of the financial year, other than those incurred in the normal course of business.

No contingent or other liability of the Group and of the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Bank to meet their obligations as and when they fall due except as disclosed in Note 34.

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

In the opinion of the Directors:

(i) the results of the operations of the Group and of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature, other than the wound down of the Retail and Commercial business; and

(ii) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature which is likely to affect substantially the results of the operations of the Group and of the Bank for the current financial year in which this report is made.

BUSINESS PLAN AND STRATEGY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

Following the financial crisis, the Bank continued to implement a focused business strategy during 2010, which affected the Bank's income statement for the financial year. The Bank had prioritised its corporate financing business towards core clients and shorter-term assets, which led to a lower net interest income contribution, despite the rising interest rates and an overall increase in the Bank's lending assets. The Bank had also adopted a conservative trading strategy focusing on spot FX and vanilla hedging solutions for corporate clients. The business volume continued to be subdued during 2010 due to the overall conservative views held by these corporate clients. Finally, the Bank had completed the wound-down of its Retail and Commercial business during the financial year. The resulting restructuring cost was significant and led to an overall increase in operating expenses, despite the continuing cost reduction in the Bank's core businesses.

The focused strategy has had a positive effect on the Bank's balance sheet management. The impairment allowance has significantly reduced and the capital ratios further improved in 2010.

OUTLOOK FOR 2011

With the wound-down of the Retail and Commercial business expected to be concluded during 2011, and the core corporate franchise prioritised and strengthened, the Bank is set to grow its business in 2011. The strategy is to deepen relationships with core clients and drive cross-sell across the Bank's competitive business sectors, including Merger and Acquisition advisory, debt capital markets, Islamic debt securities, Foreign Exchange, derivatives and risk solutions, and Global Transactions Services.

The Bank is confident of returning to growth due to a number of encouraging factors. The Malaysian economic recovery has been strong and the growth sentiment among corporate clients is positive. The Bank's core client base has remained intact and the relationship has deepened through the implementation of the focused strategy. In addition, the Bank's competitive strengths in the chosen product sectors are well recognised via a number of high-profiled transactions and awards it won in 2010 and early 2011. They will be further enhanced through connectivity with the wider RBS Group, whose global recovery is well underway.

RATING BY AGENCY

In their annual rating review concluded on 4 November 2010, RAM reaffirmed the respective long and short-term financial institution ratings of AA2 and P1. Concurrently, the rating of the Bank's RM200m Subordinated Negotiable Instruments of Deposit (2007/2017) was reaffirmed at AA3. Both long-term ratings have a stable outlook. The AA2 and AA3 ratings indicate the Bank's strong capacity to meet financial obligations while the P1 rating reflects strong capacity to meet short-term financial obligations.

HOLDING COMPANIES

The immediate holding company of the Bank is The Royal Bank of Scotland N.V., a public limited company incorporated in the Netherlands. In 2007, a consortium comprising initially of The Royal Bank of Scotland Group plc ("RBS Group"), Fortis N.V. and Fortis SA/NV (together "Fortis") and Banco Santander S.A. agreed to acquire ABN AMRO Holding N.V. (later renamed RBS Holdings N.V.) ("AAH") via RFS Holdings B.V. ("RFS"), a private limited company incorporated in the Netherlands, jointly owned by the consortium. The Fortis shares in RFS were held by Fortis Bank Nederland (Holding) N.V. ("FBNH").

On 3 October 2008, in light of the significant changes in the financial environment, the State of the Netherlands (the "Dutch State") acquired the entire issued ordinary share capital of FBNH and on 24 December 2008, the Dutch State directly acquired FBNH's shares in RFS and became a consortium member by accession.

In accordance with the consortium agreement, the allocated assets in AAH owned by the Dutch State had to be separated from AAH which the Dutch State had proposed to do by transferring and integrating the same into a newly incorporated entity named ABN AMRO II N.V.. When ABN AMRO Bank N.V. was renamed The Royal Bank of Scotland N.V. on 6 February 2010, ABN AMRO II N.V. was at the same date renamed ABN AMRO Bank N.V..

Given the reach of the UK Government and their controlled bodies and the volume and diversity of transactions with them, the disclosure of transactions with these related parties is impractical. Hence, for purposes of the financial statements of the Group and the Bank, related companies refer to members of The Royal Bank of Scotland Group Plc's group of companies.

The ultimate consolidating parent of the Bank is controlled by the UK Government. The UK Government therefore is a related party of The Royal Bank of Scotland N.V.

Company No. 301932 - A

AUDITORS

The auditors, Messrs. Deloitte & Touche, have indicated their willingness to continue in office.

Signed on behalf of the Board
in accordance with a resolution of the Directors

ROBERT RALPH DAVIS

ANDREW MARK SILL

Kuala Lumpur

24 JUN 2011

Company No. 301932 - A

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

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

We, **ROBERT RALPH DAVIS** and **ANDREW MARK SILL**, being two of the Directors of The Royal Bank of Scotland Berhad, do hereby state that in the opinion of the Directors, the financial statements set out on pages 12 to 105 are drawn up in accordance with the provisions of the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2010 and of the financial performance and 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

ROBERT RALPH DAVIS | **ANDREW MARK SILL**

Kuala Lumpur

24 JUN 2011

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

I, **LIM CHEN MENG**, being the Officer primarily responsible for the financial management of The Royal Bank of Scotland Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 12 to 105 are to the best of my knowledge and belief, 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.

LIM CHEN MENG

Subscribed and solemnly declared by the abovenamed **LIM CHEN MENG** at **KUALA LUMPUR** in the Federal Territory on 24 JUN 2011

Before me,

COMMISSIONER FOR OATHS

PESURUHJAYA SUMPAH
No. W 350
SHAFIE B. DAUD
MALAYSIA

38A, JALAN TUN MOHD FUAD 1
TAMAN TUN DR. ISMAIL
60000 KUALA LUMPUR.

Deloitte.

Deloitte & Touche (AF 0834)
Chartered Accountants
Level 19, Uptown 1
Damansara Uptown
1, Jalan SS21/58
47400 Petaling Jaya, Selangor
Malaysia

P. O. Box 10093
50704 Kuala Lumpur
Malaysia

Tel: +60 3 7723 6500, 7726 1833
Fax: +60 3 7726 3986, 7726 8986
myaaa@deloitte.com
www.deloitte.com/my

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of **The Royal Bank of Scotland Berhad**, which comprise the statements of financial position of the Group and of the Bank as of 31 December 2010 and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 12 to 105.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility towards any other person for the contents of this report.

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.

(Forward)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Bank's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of 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 that 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 the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2010 and of their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

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

(a) in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and by the subsidiary companies of which we have acted as auditors, have been properly kept in accordance with the provisions of the Act;

(b) we are satisfied that the accounts of the subsidiary companies 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 financial statements of the Group, and we have received satisfactory information and explanations as required by us for these purposes; and

(Forward)

(c) the auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification and did not include any adverse comment made under sub-section (3) of Section 174 of the Act.

DELOITTE & TOUCHE
AF 0834
Chartered Accountants

HIEW KIM TIAM
Partner - 1717/08/11 (J)
Chartered Accountant

24 June 2011

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION
AS OF 31 DECEMBER 2010

		Group		Bank	
		2010	**2009**	**2010**	**2009**
	Note	**RM'000**	**RM'000**	**RM'000**	**RM'000**
ASSETS					
Cash and short-term funds	5	2,895,306	3,164,663	2,895,306	3,164,663
Deposits and placements with other financial institutions		-	1,028,674	-	1,028,674
Securities purchased under resale agreements	6	9,910	-	9,910	-
Securities held-for-trading	7	337,881	10,152	337,881	10,152
Securities available-for-sale	8	786,343	917,000	786,343	917,000
Loans, advances and financing	9	333,627	299,435	333,627	299,435
Derivative financial assets	10	1,244,402	1,072,279	1,244,402	1,072,279
Other assets	11	78,783	70,313	78,783	70,313
Investment in subsidiary companies	12	-	-	20	20
Investment in associated company	13	8,328	10,622	8,503	8,503
Property, plant and equipment	14	21,067	31,218	21,067	31,218
Intangible asset	15	459	841	459	841
Deferred tax assets	16	25,688	22,392	25,688	22,392
TOTAL ASSETS		5,741,794	6,627,589	5,741,989	6,625,490
LIABILITIES AND SHAREHOLDER'S FUNDS					
Deposits from customers	17	1,966,025	3,128,740	1,966,045	3,128,760
Deposits and placements from banks and other financial institutions	18	1,534,985	1,486,718	1,534,985	1,486,718
Derivative financial liabilities	10	1,227,391	987,693	1,227,391	987,693
Other liabilities	19	242,921	245,075	242,921	245,075
Subordinated debt capital	20	205,069	200,000	205,069	200,000
TOTAL LIABILITIES		5,176,391	6,048,226	5,176,411	6,048,246

(Forward)

	Note	Group 2010 RM'000	Group 2009 RM'000	Bank 2010 RM'000	Bank 2009 RM'000
Share capital	21	203,000	203,000	203,000	203,000
Reserves	22	362,403	376,363	362,578	374,244
SHAREHOLDER'S FUNDS		565,403	579,363	565,578	577,244
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS		5,741,794	6,627,589	5,741,989	6,625,490
COMMITMENTS AND CONTINGENCIES	34	74,213,184	86,338,032	74,213,184	86,338,032

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

Company No. 301932 - A

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

		Group		Bank	
		2010	2009	2010	2009
	Note	RM'000	RM'000	RM'000	RM'000
Operating revenue	23	169,614	222,431	169,614	222,431
Interest income	24	86,780	138,290	86,780	138,290
Interest expense	25	(76,074)	(90,437)	(76,074)	(90,437)
Net interest income		10,706	47,853	10,706	47,853
Other operating income	26	82,834	84,141	82,834	84,141
Other operating expenses	27	(96,480)	(87,220)	(96,480)	(87,220)
Allowance for impairment on loans, advances and financing	28	(2,190)	(31,535)	(2,190)	(31,535)
Share of loss of associated company		(2,294)	(2,519)	-	-
(Loss)/Profit before taxation		(7,424)	10,720	(5,130)	13,239
Taxation	29	(2,839)	(6,342)	(2,839)	(6,342)
(Loss)/Profit for the year attributable to equity holder of the Bank		(10,263)	4,378	(7,969)	6,897
Earnings per share (sen)	30	(5.06)	2.16	(3.93)	3.40

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

Company No. 301932 - A

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	Group		Bank	
	2010	**2009**	**2010**	**2009**
	RM'000	**RM'000**	**RM'000**	**RM'000**
(Loss)/Profit for the year	(10,263)	4,378	(7,969)	6,897
Other comprehensive income/(loss):				
Net gain/(loss) on securities available-for-sale	391	(1,097)	391	(1,097)
Total comprehensive (loss)/ income for the year	(9,872)	3,281	(7,578)	5,800

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

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

Group

		← Non-distributable Reserves		→	Distributable Reserve	
	Share capital RM'000	Share premium RM'000	Statutory reserves RM'000	Unrealised reserves RM'000	Retained earnings RM'000	Total RM'000
At 1 January 2009	203,000	76,182	150,739	2,524	143,637	576,082
Profit for the year	-	-	-	-	4,378	4,378
Net loss on securities available-for-sale	-	-	-	(1,461)	-	(1,461)
Deferred tax (Note 16)	-	-	-	364	-	364
Other comprehensive loss	-	-	-	(1,097)	-	(1,097)
Transfer of reserves	-	-	1,724	-	(1,724)	-
At 31 December 2009	203,000	76,182	152,463	1,427	146,291	579,363
At 1 January 2010	203,000	76,182	152,463	1,427	146,291	579,363
Effect of adoption FRS139 (Note 40)	-	-	-	-	(4,088)	(4,088)
Balance as at 1 January, as restated	203,000	76,182	152,463	1,427	142,203	575,275
Loss for the year	-	-	-	-	(10,263)	(10,263)
Net gain on securities available-for-sale	-	-	-	533	-	533
Deferred tax (Note 16)	-	-	-	(142)	-	(142)
Other comprehensive income	-	-	-	391	-	391
At 31 December 2010	203,000	76,182	152,463	1,818	131,940	565,403

(Forward)

Bank

	← Non-distributable Reserves			→ Distributable Reserve	
	Share capital RM'000	Share premium RM'000	Statutory reserves RM'000	Unrealised reserves RM'000	Retained earnings RM'000	Total RM'000
At 1 January 2009	203,000	76,182	150,739	2,524	138,999	571,444
Profit for the year	-	-	-	-	6,897	6,897
Net loss on securities available-for-sale	-	-	-	(1,461)	-	(1,461)
Deferred tax (Note 16)	-	-	-	364	-	364
Other comprehensive loss	-	-	-	(1,097)	-	(1,097)
Transfer of reserves	-	-	1,724	-	(1,724)	-
At 31 December 2009	203,000	76,182	152,463	1,427	144,172	577,244
At 1 January 2010	203,000	76,182	152,463	1,427	144,172	577,244
Effect of adoption FRS139 (Note 40)	-	-	-	-	(4,088)	(4,088)
Balance as at 1 January, as restated	203,000	76,182	152,463	1,427	140,084	573,156
Loss for the year	-	-	-	-	(7,969)	(7,969)
Net gain on securities available-for-sale	-	-	-	533	-	533
Deferred tax (Note 16)	-	-	-	(142)	-	(142)
Other comprehensive income	-	-	-	391	-	391
At 31 December 2010	203,000	76,182	152,463	1,818	132,115	565,578

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

Company No. 301932 – A

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Group		Bank	
	2010	**2009**	**2010**	**2009**
	RM'000	**RM'000**	**RM'000**	**RM'000**
CASH FLOWS FROM OPERATING ACTIVITIES				
(Loss)/Profit before taxation	(7,424)	10,720	(5,130)	13,239
Adjustments for:				
Unrealised loss on derivatives trading	101,392	6,519	101,392	6,519
Depreciation of property, plant and equipment	6,170	6,000	6,170	6,000
Property, plant and equipment written-off	3,679	-	3,679	-
Share of loss of associated company	2,294	2,519	-	-
Allowance for impairment on loans, advances and financing	2,190	31,535	2,190	31,535
Amortisation of cost and premium relating to subordinated debt capital	1,756	-	1,756	-
Loss from disposal of property, plant and equipment	1,275	-	1,275	-
Amortisation of intangible assets	743	866	743	866
Intangible assets written-off	-	65	-	65
Unrealised foreign exchange loss/(gain)	(33,816)	(94,781)	(33,816)	(94,781)
Gain from sale of securities held-for-trading	(4,976)	(12,878)	(4,976)	(12,878)
Amortisation of premium less accretion of discount	(2,236)	(255)	(2,236)	(255)
Gain from sale of securities available-for-sale	-	(2,397)	-	(2,397)
Unrealised (gain)/loss on revaluation of securities held-for-trading	(14)	602	(14)	602
Operating Profit/(Loss) Before Working Capital Changes	71,033	(51,485)	71,033	(51,485)

(Forward)

	Group 2010 RM'000	Group 2009 RM'000	Bank 2010 RM'000	Bank 2009 RM'000
(Increase)/Decrease in:				
Securities purchased under resale agreements	(9,910)	-	(9,910)	-
Securities held-for-trading	(322,739)	1,290,481	(322,739)	1,290,481
Loans, advances and financing	(37,157)	293,048	(37,157)	293,048
Derivative financial assets	(239,699)	1,405,118	(239,699)	1,405,118
Other assets	4,995	35,233	4,995	35,233
Statutory deposits with Bank Negara Malaysia	-	1,350	-	1,350
Increase/(Decrease) in:				
Deposits from customers	(1,162,715)	638,774	(1,162,715)	638,774
Deposits and placements from banks and other financial institutions	48,267	1,175,008	48,267	1,175,008
Derivative financial liabilities	239,698	(1,412,454)	239,698	(1,412,454)
Other liabilities	(2,154)	6,404	(2,154)	6,404
Cash (Used In)/ Generated From Operations	(1,410,381)	3,381,477	(1,410,381)	3,381,477
Income taxes paid	(19,742)	(46,437)	(19,742)	(46,437)
Net Cash (Used In)/Generated From Operating Activities	(1,430,123)	3,335,040	(1,430,123)	3,335,040
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment	196	-	196	-
Purchase of property, plant and equipment	(1,169)	(4,430)	(1,169)	(4,430)
Purchase of intangible assets	(361)	(259)	(361)	(259)
Net sale/(purchase) proceeds of securities available-for-sale	133,426	(459,988)	133,426	(459,988)
Net Cash Generated From/(Used In) Investing Activities	132,092	(464,677)	132,092	(464,677)

(Forward)

	Group 2010 RM'000	Group 2009 RM'000	Bank 2010 RM'000	Bank 2009 RM'000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(1,298,031)	2,870,363	(1,298,031)	2,870,363
CASH AND CASH EQUIVALENTS AT 1 JANUARY	4,193,337	1,322,974	4,193,337	1,322,974
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	2,895,306	4,193,337	2,895,306	4,193,337
Cash and cash equivalents comprise the following:				
Cash and short-term funds	2,895,306	3,164,663	2,895,306	3,164,663
Deposits and placements with other financial institutions	-	1,028,674	-	1,028,674
	2,895,306	4,193,337	2,895,306	4,193,337

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

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Bank is a limited liability company, incorporated and domiciled in Malaysia. The registered office and the principal place of business of the Bank is located at Level 1 and 9, Menara Maxis, Kuala Lumpur City Centre, 50088 Kuala Lumpur.

The immediate holding company of the Bank is The Royal Bank of Scotland N.V., a public limited company incorporated in the Netherlands. In 2007, a consortium comprising initially of The Royal Bank of Scotland Group plc ("RBS Group"), Fortis N.V. and Fortis SA/NV (together "Fortis") and Banco Santander S.A. agreed to acquire ABN AMRO Holding N.V. (later renamed RBS Holdings N.V.) ("AAH") via RFS Holdings B.V. ("RFS"), a private limited company incorporated in the Netherlands, jointly owned by the consortium. The Fortis shares in RFS were held by Fortis Bank Nederland (Holding) N.V. ("FBNH").

On 3 October 2008, in light of the significant changes in the financial environment, the State of the Netherlands (the "Dutch State") acquired the entire issued ordinary share capital of FBNH and on 24 December 2008, the Dutch State directly acquired FBNH's shares in RFS and became a consortium member by accession.

In accordance with the consortium agreement, the allocated assets in AAH owned by the Dutch State had to be separated from AAH which the Dutch State had proposed to do by transferring and integrating the same into a newly incorporated entity named ABN AMRO II N.V.. When ABN AMRO Bank N.V. was renamed The Royal Bank of Scotland N.V. on 6 February 2010, ABN AMRO II N.V. was at the same date renamed ABN AMRO Bank N.V..

The ultimate consolidating parent of the Bank and RBS Group is controlled by the UK Government. The UK Government therefore is a related party of The Royal Bank of Scotland N.V.

Given the reach of the UK Government and their controlled bodies and the volume and diversity of transactions with them, the disclosure of transactions with these related parties is impractical. Hence, for purposes of the financial statements of the Bank and the Group, related companies refer to members of The Royal Bank of Scotland Group Plc's group of companies.

The principal activities of the Bank are banking and related financial services. The principal activities of the subsidiary companies are to act as nominee, trustees, custodian trustees and agents on behalf of the Bank. There have been no significant changes in the nature of the principal activities during the financial year other than the wound down of Retail and Commercial business.

The financial statements of the Group and of the Bank were authorised by the Board of Directors for issuance in accordance with a resolution of the Directors on 24 June 2011.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Statement of Compliance

The financial statements of the Group and the Bank have been prepared in accordance with the provisions of the Companies Act, 1965 and Financial Reporting Standards ("FRS") in Malaysia as modified by Bank Negara Malaysia Guidelines.

2.1 Adoption of New and Revised Financial Reporting Standards

In the current financial year, the Group and the Bank have adopted all the new and revised Standards and Issues Committee Interpretations ("IC Int.") issued by the Malaysian Accounting Standards Board ("MASB") that are effective for annual periods beginning on or after 1 January 2010 as follows:

FRS 7	Financial Instruments: Disclosures
FRS 7	Financial Instruments: Disclosures (Amendments relating to reclassification of financial assets and reclassification of financial assets - Effective date and transition)
FRS 101	Presentation of Financial Statements (revised)
FRS 127	Consolidated and Separate Financial Statements (Amendments relating to cost of an investment in a subsidiary, jointly controlled entity or associate)
FRS 132	Financial Instruments: Presentation (Amendments relating to Puttable Financial Instruments and Obligations Arising on Liquidation and transitional provision relating to compound instruments)
FRS 139	Financial Instruments: Recognition and Measurement
FRS 139	Financial Instruments: Recognition and Measurement (Amendments relating to eligible hedged items, reclassification of financial assets, reclassification of financial assets - Effective date and transition and embedded derivatives)
IC Int. 14	FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

The adoption of these new and revised Standards and IC Interpretations have not affected the amounts reported on the financial statements of the Group and of the Bank except for those Standards and IC Interpretations as set out in section 2.1.1 and section 2.1.2. Details of other Standards and IC Interpretations adopted in the financial statements of the Group and of the Bank that have had no effect on the amounts reported but may affect the accounting for future transactions or arrangements are as set out in section 2.2.

2.1.1 Standards Affecting Presentation and Disclosure

FRS 7 Financial Instruments: Disclosures

FRS 7 and the consequential amendment to FRS 101 Presentation of Financial Statements require disclosure of information about the significance of financial instruments for the Group's and the Bank's financial position and performance, the nature and extent of risks arising from financial instruments, and the objectives, policies and process for managing capital.

Comparative disclosures have been re-presented upon initial adoption of this Standard so that it conforms with the current year's presentation. Since these changes only affect presentation, there is no impact on the financial results of the Group and the Bank.

FRS 101 Presentation of Financial Statements (revised)

FRS 101 has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

2.1.2 Standards Affecting the Reported Results or Financial Position

FRS 139 Financial Instruments: Recognition and Measurement

This standard establishes the principles for the recognition, derecognition and measurement of an entity's financial instruments and for hedge accounting. However, since the adoption of Bank Negara Malaysia's ("BNM") revised BNM/GP8 – Guidelines on Financial Reporting for Licensed Financial Institutions on 1 January 2005, certain principles in connection with the recognition, derecognition and measurement of financial instruments, including derivative financial 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 January 2010 has resulted in changes in accounting policies mainly pertaining to the following:

(a) impairment of loans, advances and financing – the Group and the Bank now assess at the end of each reporting period whether there is any objective evidence that a loan or a group of loans is impaired, as a result of one or more events that have occurred after the initial recognition. Allowances for loan impairment are determined either via the individual assessment or collective assessment basis.

(b) interest income recognition – financial assets classified as held-to-maturity and loans and receivables are measured at amortised cost using the effective interest method. Interest income on loans, advances and financing which were previously recognised on contractual interest rates are now recognised using effective interest rates. Interest-in-suspense is also no longer recognised on loans, advances and financing.

(c) classification of loans, advances and financing as impaired – loans are now classified as impaired when they fulfil the criteria listed in Note 3.

In the Amendments to FRS 139 listed above, the Malaysian Accounting Standards Board had included an additional transitional arrangement for entities in the financial sector, whereby BNM may prescribe an alternative basis for collective assessment of impairment for 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 impairment allowances of at least 1.5% of total outstanding loans/financing, net of individual impairment allowance. The collective assessment impairment allowance of the Group and the Bank and its domestic subsidiaries as at the reporting date have been derived based on this transitional arrangement issued by BNM.

Further, the Amendments to FRS 139 Financial Instruments: Recognition and Measurement, FRS 7 Financial Instruments: Disclosures and IC Interpretation 9 Reassessment of Embedded Derivatives above allows for the reclassification of certain non-derivative financial assets classified as held-for-trading to either held-to-maturity, loans and receivables or available-for sale, and permits the transfer of certain financial assets from available-for-sale to loans and receivables. The Group and the Bank have not effected any such transfers in its financial statements since the date of adoption.

2.2 Standards and IC Interpretations Adopted With No Effect on Financial Statements

The adoption of the following new and revised Standards and IC Interpretations has not had any significant impact on the amounts reported in the financial statements of the Group and of the Bank but may affect the accounting for future transactions or arrangements.

Amendments to FRS 132 Financial Instruments: Presentation and FRS 101 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation	The revisions to FRS 132 amend the criteria for debt/equity classification by permitting certain puttable financial instruments and instruments (or components of instruments) that impose on an entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation, to be classified as equity, subject to specified criteria being met.
IC Int. 10 Interim Financial Reporting and Impairment	This Interpretation requires that when an impairment loss is recognised in an interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost, that impairment should not be reversed in subsequent interim financial statements nor in annual financial statements.

Embedded Derivatives (Amendments to IC Int. 9 and FRS 139)	The amendments clarify the accounting for embedded derivatives in the case of a reclassification of a financial asset out of the "fair value through profit or loss" category as permitted by the amendments to FRS 139 Financial Instruments: Recognition and Measurement.
Improvements to FRSs (2009)	The Improvements have led to a number of changes in the detail of the Group's and the Bank's accounting policies - some of which are changes in terminology only, and some of which are substantive but have had no material effect on amounts reported.

Standards and Interpretations in issue but not yet effective

At the date of authorisation for issue of these financial statements, the new and revised Standards and IC Interpretations which were in issue but not yet effective and not early adopted by the Group and the Bank are as listed below.

FRS 1	First-time Adoption of Financial Reporting Standards (revised)[1]
FRS 1	First-time Adoption of Financial Reporting Standards (Amendments relating to limited exemption from Comparative FRS Disclosures for First-time Adopters)[2]
FRS 1	First-time Adoption of Financial Reporting Standards (Amendments relating to additional exemptions for first-time adopters)[2]
FRS 2	Share-based payment (amendments relating to scope of FRS 2 and revised FRS 3)[1]
FRS 2	Share-based Payment (Amendments relating to group cash-settled share-based payment transactions)[2]
FRS 3	Business Combinations (revised)[1]
FRS 5	Non-current Assets held for sale and Discontinued Operations (Amendments relating to plan to sell controlling interest in a subsidiary)[1]
FRS 7	Financial Instruments: Disclosures (Amendments relating to improving disclosures about financial instruments)[2]
FRS 124	Related Party Disclosures (revised)[3]
FRS 127	Consolidated and Separate Financial Statements (revised)[1]
FRS 128	Investment in Associates (revised)[1]
FRS 132	Financial Instruments: Presentation (Amendments relating to classification of rights issue)[4]
FRS 138	Intangible Assets (Amendments relating to additional consequential amendments arising from revised FRS 3)[1]
FRS 139	Financial Instruments: Recognition and Measurement (Amendments relating to additional consequential amendments arising from revised FRS 3 and revised FRS 127)[1]

Improvements to FRSs 2010[2]

IC Int. 4	Determining whether an Arrangement contains a Lease[2]
IC Int. 9	Reassessment of Embedded Derivatives (Amendments relating to additional consequential amendments arising from revised FRS 3)[1]
IC Int. 12	Service Concession Arrangements[1]
IC Int. 14	FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction (Amendments relating to prepayments of a minimum funding requirement)[7]
IC Int. 15	Agreements for the Construction of Real Estate[5]
IC Int. 16	Hedges of a Net Investment in a Foreign Operation[1]
IC Int. 17	Distributions of Non-cash Assets to Owners[1]
IC Int. 18	Transfers of Assets from Customers[6]
IC Int. 19	Extinguishing Financial Liabilities with Equity Instruments[7]

[1] Effective for annual periods beginning on or after 1 July 2010
[2] Effective for annual periods beginning on or after 1 January 2011
[3] Effective for annual periods beginning on or after 1 January 2012
[4] Effective for annual periods beginning on or after 1 March 2010
[5] Original effective date of 1 July 2009 deferred to 1 January 2012 via amendment issued by MASB on 30 August 2010
[6] Applied prospectively to transfers of assets from customers received on or after 1 January 2011
[7] Effective for annual periods beginning on or after 1 July 2011

The Directors anticipate that abovementioned Standards and IC Interpretations will be adopted in the annual financial statements of the Group and of the Bank when they become effective and that the adoption of these Standards and IC Interpretations will have no material impact on the financial statements of the Group and of the Bank in the period of initial application, except for the following:

FRS 3 - Business Combinations (revised)

The revised FRS 3:

- allows a choice on a transaction-by-transaction basis for the measurement of minority interests either at fair value or at the minority interests' share of the fair value of the identifiable net assets of the acquiree;

- changes the recognition and subsequent accounting requirements for contingent consideration. Under the previous version of the Standard, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were recognised against goodwill. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in statements of comprehensive income;

- requires the recognition of a settlement gain or loss where the business combination in effect settles a pre-existing relationship between the Group and the acquiree; and
- requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in statements of comprehensive income as incurred, whereas previously they were accounted for as part of the cost of the business combination.

Upon adoption, this Standard will be applied prospectively and therefore, no restatements will be required in respect of transactions prior to the date of adoption.

FRS 127 - Consolidated and Separate Financial Statements (revised)

The revised Standard will affect the Group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in a change in control. Previously, in the absence of specific requirements in FRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, where appropriate; for decreases in interests in existing subsidiaries regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the carrying amount of the share of net assets disposed of was recognised in statements of comprehensive income.

Under FRS 127 (revised), increases or decreases in ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are dealt with in equity and attributed to the owners of the parents, with no impact on goodwill or profit or loss. When control of a subsidiary is lost as a result of a transaction, event or other circumstance, FRS 127 (revised) requires that the Group derecognised all assets, liabilities and minority interests at their carrying amounts. Any retained interest in the former subsidiary is recognised at its fair value at the date when control is lost, with the resulting gain or loss being recognised in statements of comprehensive income.

Upon adoption, this Standard will be applied prospectively and therefore, no restatements will be required in respect of transactions prior to the date of adoption.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Group and of the Bank have been prepared under the historical cost convention, unless otherwise indicated in the significant accounting policies stated below.

Investment in Subsidiary Companies

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 Bank 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 the income statement.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as of the balance sheet date. The financial statements of the subsidiaries are prepared up to 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 the income statement.

Investment in Associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not in control or joint control over those policies.

Investment in associate is accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, the investment in associate is carried in the consolidated balance sheet at cost adjusted for post-acquisition changes in the Group's share of net assets of the associate. The Group's share of the net profit or loss of the associate is recognised in the consolidated income statement. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes.

In applying the equity method, unrealised gains and losses on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any long-term interests that, in substance, form part of the Group's net investment in the associates, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The most recent available management financial statements of the associates are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not coterminous with those of the Group, the share of results is arrived at from the last audited financial statements available and management financial statements to the end of the accounting period. Uniform accounting policies are adopted for like transactions and events in similar circumstances.

In the Bank's separate financial statements, investment in associate is stated at cost less impairment losses.

On disposal of such investment, the difference between net disposal proceeds and the carrying amounts is included in the income statement.

Intangible Assets

Computer software acquired is measured at cost on initial recognition. Following initial recognition, computer software is carried at cost less accumulated amortisation and accumulated impairment losses, if any. The cost are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that it may be impaired. The amortisation period and amortisation method are reviewed at least at each balance sheet date.

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 except for freehold land and building are stated at cost less accumulated depreciation and any accumulated impairment losses.

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:

Motor vehicle	20%
Office equipments and machineries	20%
Furniture, fixtures and fittings	10% - 20%
Computer equipments	20% - 33 1/3%

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.

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 the income statements.

Leases

A lease is recognised as a finance lease if it transfers substantially to the Group and the Bank all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

(i) **Finance leases**

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

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

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 3.

(ii) **Operating leases**

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

Impairment of Non-financial Assets

At each balance sheet date, the Group and the Bank review the carrying amounts of assets, other than deferred tax assets, to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

An impairment loss is recognised in the income statement immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any available previously recognised revaluation surplus for the same asset.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

Provisions for Liabilities

Provisions for liabilities 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.

Provision for restructuring costs is recognised in the period in which the Group and the Bank become legally or constructively committed to payment.

Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

(i) **Interest Income**

Interest income is recognised in the income statements for all interest bearing assets using the effective interest method. Interest income includes the amortisation of premium or accretion of discount.

Interest income on loans is accounted for using the effective interest method by reference to rest periods as stipulated in the loan agreements, which are either monthly or daily.

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

(ii) **Fee and Commission Income**

Loan arrangement, commissions and service charges/fees are recognised as income when all conditions precedent are fulfilled.

Commitment fees and guarantee fees which are material are recognised when the transaction is completed.

Dividends from held-for-trading and available-for-sale securities are recognised when declared.

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.

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

(ii) **Foreign Currency Transactions**

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 retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated 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 retranslated.

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

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

Income Tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) **Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's and the Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(ii) **Deferred tax**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, unabsorbed tax losses and unabsorbed tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences, unabsorbed tax losses and unabsorbed tax credits can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group and the Bank are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group and the Bank expect, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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 they relate to income taxes levied by the same taxation authority and the Group and the Bank intend to settle its current tax assets and liabilities on a net basis.

(iii) **Current and deferred tax for the year**

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

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 of 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, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) **Defined contribution plans**

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 income statements as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF").

Financial Instruments

Financial instruments are recognised on the balance sheet when the Group and the Bank have become a party to the contractual provisions of the instrument. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement.

Financial instruments are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss (FVTPL), which are initially measured at fair value.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial asset/liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial assets/liability, or, where appropriate, a shorter period. Income/expense is recognised on an effective interest basis for debt instruments other than those financial asset/liability designated as at fair value through profit and loss.

Financial Assets

Financial assets are classified into the following specified categories: 'fair value through profit or loss', 'available-for-sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

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

Financial assets are classified as FVTPL when the financial asset is either held for trading or it is designated as FVTPL.

A financial asset is classified as held for trading if:

(a) it has been acquired principally for the purpose of selling in the near future; or

(b) it is a part of an identified portfolio of financial instruments that the Group and the Bank manage together and has a recent actual pattern of short-term profit-taking' or

(c) it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as FVTPL upon initial recognition if:

(a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(b) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's and the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

(c) it forms part of a contract containing one or more embedded derivatives, and FRS 139 permits the entire combined contract (asset or liability) to be designated as FVTPL.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 36.

(ii) **Held-to maturity financial assets**

Financial assets held-to-maturity are non-derivative financial assets with fixed or determinable payments that management has the intention and ability to hold to maturity. These financial assets are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest on investments held-to-maturity is included in "Interest income" in the income statement. Impairment losses, if any, are recognised in the income statement as "Impairment on other assets". Regular way purchases and sales of financial investments held-to-maturity are recognised at settlement date.

If the Group or the Bank were to sell or reclassify more than an insignificant amount of financial assets 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.

(iii) **Available-for-sale financial assets (AFS)**

Available for sale financial assets, comprising government securities and investment securities, are intended to be held for a longer period of time and may be sold in response to the needs for liquidity or changes in interest rates, exchange rates or prices. The Group and the Bank use trade date accounting where the purchase and sale of an investment is under a contract whose terms require delivery of the investments within the timeframe established by the market concerned. The investments are stated at fair value. Fair value is determined in the manner described in Note 36.

(iv) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified in this category include cash and balances with banks, reverse repurchase agreement and loans, advances and financing. These financial assets are initially recognised at fair value, including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest income on loans and receivables is recognised in "Interest income" in the income statements. Impairment losses on loans, advances and financing are recognised in the income statements as "Allowance for impairment on loans, advances and financing". Regular way recognition of loans, advances and financing is recorded on settlement date, when all the conditions under the loan contract have been fulfilled.

(v) **Cash and cash equivalents**

Cash and cash equivalents as stated in the cash flow statement comprise cash and short-term funds, deposits and placements with financial institutions that are readily convertible to cash with insignificant risk of changes in value.

(vi) **Securities**

The holdings of the securities portfolio of the Group and the Bank are segregated based on the following categories and valuation methods:

(a) **Securities held-for-trading**

Securities are classified as held-for-trading if they are acquired and held principally for the intention of resale in the near term. The securities held-for-trading will be stated at fair value and any gain or loss arising from a change in their fair values and the derecognition of held-for-trading securities are recognised in the income statements.

(b) **Securities available-for-sale**

Securities available-for-sale are financial assets that are not classified as held-for-trading or held-to-maturity. The securities available-for-sale are measured at fair value or at cost (less impairment losses) if the fair value cannot be reliably measured. Any gain or loss arising from a change in fair value is recognised directly in equity through the statement of changes in equity, until the financial asset is sold, collected, disposed of or impaired, at which time the cumulative gain or loss previously recognised in equity will be transferred to the income statements.

(vii) **Securities Purchased Under Resale Agreements**

Securities purchased under resale agreements are securities which the Group and the Bank had purchased with a commitment to resell at a future date. The commitment to resell the securities is reflected as an asset on the balance sheet.

Conversely, obligations on securities sold under repurchase agreements are securities which the Group and the Bank have sold from its portfolio, with a commitment to repurchase at a future date. Such financing transactions and the obligation to repurchase the securities are reflected as a liability on the balance sheet.

(viii) **Impairment of financial assets**

Financial assets, other than those FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For available-for-sale equity instruments, a significant or prolonged decline in the fair value of the investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

(i) significant financial difficulty of the issuer or counterparty; or
(ii) default or delinquency in interest or principal payments; or
(iii) it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as loans and advances to customers, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loan receivables could include the Group's and the Bank's past experience of collecting payment as well as observable changes in national or local economic conditions that correlate with default on receivables.

For loans which are collectively assessed, the Bank has applied the transitional arrangement issued by BNM via its guideline on Classification and Impairment Provisions for Loans/Financing, whereby collective assessment impairment allowance is maintained at 1.5% of total outstanding loans, net of individual assessment impairment allowance.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and advances to customers where the carrying amount is reduced through the use of an allowance account. When a loan and advance to customers is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an available-for-sale financial asset is considered to be impaired, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any subsequent increase in fair value after an impairment loss is recognised directly in other comprehensive income.

(ix) **Derecognition of financial assets**

The Group and the Bank derecognise a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group and the Bank neither transfer nor retain substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group and the Bank recognise its retained interest in the asset and an associated liability for amount it may have to pay. If the Group and the Bank retain substantially all the risks and rewards of ownership of a transferred financial asset, the Group and the Bank continue to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial Liabilities and Equity Instruments

Financial liabilities are classified as either financial liabilities "at fair value through profit or loss" or "other financial liabilities".

(i) **Financial liabilities at fair value through profit or loss (FVTPL)**

Financial liabilities are classified as FVTPL where the financial liability is either held for trading or it is designated as FVTPL.

A financial liability is classified as held for trading if:

(a) it has been incurred principally for the purpose of repurchasing in the near future; or

(b) it is a part of an identified portfolio of financial instruments that the Group and the Bank manage together and has a recent actual pattern of short-term profit-taking; or

(c) it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as FVTPL upon initial recognition if:

(a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(b) the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's and the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

(c) it forms part of a contract containing one or more embedded derivatives, and FRS 139 permits the entire combined contract (asset or liability) to be designated as FVTPL.

Financial liabilities at fair value through profit or loss are initially measured at fair value and subsequently stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 36.

(ii) **Subordinated debt capital**

The interest-bearing instruments are recognised as liability and are recorded at amortised cost. Interest expense is recognised on an effective interest basis.

(iii) **Other financial liabilities**

Deposits of non-bank customers, deposits and balances of banks and other financial institutions and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest rate method, with interest expense recognised on an effective yield basis.

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of the amount of obligation under the contract recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies described above.

Deposits of non-bank customers

These are deposits received from non-bank customers arising primarily from private banking and corporate banking activities. Recognition occurs upon the establishment of contractual obligations and receipt of funds.

Derecognition of financial liabilities

The Group and the Bank derecognise financial liabilities when, and only when, the Group's and the Bank's obligations are discharged, cancelled or they expire.

Equity instruments

(i) **Equity instruments**

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(ii) **Other financial instruments**

The accounting policies for financial instruments other than equity instruments are disclosed in the individual policies associated with each item.

Derivatives Financial Instruments

Derivatives are financial instruments where the contracted or notional amounts of which are not included in the balance sheet either because rights and obligations arise out of one and the same contract, the performance of which is due after balance sheet date, or because the notional amounts serve merely as variables for calculation purposes. Examples of derivatives are forward exchange contracts, options, swaps, futures and forward rate agreements. The underlying value may involve interest rate, currency, commodity, bond or equity products or a combination of these.

All foreign currency contracts and interest rate swaps undertaken as a hedge against open positions created by customer transactions have been disclosed as contingent items.

These transactions 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 the change in the fair value of the derivative instrument 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 instruments 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 statements.

(ii) **Cash flow hedge**

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

(iii) **Embedded derivatives**

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit and loss.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and it is not expected to be realised or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities

Forward Exchange Contracts

Unmatured forward exchange contracts are valued at forward rates as of the balance sheet date, applicable to their respective dates of maturity, and unrealised losses and gains are recognised in the income statements.

Interest Rates Swap, Futures, Forward and Option Contracts

The Group and the Bank act as an intermediary with counterparties who wish to swap their interest obligations. The Group and the Bank also use interest rate swaps, futures, forward and option contracts in its trading account activities and in its overall interest rate risk management.

Interest income or interest expense associated with interest rate swaps that qualify as hedges is recognised over the life of the swap agreement as a component of interest income or interest expense. Gains and losses on interest rates futures, forward and option contracts that qualify as hedges are generally deferred and amortised over the life of the hedged assets or liabilities as adjustments to interest income or interest expense.

Gains and losses on interest rate swaps, futures, forward and option contracts that do not qualify as hedges are recognised in the current year using the mark-to-market method, and are included in the income statements.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Preparation of the financial statements involved making certain estimates, assumptions concerning the future judgments. 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 made by management may have an effect on the balances as reported in the financial statements.

(i) Fair value estimation for held-for-trading securities, available-for-sale securities, securities purchased under resale agreements and derivative financial instruments

The fair values of securities that are not traded in an active market are determined using valuation techniques based on assumptions of market conditions existing at the balance sheet date, including reference to quoted market prices and independent dealer quotes for similar securities and discounted cash flows method.

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible but where this is not feasible, a degree of judgment is required in establishing fair values. The judgment includes consideration of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

(ii) Deferred tax assets

Deferred tax assets are recognised on provisions for various costs and are measured and recognised based on the tax rates that are expected to apply in the period when the asset is realised. Significant management judgment 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.

(iii) Impairment losses on loans, advances and financing

A loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate. The Group and the Bank review its loans and advances to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in profit or loss, management exercises judgment on whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a loan before the decrease can be identified within an individual loan.

There are two components to the Group's and the Bank's loan impairment provisions: individual assessment and collective assessment.

Individual assessment – All impaired loans that exceed specific thresholds are individually assessed for impairment. Impairment losses are recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held. These estimates take into account the customer's debt capacity and financial flexibility; the level and quality of its earnings; the amount and sources of cash flows; the industry in which the counterpary operates; and the realisable value of any security held. Estimating the quantum and timing of future recoveries involves significant judgment. The size of receipts will depend on the future performance of the borrower and the value of security, both of which will be affected by future economic conditions; additionally, collateral may not be readily marketable. The actual amount of future cash flows and the date they are received may differ from these estimates and consequently actual losses incurred may differ from those recognised in the financial statements.

Collective assessment – The Group and the Bank have applied the transitional arrangement issued by BNM via its guideline on Classification and Impairment Provisions for Loans/Financing, whereby collective assessment impairment allowance is maintained at 1.5% of total outstanding loans, net of individual assessment impairment allowance.

(iv) **Impairment of securities available-for-sale**

The Group and the Bank assess at each reporting date whether there is objective evidence that a financial investment classified as available-for-sale is impaired. In the case of quoted equity investments, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether objective evidence of impairment exists. Where such evidence exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised) is removed from equity and recognised in the income statements. For unquoted equity investments which are measured at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. For debt instruments, impairment is assessed based on the same criteria as other financial investments available-for-sale. Where impairment losses have been previously recognised in the income statements, if there is a subsequent increase in the fair value of the debt instrument that can be objectively related to a credit event occurring after the impairment loss was recognised in the income statements, the impairment loss is reversed through the income statements.

(v) **Classification of computer software**

A specific software which forms an integral part of a related computer equipment is classified as property, plant and equipment. When the computer software is not an integral part of the related computer equipment, it is classified as an intangible asset.

5. CASH AND SHORT-TERM FUNDS

	Group/Bank	
	2010	**2009**
	RM'000	**RM'000**
At Amortised Cost		
Cash and balances with banks and other financial institutions	295,257	103,124
Money at call and deposit placements maturing within one month	2,600,049	3,061,539
	2,895,306	3,164,663

6. SECURITIES PURCHASED UNDER RESALE AGREEMENTS

Securities purchased under resale agreements are as follows:

	Group/Bank	
	2010	**2009**
	RM'000	**RM'000**
At Fair Value		
Reverse Repo	9,910	-

7. SECURITIES HELD-FOR-TRADING

	Group/Bank	
	2010	**2009**
	RM'000	**RM'000**
At Fair Value		
Money market instruments:		
Government Investment Issues	204,757	-
Malaysian Government Securities	123,178	10,152
Private debt securities outside Malaysia	9,946	-
	337,881	10,152

8. SECURITIES AVAILABLE-FOR-SALE

	Group/Bank	
	2010	**2009**
	RM'000	**RM'000**
At Fair Value		
Quoted securities:		
Malaysian Government Securities	378,240	642,725
Government Investment Issues	278,862	207,084
BNM Bills	112,468	-
Private debt securities outside Malaysia	15,054	65,472
Unquoted shares in Malaysia	1,719	1,719
	786,343	917,000

Included in securities available-for-sale of the Group and the Bank are Malaysian Government Securities that are utilised to meet the Statutory Reserve Requirement set by Bank Negara Malaysia amounting to RM25,000,000 (2009: RM50,000,000).

9. LOANS, ADVANCES AND FINANCING

	Group/Bank 2010 RM'000	Group/Bank 2009 RM'000
At amortised cost		
(i) By type		
Overdrafts	47,230	64,450
Term loans/financing:		
Housing loans/financing	28,942	34,244
Other term loans/financing	182,226	63,614
Bills receivable	46,513	48,827
Claims on customers under acceptance credits	34,011	85,981
Staff loans	7,454	11,091
Revolving credit	37,300	40,500
Less: Unearned interest and income	-	(1,155)
	383,676	347,552
Less: Allowance for impaired loans and financing:		
Collective assessment allowance	(5,783)	-
Individual assessment allowance	(44,266)	-
General allowance	-	(5,783)
Specific allowance	-	(42,334)
Net loans, advances and financing	333,627	299,435
(ii) By type of customer		
Domestic business enterprises:		
Small/medium enterprises	4,940	26,834
Others	338,985	269,907
Individuals	39,751	50,811
	383,676	347,552
(iii) By interest/profit rate sensitivity		
Fixed rate		
Housing loans/financing	4,778	8,506
Other fixed rate loan/financing	3,450	5,285
Variable rate		
BLR plus	79,767	100,528
Cost plus	295,681	233,233
	383,676	347,552

		Group/Bank 2010 RM'000	Group/Bank 2009 RM'000
(iv)	**By residual contractual maturity**		
	Maturity within one year	350,925	309,119
	More than one year to three years	3,913	4,739
	More than three years to five years	160	479
	More than five years	28,678	33,215
		383,676	347,552
(v)	**By geographical distribution**		
	Malaysia:		
	Kuala Lumpur	380,323	341,715
	Penang	3,189	3,530
	Johor	115	2,307
	Perak	49	-
		383,676	347,552
(vi)	**By Sector**		
	Electricity, gas & water	173,961	650
	Manufacturing	99,107	112,172
	Construction	48,209	51,736
	Purchase of landed properties (Residential)	36,082	45,204
	Wholesale and retail	12,849	36,079
	Finance, insurance and business services	4,849	16,522
	Mining and quarrying	3,164	10,483
	Consumption credit	2,512	3,191
	Transport, storage and communication	1,601	795
	Purchase of transport vehicles	1,342	2,416
	Agriculture, hunting, forestry & fishing	-	1,178
	Real estate	-	67,126
		383,676	347,552

	Group/Bank 2010 RM'000	Group/Bank 2009 RM'000
(vii) Movements in impaired loans, advances and financing are as follows:		
Balance as at 1 January	43,540	2,195
Impaired during the year	13,408	41,817
Reclassified as non-impaired	(8,087)	-
Amount written off	(258)	(472)
Balance as at 31 December	48,603	43,540
Individual Assessment Allowance	(44,266)	(42,334)
Net impaired loans, advances and financing	4,337	1,206
Gross impaired loans as a percentage of gross loans, advances and financing	12.67%	12.53%

	Group/Bank 2010 RM'000	Group/Bank 2009 RM'000
(viii) Movements in allowance for impaired loans, advances and financing are as follows:		
Collective Assessment Allowance		
Balance as at 1 January (as previously stated)	-	-
Effect of adopting FRS 139 (Note 40)	5,783	-
Balance as at 1 January (as restated)/31 December	5,783	-
As % of gross loans, advances and financing less individual assessment allowance	1.70%	-
General Allowance		
Balance as at 1 January	5,783	15,783
Effect of adopting FRS 139 (Note 40)	(5,783)	-
Balance as at 1 January (as restated)	-	15,783
Allowance written back during the year	-	(10,000)
Balance as at 31 December	-	5,783
As % of gross loans, advances and financing less specific allowance	-	1.89%

(Forward)

	Group/Bank 2010 RM'000	Group/Bank 2009 RM'000
Individual Assessment Allowance		
Balance as at 1 January	-	-
Effect of adopting FRS 139 (Note 40)	42,334	
Balance as at 1 January (as restated)	42,334	-
Allowance made during the year	3,333	-
Amount written back	(1,143)	-
Amount written off	(258)	-
Balance as at 31 December	44,266	-
Specific allowance		
Balance as at 1 January	42,334	1,271
Effect of adopting FRS 139 (Note 40)	(42,334)	-
Balance as at 1 January (as restated)	-	1,271
Allowance made during the year	-	41,786
Amount written back	-	(251)
Amount written off	-	(472)
Balance as at 31 December	-	42,334

(ix) **Impaired loans, advances and financing by sector**

	2010 RM'000	2009 RM'000
Purchase of landed properties (Residential)	2,423	2,399
Manufacturing	5,128	-
Construction	39,575	39,574
Wholesale and retail	1,477	1,567
	48,603	43,540

10. DERIVATIVE FINANCIAL ASSETS/LIABILITIES

Derivative financial instruments are off-balance sheet financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, interest rates and security prices) of the underlying instruments. Most of the Group's and the Bank's derivative trading activities relate to deals with customers which are normally laid off with counterparties. The Group and the Bank may also take positions with the expectation of profiting from favourable movements in prices, rates or indices. Also included under this heading are any derivatives which do not meet the hedging requirements.

As of 31 December 2010, the Group and the Bank have positions in the following types of derivatives:

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 variable or reference rate and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are indicative of neither the market risk nor the credit risk.

	2010			2009		
		Fair Value			Fair value	
Group/Bank	**Notional RM'000**	**Assets RM'000**	**Liabilities RM'000**	**Notional RM'000**	**Assets RM'000**	**Liabilities RM'000**
Trading derivatives						
Foreign exchange contracts:						
Forward	12,236,498	241,650	120,766	5,033,036	30,516	67,382
Cross currency swaps and options	7,939,295	1,714	2,755	17,740,251	102,985	22,148
Interest rate contracts:						
Futures	9,692,500	1,917	-	9,460,000	1,855	1,212
Swaps	35,423,256	613,515	453,279	41,593,169	762,482	566,424
Cross currency interest rate swaps	7,773,391	379,859	650,585	11,176,199	174,441	330,507
Others	50,000	5,747	6	50,000	-	20
	73,114,940	1,244,402	1,227,391	85,052,655	1,072,279	987,693

Fair values of derivative financial instruments are normally zero or negligible at inception and the subsequent change in value is favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The fair values of the Group's and the Bank's derivative instruments are estimated by reference to quoted market prices. Internal models are used where no market price is available.

Forwards and futures

Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and/or foreign currency rates.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

11. OTHER ASSETS

	Group/Bank	
	2010	**2009**
	RM'000	**RM'000**
Tax recoverable	30,042	16,577
Other debtors, deposits and prepayments	48,741	53,736
	78,783	70,313

12. INVESTMENT IN SUBSIDIARY COMPANIES

	Bank 2010 RM'000	Bank 2009 RM'000
At cost		
Unquoted shares in Malaysia	20	20

The subsidiary companies of the Bank, both of which are incorporated in Malaysia, are as follows:

Name of Subsidiary	Principal Activities	Effective Equity Interest 2010	Effective Equity Interest 2009
RBS Nominees (Tempatan) Sdn. Bhd.	Nominee services	100%	100%
RBS Nominees (Asing) Sdn. Bhd.	Nominee services	100%	100%

All income and expenditure arising from the nominee activities of the subsidiary companies have been recognised in the Bank's results.

13. INVESTMENT IN ASSOCIATED COMPANY

	Group 2010 RM'000	Group 2009 RM'000	Bank 2010 RM'000	Bank 2009 RM'000
Unquoted shares at cost	8,503	8,503	8,503	8,503
Share of post-acquisition reserve at beginning of year	2,119	4,638	-	-
Current year	(2,294)	(2,519)	-	-
At end of year	(175)	2,119	-	-
	8,328	10,622	8,503	8,503

Details of the associate, which is incorporated in Malaysia, are as follows:

Name of Associate	Principal Activities	Effective Equity Interest 2010	Effective Equity Interest 2009
Gale Force Sdn. Bhd.	Investing in or acquiring non-performing loans	25%	25%

The unaudited summarised financial information of the associated company is as follows:

	Bank 2010 RM'000	Bank 2009 RM'000
Assets and liabilities		
Current assets	116,605	186,817
Total assets	116,605	186,817
Current liabilities	118	969
Non-current liabilities	45,274	151,824
Total liabilities	45,392	152,793
Results		
Revenue	916	25,196
Loss for the year	(9,099)	(9,984)

14. PROPERTY, PLANT AND EQUIPMENT

Group and Bank	Freehold Land and Building RM'000	Motor Vehicle RM'000	Office Equipments and Machineries RM'000	Furniture, Fixtures and Fittings RM'000	Computer Equipments RM'000	Total RM'000
At 31 December 2010						
Cost						
At 1 January 2010	388	563	6,767	28,647	15,787	52,152
Additions	-	616	46	14	493	1,169
Disposals	-	(563)	-	(2,127)	-	(2,690)
Write-offs	-	-	(601)	(4,915)	(238)	(5,754)
At 31 December 2010	388	616	6,212	21,619	16,042	44,877
Accumulated Depreciation						
At 1 January 2010	-	498	2,737	7,273	10,426	20,934
Depreciation charge for the year	-	86	971	3,289	1,824	6,170
Disposals	-	(563)	-	(656)	-	(1,219)
Write-offs	-	-	(280)	(1,640)	(155)	(2,075)
At 31 December 2010	-	21	3,428	8,266	12,095	23,810
Net Book Value	388	595	2,784	13,353	3,947	21,067

(Forward)

Group and Bank	Freehold Land and Building RM'000	Motor Vehicle RM'000	Office Equipments and Machineries RM'000	Furniture, Fixtures and Fittings RM'000	Computer Equipments RM'000	Total RM'000
At 31 December 2009						
Cost						
At 1 January 2009	388	563	6,350	26,151	14,270	47,722
Additions	-	-	417	2,496	1,517	4,430
At 31 December 2009	388	563	6,767	28,647	15,787	52,152
Accumulated Depreciation						
At 1 January 2009	-	385	1,781	4,039	8,729	14,934
Depreciation charge for the year	-	113	956	3,234	1,697	6,000
At 31 December 2009	-	498	2,737	7,273	10,426	20,934
Net Book Value	388	65	4,030	21,374	5,361	31,218

15. INTANGIBLE ASSET

	Group/Bank	
	2010	2009
	RM'000	RM'000
Computer Software:		
Cost		
At 1 January	2,611	2,442
Additions	361	259
Write-off	-	(90)
At 31 December	2,972	2,611
Accumulated Amortisation		
At 1 January	1,770	929
Amortisation for the year	743	866
Write-off	-	(25)
At 31 December	2,513	1,770
Net Book Value	459	841

16. DEFERRED TAX ASSETS

	Group/Bank	
	2010	2009
	RM'000	RM'000
At 1 January	22,392	24,050
Recognised in income statements (Note 29)	3,438	(2,022)
Recognised in equity	(142)	364
At 31 December	25,688	22,392

Presented after appropriate offsetting as follows:

Deferred tax assets	27,658	25,268
Deferred tax liabilities	(1,970)	(2,876)
Net	25,688	22,392

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 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 of the Bank:

	Other Payables RM'000	**Other Temporary Differences RM'000**	**Total RM'000**
At 1 January 2010	25,218	50	25,268
Recognised in income statements	2,379	11	2,390
At 31 December 2010	27,597	61	27,658
At 1 January 2009	27,422	-	27,422
Recognised in income statements	(2,204)	50	(2,154)
At 31 December 2009	25,218	50	25,268

Deferred tax liabilities of the Group and of the Bank:

	Capital Allowances RM'000	**Unrealised Reserves RM'000**	**Total RM'000**
At 1 January 2010	2,398	478	2,876
Recognised in income statements	(1,048)	-	(1,048)
Recognised in equity	-	142	142
At 31 December 2010	1,350	620	1,970
At 1 January 2009	2,530	842	3,372
Recognised in income statements	(132)	-	(132)
Recognised in equity	-	(364)	(364)
At 31 December 2009	2,398	478	2,876

Deferred tax asset has not been recognised in respect of collective assessment for impaired loans and financing of RM5,783,000 (2009: RM5,783,000).

17. DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Type				
Demand deposits	1,171,781	895,431	1,171,801	895,451
Savings deposits	1,690	5,802	1,690	5,802
Fixed deposits	792,554	2,227,507	792,554	2,227,507
	1,966,025	3,128,740	1,966,045	3,128,760

(i) Maturity structure of fixed deposits and negotiable instruments of deposits is as follows:

	Group/Bank	
	2010 RM'000	2009 RM'000
Due within six months	709,229	2,044,662
Six months to one year	71,700	84,706
One year to three years	11,625	98,139
	792,554	2,227,507

(ii) The deposits are sourced from the following types of customers:

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Government and statutory bodies	92,996	20,370	92,996	20,370
Business enterprises	1,496,139	1,853,457	1,496,139	1,853,457
Individuals	89,136	514,163	89,136	514,163
Others	287,754	740,750	287,774	740,770
	1,966,025	3,128,740	1,966,045	3,128,760

18. DEPOSITS AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group/Bank	
	2010	2009
	RM'000	RM'000
Licensed banks	23,000	22,000
Other financial institutions	1,511,985	1,464,718
	1,534,985	1,486,718

19. OTHER LIABILITIES

	Group/Bank	
	2010	2009
	RM'000	RM'000
Retirement benefits	22	22
Other liabilities	132,405	128,836
Internal settlement cost	110,494	116,217
	242,921	245,075

20. SUBORDINATED DEBT CAPITAL

	Group/Bank	
	2010	2009
	RM'000	RM'000
At 1 January	200,000	200,000
Effect of adopting FRS139 (Note 40)	3,313	-
At 1 January (as restated)/31 December	203,313	200,000
Net amortisation during the year	1,726	-
At amortised cost (2009: Face value)	205,039	200,000

On 8 June 2007, the Bank issued RM 200 million in aggregate principal amount of redeemable Subordinated NIDs maturing on 8 June 2017 at 4.15% per annum subject to revision on year 6 onwards. The Subordinated NIDs, unless redeemed at end of year 5, shall bear an interest stepped up by 0.5% per annum from the 6th year onwards till the end of maturity. The subordinated debts will constitute direct, unconditional and unsecured obligations of the Bank and are subordinated to the Bank's deposits.

21. SHARE CAPITAL

	Group/Bank	
	2010 RM'000	2009 RM'000
Authorised:		
500,000,000 ordinary shares of RM1 each	500,000	500,000
Issued and fully paid:		
Balance as of 1 January/31 December		
203,000,002 ordinary shares of RM1 each	203,000	203,000

22. RESERVES

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Non-distributable:				
Share premium	76,182	76,182	76,182	76,182
Statutory reserves (Note a)	152,463	152,463	152,463	152,463
Unrealised reserves (Note b)	1,818	1,427	1,818	1,427
Distributable:				
Retained earnings (Note c)	131,940	146,291	132,115	144,172
	362,403	376,363	362,578	374,244

(a) **Statutory reserves**

The statutory reserves are maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and are not distributable as dividends.

(b) **Unrealised reserves**

The unrealised reserves comprise fair value changes on securities available-for-sale.

(c) **Retained earnings**

In accordance with the Finance Act 2007, the single tier income tax system became effective from the year of assessment 2008. Under this system, tax on a Bank's profit is a final tax, and dividends paid are exempted from tax in the hands of the shareholders. Unlike the previous imputation system, the recipient of the dividend would no longer be able to claim any tax credits.

Companies without Section 108 tax credit balance will automatically move to the single tier tax system on 1 January 2008. However, companies with such tax credits are given an irrevocable option to elect for the single tier tax system and disregard the tax credits or to continue to use the tax credits under Section 108 account to frank the payment of cash dividends on ordinary shares for a period of 6 years ending 31 December 2013 or until the tax credits are fully utilised, whichever comes first. During the transitional period, any tax paid will not be added to the Section 108 account and any tax credits utilised will reduce the tax credit balance.

As of the balance sheet date, the Bank has not elected for the irrevocable option to disregard the Section 108 tax credits. Accordingly, subject to the agreement of the Inland Revenue Board and based on the prevailing tax rate applicable to dividends and the Bank has sufficient Section 108 tax credits to frank approximately RM40,401,000 (2009: RM40,401,000) dividend out of its retained earnings as of 31 December 2010 without incurring any additional tax liability.

23. OPERATING REVENUE

Operating revenue of the Group and of the Bank comprises all types of revenue derived from the business of banking and comprises gross interest income (after adding back net interest/income suspended), fee and commission income, investment income, gross dividends and other income derived from banking operations.

24. INTEREST INCOME

	Group/Bank	
	2010 RM'000	2009 RM'000
Loans, advances and financing	11,616	20,740
Money at call and deposit placements with financial institutions	42,826	69,138
Securities available-for-sale	23,199	31,089
Securities held-for-trading	6,903	17,068
	84,544	138,035
Amortisation of premium less accretion of discount	2,236	255
Total Interest Income	86,780	138,290
Of which:		
Interest income earned on impaired loans, advances and financing	-	1,052

25. INTEREST EXPENSE

	Group/Bank 2010 RM'000	Group/Bank 2009 RM'000
Deposits and placements from banks and other financial institutions	43,376	52,622
Deposits from customers	30,563	36,996
Others	2,135	819
	76,074	90,437

26. OTHER OPERATING INCOME

	Group/Bank 2010 RM'000	Group/Bank 2009 RM'000
Fee income:		
Commission	3,086	4,885
Service charges and fees	468	405
Guarantee fees	5,607	4,770
Advisory fees	-	184
Other fee income	3,185	12,357
	12,346	22,601
Net gain arising from sale of securities:		
Securities held-for-trading	4,976	12,878
Securities available-for-sale	-	2,397
	4,976	15,275
Unrealised gain/(loss) on revaluation of securities:		
Securities held-for-trading	14	(602)
Gross dividend income from:		
Securities available-for-sale	104	54
Other income:		
Foreign exchange gain/(loss)		
Unrealised	33,816	94,781
Realised	(7,419)	(71,526)
(Loss)/gain on derivatives trading		
Unrealised	(101,392)	(6,519)
Realised	131,616	20,920
Others	8,773	9,157
	65,394	46,813
	82,834	84,141

27. OTHER OPERATING EXPENSES

	Group/Bank	
	2010	**2009**
	RM'000	**RM'000**
Personnel costs (Note a)	41,062	42,774
Establishment costs (Note b)	42,102	31,832
Marketing expenses (Note c)	1,108	2,618
Administration and general expenses (Note d)	12,208	9,996
	96,480	87,220

	Group/Bank	
	2010	**2009**
	RM'000	**RM'000**
(a) Personnel costs		
Salaries, bonuses and allowances	25,788	32,737
Social security costs	112	142
EPF - defined contribution plan	3,499	4,071
Rental of accommodation	191	483
Redundancy payment - retail and commercial	6,728	-
Other staff related expenses	4,744	5,341
	41,062	42,774
(b) Establishment costs		
Share of Group costs	19,619	16,412
Share of Information Technology costs	5,348	3,835
Depreciation of property, plant and equipment	6,170	6,000
Loss on sale of property, plant and equipment	1,275	-
Property, plant and equipment written-off	3,679	-
Amortisation of intangible asset	743	866
Rental of premises	4,095	3,499
Others	1,173	1,220
	42,102	31,832

	Group/Bank 2010 RM'000	Group/Bank 2009 RM'000
(c) Marketing expenses		
Advertising	574	1,794
Others	534	824
	1,108	2,618
(d) Administration and general expenses		
Legal and professional fees	403	771
Communication	2,751	3,066
Transportation	893	1,222
Property maintenance	2,236	2,234
Others	5,925	2,703
	12,208	9,996

Included in the above expenditure are the following statutory disclosures:

	Group/Bank 2010 RM'000	Group/Bank 2009 RM'000
Directors' remuneration and benefits-in-kind	1,786	1,489
Auditors' remuneration		
Statutory audit	200	210
Audit related services *	38	38
Intangible asset written-off	-	65

* Audit related services included validation review based on agreed-upon procedures required for regulatory purposes.

Details of Directors' remuneration of the Bank during the year are as follows:

	Salary and other remuneration RM'000	Fees RM'000	Bonuses RM'000	Benefits -in-kind RM'000	Total RM'000
2010					
Executive director:					
Andrew Mark Sill	1,102	-	368	38	1,508
Non-executive directors:					
General (Rtd) Tan Sri Dato' Mohd Ghazali Seth	-	106	-	-	106
Tan Sri Datuk Asmat bin Kamaludin	-	86	-	-	86
Dato' Jorgen Bornhoft	-	86	-	-	86
	1,102	278	368	38	1,786
2009					
Executive directors:					
Harold Douglas Naysmith	513	-	-	9	522
Andrew Mark Sill	681	-	-	26	707
Non-executive directors:					
General (Rtd) Tan Sri Dato' Mohd Ghazali Seth	-	100	-	-	100
Tan Sri Datuk Asmat bin Kamaludin	-	80	-	-	80
Dato' Jorgen Bornhoft	-	80	-	-	80
	1,194	260	-	35	1,489

28. ALLOWANCE FOR IMPAIRMENT ON LOANS, ADVANCES AND FINANCING

	Group/Bank	
	2010	2009
	RM'000	RM'000
Allowance for bad and doubtful debts on loans and financing:		
Individual Assessment allowance:		
Made in the financial year (Note 9)	3,333	-
Written back in the financial year (Note 9)	(1,143)	-
	2,190	-
Specific allowance:		
Made in the financial year (Note 9)	-	41,786
Written back in the financial year (Note 9)	-	(251)
General allowance:		
Written back in the financial year (Note 9)	-	(10,000)
	-	31,535

29. TAXATION

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Malaysian income tax based on results for the year:				
Current year	2,343	5,917	2,343	5,917
Under/(Over)provision in prior years	3,934	(1,597)	3,934	(1,597)
	6,277	4,320	6,277	4,320
Deferred tax (Note 16):				
Relating to origination and reversal of temporary differences	683	764	683	764
(Over)/Underprovision in prior years	(4,121)	1,258	(4,121)	1,258
	(3,438)	2,022	(3,438)	2,022
	2,839	6,342	2,839	6,342

Domestic current income tax is calculated at the statutory tax rate of 25% (2009: 25%) on the estimated assessable profit for the year.

A reconciliation of income tax expense applicable to (loss)/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	
	2010 RM'000	**2009 RM'000**	**2010 RM'000**	**2009 RM'000**
(Loss)/Profit before taxation	(7,472)	10,720	(5,178)	13,239
Taxation at Malaysian statutory tax rate of 25%	(1,868)	2,680	(1,295)	3,310
Income not subject to tax	(26)	(2,511)	(26)	(2,511)
Expenses not deductible for tax purposes	4,347	5,882	4,347	5,882
Effect of share of an associate's post-tax loss included in Group's profit/(loss) before taxation	573	630	-	-
(Over)/Underprovision of deferred tax in prior years	(4,121)	1,258	(4,121)	1,258
Under/(Over)provision of current income tax payable in prior years	3,934	(1,597)	3,934	(1,597)
Tax expense for the year	2,839	6,342	2,839	6,342

30. EARNINGS PER SHARE

The earnings per share has been calculated based on the net loss after taxation of RM10,311,000 (net profit after taxation in 2009 of RM4,378,000) on the weighted average number of ordinary shares of RM1 each in issue of 203,000,002 (2009: 203,000,002) during the year.

31. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

Given the reach of the UK Government and their controlled bodies and the volume and diversity of transactions with them, the disclosure of transactions with these related parties is impractical. Hence, for purposes of the financial statements of the Bank and the Group, related companies refer to members of The Royal Bank of Scotland Group Plc's group of companies.

(a) Significant transactions undertaken by the Group and the Bank with related companies are as follows:

2010	Immediate holding company RM'000	Subsidiary companies RM'000	Associated company RM'000	Other related companies RM'000
Income:				
Commission	1,010	-	-	-
Interest income	7,474	-	-	-
Directors fee received	-	-	18	-
Expense:				
Interest expense	15,261	-	-	-
Management fee	24,967	-	-	-
Assets:				
Cash and short-term funds	2,310,573	-	-	157,019
Interest receivable	933	-	-	-
Derivative financial assets	9,640	-	-	280,565
Liabilities:				
Deposits from customers	-	20	-	-
Deposits and placements from banks and other financial institutions	695,863	-	-	615,960
Interest payable	2,973	-	-	-
Derivative financial liabilities	101	-	-	596,141
Management fee payable	120,422	-	-	-

2009	Immediate holding company RM'000	Subsidiary companies RM'000	Associated company RM'000	Other related companies RM'000
Income:				
Commission	7,548	-	-	-
Interest income	51,441	-	-	-
Directors fee received	-	-	23	-
Expense:				
Interest expense	34,501	-	-	-
Management fee	20,248	-	-	-
Assets:				
Cash and short-term funds	2,794,119	-	-	-
Deposits and placements with other financial institutions	1,336,924	-	-	-
Loans, advances and financing	-	-	50,050	-
Interest receivable	21,420	-	-	-
Derivative financial assets	1,013	-	-	279,167
Liabilities:				
Deposits from customers	-	20	-	-
Deposits and placements from banks and other financial institutions	1,320,090	-	-	1,894
Interest payable	20,881	-	-	-
Derivative financial liabilities	-	-	-	388,445
Management fee payable	116,117	-	-	-

(b) Compensation of key management personnel

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

	Group/Bank 2010 RM'000	Group/Bank 2009 RM'000
Short-term employee benefits	5,040	5,047
Post-employment benefits:		
Defined contribution plan	717	494
	5,757	5,542

Included in the total key management personnel are:

	Group 2010 RM'000	Group 2009 RM'000	Bank 2010 RM'000	Bank 2009 RM'000
Directors' remuneration excluding benefits-in-kind	1,748	1,454	1,748	1,454

32. OPERATING LEASE ARRANGEMENTS

The Group and the Bank have entered into non-cancellable operating lease agreements for the use of buildings. These leases have an average life of 9 years with an option for cancellation every 3 years. There are no restrictions placed upon the Group and the Bank by entering into these leases.

The future aggregate minimum lease payments under non-cancellable operating leases contracted for as of the balance sheet date but not recognised as liabilities are as follows:

	Group/Bank 2010 RM'000	Group/Bank 2009 RM'000
Future minimum rental payments:		
Not later than 1 year	3,869	3,571
Later than 1 year and not later than 5 years	6,414	7,736
	10,283	11,307

33. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	Group/Bank	
	2010	**2009**
	RM'000	**RM'000**
Outstanding credit exposures with connected parties	236,907	233,634
Total credit exposures	4,725,642	6,166,180
Percentage of outstanding credit exposures to connected parties:		
- as a proportion of total credit exposures	5.01%	3.79%
- as a proportion of capital base	31.21%	30.72%

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

Based on these guidelines, a connected party refers to the following:

(i) Directors of the Bank and their close relatives;

(ii) Controlling shareholder and their close relatives;

(iii) Executive officer, being a member of management having authority and responsibility for planning and directing and/or controlling the activities of the Bank, and their close relatives;

(iv) Officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and their close relatives;

(v) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (iv) above, or in which they have an interest, as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;

(vi) Any person for whom the persons listed in (i) to (iv) above is a guarantor; and

(vii) Subsidiary of or an entity controlled by the Bank and its 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.

Credit transactions and exposure to connected parties as disclosed above includes the extension of credit facilities and/or off-balance sheet credit exposure such as guarantees, trade-related facilities and loan commitments. It also includes holding of equities and private debt securities issued by the connected parties.

34. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group and the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. The commitments and contingencies are not secured against the Group's and Bank's assets.

Risk Weighted Exposures of the Group and of the Bank as of 31 December are as follows:

	2010 Principal amount RM'000	2010 Credit equivalent amount * RM'000	2010 Risk-weighted amount RM'000	2009 Principal amount RM'000	2009 Credit equivalent amount * RM'000	2009 Risk-weighted amount RM'000
Direct credit substitutes	4,809	4,809	4,809	10,131	10,131	10,131
Transaction-related contingent items	596,832	298,416	258,480	603,678	301,839	254,444
Short-term self-liquidating trade-related contingencies	8,201	1,640	1,640	127,622	25,524	25,451
Other assets sold with recourse and commitments with certain drawdown	-	-	-	730	730	730
Irrevocable commitments to extend credit:						
maturity less than one year	487,951	97,590	97,590	542,720	-	-
maturity more than one year	451	226	169	495	248	124
Foreign exchange related contracts:						
less than one year	12,505,852	373,882	91,348	11,739,867	257,136	66,403
one year to less than five years	5,380,494	369,336	78,886	8,844,242	638,305	163,630
five years and above	2,289,447	283,786	98,281	2,189,178	247,896	73,582

(Forward)

	2010 Principal amount RM'000	2010 Credit equivalent amount * RM'000	2010 Risk-weighted amount RM'000	2009 Principal amount RM'000	2009 Credit equivalent amount * RM'000	2009 Risk-weighted amount RM'000
Interest rate related contracts:						
less than one year	14,156,868	150,796	38,149	15,502,299	146,946	31,386
one year to less than five years	28,672,741	979,551	200,931	35,775,342	1,236,496	309,766
five years and above	10,059,538	1,194,486	367,677	11,001,728	1,258,579	350,843
Credit Derivative Contracts:						
less than one year	50,000	50	10	-	-	-
one year to less than five years	-	-	-	50,000	50	10
	74,213,184	3,754,568	1,237,970	86,338,032	4,123,880	1,286,490

* The credit equivalent amount is arrived at using the credit conversion factor as per Bank Negara Malaysia guidelines.

35. FINANCIAL RISK MANAGEMENT POLICIES

The Group and the Bank adopt, as it required, the risk management policies of the holding company, which encompass a variety of controls and reporting processes. This includes establishing risk management policies and guidelines which set out the Group's and the Bank's overall business strategies, tolerance for risk and general risk management philosophy to ensure that adequate resources are available for the development of the Group's and the Bank's business whilst managing its interest rate, market, credit and liquidity risks. The Board of Directors has approved guidelines pertaining to the risk management policies of the Group and the Bank which are closely adhered to, ensuring that the operations of the Bank are conducted in a prudent manner.

Capital Management

Capital management is performed at the holding company level. The primary objectives of the Capital Management function include the following:

(i) maintain a capital structure consistent with Group's rating targets;
(ii) ensure that the demand for capital is justified by sufficient returns to achieve the Group's Return on Equity target and that there is sufficient capital available to meet the capital demands;
(iii) comply with regulatory requirements;
(iv) improve the liquidity of Risk Weighted Assets to ensure the balance sheet remains flexible;
(v) increase strategic and tactical flexibility in deployment of capital;
(vi) meet the strategic funding needs; and
(vii) improve Group and Return on Assigned Risk Capital

The Capital Management Group prepares a monthly capital outlook. Should potential imbalances be identified, the capital outlook will include a proposal for appropriate actions and execution to correct the imbalances.

(a) **Operational Risk**

Operational risk is the potential for financial loss, damage to reputation, or impact upon customers resulting from fraud, human error, ineffective or inadequately designed processes or systems, improper behavior, or external events. Operational risk is an integral and unavoidable part of the Group's and the Bank's business as it is inherent in the processes it operates to provide services to customers and generate profit for shareholders.

To ensure appropriate responsibility is allocated for the management, reporting and escalation of operational risk, the Group and the Bank operate a three lines of defense model which outlines principles for the roles, responsibilities and accountabilities for operational risk management.

An objective of operational risk management is not to remove operational risk altogether, but to manage the risk to an acceptable level, taking into account the cost of minimising the risk with the resultant reduction in exposure. Strategies to manage operational risk include avoidance, transfer, acceptance and mitigation by controls.

Each business unit must manage its operational risk exposure within an acceptable level, testing the adequacy and effectiveness of controls and other risk mitigants regularly and documenting the results. Where unacceptable control weaknesses are identified, action plans are produced and tracked to completion.

Operational risk – three lines of defense model

First line of defense

The Business: Accountable for the ownership and day-to-day management and control of operational risk. Responsible for implementing processes in compliance with the Group's and the Bank's policies and for testing key controls and monitoring compliance with Bank policies.

Second line of defense

Operational Risk: Responsible for the implementation and maintenance of the operational risk framework, tools and methodologies. Responsible for oversight and challenge on the adequacy of the risk and control processes operating in the business.

Third line of defense

Group Internal Audit: Responsible for providing independent assurance on the design, adequacy and effectiveness of the Group's and the Bank's system of internal controls.

The Operational Risk Policy Standards provide the direction for delivering effective operational risk management. They comprise principles and processes that enable the consistent identification, assessment, management, monitoring and reporting of operational risk across the Group and the Bank. The objectives of the standards are to protect the Bank from financial loss or damage to its reputation, its customers or staff and to ensure that it meets all necessary regulatory and legal requirements.

The standards are supported by several key operational risk management techniques of which the Group and the Bank apply the following techniques:

– Risk and control assessments: business units identify and assess operational risks to ensure that they are effectively managed, prioritised, documented and aligned to risk appetite;

– Loss data management: each business unit's internal loss data management process captures all operational risk loss events above certain minimum thresholds. The data is used to enhance the adequacy and effectiveness of controls, identify emerging themes, enable formal loss event reporting and inform risk and control assessments and scenario analysis.

Escalation of individual event to senior management is determined by the seriousness of the event. Operational loss events are categorised under the following headings:

– Clients, products and business practices;
– Technology and infrastructure failures;
– Employment practices and workplace safety;
– Internal fraud;
– External fraud;
– Execution, delivery and process management;
– Malicious damage; and
– Disaster and public safety

– Key risk indicators: business units monitor key risk indicators (usually operational) against their material risks. These indicators are used to monitor the operational risk profile and exposure to losses against thresholds which trigger risk management actions;

– New products approval process: this process ensures that all new products or significant variations to existing products are subject to a comprehensive risk assessment. Products are evaluated and approved by specialist areas and are subject to executive approval prior to launch; and

– Self certification process: this requires management to monitor and report regularly on the internal control framework for which they are responsible, confirming its adequacy and effectiveness. This includes certifying compliance with the requirements of the Group's and the Bank's policies.

Scope and nature of reporting and measurement systems

Reporting forms an integral part of operational risk management. The Group's and the Bank's risk management processes are designed to ensure that issues are identified, escalated and managed on a timely basis. Exposures for each business division are reported through monthly risk and control reports, which provide detail on the risk exposures and action plans.

Events that have a material, actual or potential impact on the Bank's finances, reputation or customers, are escalated and reported to business divisional and executive.

(b) **Credit Risk**

Credit risk considers the ability of a borrower or counterparty to honor commitments under an agreement as any such failure has an adverse impact on the banks' financial performance. The Group and the Bank are exposed to credit risk through its various lending activities such as funded facilities, non-funded facilities as well as hedging facilities.

The Bank's credit risk management process is independent of the business so as to protect integrity of the risk assessment process and decision making. The global as well as local policies guide the credit risk team to make informed decisions.

Credit risk in respect of exposures on corporate as well as small and medium enterprises (SME) is measured and managed at both individual counterparty level as well as at a portfolio level. Credit rating tools are an integral part of risk-assessment of the corporate borrowers and different rating models are used for each segment that has distinct risk characteristics such as large corporate, financial companies and project finance.

The credit rating tools use a combination of quantitative inputs and qualitative inputs to arrive at a 'point-in-time' view of the rating of counterparty. Each internal rating grade corresponds to a distinct probability of default. Model validation is carried out periodically at a global level by objectively assessing the accuracy and stability of ratings.

All credit exposures, once approved, are monitored and reviewed periodically against the approved limits. Borrowers with lower credit rating are subject to more frequent reviews. Besides this there are monthly risk migration analysis and monthly watch list meeting.

Risk review involves independent review of credit risk assessment, compliance with internal policies of the Group and the Bank and with the regulatory framework, compliance of sanction terms and conditions and effectiveness of loan administration.

Customers with emerging credit problems are identified early and classified accordingly. Remedial action is initiated promptly to minimise the potential loss to the Bank.

The Bank controls and limits concentration risk by means of appropriate structural limits and borrower limits based on creditworthiness. The exposures to individual clients or group are based on the internal rating of the borrower as well as group-wise borrowing limits and capped by the regulatory ceiling.

Industry analysis plays an important part in assessing the concentration risk within the loan portfolio. Particular attention is given to industry sectors where the Group and the Bank believe there is a high degree of risk or potential for volatility in the future. The Group and the Bank have fixed internal limits for aggregate commitments to different sectors so that the exposures are evenly spread over various sectors.

The following table represents the Group and Bank's credit risk concentrations as of 31 December 2010.

	Short term funds and placements with financial institutions including Statutory Deposit with BNM RM'000	**Securities purchased under resale agreements RM'000**	**Securities held-for-trading RM'000**	**Securities available-for-sale RM'000**	**Gross loans, advances and financing RM'000**	**Collective assessment RM'000**	**Derivative financial assets RM'000**	**Commitments and contingencies RM'000**
Government and central banks	240,978	9,910	337,881	769,570	-	-	-	-
Mining and quarrying	-	-	-	-	3,164	-	3,075	-
Electricity, gas & water	-	-	-	-	173,961	-	-	-
Manufacturing	-	-	-	-	99,107	-	-	-
Construction	-	-	-	-	48,209	-	26,833	-
Real estate	-	-	-	-	-	-	181	-
Purchase of landed properties (Residential)								
i) Resident	-	-	-	-	36,082	-	-	-
ii) Non-resident	-	-	-	-	-	-	-	-
Wholesale and retail	-	-	-	-	12,849	-	638	-
Transport, storage and communication	-	-	-	-	1,601	-	247,252	-
Finance, insurance and business services	2,654,328	-	-	16,773	4,849	-	966,423	-
Purchase of transport vehicles	-	-	-	-	1,342	-	-	-
Consumption credit	-	-	-	-	2,512	-	-	-
Others	-	-	-	-	-	(5,783)	-	74,213,184
	2,895,306	9,910	337,881	786,343	383,676	(5,783)	1,244,402	74,213,184

The following table represents the Group and Bank's credit risk concentrations as of 31 December 2009.

	Short term funds and placements with financial institutions including Statutory Deposit with BNM RM'000	**Securities held-for-trading RM'000**	**Securities available-for-sale RM'000**	**Gross loans, advances and financing RM'000**	**General provision RM'000**	**Derivative financial assets RM'000**	**Commitments and contingencies RM'000**
Government and central banks	25,505	10,152	849,809	-	-	-	-
Agricultural, hunting, forestry & fishing	-	-	-	1,178	-	-	-
Mining and quarrying	-	-	-	10,483	-	-	-
Electricity, gas & water	-	-	-	650	-	823	-
Manufacturing	-	-	-	112,172	-	969	-
Construction	-	-	-	51,736	-	40,290	-
Real estate	-	-	-	67,126	-	-	-
Purchase of landed properties (Residential)							
i) Resident	-	-	-	45,204	-	-	-
ii) Non-resident	-	-	-	-	-	-	-
Wholesale and retail	-	-	-	36,079	-	5,618	-
Transport, storage and communication	-	-	-	795	-	135,009	-
Finance, insurance and business services	4,167,832	-	67,191	16,522	-	889,570	-
Purchase of securities	-	-	-	-	-	-	-
Purchase of transport vehicles	-	-	-	2,416	-	-	-
Consumption credit	-	-	-	3,191	-	-	-
Others	-	-	-	-	(5,783)	-	86,338,032
	4,193,337	10,152	917,000	347,552	(5,783)	1,072,279	86,338,032

Gross loans, advances and financing are analysed as follow:

	Group/Bank	
	2010 RM'000	2009 RM'000
Neither past due nor impaired	326,320	294,842
Past due but not impaired	8,753	9,170
Impaired	48,603	43,540
	383,676	347,552

The breakdown of the gross amount of loans, advances and financing individually assessed as impaired, by class, along with the fair value of related collateral held by the Group and the Bank as security are as follow:

Group/Bank	Total Gross Impaired Loans, Advances and Financing RM'000	Individual Assessment Allowance RM'000	Fair Value of Collateral RM'000
Purchase of landed properties (Residential)	2,423	1,072	1,997
Manufacturing	5,128	2,143	1,050
Construction	39,575	39,575	-
Wholesale and retail	1,477	1,477	-
	48,603	44,266	3,047

Comparatives are not presented as FRS 139 is only effective from 1 January 2010.

(c) Market Risk

Market risk is the risk of losses arising from changes in market rates or prices that can affect either the value of financial instruments that can be marked to market or the derivatives credit risk exposure to counterparties.

The Group and the Bank have a comprehensive market risk management framework in place to identify measure, monitor, analyse and control market risk arising from its trading activities on a consistent and timely basis. Market risk management is governed through policies and procedures and levels of risk appetite in terms of Value at Risk ("VaR"). Limits are then proposed by the business within the terms of agreed policy. These are agreed and monitored by an independent market risk management function. Policies cover both the trading and non-trading books.

Market risk exposures are monitored daily by independent market risk management team using relevant systems. Daily reports measuring utilisation of currency and holding limits together with price value basis points limits are generated and circulated to the relevant parties for information and action. The Bank has no significant exposure to equity and commodity price risk.

Value at Risk (VaR) and limits, independent stress testing of portfolios, factor sensitivity measures and derivatives are used as additional risk management tools to manage and hedge market risk exposures.

The table below provides the aggregate VaR for 2010 and 2009 at 99% confidence level, one day holding period.

	Group/Bank	
	2010	**2009**
	RM'mil	**RM'mil**
Aggregate VaR	5.92	13.53

The aggregate VaR includes the diversification effect of imperfect or negative correlations between certain risk types. Therefore the aggregate VaR can be lower than the sum of individual risk types on the same day (e.g. year end).

In practice, the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profit or loss in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation.

Interest Rate Risk

Sensitivity to interest rates in banking activities arises from mismatches in the interest rate characteristics of the assets and their corresponding liability funding. One of the major causes of these mismatches is timing differences in the re-pricing of the financial assets and the liabilities. The Group and the Bank set limits on the level of gaps or mismatch of interest rates of items on and off the statement of financial position.

The following table represents the Group's carrying assets and liabilities at carrying amounts as of 31 December 2010.

	Non-Trading Book								
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Impairments RM'000	Trading book RM'000	Total RM'000
Assets									
Cash and short-term funds	2,895,306	-	-	-	-	-	-	-	2,895,306
Securities purchased under resale agreements	-	-	-	-	-	-	-	9,910	9,910
Securities held-for-trading	-	-	-	-	-	-	-	337,881	337,881
Securities available-for-sale	-	-	161,684	622,528	2,131	-	-	-	786,343
Loans, advances and financing	250,386	11,850	81,650	39,790	-	-	(50,049)	-	333,627
Derivative financial assets	-	-	-	-	-	-	-	1,244,402	1,244,402
Other assets	-	-	-	-	-	78,783	-	-	78,783
Investment in associated company	-	-	-	-	-	8,328	-	-	8,328
Property, plant and equipment	-	-	-	-	-	21,067	-	-	21,067
Intangible asset	-	-	-	-	-	459	-	-	459
Deferred tax assets	-	-	-	-	-	25,688	-	-	25,688
Total Assets	3,145,692	11,850	243,334	662,318	2,131	134,325	(50,049)	1,592,193	5,741,794
Liabilities									
Deposits from customers	1,634,046	236,931	83,423	11,625	-	-	-	-	1,966,025
Deposits and placements from banks and other financial institutions	1,504,733	-	12,336	17,916	-	-	-	-	1,534,985
Derivative financial liabilities	-	-	-	-	-	-	-	1,227,391	1,227,391
Other liabilities	-	-	-	-	-	242,921	-	-	242,921
Subordinated debt capital	-	-	-	-	-	205,069	-	-	205,069
Total Liabilities	3,138,779	236,931	95,759	29,541	-	447,990	-	1,227,391	5,176,391
On balance sheet interest rate gap	6,913	(225,081)	147,575	632,777	2,131	(313,665)	(50,049)	364,802	565,403
Off balance sheet interest rate gap	-	-	-	-	-	-	-	(275,000)	(275,000)
Net interest rate gap	6,913	(225,081)	147,575	632,777	2,131	(313,665)	(50,049)	89,802	290,403

The following table represents the Group's carrying assets and liabilities at carrying amounts as of 31 December 2009.

	Non-Trading Book								
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Provisions RM'000	Trading book RM'000	Total RM'000
Assets									
Cash and short-term funds	3,164,663	-	-	-	-	-	-	-	3,164,663
Deposits and placements with other financial institutions	-	-	1,028,674	-	-	-	-	-	1,028,674
Securities held-for-trading	-	-	-	-	-	-	-	10,152	10,152
Securities available-for- sale	-	31,804	60,785	823,225	1,186	-	-	-	917,000
Loans, advances and financing	150,375	12,800	135,749	49,783	-	-	(49,272)	-	299,435
Derivative financial assets	-	-	-	-	-	-	-	1,072,279	1,072,279
Other assets	-	-	-	-	-	70,313	-	-	70,313
Investment in associated company	-	-	-	-	-	10,622	-	-	10,622
Property, plant and equipment	-	-	-	-	-	31,218	-	-	31,218
Intangible asset	-	-	-	-	-	841	-	-	841
Deferred tax assets	-	-	-	-	-	22,392	-	-	22,392
Total Assets	3,315,038	44,604	1,225,208	873,008	1,186	135,386	(49,272)	1,082,431	6,627,589
Liabilities									
Deposits from customers	2,888,909	97,084	94,325	48,422	-	-	-	-	3,128,740
Deposits and placements from banks and other financial institutions	494,004	992,714	-	-	-	-	-	-	1,486,718
Derivative financial liabilities	-	-	-	-	-	-	-	987,693	987,693
Other liabilities	-	-	-	-	-	245,075	-	-	245,075
Subordinated debt capital	-	-	-	-	-	200,000	-	-	200,000
Total Liabilities	3,382,913	1,089,798	94,325	48,422	-	445,075	-	987,693	6,048,226
On balance sheet interest rate gap	(67,875)	(1,045,194)	1,130,883	824,586	1,186	(309,689)	(49,272)	94,738	579,363
Off balance sheet interest rate gap	-	-	-	-	-	-	-	6,000	6,000
Net interest rate gap	(67,875)	(1,045,194)	1,130,883	824,586	1,186	(309,689)	(49,272)	100,738	585,363

The following table represents the Bank's carrying assets and liabilities at carrying amounts as of 31 December 2010.

	Non-Trading Book								
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Impairments RM'000	Trading book RM'000	Total RM'000
Assets									
Cash and short-term funds	2,895,306	-	-	-	-	-	-	-	2,895,306
Securities purchased under resale agreements	-	-	-	-	-	-	-	9,910	9,910
Securities held-for-trading	-	-	-	-	-	-	-	337,881	337,881
Securities available-for-sale	-	-	161,684	622,528	2,131	-	-	-	786,343
Loans, advances and financing	250,386	11,850	81,650	39,790	-	-	(50,049)	-	333,627
Derivative financial assets	-	-	-	-	-	-	-	1,244,402	1,244,402
Other assets	-	-	-	-	-	78,783	-	-	78,783
Investments in subsidiary companies	-	-	-	-	-	20	-	-	20
Investment in associated company	-	-	-	-	-	8,503	-	-	8,503
Property, plant and equipment	-	-	-	-	-	21,067	-	-	21,067
Intangible asset	-	-	-	-	-	459	-	-	459
Deferred tax assets	-	-	-	-	-	25,688	-	-	25,688
Total Assets	3,145,692	11,850	243,334	662,318	2,131	134,520	(50,049)	1,592,193	5,741,989
Liabilities									
Deposits from customers	1,634,066	236,931	83,423	11,625	-	-	-	-	1,966,045
Deposits and placements from banks and other financial institutions	1,504,733	-	12,336	17,916	-	-	-	-	1,534,985
Derivative financial liabilities	-	-	-	-	-	-	-	1,227,391	1,227,391
Other liabilities	-	-	-	-	-	242,921	-	-	242,921
Subordinated debt capital	-	-	-	-	-	205,069	-	-	205,069
Total Liabilities	3,138,799	236,931	95,759	29,541	-	447,990	-	1,227,391	5,176,411
On balance sheet interest rate gap	6,893	(225,081)	147,575	632,777	2,131	(313,470)	(50,049)	364,802	565,578
Off balance sheet interest rate gap	-	-	-	-	-	-	-	(275,000)	(275,000)
Net interest rate gap	6,893	(225,081)	147,575	632,777	2,131	(313,470)	(50,049)	89,802	290,578

The following table represents the Bank's carrying assets and liabilities at carrying amounts as of 31 December 2009.

	Non-Trading Book								
	Up to 1 month RM'000	**1 - 3 months RM'000**	**3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-interest sensitive RM'000**	**Provisions RM'000**	**Trading book RM'000**	**Total RM'000**
Assets									
Cash and short-term funds	3,164,663	-	-	-	-	-	-	-	3,164,663
Deposits and placements with other financial institutions	-	-	1,028,674	-	-	-	-	-	1,028,674
Securities held-for-trading	-	-	-	-	-	-	-	10,152	10,152
Securities available-for-sale	-	31,804	60,785	823,225	1,186	-	-	-	917,000
Loans, advances and financing	150,375	12,800	135,749	49,783	-	-	(49,272)	-	299,435
Derivative financial assets	-	-	-	-	-	-	-	1,072,279	1,072,279
Other assets	-	-	-	-	-	70,313	-	-	70,313
Investments in subsidiary companies	-	-	-	-	-	20	-	-	20
Investment in associated company	-	-	-	-	-	8,503	-	-	8,503
Property, plant and equipment	-	-	-	-	-	31,218	-	-	31,218
Intangible asset	-	-	-	-	-	841	-	-	841
Deferred tax assets	-	-	-	-	-	22,392	-	-	22,392
Total Assets	3,315,038	44,604	1,225,208	873,008	1,186	133,287	(49,272)	1,082,431	6,625,490
Liabilities									
Deposits from customers	2,888,929	97,084	94,325	48,422	-	-	-	-	3,128,760
Deposits and placements from banks and other financial institutions	494,004	992,714	-	-	-	-	-	-	1,486,718
Derivative financial liabilities	-	-	-	-	-	-	-	987,693	987,693
Other liabilities	-	-	-	-	-	245,075	-	-	245,075
Subordinated debt capital	-	-	-	-	-	200,000	-	-	200,000
Total Liabilities	3,382,933	1,089,798	94,325	48,422	-	445,075	-	987,693	6,048,246
On balance sheet interest rate gap	(67,895)	(1,045,194)	1,130,883	824,586	1,186	(311,788)	(49,272)	94,738	577,244
Off balance sheet interest rate gap	-	-	-	-	-	-	-	6,000	6,000
Net interest rate gap	(67,895)	(1,045,194)	1,130,883	824,586	1,186	(311,788)	(49,272)	100,738	583,244

Included in the tables are the Group's and Bank's assets and liabilities categorised by their average effective interest rates per annum at the balance sheet date.

Group/Bank	2010					2009					
	MYR	USD	AUD	EUR	GBP	MYR	USD	AUD	NZD	EUR	GBP
	%	%	%	%	%	%	%	%	%	%	%
Financial Assets											
Cash and short-term funds	-	0.33	-	0.15	-	-	0.57	-	-	0.10	0.38
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	0.65	4.08	-	-	-
Securities available-for-sale	3.57	-	-	-	-	3.55	-	-	-	-	-
Loans, advances and financing	3.90	-	-	-	-	4.94	-	-	-	-	-

Financial Liabilities											
Deposits from customers	2.63	0.15	4.57	0.46	1.29	1.94	0.23	3.71	2.56	0.36	0.42
Deposits and placements from banks and other financial institutions	2.53	0.35	-	-	-	1.88	0.33	-	-	-	-

(d) **Liquidity Risk**

Liquidity risk is the risk that the Group and the Bank are unable to meet its cash flow obligations as they fall due, such as upon the maturity of deposits and loan draw-downs.

Liquidity risk arises in the general funding of the Group's and the Bank's activities. It is unusual for any bank to completely match the maturity profile of its assets and liabilities. The matching and controlled mismatching of the maturities of assets and liabilities are fundamental to the management of the Group's and the Bank's liquidity risk. The Group and the Bank utilise various gapping models and maturity statement of financial position to manage its liquidity. Stress testing and scenario analysis are performed on a regular basis as part of the liquidity risk management activities. In addition, the Group and the Bank envisage that its Holding Company can also be called upon to provide contingency funding to meet its funding requirement. Liquidity risk is overseen by the Asset Liability Committee.

The following table analyses financial assets and liabilities of the Group and the Bank at the end of each reporting period based on contractual undiscounted repayment obligations. They have been prepared on the following basis:

The following table represents the Group's carrying assets and liabilities at carrying amounts as of 31 December 2010.

	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	2,895,306	-	-	-	-	-	2,895,306
Securities purchased under resale agreements	9,910	-	-	-	-	-	9,910
Securities held-for-trading	-	-	6,144	321,791	9,946	-	337,881
Securities available-for-sale	-	-	161,684	622,528	2,131	-	786,343
Loans, advances and financing	250,386	11,850	81,650	39,790	-	(50,049)	333,627
Derivative financial assets	-	-	-	-	-	1,244,402	1,244,402
Other assets	-	-	-	-	-	78,783	78,783
Investment in associated company	-	-	-	-	-	8,328	8,328
Property, plant and equipment	-	-	-	-	-	21,067	21,067
Intangible asset	-	-	-	-	-	459	459
Deferred tax assets	-	-	-	-	-	25,688	25,688
Total Assets	3,155,602	11,850	249,478	984,109	12,077	1,328,678	5,741,794
Liabilities							
Deposits from customers	1,634,046	236,931	83,423	11,625	-	-	1,966,025
Deposits and placements from banks and other financial institutions	1,504,733	-	12,336	17,916	-	-	1,534,985
Derivative financial liabilities	-	-	-	-	-	1,227,391	1,227,391
Other liabilities	-	-	-	-	-	242,921	242,921
Subordinated debt capital	-	-	-	-	-	205,069	205,069
Total Liabilities	3,138,779	236,931	95,759	29,541	-	1,675,381	5,176,391
Net Liquidity gap	16,823	(225,081)	153,719	954,568	12,077	(346,703)	565,403

The following table represents the Group's carrying assets and liabilities at carrying amounts as of 31 December 2009.

	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	No specific Maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	3,164,663	-	-	-	-	-	3,164,663
Deposits and placements with banks and other financial institutions	-	-	1,028,674	-	-	-	1,028,674
Securities held-for-trading	-	-	-	10,152	-	-	10,152
Securities available-for-sale	-	31,804	60,785	823,225	1,186	-	917,000
Loans, advances and financing	150,375	12,800	135,749	49,783	-	(49,272)	299,435
Derivative financial assets	-	-	-	-	-	1,072,279	1,072,279
Other assets	-	-	-	-	-	70,313	70,313
Investment in associated company	-	-	-	-	-	10,622	10,622
Property, plant and equipment	-	-	-	-	-	841	841
Intangible asset	-	-	-	-	-	22,392	22,392
Deferred tax assets	-	-	-	-	-	31,218	31,218
Total Assets	3,315,038	44,604	1,225,208	883,160	1,186	1,158,393	6,627,589
Liabilities							
Deposits from customers	2,888,909	97,084	94,325	48,422	-	-	3,128,740
Deposits and placements from banks and other financial institutions	494,004	992,714	-	-	-	-	1,486,718
Derivative financial liabilities	-	-	-	-	-	987,693	987,693
Other liabilities	-	-	-	-	-	245,075	245,075
Subordinated debt capital	-	-	-	-	-	200,000	200,000
Total Liabilities	3,382,913	1,089,798	94,325	48,422	-	1,432,768	6,048,226
Net Liquidity gap	(67,875)	(1,045,194)	1,130,883	834,738	1,186	(274,375)	579,363

The following table represents the Bank's carrying assets and liabilities at carrying amounts as of 31 December 2010.

	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	No specific Maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	2,895,306	-	-	-	-	-	2,895,306
Securities purchased under resale agreements	9,910	-	-	-	-	-	9,910
Securities held-for-trading	-	-	6,144	321,791	9,946	-	337,881
Securities available-for-sale	-	-	161,684	622,528	2,131	-	786,343
Loans, advances and financing	250,386	11,850	81,650	39,790	-	(50,049)	333,627
Derivative financial assets	-	-	-	-	-	1,244,402	1,244,402
Other assets	-	-	-	-	-	78,783	78,783
Investments in subsidiary companies	-	-	-	-	-	20	20
Investment in associated company	-	-	-	-	-	8,503	8,503
Property, plant and equipment	-	-	-	-	-	21,067	21,067
Intangible asset	-	-	-	-	-	459	459
Deferred tax assets	-	-	-	-	-	25,688	25,688
Total Assets	3,155,602	11,850	249,478	984,109	12,077	1,328,873	5,741,989
Liabilities							
Deposits from customers	1,634,066	236,931	83,423	11,625	-	-	1,966,045
Deposits and placements from banks and other financial institutions	1,504,733	-	12,336	17,916	-	-	1,534,985
Derivative financial liabilities	-	-	-	-	-	1,227,391	1,227,391
Other liabilities	-	-	-	-	-	242,921	242,921
Subordinated debt capital	-	-	-	-	-	205,069	205,069
Total Liabilities	3,138,799	236,931	95,759	29,541	-	1,675,381	5,176,411
Net Liquidity gap	16,803	(225,081)	153,719	954,568	12,077	(346,508)	565,578

The following table represents the Bank's carrying assets and liabilities at carrying amounts as of 31 December 2009.

	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	No specific Maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	3,164,663	-	-	-	-	-	3,164,663
Deposits and placements with banks and other financial institutions	-	-	1,028,674	-	-	-	1,028,674
Securities held-for-trading	-	-	-	10,152	-	-	10,152
Securities available-for-sale	-	31,804	60,785	823,225	1,186	-	917,000
Loans, advances and financing	150,375	12,800	135,749	49,783	-	(49,272)	299,435
Derivative financial assets	-	-	-	-	-	1,072,279	1,072,279
Other assets	-	-	-	-	-	70,313	70,313
Investments in subsidiary companies	-	-	-	-	-	20	20
Investment in associated company	-	-	-	-	-	8,503	8,503
Property, plant and equipment	-	-	-	-	-	841	841
Intangible asset	-	-	-	-	-	22,392	22,392
Deferred tax assets	-	-	-	-	-	31,218	31,218
Total Assets	3,315,038	44,604	1,225,208	883,160	1,186	1,156,294	6,625,490
Liabilities							
Deposits from customers	2,888,929	97,084	94,325	48,422	-	-	3,128,760
Deposits and placements from banks and other financial institutions	494,004	992,714	-	-	-	-	1,486,718
Derivative financial liabilities	-	-	-	-	-	987,693	987,693
Other liabilities	-	-	-	-	-	245,075	245,075
Subordinated debt capital	-	-	-	-	-	200,000	200,000
Total Liabilities	3,382,933	1,089,798	94,325	48,422	-	1,432,768	6,048,246
Net Liquidity gap	(67,895)	(1,045,194)	1,130,883	834,738	1,186	(276,474)	577,244

Financial assets have been reflected in the time band of the latest date on which they could be repaid, unless earlier repayment can be demanded by the Group and the Bank. Financial liabilities are included at the earliest date on which the counterparty can require repayment regardless of whether or not such early repayment results in a penalty. If the repayment of a financial asset or liability is triggered by, or is subject to, specific criteria, such as market price hurdles being reached, the asset is included in the latest date on which it can be repaid regardless of early repayment, the liability is included at the earliest possible date that the conditions can be fulfilled without considering the probability of the conditions being met.

The contractual maturity of the financial assets and liabilities highlight the maturity transformation which underpins the role of banks to lend longer-term but funded predominantly by short-term liabilites such as customer deposits.

Customer assets and liabilities (including non-maturing savings/current deposits) are represented on contractual basis or period when it can legally be withdrawn. On a behavioural basis, the assets and liabilities cash flows may differ from contractual basis.

Financial assets and financial liabilities held for trading are classified based on trading pattern. The cash flows of the derivatives are presented net as they are short-term in nature and held for trading.

(e) **Currency Risk**

Currency risk is the risk to earnings and value of financial instruments caused by fluctuations in foreign exchange rates.

The Group and the Bank are exposed to movements in the foreign exchange rates from trading and non-trading transactions of its business units. Variations in the foreign exchange rates can lead to capital losses or reduced profit or loss. The Group's and the Bank's exposure to currency risk is controlled and monitored daily by a series of end of day, overnight and dealers' position limits.

36. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The following table summarises the carrying values and fair values of financial assets and liabilities of the Group and of the Bank.

	Group				Bank			
	2010		2009		2010		2009	
	Carrying Amount RM'000	Fair value RM'000	Carrying Amount RM'000	Fair value RM'000	Carrying Amount RM'000	Fair value RM'000	Carrying Amount RM'000	Fair value RM'000
Financial Assets								
Cash and short-term funds	2,895,306	2,895,306	3,164,663	3,164,663	2,895,306	2,895,306	3,164,663	3,164,663
Deposits and placements with other financial institutions	-	-	1,028,674	1,028,674	-	-	1,028,674	1,028,674
Securities purchased under resale agreements	9,910	9,910	-	-	9,910	9,910	-	-
Securities held-for-trading	337,881	337,881	10,152	10,152	337,881	337,881	10,152	10,152
Securities available-for-sale	786,343	786,343	917,000	917,000	786,343	786,343	917,000	917,000
Loans, advances and financing	333,627	333,610	299,435	299,474	333,627	333,610	299,435	299,474
Derivative financial assets	1,244,402	1,244,402	1,072,279	1,072,279	1,244,402	1,244,402	1,072,279	1,072,279
Financial Liabilities								
Deposits from customers	1,966,025	1,945,708	3,128,740	3,130,585	1,966,045	1,945,728	3,128,760	3,130,605
Deposits and placements from banks and other financial institutions	1,534,985	1,534,985	1,486,718	1,486,718	1,534,985	1,534,985	1,486,718	1,486,718
Derivative financial liabilities	1,227,391	1,227,391	987,693	2,400,147	1,227,391	1,227,391	987,693	987,693
Subordinated debt capital	205,069	205,174	200,000	201,516	205,069	205,174	200,000	201,516

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction under normal market conditions.

However, certain assets such as loans, deposits and derivatives, 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 and techniques below.

These methods are subjective in nature and therefore the fair values presented may not be indicative of the actual realisable value.

(i) **Cash and Short-Term Funds**

The carrying amounts are a reasonable estimate of the fair values because of their short-term nature.

(ii) **Deposits and Placements with Other Financial Institutions**

Deposits and placements of below one year are at carrying amounts while those maturing beyond one year have been valued based on discounted cashflows.

(iii) **Securities Held-For-Trading, Available-For-Sale and Securities Purchased under Resale Agreements**

The estimated fair value is based on quoted and observable market prices at the balance sheet date. Where such quoted and observable market prices are not available, fair value is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow technique is used, the estimated future cash flows are discounted based on current market rates for similar instrument at the balance sheet date.

(iv) **Loans, Advances and Financing**

The fair values of fixed rate loans with remaining maturity of less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate loans with maturities of more than one year, the fair values are estimated based on discounted future cash flows of contractual instalment payments. In respect of non-performing loans, the fair values are deemed to approximate the carrying values, net of individual assessment allowance.

The fair value of variable rate financial instruments and those of a fixed rate nature maturing within 12 months of the date of statement of financial position are assumed to approximate their carrying amounts.

The fair value of financial instruments with no specific maturity (e.g. cash and balances with banks and central banks, certain deposits from non-bank customers, banks and other financial institutions) are assumed to be the amount payable on demand at the end of the reporting period.

(vi) **Statutory Deposit with BNM**

Statutory deposit with BNM is stated at carrying amount.

(vii) **Deposits from Customers**

Deposits from customers are valued at carrying amounts for all amounts on demand and below one year, while deposits over one year have been valued at discounted cashflows.

(viii) **Deposits and Placements from Banks and Other Financial Institutions**

Deposits and placements of banks and other financial institutions are valued at carrying amounts.

(x) **Subordinated Debt Capital**

The estimated fair value is based on observable market prices at the balance sheet date. Where such observable market prices are not available, fair value is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow technique is used, the estimated future cash flows are discounted based on current market rates for similar instrument at the balance sheet date.

37. CAPITAL ADEQUACY

The components of Tier I and Tier II capital are as follows:

	Bank	
	2010	2009
	RM'000	RM'000
Tier-I capital		
Paid-up share capital	203,000	203,000
Share premium	76,182	76,182
Statutory reserves	152,463	152,463
Retained earnings	132,115	144,172
	563,760	575,817
Less: Deferred tax assets	(25,688)	(22,392)
Total Tier-I capital	538,072	553,425

	Bank	
	2010	2009
	RM'000	RM'000
Tier-II capital		
Collective assessment allowance	5,783	-
General provision for bad and doubtful debts and financing	-	5,783
Subordinated debt capital (at face value)	200,000	200,000
Total Tier-II capital	205,783	205,783
Total capital funds	743,855	759,208
Less: Investment in subsidiary companies	(20)	(20)
Capital base	743,835	759,188
Capital Ratios		
Core capital ratio	11.18%	10.39%
Risk-weighted capital ratio	15.46%	14.26%

The breakdown of risk-weighted assets by each major risk category is as follows:

	2010 RM'000	2009 RM'000
Credit risk	1,856,540	2,446,272
Market risk	2,635,582	2,877,773
Operational risk	320,302	-
Total risk-weighted assets	4,812,424	5,324,045

38. STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA

The non-interest bearing 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.

With effect from 25 June 2009, Bank Negara Malaysia ("BNM") has allowed the Bank, as a Principal Dealer for Government, BNM and BNM Sukuk Berhad with effect from 1 July 2009 until 31 December 2012, to utilise its holdings of Malaysian Government Securities ("MGS") and/or Government Investment Issues in place of cash deposits to meet this SRR, up to a nominal amount of RM350,000,000 on a daily basis. The amount of MGS used to meet the SRR as of the end of the financial year was RM25,000,000 (2009: RM50,000,000).

39. SIGNIFICANT EVENT

Pursuant to the announcement made by The Royal Bank of Scotland Group in 2009 that it would sell its retail and commercial business across Asia, the Bank has decided to exit from the Retail and Commercial operations in Malaysia in 2010 after working hard to secure a buyer. Numerous discussions with a number of potential buyers have since concluded that the sale of this business is no longer viable. In winding down the Retail and Commercial operations in Malaysia, the Bank has taken an orderly programme to ensure the winding down exercise has minimal impact to both the operations and the existing customers.

40. EFFECT OF ADOPTION OF FRS 139

The accounting policies set out in Note 2 have been applied in preparing the financial statements for the year ended 31 December 2010. The adoption of the following new FRSs, amendments to FRSs and IC Interpretations during the financial year have resulted in changes in accounting policies:

(i) FRS 139 Financial Instruments: Recognition and Measurement

(ii) IC Interpretation 9 Reassessment of Embedded Derivatives

(iii) Amendments to FRS 139 Financial Instruments: Recognition and Measurement, FRS 7 Financial Instruments: Disclosures and IC Interpretation 9 Reassessment of Embedded Derivatives

(iv) Amendments to FRS 139 Financial Instruments: Recognition and Measurement

The adoption of FRS 139 is with prospective effect, hence there are no restatements of comparative figures. The main changes in accounting policies as a result of adopting FRS 139 and its related amendments and IC Interpretations above, and their related financial effects are set out below.

(i) Impairment of Loans and Advances

Prior to the adoption of FRS 139, allowances for impaired loans and advances (previously referred to as "non-performing loans") were computed in conformity with BNM/GP3 Guidelines on Classification of Non-performing Loans and Provision for Substandard, Bad and Doubtful Debts. Specific credit loss allowances were made using set percentages based on ageing of the respective loans and advances ("loan(s)"). In addition, a general allowance of 1.5% was made on the overall credit portfolio to cover unidentified credit losses.

Upon the adoption of FRS 139, allowances for credit losses are made using the incurred loss approach, whereby individual loans or groups of loans are assessed whether there is objective evidence that they are impaired. Loans which are significant are assessed individually whether such evidence of impairment exist, and if yes, impairment losses are determined based on the shortfall of the present value of the loan's discounted cash flows as compared to the carrying value of the loan. Loans which are not individually significant are assessed under collective assessment.

For collective assessment, the Amendments to FRS 139 listed above includes 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. The Group and the Bank have applied this transitional arrangement based on BNM's guideline on Classification and Impairment Provisions for Loans/Financing, whereby collective assessment impairment allowance is determined as at least 1.5% of total outstanding loans, net of individual assessment impairment allowance. These transitional provisions are effective until 31 December 2011. Collective assessment impairment allowance of other banking subsidiary companies are determined via the grouping of loans based on similar credit risk characteristics and the discounting of expected future cash flows of these groups of loans based on historical loss experience for such loans.

There were no significant impact on opening retained profits as a result of the change in accounting policy in relation to impairment of loans and advances other than the reclassification of previous recognised specific and general allowance to individual and collective assessment allowance as indicated below:

	Group RM'000	Bank RM'000
Individual assessment impairment allowance recognised	(42,334)	(42,334)
Collective assessment impairment allowance recognised	(5,783)	(5,783)
Reversal of specific allowance	42,334	42,334
Reversal of general allowance	5,783	5,783

Any additions in individual assessment impairment allowance and collective assessment impairment allowance recognised subsequent to the initial adoption of FRS 139 is recognised as an allowance for impairment on loans, advances and financing in the income statements.

(ii) Recognition of Interest Income

FRS 139 prescribes that interest income on financial assets classified as loans and receivables are measured at amortised cost using the effective interest rate method. Prior to adoption of FRS 139, interest income on loans and advances were previously recognised based on contractual interest rates. Upon adoption of FRS 139 on 1 January 2010, interest income on loans and advances is now recognised using the effective interest rate.

In addition, prior to the adoption of FRS 139, interest accrued and recognised as income prior to the date that a loan is classified as non-performing is reversed out of income and set-off against the interest receivable account (ie. the "interest-in-suspense" account) in the statements of financial position. Thereafter, interest is recognised on a cash basis. Upon adoption of FRS 139, once a loan has been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The changes in accounting policies in relation to interest recognition on loans and advances above have resulted in the following:

	Group RM'000	Bank RM'000
Reversal of interest-in-suspense recognised for loans	(1,155)	(1,155)
Reversal of interest-in-suspense	1,155	1,155

The changes in accounting policies in relation to interest recognition on loans and advances above have resulted in the following changes to opening retained profits:

	Group RM'000	Bank RM'000
Decrease in interest income recognised using effective interest rate basis	775	775
Effect on opening retained earnings	775	775

Recognition of Interest Expense

FRS 139 prescribes that interest expense on non-derivative financial liabilities are measured at amortised cost using the effective interest rate method. Prior to adoption of FRS 139, interest expense on non-derivative financial liabilities, subordinated debt capital was previously recognised based on contractual interest rates. Upon adoption of FRS 139 on 1 January 2010, interest expense on subordinated debt capital is now recognised using the effective interest rate.

The changes in accounting policies in relation to interest recognition on subordinated debt capital above have resulted in the following changes to opening retained profits:

	Group RM'000	Bank RM'000
Increase in interest expense recognised using the effective interest rate basis	3,313	3,313
Effect on opening retained earnings	3,313	3,313

The changes in accounting policies above had the following financial impact on the opening statements of financial position of the Group:

	As at 1 January 2010 - as reclassified per Note 41 RM'000	**Effect of adopting FRS139 Recognition & Measurement RM'000**	**As at 1 January 2010 – as restated RM'000**
ASSETS			
Cash and short-term funds	3,164,663	-	3,164,663
Deposits and placements with other financial institutions	1,028,674	-	1,028,674
Securities held-for-trading	10,152	-	10,152
Securities available-for-sale	917,000	-	917,000
Loans, advances and financing	299,435	(775)	298,660
Derivative financial assets	1,072,279	-	1,072,279
Other assets	70,313	-	70,313
Investment in associated company	10,622	-	10,622
Property, plant and equipment	31,218	-	31,218
Intangible asset	841	-	841
Deferred tax assets	22,392	-	22,392
TOTAL ASSETS	6,627,589	(775)	6,626,814
LIABILITIES AND SHAREHOLDER'S FUNDS			
Deposits from customers	3,128,740	-	3,128,740
Deposits and placements from banks and other financial institutions	1,486,718	-	1,486,718
Derivative financial liabilities	987,693	-	987,693
Other liabilities	245,075	-	245,075
Subordinated debt capital	200,000	3,313	203,313
TOTAL LIABILITIES	6,048,226	3,313	6,051,539

(Forward)

	As at 1 January 2010 - as reclassified per Note 41 RM'000	Effect of adopting FRS139 Recognition & Measurement RM'000	As at 1 January 2010 – as restated RM'000
Share capital	203,000	-	203,000
Reserves	376,363	(4,088)	372,275
SHAREHOLDER'S FUNDS	579,363	(4,088)	575,275
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS	6,627,589	(775)	6,626,814

The changes in accounting policies above had the following financial impact on the opening statements of financial position of the Bank:

	As at 1 January 2010 - as reclassified per Note 41 RM'000	Effect of adopting FRS139 Recognition & Measurement RM'000	As at 1 January 2010 - as restated RM'000
ASSETS			
Cash and short-term funds	3,164,663	-	3,164,663
Deposits and placements with other financial institutions	1,028,674	-	1,028,674
Securities held-for-trading	10,152	-	10,152
Securities available-for-sale	917,000	-	917,000
Loans, advances and financing	299,435	(775)	298,660
Derivative financial assets	1,072,279	-	1,072,279
Other assets	70,313	-	70,313
Investment in subsidiary companies	20	-	20
Investment in associated company	8,503	-	8,503
Property, plant and equipment	31,218	-	31,218
Intangible asset	841	-	841
Deferred tax assets	22,392	-	22,392
TOTAL ASSETS	6,625,490	(775)	6,624,715

(Forward)

	As at 1 January 2010 – as reclassified per Note 41 RM'000	Effect of adopting FRS139 Recognition & Measurement RM'000	As at 1 January 2010 - as restated RM'000
LIABILITIES AND SHAREHOLDER'S FUNDS			
Deposits from customers	3,128,760	-	3,128,760
Deposits and placements from banks and other financial institutions	1,486,718	-	1,486,718
Derivative financial liabilities	987,693	-	987,693
Other liabilities	245,075	-	245,075
Subordinated debt capital	200,000	3,313	203,313
TOTAL LIABILITIES	6,048,246	3,313	6,051,559
Share capital	203,000	-	203,000
Reserves	374,244	(4,088)	370,156
SHAREHOLDER'S FUNDS	577,244	(4,088)	573,156
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS	6,625,490	(775)	6,624,715

41. COMPARATIVE FIGURES

Certain comparative figures in the financial statements of the Group and the Bank have been reclassified to conform with the presentation in the current financial year. These relate mainly to the following:

Group	As previously reported RM'000	Reclassification RM'000	As reclassified RM'000
Deposits from customers	3,105,751	22,989	3,128,740
Deposits and placements from banks and other financial institutions	1,442,558	44,160	1,486,718
Other liabilities	312,224	(67,149)	245,075

Bank	As previously reported RM'000	Adjustment RM'000	As reclassified RM'000
Deposits from customers	3,105,771	22,989	3,128,760
Deposits and placements from banks and other financial institutions	1,442,558	44,160	1,486,718
Other liabilities	312,224	(67,149)	245,075

The cash collateral which has been included in other liabilities has reclassified and presented as part of deposits from customers and deposits and placements from bank and other financial institution based on the nature of the cash collateral.