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 2011
(In Ringgit Malaysia)

These Audited Financial Statements of the Bank with Unqualified Auditors' Report for the financial year ended 31 December 2011 were tabled at the Annual General Meeting held on 29 June 2012

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THE ROYAL BANK OF SCOTLAND BERHAD
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REPORT OF THE DIRECTORS

The Directors have pleasure in submitting 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 2011.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are banking and related financial services. The principal activities of the subsidiaries are disclosed in Note 13 to the financial statements. There have been no significant changes in the nature of the principal activities during the financial year.

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
Profit before taxation	54,342	52,521
Taxation	(14,100)	(14,100)
Profit for the year	40,242	38,421

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.

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 except 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
Tan Sri Datuk Asmat bin Kamaludin
Andrew Mark Sill
Stephen Alan McKie (Appointed on 2 December 2011)
Madan Kumar Menon (Resigned on 28 February 2012)
Robert Ralph Davis (Resigned on 16 July 2011)

In accordance with Article 90A of the Bank's Articles of Association, Mr. Stephen Alan McKie retires by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

General (Rtd) Tan Sri Dato' Mohd Ghazali Seth, being over seventy-two years of age, retires at the forthcoming Annual General Meeting in accordance with Article 107(i) of the Articles of Association of the Bank. The Board recommends that he be re-appointed as a Director in accordance with Section 129 of the Companies Act, 1965 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 Bank under Section 134 of the Companies Act, 1965, are as follows:

	No. of ordinary shares of £1.00 each			
	Balance as of 1.1.2011	**Bought/ Awarded**	**Sold**	**Balance as of 31.12.2011**
Shares in the holding company, The Royal Bank of Scotland Group Plc				
Andrew Mark Sill	10,407	84,534	-	94,941
Madan Kumar Menon	-	450,538	-	450,538

By virtue of their interest in the shares of the holding company, the abovementioned directors are deemed to have an interest in the shares of the Bank 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 28 to 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 their book values 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 35 to the financial statements.

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,

(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 2011

Following the wound down of the Retail and Commercial business in 2011, the core corporate franchise is being prioritised. The Bank adopted the strategy to deepen relationships with core clients and drive cross sell across the Bank's competitive business sectors, which includes Debt Capital Markets, Islamic Debt Securities, Foreign Exchange, Derivative and risk solutions and Transaction Banking. Coupled with the conservative trading strategy and continuing cost reduction measures, the Bank has recorded a sound performance in 2011.

This strategy also has a positive effect on the Bank's management of its statement of financial position. Core capital ratio remained above 10% and risk-weighted capital ratio remained above 15% as at 31 December 2011. Impairments are kept at a minimal level.

OUTLOOK FOR 2012

2011 was a tough year for the banking industry and for the banking business. The economic environment remains very fragile. The continuing Euro Zone crisis, over-capacity in the banking industry, lower client activity and lower business confidence will continue to make for challenging times.

In order to ensure that the Bank can compete strongly with sufficient levels of resources and return, the previous Global Banking and Market ("GBM") and Global Transaction Services ("GTS") business have been restructured on 12 January 2012 to create a new wholesale banking division called Markets and International Banking. This will have two businesses which report as separate income streams: 'Markets' business and 'International Banking' business. GBM's banking and the international GTS business are consolidated into one integrated business called International Banking. This restructuring is expected to enhance connectivity and reduced costs.

Barring a more dramatic collapse in economic activity especially in the Europe and US, the Malaysian economy is likely to achieve moderate growth supported by focused social spending embedded in the 2012 Budget. With this positive economic outlook, the Bank is confident to sustain growth during 2012 and expects to generate increased revenue through its newly branded 'Markets and International Banking' franchise. The Bank's core client base has remained intact and the relationships will be further enhanced through better connectivity under the new structure.

RATING BY AGENCY

In their annual rating review concluded on 22 August 2011, RAM reaffirmed the respective long and short-term financial institution ratings of AA2 and P1. Concurrently, the rating of the Bank's RM200 million 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..

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.

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.

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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

GENERAL (RTD) TAN SRI DATO'
MOHD GHAZALI SETH

ANDREW MARK SILL

Kuala Lumpur
8 June 2012

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, **GENERAL (RTD) TAN SRI DATO' MOHD GHAZALI SETH** 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 101 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 2011 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

GENERAL (RTD) TAN SRI DATO' MOHD GHAZALI SETH

ANDREW MARK SILL

Kuala Lumpur
8 June 2012

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

I, **LOH JUI HAU**, 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 101 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.

LOH JUI HAU

Subscribed and solemnly declared by the abovenamed **LOH JUI HAU** at ~~**KUALA LUMPUR** in~~ the ~~Federal Territory~~ SELANGOR on 8th day of June, 2012.

Before me, PETALING JAYA

PESURUHJAYA SUMPAH
No: B 357
Name : PN KOH TWEE YONG @ KOH TWEE SIEW
MALAYSIA

COMMISSIONER FOR OATHS

NO. 69A, JALAN SS 21/37
DAMANSARA UTAMA,
47400 PETALING JAYA,
SELANGOR DARUL EHSAN.

Company No. 301932 - A

Deloitte.

Deloitte & Touche (AF 0834)
Chartered Accountants
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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 2011 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 101.

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 is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 2011 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.

Other Matters

This report is made solely to the member of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility towards any other person for the contents of this report.

Deloitte Touche

DELOITTE & TOUCHE
AF 0834
Chartered Accountants

HIEW KIM TIAM
Partner - 1717/08/13 (J)
Chartered Accountant

8 June 2012

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

		Group		Bank	
	Note	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
ASSETS					
Cash and short-term funds	5	1,596,567	2,895,306	1,596,567	2,895,306
Deposits and placements with other financial institutions		353,624	-	353,624	-
Securities purchased under resale agreements	6	-	9,910	-	9,910
Securities held-for-trading	7	306,369	337,881	306,369	337,881
Securities available-for-sale	8	788,993	786,343	788,993	786,343
Loans, advances and financing	9	366,509	333,627	366,509	333,627
Derivative financial assets	10	1,044,550	1,244,402	1,044,550	1,244,402
Statutory deposits with Bank Negara Malaysia	11	16,000	-	16,000	-
Other assets	12	25,616	78,783	25,616	78,783
Investment in subsidiary companies	13	-	-	20	20
Investment in associated company	14	10,149	8,328	8,503	8,503
Property, plant and equipment	15	15,834	21,067	15,834	21,067
Intangible assets	16	629	459	629	459
Deferred tax assets	17	31,699	25,688	31,699	25,688
TOTAL ASSETS		4,556,539	5,741,794	4,554,913	5,741,989
LIABILITIES AND SHAREHOLDER'S FUNDS					
Deposits from customers	18	1,817,251	1,966,025	1,817,271	1,966,045
Deposits and placements from banks and other financial institutions	19	532,764	1,534,985	532,764	1,534,985
Derivative financial liabilities	10	1,213,790	1,227,391	1,213,790	1,227,391
Other liabilities	20	180,757	242,921	180,757	242,921
Subordinated debt capital	21	206,842	205,069	206,842	205,069
TOTAL LIABILITIES		3,951,404	5,176,391	3,951,424	5,176,411

(Forward)

	Note	Group 2011 RM'000	Group 2010 RM'000	Bank 2011 RM'000	Bank 2010 RM'000
Share capital	22	203,000	203,000	203,000	203,000
Reserves	23	402,135	362,403	400,489	362,578
SHAREHOLDER'S FUNDS		605,135	565,403	603,489	565,578
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS		4,556,539	5,741,794	4,554,913	5,741,989
COMMITMENTS AND CONTINGENCIES	35	47,556,715	74,213,184	47,556,715	74,213,184

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

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

		Group		Bank	
	Note	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Operating revenue	24	171,785	169,614	177,408	169,614
Interest income	25	72,653	86,780	72,653	86,780
Interest expense	26	(65,482)	(76,074)	(65,482)	(76,074)
Net interest income		7,171	10,706	7,171	10,706
Other operating income	27	99,132	82,834	104,755	82,834
Other operating expenses	28	(59,586)	(96,480)	(59,586)	(96,480)
Write back/(allowance) for impairment on loans, advances and financing	29	181	(2,190)	181	(2,190)
Share of profit/(loss) of associated company		7,444	(2,294)	-	-
Profit/(Loss) before taxation		54,342	(7,424)	52,521	(5,130)
Taxation	30	(14,100)	(2,839)	(14,100)	(2,839)
Profit/(Loss) for the year attributable to equity holder of the Bank		40,242	(10,263)	38,421	(7,969)
Other comprehensive (loss)/income:					
Net (loss)/gain on securities available-for-sale		(510)	391	(510)	391
Total comprehensive income/(loss) for the year		39,732	(9,872)	37,911	(7,578)
Earnings/(Loss) per share (sen)	31	19.82	(5.06)	18.93	(3.93)

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

THE ROYAL BANK OF SCOTLAND BERHAD
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STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

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 2010	203,000	76,182	152,463	1,427	146,291	579,363
Effect of adoption FRS139	-	-	-	-	(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 17)	-	-	-	(142)	-	(142)
Other comprehensive income	-	-	-	391	-	391
At 31 December 2010	203,000	76,182	152,463	1,818	131,940	565,403
At 1 January 2011	203,000	76,182	152,463	1,818	131,940	565,403
Profit for the year	-	-	-	-	40,242	40,242
Net loss on securities available-for-sale	-	-	-	(693)	-	(693)
Deferred tax (Note 17)	-	-	-	183	-	183
Other comprehensive loss	-	-	-	(510)	-	(510)
Transfer of reserves	-	-	9,605	-	(9,605)	-
At 31 December 2011	203,000	76,182	162,068	1,308	162,577	605,135

(Forward)

Bank

	← Non-distributable Reserves →				Distributable	
	Share capital RM'000	Share premium RM'000	Statutory reserves RM'000	Unrealised reserves RM'000	Reserve Retained earnings RM'000	Total RM'000
At 1 January 2010	203,000	76,182	152,463	1,427	144,172	577,244
Effect of adoption FRS139	-	-	-	-	(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 17)	-	-	-	(142)	-	(142)
Other comprehensive income	-	-	-	391	-	391
At 31 December 2010	203,000	76,182	152,463	1,818	132,115	565,578
At 1 January 2011	203,000	76,182	152,463	1,818	132,115	565,578
Profit for the year	-	-	-	-	38,421	38,421
Net loss on securities available-for-sale	-	-	-	(693)	-	(693)
Deferred tax (Note 17)	-	-	-	183	-	183
Other comprehensive loss	-	-	-	(510)	-	(510)
Transfer of reserves	-	-	9,605	-	(9,605)	-
At 31 December 2011	203,000	76,182	162,068	1,308	160,931	603,489

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

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THE ROYAL BANK OF SCOTLAND BERHAD
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STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Group		Bank	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(Loss) before taxation	54,342	(7,424)	52,521	(5,130)
Adjustments for:				
Unrealised loss on derivatives trading	22,802	101,392	22,802	101,392
Depreciation of property, plant and equipment	5,770	6,170	5,770	6,170
Property, plant and equipment written-off	5	3,679	5	3,679
Share of (gain)/loss of associated company	(7,444)	2,294	-	-
(Writeback)/Allowance for impairment on loans, advances and financing	(181)	2,190	(181)	2,190
Amortisation of cost and premium relating to subordinated debt capital	1,773	1,756	1,773	1,756
Loss on disposal of property, plant and equipment	-	1,275	-	1,275
Amortisation of intangible assets	295	743	295	743
Unrealised foreign exchange gain	(32,652)	(33,816)	(32,652)	(33,816)
Gain from sale of securities held-for-trading	(6,563)	(4,976)	(6,563)	(4,976)
Amortisation of premium less accretion of discount	752	(2,236)	752	(2,236)
Gain from sale of securities available-for-sale	(2,923)	-	(2,923)	-
Unrealised loss/(gain) on revaluation of securities held-for-trading	161	(14)	161	(14)
Operating Profit Before Working Capital Changes	36,137	71,033	41,760	71,033

(Forward)

	Group 2011 RM'000	Group 2010 RM'000	Bank 2011 RM'000	Bank 2010 RM'000
(Increase)/Decrease in:				
Securities purchased under resale agreements	9,910	(9,910)	9,910	(9,910)
Securities held-for-trading	37,914	(322,739)	37,914	(322,739)
Loans, advances and financing	(32,701)	(37,157)	(32,701)	(37,157)
Derivative financial assets	209,702	(239,699)	209,702	(239,699)
Other assets	28,487	4,995	28,487	4,995
Statutory deposits with Bank Negara Malaysia	(16,000)	-	(16,000)	-
Increase/(Decrease) in:				
Deposits from customers	(148,774)	(1,162,715)	(148,774)	(1,162,715)
Deposits and placements from banks and other financial institutions	(1,002,221)	48,267	(1,002,221)	48,267
Derivative financial liabilities	(13,601)	239,698	(13,601)	239,698
Other liabilities	(62,164)	(2,154)	(62,164)	(2,154)
Cash Used In Operations	(953,311)	(1,410,381)	(947,688)	(1,410,381)
Income taxes paid	(9,861)	(19,742)	(9,861)	(19,742)
Income taxes refunded	14,613	-	14,613	-
Net Cash Used In Operating Activities	(948,559)	(1,430,123)	(942,936)	(1,430,123)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment	-	196	-	196
Purchase of property, plant and equipment	(542)	(1,169)	(542)	(1,169)
Purchase of intangible assets	(465)	(361)	(465)	(361)
Net (purchase)/sale proceeds of securities available-for-sale	(1,172)	133,426	(1,172)	133,426
Dividend received	5,623	-	-	-
Net Cash Generated From/(Used in) Investing Activities	3,444	132,092	(2,179)	132,092

(Forward)

	Group		Bank	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
NET DECREASE IN CASH AND CASH EQUIVALENTS	(945,115)	(1,298,031)	(945,115)	(1,298,031)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	2,895,306	4,193,337	2,895,306	4,193,337
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	1,950,191	2,895,306	1,950,191	2,895,306
Cash and cash equivalents comprise the following:				
Cash and short-term funds	1,596,567	2,895,306	1,596,567	2,895,306
Deposits and placements with other financial institutions	353,624	-	353,624	-
	1,950,191	2,895,306	1,950,191	2,895,306

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 consolidated financial statements of the Bank as at and for the year ended 31 December 2011 comprise the Bank and it subsidiaries (together referred to as the "Group" and individually referred as the "Group entities") and the Group's interest in associates and jointly controlled assets and operations. The financial statements of the Bank as at and for the year ended 31 December 2011 do not include other entities.

The principal activities of the Bank are banking and related financial services. The principal activities of the subsidiary companies are to act as nominees, 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.

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 8 June 2012.

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 2011 as follows:

FRS 1	First-time Adoption of Financial Reporting Standards (revised)
FRS 3	Business Combinations (revised)
FRS 127	Consolidated and Separate Financial Statements (revised)
IC Interpretation 4	Determining Whether an Arrangement contains a Lease
IC Interpretation 12	Service Concession Arrangements
IC Interpretation 16	Hedges of a Net Investment in a Foreign Operation
IC Interpretation 17	Distributions of Non-cash Assets to Owners
IC Interpretation 18	Transfers of Assets from Customers
Amendments to FRS 1	Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters and Additional Exemptions for First-time Adopters
Amendments to FRS 2	Share-based Payment
Amendments to FRS 5	Non-current Assets Held for Sale and Discontinued Operations
Amendments to FRS 7	Improving Disclosures and Financial Instruments
Amendments to FRS 132	Financial Instruments: Presentation – Classification of Rights Issues
Amendments to FRS 138	Intangible Assets

Amendments to IC Interpretation 9 Reassessment of embedded Derivatives

Amendments to FRSs contained in the document entitled "Improvements to FRSs (2010)"

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 the Standard as set out in section 2.1.1. Details of other Standards and IC Interpretations affecting presentation and disclosure 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 2.1.2.

2.1.1 Standard Affecting Presentation and Disclosure

Amendments to FRS 7 Improving Disclosures and Financial Instruments

The amendments to FRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional relief offered in these amendments.

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

The following new and revised Standards and IC Interpretations have also been adopted in the financial statements of the Group and of the Bank. The application of these new Standards and Interpretations has not had any material impact on the amounts reported in the financial statements of the Group and of the Bank for the current and prior years but may affect the accounting for future transactions or arrangements.

FRS 3 (revised in 2010) *Business Combinations*

FRS 3 (revised in 2010) has been applied in the current year prospectively to business combinations for which the acquisition date is on or after 1 January 2011 in accordance with the relevant transitional provisions.

The future impact of the application of FRS 3 (revised in 2010) is as follows:

- FRS 3 (revised in 2010) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree.

- FRS 3 (revised in 2010) changes the recognition and subsequent accounting requirements for contingent consideration. Previously, 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 always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of the acquisition 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 date of acquisition. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

- FRS 3 (revised in 2010) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

- FRS 3 (revised in 2010) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

As part of Improvements to FRSs issued in 2011, FRS 3 (revised in 2010) was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition (see above) is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards.

In addition, as part of Improvements to FRSs issued in 2011, FRS 3 (revised in 2010) was amended to give more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with FRS 2 Share-based Payment at the acquisition date ('market-based measure').

FRS 127 (revised in 2010) ***Consolidated and Separate Financial Statements***

The application of FRS 127 (revised in 2010) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in loss of control. In prior years, 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 when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under FRS 127 (revised in 2010), all such increases or decreases are dealt with in equity, 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, the revised Standard requires that the Group derecognise all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

IC Interpretation 4 *Determining Whether an Arrangement contains a Lease*	The Interpretation clarifies that when the fulfilment of an arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the assets, then the arrangement should be accounted for as lease under FRS 117, even though it does not take the legal form of a lease.
IC Interpretation 12 *Service Concession Arrangements*	The Interpretation addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. The Interpretation does not address the accounting for the government (grantor) side of such arrangements.
IC Int. 16 *Hedges of a Net Investment in a Foreign Operation*	The Interpretation provides guidance on the detailed requirements for net investment hedging for certain hedge accounting designations.
IC Int. 17 *Distributions of Non-cash Assets to Owners*	The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

IC Int. 18 *Transfers of Assets from Customers*	The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with FRS 118 *Revenue*.
Amendments to FRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*	The amendments clarify the scope of FRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.
Amendments to FRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Group is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.
Amendments to FRS 132 *Classification of Rights Issues*	The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to FRS 132, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application. The application of the amendments has had no effect on the amounts reported in the current and prior years because the Group has not issued instruments of this nature.

Amendments to FRS 138 *Intangible Assets*	The amendments to paragraphs 40 and 41 of FRS 138 clarify that the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets.
Amendments to IC Interpretation 9 *Reassessment of embedded Derivatives*	The amendments clarify that IC Interpretation 9 does not apply to embedded derivatives acquired via business combinations.
Improvements to FRSs issued in 2010	Except for the amendments to FRS 3 and FRS 1 described earlier in section 2.1, the application of *Improvements to FRSs* issued in 2010 has not had any material effect on amounts reported in the financial statements of the Group and the Bank.

Convergence of the FRSs with the International Financial Reporting Standards

On 19 November 2011, the MASB issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards Framework (MFRS Framework) in conjunction with its planned convergence of FRSs with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board on 1 January 2012.

The MFRS Framework is a fully IFRS-compliant framework, equivalent to IFRSs which is mandatory for adoption by all Entities Other than Private Entities for annual periods beginning on or after 1 January 2012, with the exception for Transitioning Entities. Transitioning Entities, being entities which are subject to the application of MFRS 141 Agriculture and/or IC Interpretation 15 Agreements for the Construction of Real Estate are given an option to defer adoption of the MFRS Framework for an additional one year. Transitioning Entities also include those entities that consolidate, equity account or proportionately consolidate an entity that has chosen to continue to apply the FRS Framework for annual periods beginning on or after 1 January 2012.

Accordingly, the Group and the Bank which are not Transitioning Entities will be required to apply MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards (MFRS 1) in their financial statements for the financial year ending 31 December 2012, being the first set of financial statements prepared in accordance with the new MFRS Framework. Further, an explicit and unreserved statement of compliance with IFRSs will be made in these financial statements.

The Group and the Bank are currently assessing the impact of adoption of MFRS 1, including identification of the differences in existing accounting policies as compared to the new MFRSs and the use of optional exemptions as provided for in MFRS 1. As at the date of authorisation of issue of the financial statements, accounting policy decisions or elections have not been finalised. Thus, the impact of adopting the new MFRS Framework on the Group's and the Bank's first set of financial statements prepared in accordance with the MFRS Framework cannot be determined and estimated reliably until the process is complete.

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 basis, unless otherwise indicated in the significant accounting policies stated below.

Investment in Subsidiary Companies

Subsidiaries are entities, including unincorporated entities, controlled by the Bank. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control exists when the Bank has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

In assessing control, potential voting rights that presently are exercisable are taken into account.

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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as of the reporting date. The financial statements of the subsidiaries are prepared up to the same reporting date as the Bank.

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

From 1 January 2011, the Group has applied FRS3, *Business Combinations (revised in 2010)* in accounting for business combinations. The change in accounting policy has been applied prospectively in accordance with the transitional provisions provided by the standard and does not have impact on earnings per share.

Acquisition on or after 1 January 2011

For acquisition on or after 1 January 2011, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquirees; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Acquisitions between 1 January 2006 and 1 January 2011

For acquisition between 1 January 2006 and 1 January 2011, goodwill represents the excesses of cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase option was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Acquisitions prior to 1 January 2006

For acquisitions prior to 1 January 2006, goodwill represents the excess of the cost of acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities.

Loss of control

Upon the loss control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measure at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

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 statements of financial position of the Group 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 profit or loss of the Group. 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 but are tested for impairment annually and whenever there is any indication that they may be impaired. 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 profit or loss.

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 reporting 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 profit or loss 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 equipment and machinery	20%
Furniture, fixtures and fittings	10% - 20%
Computer equipment	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 profit or loss.

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 statements of financial position 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 reporting 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 statements of comprehensive income 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 profit or loss 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 profit or loss, a reversal of that impairment loss is recognised as income in profit or loss.

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 reporting 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 profit or loss 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 reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on reporting 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 other comprehensive income. Exchange differences arising from such non-monetary items are also recognised directly in other 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 statements 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, unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences, unused tax losses and unused 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 profit or loss 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 statements of financial position 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', 'held-to-maturity financial assets', '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 FVTPL are stated at fair value, with any gains of losses on remeasurement 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 37.

(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 profit or loss. Impairment losses, if any, are recognised in profit or loss 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 37.

(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 profit or loss. Impairment losses on loans, advances and financing are recognised in profit or loss 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 statements of cash flows 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 with 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 profit or loss.

(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 other comprehensive income 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 profit or loss, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss.

(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 statements of financial position.

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 statements of financial position.

(viii) **Impairment of financial assets**

Financial assets, other than those at 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 continue to control the transferred asset, the Group and the Bank recognise their retained interest in the asset and an associated liability for amount they 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 recognise 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 37.

(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 statements of financial position either because rights and obligations arise out of one and the same contract, the performance of which is due after reporting 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 profit or loss 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 profit or loss. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in profit or loss.

(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 profit or loss. The deferred gains and losses are then released to the statements of comprehensive income in the periods when the hedged item affects profit or loss.

(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 or 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 reporting date, applicable to their respective dates of maturity, and unrealised losses and gains are recognised in the statements of comprehensive income.

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 profit or loss.

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 reporting 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 their 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 counterparty 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 profit or loss. 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 profit or loss on equity instruments are not reversed through profit or loss. 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 profit or loss, 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 profit or loss, the impairment loss is reversed through profit or loss.

(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	
	2011	**2010**
	RM'000	**RM'000**
Cash and balances with banks and other financial institutions	47,998	295,257
Money at call and deposit placements maturing within one month	1,548,569	2,600,049
	1,596,567	2,895,306

6. SECURITIES PURCHASED UNDER RESALE AGREEMENTS

Securities purchased under resale agreements are as follows:

	Group/Bank	
	2011	**2010**
	RM'000	**RM'000**
At Fair Value		
Reverse Repo	-	9,910

7. SECURITIES HELD-FOR-TRADING

	Group/Bank	
	2011	**2010**
	RM'000	**RM'000**
At Fair Value		
Money market instruments:		
Government Investment Issues	-	204,757
Malaysian Government Securities	152,245	123,178
Private debt securities outside Malaysia	-	9,946
Bank Negara Malaysia Debt Securities	154,124	-
	306,369	337,881

8. SECURITIES AVAILABLE-FOR-SALE

	Group/Bank 2011 RM'000	Group/Bank 2010 RM'000
At Fair Value		
Quoted securities:		
Malaysian Government Securities	270,649	378,240
Government Investment Issues	516,625	278,862
BNM Bills	-	112,468
Private debt securities outside Malaysia	-	15,054
At Cost		
Unquoted shares in Malaysia	1,719	1,719
	788,993	786,343

Included in securities available-for-sale of the Group and the Bank in 2010 are Malaysian Government Securities amounting to RM25,000,000 that are utilised to meet the Statutory Reserve Requirement set by Bank Negara Malaysia ("BNM") as further explained in Note 11.

9. LOANS, ADVANCES AND FINANCING

	Group/Bank 2011 RM'000	Group/Bank 2010 RM'000
At amortised cost		
(i) By type		
Overdrafts	62,904	47,230
Term loans/financing:		
Housing loans/financing	27,412	28,942
Other term loans/financing	176,102	182,226
Bills receivable	85,121	46,513
Claims on customers under acceptance credits	40,755	34,011
Staff loans	5,279	7,454
Revolving credit	18,180	37,300
Trust receipt	616	-
	416,369	383,676
Less: Allowance for impaired loans and financing:		
Collective assessment allowance	(5,783)	(5,783)
Individual assessment allowance	(44,077)	(44,266)
Net loans, advances and financing	366,509	333,627
(ii) By type of customer		
Domestic business enterprises:		
Small/medium enterprises	11,726	4,940
Others	359,967	338,985
Individuals	33,360	39,751
Foreign entity	1,488	-
Domestic banking institutions	9,828	-
	416,369	383,676
(iii) By interest rate sensitivity		
Fixed rate		
Housing loans/financing	3,127	4,778
Other fixed rate loan/financing	2,253	3,450
Variable rate		
BLR plus	91,799	79,767
Cost plus	319,190	295,681
	416,369	383,676

		Group/Bank 2011 RM'000	Group/Bank 2010 RM'000
(iv)	**By residual contractual maturity**		
	Maturity within one year	387,686	177,561
	More than one year to three years	379	177,277
	More than three years to five years	1,057	160
	More than five years	27,247	28,678
		416,369	383,676
(v)	**By geographical distribution**		
	Malaysia:		
	Kuala Lumpur	414,182	380,323
	Penang	2,187	3,189
	Johor	-	115
	Perak	-	49
		416,369	383,676
(vi)	**By Sector**		
	Electricity, gas and water	175,134	173,961
	Manufacturing	74,051	102,092
	Construction	40,431	48,209
	Purchase of landed properties (Residential)	30,737	36,082
	Wholesale and retail	62,576	12,849
	Finance, insurance and business services	22,036	4,849
	Mining and quarrying	-	179
	Consumption credit	355	2,512
	Transport, storage and communication	8,782	1,601
	Purchase of transport vehicles	2,267	1,342
		416,369	383,676

	Group/Bank 2011 RM'000	Group/Bank 2010 RM'000
(vii) Movements in impaired loans, advances and financing are as follows:		
Balance as at 1 January	48,603	43,540
Impaired during the year	1,681	13,408
Reclassified as non-impaired	(1,823)	(8,087)
Amount written off	(8)	(258)
Balance as at 31 December	48,453	48,603
Individual Assessment Allowance	(44,077)	(44,266)
Net impaired loans, advances and financing	4,376	4,337
Gross impaired loans as a percentage of gross loans, advances and financing	11.64%	12.67%
(viii) Movements in allowance for impaired loans, advances and financing are as follows:		
Collective Assessment Allowance		
Balance as at 1 January	5,783	-
Effect of adopting FRS 139	-	5,783
Balance as at 31 December	5,783	5,783
As % of gross loans, advances and financing less individual assessment allowance	1.55%	1.70%
General Allowance		
Balance as at 1 January	-	5,783
Effect of adopting FRS 139	-	(5,783)
Balance as at 31 December	-	-

(Forward)

	Group/Bank	
	2011	2010
	RM'000	RM'000
Individual Assessment Allowance		
Balance as at 1 January	44,266	-
Effect of adopting FRS 139	-	42,334
Balance as at 1 January	44,266	42,334
Allowance made during the year	663	3,333
Amount written back	(844)	(1,143)
Amount written off	(8)	(258)
Balance as at 31 December	44,077	44,266
Specific allowance		
Balance as at 1 January	-	42,334
Effect of adopting FRS 139	-	(42,334)
Balance as at 31 December	-	-

(ix) Impaired loans, advances and financing by sector

	2011 RM'000	2010 RM'000
Purchase of landed properties (Residential)	2,249	2,423
Manufacturing	5,151	5,128
Construction	39,574	39,575
Wholesale and retail	1,479	1,477
	48,453	48,603

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 to gain from favourable movements in prices, rates or indices.

As of 31 December 2011, the Group and the Bank have positions in the following types of derivatives:

Group/Bank	2011 Notional RM'000	2011 Assets RM'000	2011 Liabilities RM'000	2010 Notional RM'000	2010 Assets RM'000	2010 Liabilities RM'000
Derivatives held for trading at fair value through profit or loss						
Foreign exchange contracts:						
Forward	4,505,108	42,377	31,173	12,236,498	241,650	120,766
Cross currency swaps and options	3,858,936	32,438	48,897	7,939,295	1,714	2,755
Interest rate contracts:						
Futures	2,439,000	2,816	922	9,692,500	1,917	-
Swaps	26,927,770	749,754	593,725	35,423,256	613,515	453,279
Cross currency interest rate swaps	8,579,103	217,165	539,073	7,773,391	379,859	650,585
Others	-	-	-	50,000	5,747	6
	46,309,917	1,044,550	1,213,790	73,114,940	1,244,402	1,227,391

The table above shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded at 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.

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.

11. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia ("BNM") in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (revised 1994) to satisfy the Statutory Reserve Requirement ("SRR"), the amounts of which are determined at set percentages of total eligible liabilities.

With effect from 25 June 2009, BNM has allowed the Bank, as a Principal Dealer for Government, BNM and BNM Sukuk Berhad to utilise its holdings of Malaysian Government Securities ("MGS") and/or Government Investment Issues ("GII") in place of cash deposits to meet this SRR.

There were no MGS being used to meet the SRR as of the end of the financial year upon expiry of the above incentive given by the BNM to utilise the holdings of MGS and/or GII in place of cash deposits on 31 December 2011. Hence, the Bank has maintained a cash deposit with BNM to meet this SRR as of the end of the financial year.

12. OTHER ASSETS

	Group/Bank	
	2011	**2010**
	RM'000	**RM'000**
Tax recoverable	5,427	30,107
Other receivables, deposits and prepayments	20,189	48,676
	25,616	78,783

13. INVESTMENT IN SUBSIDIARY COMPANIES

	Bank	
	2011	**2010**
	RM'000	**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:

		Effective Equity Interest	
Name of Subsidiary	**Principal Activities**	**2011**	**2010**
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.

14. INVESTMENT IN ASSOCIATED COMPANY

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Unquoted shares at cost	8,503	8,503	8,503	8,503
Share of post-acquisition reserves	1,646	(175)	-	-
	10,149	8,328	8,503	8,503

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

Name of Associate	Principal Activities	Effective Equity Interest 2011	Effective Equity Interest 2010
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	
	2011 RM'000	2010 RM'000
Assets and liabilities		
Current assets	40,333	116,605
Total assets	40,333	116,605
Current liabilities	105	118
Non-current liabilities	-	45,274
Total liabilities	105	45,392
Results		
Revenue	13,411	916
Loss for the year	(8,699)	(9,099)

15. PROPERTY, PLANT AND EQUIPMENT

Group and Bank	Freehold Land and Building RM'000	Motor Vehicle RM'000	Office Equipment and Machinery RM'000	Furniture, Fixtures and Fittings RM'000	Computer Equipment RM'000	Total RM'000
2011						
Cost						
At 1 January 2011	388	616	6,212	21,619	16,042	44,877
Additions	-	-	-	-	542	542
Write-offs	-	-	-	-	(236)	(236)
At 31 December 2011	388	616	6,212	21,619	16,348	45,183
Accumulated Depreciation						
At 1 January 2011	-	21	3,428	8,266	12,095	23,810
Depreciation charge for the year	-	123	969	2,426	2,252	5,770
Write-offs	-	-	-	-	(231)	(231)
At 31 December 2011	-	144	4,397	10,692	14,116	29,349
Carrying Amounts	388	472	1,815	10,927	2,332	15,834

(Forward)

Group and Bank	Freehold Land and Building RM'000	Motor Vehicle RM'000	Office Equipment and Machinery RM'000	Furniture, Fixtures and Fittings RM'000	Computer Equipment RM'000	Total RM'000
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
Carrying Amounts	388	595	2,784	13,353	3,947	21,067

16. INTANGIBLE ASSETS

	Group/Bank	
	2011	2010
	RM'000	RM'000
Computer Software:		
Cost		
At 1 January	2,972	2,611
Additions	465	361
At 31 December	3,437	2,972
Accumulated Amortisation		
At 1 January	2,513	1,770
Amortisation for the year	295	743
At 31 December	2,808	2,513
Carrying Amounts	629	459

17. DEFERRED TAX ASSETS

	Group/Bank	
	2011	2010
	RM'000	RM'000
At 1 January	25,688	22,392
Recognised in profit or loss (Note 30)	5,828	3,438
Recognised in equity	183	(142)
At 31 December	31,699	25,688
Presented after appropriate offsetting as follows:		
Deferred tax assets	32,925	27,658
Deferred tax liabilities	(1,226)	(1,970)
Net	31,699	25,688

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 2011	27,597	61	27,658
Recognised in profit or loss	5,281	(14)	5,267
At 31 December 2011	32,878	47	32,925
At 1 January 2010	25,218	50	25,268
Recognised in profit or loss	2,379	11	2,390
At 31 December 2010	27,597	61	27,658

Deferred tax liabilities of the Group and of the Bank:

	Capital Allowances RM'000	Unrealised Reserves RM'000	Total RM'000
At 1 January 2011	1,350	620	1,970
Recognised in profit or loss	(561)	-	(561)
Recognised in equity	-	(183)	(183)
At 31 December 2011	789	437	1,226
At 1 January 2010	2,398	478	2,876
Recognised in profit or loss	(1,048)	-	(1,048)
Recognised in equity	-	142	142
At 31 December 2010	1,350	620	1,970

Deferred tax asset has not been recognised in respect of collective assessment for impaired loans and financing of RM5,783,000 (2010: RM5,783,000).

18. DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Type				
Demand deposits	1,076,615	1,171,781	1,076,635	1,171,801
Savings deposits	1,535	1,690	1,535	1,690
Fixed deposits	723,539	792,554	723,539	792,554
Negotiable instruments of deposits	15,562	-	15,562	-
	1,817,251	1,966,025	1,817,271	1,966,045

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

	Group/Bank	
	2011 RM'000	2010 RM'000
Due within six months	723,144	709,229
Six months to one year	7,088	71,700
One year to three years	20	11,625
More than three years	8,849	-
	739,101	792,554

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

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Government and statutory bodies	38,087	92,996	38,087	92,996
Business enterprises	1,621,049	1,496,139	1,621,049	1,496,139
Individuals	15,225	89,136	15,225	89,136
Others	142,890	287,754	142,910	287,774
	1,817,251	1,966,025	1,817,271	1,966,045

19. DEPOSITS AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group/Bank	
	2011	2010
	RM'000	RM'000
Licensed banks	55,673	23,000
Other financial institutions	477,091	1,511,985
	532,764	1,534,985

20. OTHER LIABILITIES

	Group/Bank	
	2011	2010
	RM'000	RM'000
Retirement benefits	-	22
Other liabilities	50,948	132,405
Internal settlement cost	129,809	110,494
	180,757	242,921

21. SUBORDINATED DEBT CAPITAL

	Group/Bank	
	2011	2010
	RM'000	RM'000
At 1 January	205,069	200,000
Effect of adopting FRS139	-	3,313
At 1 January	205,069	203,313
Net amortisation during the year	1,773	1,756
At amortised cost	206,842	205,069

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.

22. SHARE CAPITAL

	Group/Bank	
	2011	2010
	RM'000	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

23. RESERVES

	Group		Bank	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Non-distributable:				
Share premium	76,182	76,182	76,182	76,182
Statutory reserves (Note a)	162,068	152,463	162,068	152,463
Unrealised reserves (Note b)	1,308	1,818	1,308	1,818
Distributable:				
Retained earnings (Note c)	162,577	131,940	160,931	132,115
	402,135	362,403	400,489	362,578

(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 reporting 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, the Bank has sufficient Section 108 tax credits to frank approximately RM40,401,000 (2010: RM40,401,000) dividend out of its retained earnings as of 31 December 2011 without incurring any additional tax liability.

24. 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.

25. INTEREST INCOME

	Group/Bank	
	2011	**2010**
	RM'000	**RM'000**
Loans, advances and financing	15,968	11,616
Money at call and deposit placements with financial institutions	19,696	42,826
Securities available-for-sale	25,276	23,199
Securities held-for-trading	12,465	6,903
	73,405	84,544
Amortisation of premium less accretion of discount	(752)	2,236
Total Interest Income	72,653	86,780
Of which:		
Interest income earned on impaired loans, advances and financing	419	-

26. INTEREST EXPENSE

	Group/Bank	
	2011	2010
	RM'000	RM'000
Deposits and placements from banks and other financial institutions	31,473	33,563
Deposits from customers	23,095	30,563
Subordinated debt capital	10,424	9,813
Others	490	2,135
	65,482	76,074

27. OTHER OPERATING INCOME

	Group		Bank	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Fee income:				
Commissions	5,692	3,086	5,692	3,086
Service charges and fees	1,308	468	1,308	468
Guarantee fees	4,932	5,607	4,932	5,607
Other fee income	3,344	3,185	3,344	3,185
	15,276	12,346	15,276	12,346
Net gain arising from sale of securities:				
Securities held-for-trading	16,692	4,976	16,692	4,976
Securities available-for-sale	2,923	-	2,923	-
	19,615	4,976	19,615	4,976
Unrealised (loss)/gain on revaluation of securities:				
Securities held-for-trading	(161)	14	(161)	14
Gross dividend income from:				
Securities available-for-sale	59	104	59	104
Associated company	-	-	5,623	-
	59	104	5,682	104

	Group 2011 RM'000	Group 2010 RM'000	Bank 2011 RM'000	Bank 2010 RM'000
Other income:				
Foreign exchange gain/(loss)				
Unrealised	32,652	33,816	32,652	33,816
Realised	(156,776)	(7,419)	(156,776)	(7,419)
(Loss)/gain on derivatives trading				
Unrealised	(22,802)	(101,392)	(22,802)	(101,392)
Realised	211,223	131,616	211,223	131,616
Others	46	8,773	46	8,773
	64,343	65,394	64,343	65,394
	99,132	82,834	104,755	82,834

28. OTHER OPERATING EXPENSES

	Group/Bank 2011 RM'000	Group/Bank 2010 RM'000
Personnel costs (Note a)	26,978	41,062
Establishment costs (Note b)	25,316	42,102
Marketing expenses (Note c)	740	1,108
Administration and general expenses (Note d)	6,552	12,208
	59,586	96,480

(a) Personnel costs

	Group/Bank 2011 RM'000	Group/Bank 2010 RM'000
Salaries, bonuses and allowances	21,276	25,788
Social security costs	66	112
EPF - defined contribution plan	2,935	3,499
Rental of accommodation	2	191
Redundancy payment - retail and commercial	-	6,728
Other staff related expenses	2,699	4,744
	26,978	41,062

		Group/Bank	
		2011	2010
		RM'000	RM'000
(b)	**Establishment costs**		
	Share of group costs after offsetting waiver of management charges of RM24,773,000 (2010: RM9,929,000) for prior years	10,410	19,619
	Share of information technology costs	686	5,348
	Depreciation of property, plant and equipment	5,770	6,170
	Loss on sale of property, plant and equipment	-	1,275
	Property, plant and equipment written-off	5	3,679
	Amortisation of intangible assets	295	743
	Rental of premises	3,776	4,095
	Others	4,374	1,173
		25,316	42,102
(c)	**Marketing expenses**		
	Advertising	373	574
	Others	367	534
		740	1,108
(d)	**Administration and general expenses**		
	Legal and professional fees	525	403
	Communication	2,305	2,751
	Transportation	598	893
	Property maintenance	1,949	2,236
	Others	1,175	5,925
		6,552	12,208

Included in the above expenditure are the following statutory disclosures:

	Group/Bank	
	2011	2010
	RM'000	RM'000
Directors' remuneration and benefits-in-kind	2,227	1,786
Auditors' remuneration		
Statutory audit	211	200
Audit related services*	38	38

* 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
2011					
Executive director:					
Andrew Mark Sill	1,370	-	530	37	1,937
Non-executive directors:					
General (Rtd) Tan Sri Dato' Mohd Ghazali Seth	-	110	-	-	110
Tan Sri Datuk Asmat bin Kamaludin	-	90	-	-	90
Dato' Jorgen Bornhoft	-	90	-	-	90
	1,370	290	530	37	2,227
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

29. ALLOWANCE FOR IMPAIRMENT ON LOANS, ADVANCES AND FINANCING

	Group/Bank 2011 RM'000	Group/Bank 2010 RM'000
Allowance for bad and doubtful debts on loans and financing:		
Individual Assessment allowance:		
Made in the financial year (Note 9)	663	3,333
Written back in the financial year (Note 9)	(844)	(1,143)
	(181)	2,190

30. TAXATION

	Group/Bank 2011 RM'000	Group/Bank 2010 RM'000
Malaysian income tax based on results for the year:		
Current year	12,933	2,343
Underprovision in prior years	6,995	3,934
Current tax expense	19,928	6,277
Deferred tax (Note 17):		
Relating to origination and reversal of temporary differences	(1,850)	683
Underprovision in prior years	(3,978)	(4,121)
Deferred tax income	(5,828)	(3,438)
	14,100	2,839

Reconciliation of tax expense

	Group		Bank	
	2011 **RM'000**	**2010** **RM'000**	**2011** **RM'000**	**2010** **RM'000**
Profit/(Loss) before taxation	54,342	(7,424)	52,521	(5,130)
Taxation at Malaysian statutory tax rate of 25%	13,586	(1,856)	13,130	(1,283)
Income not subject to tax	(1,435)	(26)	(2,840)	(26)
Expenses not deductible for tax purposes	793	4,335	793	4,335
Tax effect of share of an associate's post-tax (profit)/loss included in Group's results before taxation	(1,861)	573	-	-
Underprovision of deferred tax assets in prior years	(3,978)	(4,121)	(3,978)	(4,121)
Underprovision of current income tax payable in prior years	6,995	3,934	6,995	3,934
Tax expense for the year	14,100	2,839	14,100	2,839

31. **EARNINGS PER SHARE**

The earnings per share of the Group and of the Bank has been calculated based on the net profit after taxation of RM40,242,000 and RM38,421,000 respectively (net loss after taxation in 2010 of RM10,263,000 and RM7,969,000 respectively) on the weighted average number of ordinary shares of RM1 each in issue of 203,000,002 (2010: 203,000,002) during the year.

32. 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:

2011	**Immediate holding company RM'000**	**Subsidiary companies RM'000**	**Associated company RM'000**	**Other related companies RM'000**
Income:				
Commissions and fees	474	-	-	2,419
Interest income	8,551	-	-	5
Directors fee received	-	-	18	-
Dividend received	-	-	5,623	-
Expense:				
Interest expense	22,918	-	-	6,302
Share of group and information technology costs	24,272	-	-	11,597
Waiver of prior years' group costs	(24,773)	-	-	-
Assets:				
Cash and short-term funds	1,528,928	-	-	-
Deposits and placements with other financial institutions	353,624	-	-	-
Interest receivable	1,439	-	-	-
Derivative financial assets	8,908	-	-	282,382
Liabilities:				
Deposits from customers	-	20	-	9,357
Deposits and placements from banks and other financial institutions	345,798	-	-	151
Interest payable	133	-	-	-
Derivative financial liabilities	-	-	-	575,009
Internal settlement cost	115,414	-	-	14,395

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	-	-	-
Share of group and information technology costs	34,896	-	-	-
Waiver of prior years' group costs	(9,929)	-	-	-
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
Internal settlement cost	120,422	-	-	-

(b) Compensation of key management personnel

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

	Group/Bank	
	2011	**2010**
	RM'000	**RM'000**
Short-term employee benefits	5,652	5,040
Post-employment benefits:		
Defined contribution plan	730	717
	6,382	5,757

Included in the total compensation of key management personnel are:

	Group		Bank	
	2011	**2010**	**2011**	**2010**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Directors' remuneration excluding benefits-in-kind	2,190	1,748	2,190	1,748

33. 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 reporting date but not recognised as liabilities are as follows:

	Group/Bank	
	2011	**2010**
	RM'000	**RM'000**
Future minimum rental payments:		
Not later than 1 year	3,869	3,869
Later than 1 year and not later than 5 years	644	6,414
	4,513	10,283

34. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	Group/Bank	
	2011 RM'000	2010 RM'000
Outstanding credit exposures with connected parties	317,278	236,907
Total credit exposures	3,874,025	4,725,642
Percentage of outstanding credit exposures to connected parties:		
- as a proportion of total credit exposures	8.19%	5.01%
- as a proportion of capital base	42.65%	31.21%

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 include 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.

35. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group and the Bank make various commitments and incur certain contingent liabilities with legal recourse to their 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:

	2011			2010		
	Principal amount RM'000	Credit equivalent amount * RM'000	Risk-weighted amount RM'000	Principal amount RM'000	Credit equivalent amount * RM'000	Risk-weighted amount RM'000
Direct credit substitutes	64,187	64,187	64,187	4,809	4,809	4,809
Transaction-related contingent items	553,071	276,536	219,983	596,832	298,416	258,480
Short-term self-liquidating trade-related contingencies	30,497	6,099	3,260	8,201	1,640	1,640
Irrevocable commitments to extend credit:						
maturity less than one year	598,687	119,737	119,678	487,951	97,590	97,590
maturity more than one year	356	178	133	451	226	169
Foreign exchange related contracts:						
less than one year	6,996,522	137,948	73,571	12,505,852	373,882	91,348
one year to less than five years	721,209	66,202	32,885	5,380,494	369,336	78,886
five years and above	646,313	78,813	67,194	2,289,447	283,786	98,281

(Forward)

	2011 Principal amount RM'000	2011 Credit equivalent amount * RM'000	2011 Risk-weighted amount RM'000	2010 Principal amount RM'000	2010 Credit equivalent amount * RM'000	2010 Risk-weighted amount RM'000
Interest rate related contracts:						
less than one year	9,781,653	170,606	63,809	14,156,868	150,796	38,149
one year to less than five years	18,016,709	810,498	364,123	28,672,741	979,551	200,931
five years and above	10,147,511	1,381,729	881,937	10,059,538	1,194,486	367,677
Credit Derivative Contracts:						
less than one year	-	-	-	50,000	50	10
	47,556,715	3,112,533	1,890,760	74,213,184	3,754,568	1,237,970

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

36. FINANCIAL RISK MANAGEMENT POLICIES

The Group and the Bank adopt 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 statement of financial position 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 Group's Operational Risk Policy/Procedures 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 respective business division 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's and Bank's credit risk concentrations as of 31 December 2011.

	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	22,595	-	306,369	788,993	-	-	-	-
Mining and quarrying	-	-	-	-	-	-	70	-
Electricity, gas & water	-	-	-	-	175,134	-	23	-
Manufacturing	-	-	-	-	74,051	-	8,125	-
Construction	-	-	-	-	40,431	-	-	-
Real estate	-	-	-	-	-	-	-	-
Purchase of landed properties (Residential)								
i) Resident	-	-	-	-	30,737	-	-	-
ii) Non-resident	-	-	-	-	-	-	-	-
Wholesale and retail	-	-	-	-	62,576	-	2,679	-
Transport, storage and communication	-	-	-	-	8,782	-	286,116	-
Finance, insurance and business services	1,941,426	-	-	-	22,036	-	744,721	-
Purchase of transport vehicles	-	-	-	-	2,267	-	-	-
Consumption credit	-	-	-	-	355	-	-	-
Others	2,170	-	-	-	-	(5,783)	2,816	47,556,715
	1,966,191	-	306,369	788,993	416,369	(5,783)	1,044,550	47,556,715

The following table represents the Group's 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	-	-	-	-	179	-	3,075	-
Electricity, gas & water	-	-	-	-	173,961	-	-	-
Manufacturing	-	-	-	-	102,092	-	-	-
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

Gross loans, advances and financing are analysed as follow:

	Group/Bank 2011 RM'000	Group/Bank 2010 RM'000
Neither past due nor impaired	360,403	326,320
Past due but not impaired	7,513	8,753
Impaired	48,453	48,603
	416,369	383,676

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
2011			
Purchase of landed properties (Residential)	2,249	877	1,372
Manufacturing	5,151	2,147	3,004
Construction	39,574	39,574	-
Wholesale and retail	1,479	1,479	-
	48,453	44,077	4,376
2010			
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

(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 2011 and 2010 at 99% confidence level, one day holding period.

	Group/Bank	
	2011	**2010**
	RM'mil	**RM'mil**
Aggregate VaR	4.21	5.92

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.

(d) Interest 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 assets and liabilities at carrying amounts as of 31 December 2011.

The Group 2011	Non-Trading Book								
	Up to 1 month RM'000	**1 - 3 months RM'000**	**3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-interest bearing RM'000**	**Impairments RM'000**	**Trading book RM'000**	**Total RM'000**
Assets									
Cash and short-term funds	1,596,567	-	-	-	-	-	-	-	1,596,567
Deposits and placements with other financial institutions	-	353,624	-	-	-	-	-	-	353,624
Securities held-for-trading	-	-	-	-	-	-	-	306,369	306,369
Securities available-for-sale	-	-	303,490	483,784	-	1,719	-	-	788,993
Loans, advances and financing	323,280	53,996	10,410	1,436	27,247	-	(49,860)	-	366,509
Derivative financial assets	-	-	-	-	-	-	-	1,044,550	1,044,550
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	16,000	-	-	16,000
Other assets	-	-	-	-	-	25,616	-	-	25,616
Investment in associated company	-	-	-	-	-	10,149	-	-	10,149
Property, plant and equipment	-	-	-	-	-	15,834	-	-	15,834
Intangible asset	-	-	-	-	-	629	-	-	629
Deferred tax assets	-	-	-	-	-	31,699	-	-	31,699
Total Assets	1,919,847	407,620	313,900	485,220	27,247	101,646	(49,860)	1,350,919	4,556,539
Liabilities									
Deposits from customers	1,743,272	35,363	29,747	8,869	-	-	-	-	1,817,251
Deposits and placements from banks and other financial institutions	310,266	222,498	-	-	-	-	-	-	532,764
Derivative financial liabilities	-	-	-	-	-	-	-	1,213,790	1,213,790
Other liabilities	-	-	-	-	-	180,757	-	-	180,757
Subordinated debt capital	-	-	-	-	206,842	-	-	-	206,842
Total Liabilities	2,053,538	257,861	29,747	8,869	206,842	180,757	-	1,213,790	3,951,404
On balance sheet interest rate gap	(133,691)	149,759	284,153	476,351	(179,595)	(79,111)	(49,860)	137,129	605,135
Off balance sheet interest rate gap	-	-	-	-	-	-	-	(2,608)	(2,608)
Net interest rate gap	(133,691)	149,759	284,153	476,351	(179,595)	(79,111)	(49,860)	134,251	602,527

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

The Group 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 bearing 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	205,069	242,921	-	1,227,391	5,176,391
On balance sheet interest rate gap	6,913	(225,081)	147,575	632,777	(202,938)	(108,596)	(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	(202,938)	(108,596)	(50,049)	89,802	290,403

The following table represents the Bank's assets and liabilities at carrying amounts as of 31 December 2011.

The Bank
2011

	Non-Trading Book								
	Up to 1 month RM'000	**1 - 3 months RM'000**	**3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-interest bearing RM'000**	**Impairments RM'000**	**Trading book RM'000**	**Total RM'000**
Assets									
Cash and short-term funds	1,596,567	-	-	-	-	-	-	-	1,596,567
Deposits and placements with other financial institutions	-	353,624	-	-	-	-	-	-	353,624
Securities held-for-trading	-	-	-	-	-	-	-	306,369	306,369
Securities available-for-sale	-	-	303,490	483,784	-	1,719	-	-	788,993
Loans, advances and financing	323,280	53,996	10,410	1,436	27,247	-	(49,860)	-	366,509
Derivative financial assets	-	-	-	-	-	-	-	1,044,550	1,044,550
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	16,000	-	-	16,000
Other assets	-	-	-	-	-	25,616	-	-	25,616
Investments in subsidiary companies	-	-	-	-	-	20	-	-	20
Investment in associated company	-	-	-	-	-	8,503	-	-	8,503
Property, plant and equipment	-	-	-	-	-	15,834	-	-	15,834
Intangible asset	-	-	-	-	-	629	-	-	629
Deferred tax assets	-	-	-	-	-	31,699	-	-	31,699
Total Assets	1,919,847	407,620	313,900	485,220	27,247	100,020	(49,860)	1,350,919	4,554,913
Liabilities									
Deposits from customers	1,743,292	35,363	29,747	8,869	-	-	-	-	1,817,271
Deposits and placements from banks and other financial institutions	310,266	222,498	-	-	-	-	-	-	532,764
Derivative financial liabilities	-	-	-	-	-	-	-	1,213,790	1,213,790
Other liabilities	-	-	-	-	-	180,757	-	-	180,757
Subordinated debt capital	-	-	-	-	206,842	-	-	-	206,842
Total Liabilities	2,053,558	257,861	29,747	8,869	206,842	180,757	-	1,213,790	3,951,424
On balance sheet interest rate gap	(133,711)	149,759	284,153	476,351	(179,595)	(80,737)	(49,860)	137,129	603,489
Off balance sheet interest rate gap	-	-	-	-	-	-	-	(2,608)	(2,608)
Net interest rate gap	(133,711)	149,759	284,153	476,351	(179,595)	(80,737)	(49,860)	134,521	600,881

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

The Bank 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 bearing 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	205,069	242,921	-	1,227,391	5,176,411
On balance sheet interest rate gap	6,893	(225,081)	147,575	632,777	(202,938)	(108,401)	(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	(202,938)	(108,401)	(50,049)	89,802	290,578

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

Group/Bank	2011						2010					
	MYR	USD	AUD	EUR	GBP	SGD	MYR	USD	AUD	EUR	GBP	SGD
	%	%	%	%	%	%	%	%	%	%	%	%
Financial Assets												
Cash and short-term funds	3.00	0.23	-	0.18	-	-	-	0.33	-	0.15	-	-
Deposits and placements with banks and other financial institutions	3.00	1.51	4.90	-	-	-	-	-	-	-	-	-
Securities available-for-sale	3.75	-	-	-	-	-	3.57	-	-	-	-	-
Loans, advances and financing	3.50	-	-	-	-	-	3.90	-	-	-	-	-
Financial Liabilities												
Deposits from customers	2.90	0.11	3.50	0.78	1.44	0.01	2.63	0.15	4.57	0.46	1.29	-
Deposits and placements from banks and other financial institutions	2.64	0.26	4.70	-	-	-	2.53	0.35	-	-	-	-

(e) **Liquidity Risk**

Liquidity risk is the risk that the Group and the Bank are unable to meet their cash flows 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 their 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 their Holding Company can also be called upon to provide contingency funding to meet their 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 assets and liabilities at carrying amounts as of 31 December 2011.

The Group 2011	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	1,596,567	-	-	-	-	-	1,596,567
Deposits and placements with other financial institutions	-	353,624	-	-	-	-	353,624
Securities held-for-trading		154,124	12,821	116,055	23,369	-	306,369
Securities available-for-sale	-	-	303,490	483,784	-	1,719	788,993
Loans, advances and financing	148,146	53,996	185,544	1,436	27,247	(49,860)	366,509
Derivative financial assets	27,585	56,054	71,605	290,856	598,450	-	1,044,550
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	16,000	16,000
Other assets	-	-	-	-	-	25,616	25,616
Investment in associated company	-	-	-	-	-	10,149	10,149
Property, plant and equipment	-	-	-	-	-	15,834	15,834
Intangible asset	-	-	-	-	-	629	629
Deferred tax assets	-	-	-	-	-	31,699	31,699
Total Assets	1,772,298	617,798	573,460	892,131	649,066	51,786	4,556,539
Liabilities							
Deposits from customers	1,743,272	35,363	29,747	8,869	-	-	1,817,251
Deposits and placements from banks and other financial institutions	310,266	222,498	-	-	-	-	532,764
Derivative financial liabilities	56,876	51,925	108,255	430,155	566,579	-	1,213,790
Other liabilities	-	-	-	-	-	180,757	180,757
Subordinated debt capital	-	-	-	-	206,842	-	206,842
Total Liabilities	2,110,414	309,786	138,002	439,024	773,421	180,757	3,951,404
Net Liquidity gap	(338,116)	308,012	435,458	453,107	(124,355)	(128,971)	605,135

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

The Group 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	77,022	11,850	81,650	213,154	-	(50,049)	333,627
Derivative financial assets	40,507	112,842	175,069	462,300	453,684	-	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	3,022,745	124,692	424,547	1,619,773	465,761	84,276	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	22,216	63,003	147,441	648,189	346,542	-	1,227,391
Other liabilities	-	-	-	-	-	242,921	242,921
Subordinated debt capital	-	-	-	-	205,069	-	205,069
Total Liabilities	3,160,995	299,934	243,200	677,730	551,611	242,921	5,176,391
Net Liquidity gap	(138,250)	(175,242)	181,347	942,043	(85,850)	(158,645)	565,403

The following table represents the Bank's assets and liabilities at carrying amounts as of 31 December 2011.

The Bank 2011	**Up to 1 month RM'000**	**1 - 3 months RM'000**	**3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**No specific Maturity RM'000**	**Total RM'000**
Assets							
Cash and short-term funds	1,596,567	-	-	-	-	-	1,596,567
Deposits and placements with other financial institutions	-	353,624	-	-	-	-	353,624
Securities held-for-trading		154,124	12,821	116,055	23,369	-	306,369
Securities available-for-sale	-	-	303,490	483,784	-	1,719	788,993
Loans, advances and financing	148,146	53,996	185,544	1,436	27,247	(49,860)	366,509
Derivative financial assets	27,585	56,054	71,605	290,856	598,450	-	1,044,550
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	16,000	16,000
Other assets	-	-	-	-	-	25,616	25,616
Investments in subsidiary companies	-	-	-	-	-	20	20
Investment in associated company	-	-	-	-	-	8,503	8,503
Property, plant and equipment	-	-	-	-	-	15,834	15,834
Intangible asset	-	-	-	-	-	629	629
Deferred tax assets	-	-	-	-	-	31,699	31,699
Total Assets	1,772,298	617,798	573,460	892,131	649,066	50,160	4,554,913
Liabilities							
Deposits from customers	1,743,292	35,363	29,747	8,869	-	-	1,817,271
Deposits and placements from banks and other financial institutions	310,266	222,498	-	-	-	-	532,764
Derivative financial liabilities	56,876	51,925	108,255	430,155	566,579	-	1,213,790
Other liabilities	-	-	-	-	-	180,757	180,757
Subordinated debt capital	-	-	-	-	206,842	-	206,842
Total Liabilities	2,110,434	309,786	138,002	439,024	773,421	180,757	3,951,424
Net Liquidity gap	(338,136)	308,012	435,458	453,107	(124,355)	(130,597)	603,489

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

The Bank 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	77,022	11,850	81,650	213,154	-	(50,049)	333,627
Derivative financial assets	40,507	112,842	175,069	462,300	453,684	-	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	3,022,745	124,692	424,547	1,619,773	465,761	84,471	5,741,989
Liabilities							
Deposits from customers	1,634,066	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	22,216	63,003	147,441	648,189	346,542	-	1,227,391
Other liabilities	-	-	-	-	-	242,921	242,921
Subordinated debt capital	-	-	-	-	205,069	-	205,069
Total Liabilities	3,161,015	299,934	243,200	677,730	551,611	242,921	5,176,411
Net Liquidity gap	(138,270)	(175,242)	181,347	942,043	(85,850)	(158,450)	565,578

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.

(f) **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 their 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.

37. 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			
	2011		2010		2011		2010	
	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	1,596,567	1,596,567	2,895,306	2,895,306	1,596,567	1,596,567	2,895,306	2,895,306
Deposits and placements with other financial institutions	353,624	353,624	-	-	353,624	353,624	-	-
Securities purchased under resale agreements	-	-	9,910	9,910	-	-	9,910	9,910
Securities held-for-trading	306,369	306,369	337,881	337,881	306,369	306,369	337,881	337,881
Securities available-for-sale	788,993	788,993	786,343	786,343	788,993	788,993	786,343	786,343
Loans, advances and financing	366,509	362,628	333,627	333,610	366,509	362,628	333,627	333,610
Derivative financial assets	1,044,550	1,044,550	1,244,402	1,244,402	1,044,550	1,044,550	1,244,402	1,244,402
Statutory deposits with Bank Negara Malaysia	16,000	16,000	-	-	16,000	16,000	-	-
Financial Liabilities								
Deposits from customers	1,817,251	1,817,265	1,966,025	1,945,708	1,817,271	1,817,285	1,966,045	1,945,728
Deposits and placements from banks and other financial institutions	532,764	532,764	1,534,985	1,534,985	532,764	532,764	1,534,985	1,534,985
Derivative financial liabilities	1,213,790	1,213,790	1,227,391	1,227,391	1,213,790	1,213,790	1,227,391	1,227,391
Subordinated debt capital	206,842	207,867	205,069	205,174	206,842	207,867	205,069	205,174

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

(v) **Statutory Deposit with BNM**

Statutory deposit with BNM is stated at carrying amount.

(vi) **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.

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

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

(viii) **Subordinated Debt Capital**

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

Fair Value Hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived inputs other than quoted price included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that included inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Group/Bank

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	31.12.11 Total RM'000
Financial assets at FVTPL				
Derivative financial assets	-	1,044,550	-	1,044,550
Securities held-for-trading	-	306,369	-	306,369
Available-for-sale financial assets				
Quoted securities	-	787,274	-	787,274
Total	-	2,138,193	-	2,138,193
Financial liabilities at FVTPL				
Derivative financial liabilities	-	1,213,790	-	1,213,790
Total	-	1,213,790	-	1,213,790

There were no transfers between levels 1 and 2 in the period.

38. CAPITAL ADEQUACY

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

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Tier-I capital				
Paid-up share capital	203,000	203,000	203,000	203,000
Share premium	76,182	76,182	76,182	76,182
Statutory reserves	162,068	152,463	162,068	152,463
Retained earnings	162,577	131,940	160,931	132,115
	603,827	563,585	602,181	563,760
Less: Deferred tax assets	(31,699)	(25,688)	(31,699)	(25,688)
Total Tier-I capital	572,128	537,897	570,482	538,072
Tier-II capital				
Collective assessment allowance	5,783	5,783	5,783	5,783
Subordinated debt capital (at face value)	200,000	200,000	200,000	200,000
Total Tier-II capital	205,783	205,783	205,783	205,783
Total capital funds	777,911	743,680	776,265	743,855
Less: Investment in subsidiary companies	-	-	(20)	(20)
Capital base	777,911	743,680	776,245	743,835
Capital Ratios				
Core capital ratio	11.45%	11.18%	11.42%	11.18%
Risk-weighted capital ratio	15.57%	15.45%	15.53%	15.46%

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

	Group		Bank	
	2011	**2010**	**2011**	**2010**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Credit risk	2,987,421	1,856,278	2,984,952	1,856,540
Market risk	1,801,076	2,635,582	1,801,076	2,635,582
Operational risk	207,471	320,302	210,986	320,302
Total risk-weighted assets	4,995,968	4,812,162	4,997,014	4,812,424