PUBLIC BANK BERHAD
(6463-H)

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PUBLIC BANK BERHAD (6463-H)

Financial Statements

2011 Annual Report

PUBLIC BANK
(6463-H)

2011 annual report

Excellence &

Beyond

Financial Statements

rationale

This year's theme **'Excellence and Beyond'** is aptly portrayed via a graphic rendition of a telescopic lens, clearly illustrating Public Bank's innovative approach to business philosophies that focus on the realms of possibilities beyond the ordinary.

In line with this year's theme, Public Bank has gone beyond expectations to being the most profitable, efficient and respected financial institution in the country and we will continue to sustain our legacy of high growth, strong leadership and value creation for our shareholders. It's been an exciting journey thus far, and we look forward to even more success in the future.

CORPORATE PHILOSOPHY

PUBLIC BANK CARES ...

For Its Customers

- By providing the most courteous and efficient service in every aspect of its business
- By being innovative in the development of new banking products and services

For Its Employees

- By promoting the well-being of its staff through attractive remuneration and fringe benefits
- By promoting good staff morale through proper staff training and development and provision of opportunities for career advancement

For Its Shareholders

- By forging ahead and consolidating its position as a stable and progressive financial institution
- By generating profits and a fair return on their investment

For the Community It Serves

- By assuming its role as a socially responsible corporate citizen in a tangible manner
- By adhering closely to national policies and objectives thereby contributing towards the progress of the nation

... WITH INTEGRITY

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CORPORATE MISSION

"To sustain the position of being the most efficient, profitable and respected premier financial institution in Malaysia."

FINANCIAL HIGHLIGHTS

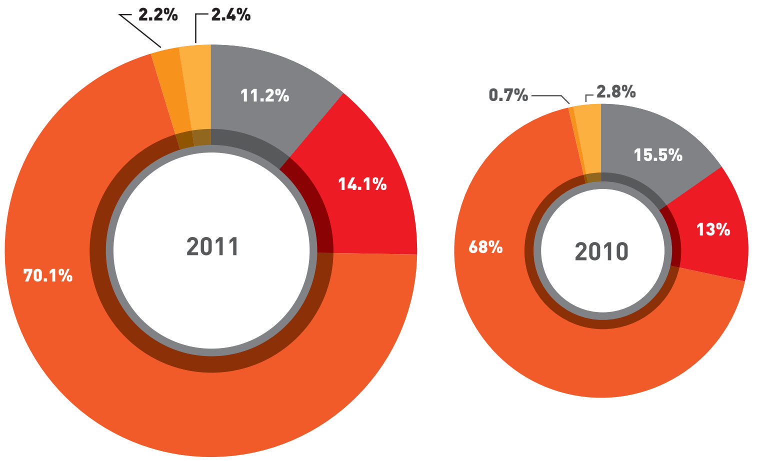
RM4.61b
Profit Before Tax

	Group		Bank	
	2011	**2010**	**2011**	**2010**
Profitability (RM'Million)				
Operating revenue	**12,756**	11,036	**9,436**	8,166
Operating profit	**5,200**	4,738	**4,367**	4,072
Profit before tax expense and zakat	**4,611**	4,086	**4,085**	3,678
Net profit attributable to equity holders of the Bank	**3,484**	3,048	**3,269**	2,932
Key Balance Sheet Data (RM'Million)				
Total assets	**249,411**	226,329	**205,433**	186,410
Loans, advances and financing	**174,804**	153,983	**142,256**	125,062
Deposits from customers	**200,371**	176,872	**159,384**	140,789
Shareholders' equity	**14,863**	13,033	**13,910**	12,303
Financial Ratios (%)				
Profitability Ratios				
Net interest margin on average interest bearing assets[1]	**3.3**	3.4	**3.0**	3.1
Net return on equity[2]	**26.8**	27.1	**26.9**	27.7
Return on average assets	**1.9**	1.8	**2.1**	2.0
Return on average risk-weighted assets	**3.0**	3.1	**3.3**	3.3
Capital Adequacy Ratios				
Tier I capital ratio	**10.7**	10.7	**12.9**	13.2
Risk-weighted capital ratio	**15.9**	14.4	**15.9**	14.1
Asset Quality Ratio				
Gross impaired loans ratio	**0.9**	1.1	**0.8**	1.1

1 *Excluding negotiable instruments of deposit and money market deposits which are on-lent to interbank.*
2 *Based on equity attributable to equity holders of the Bank, adjusted for dividend declared subsequent to year end.*

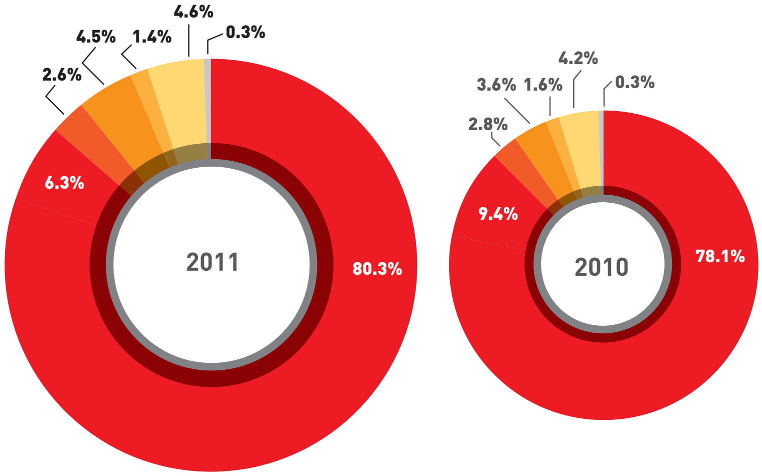
SIMPLIFIED GROUP BALANCE SHEET

Assets



2011		2010
11.2%	Cash and balances with banks and reverse repurchase agreements	15.5%
14.1%	Portfolio of financial investments	13.0%
70.1%	Loans, advances and financing	68.0%
2.2%	Statutory deposits with Central Banks	0.7%
2.4%	Other assets (including intangible assets)	2.8%

Liabilities & Equity



2011		2010
80.3%	Deposits from customers	78.1%
6.3%	Deposits from banks	9.4%
2.6%	Bills and acceptances payable and other liabilities	2.8%
4.5%	Debt securities issued and other borrowed funds	3.6%
1.4%	Share capital	1.6%
4.6%	Reserves	4.2%
0.3%	Non-controlling interests	0.3%

FIVE YEAR GROUP FINANCIAL SUMMARY

RM4.61b
Profit Before Tax

0.9%
Gross Impaired Loans

Year Ended 31 December	2011	2010	2009	2008	2007
Operating Results (RM'Million)					
Operating profit	**5,200**	4,738	4,015	3,948	3,418
Profit before tax expense and zakat	**4,611**	4,086	3,321	3,379	3,004
Net profit attributable to equity holders of the Bank	**3,484**	3,048	2,517	2,581	2,124
Key Balance Sheet Data (RM'Million)					
Total assets	**249,411**	226,329	217,136	196,163	174,155
Loans, advances and financing	**174,804**	153,983	135,336	118,386	99,328
Total liabilities	**233,850**	212,644	205,421	185,934	164,177
Deposits from customers	**200,371**	176,872	170,892	151,185	126,028
Core customer deposits	**157,297**	143,639	127,623	111,204	95,039
Paid-up capital	**3,532**	3,532	3,532	3,532	3,528
Shareholders' equity	**14,863**	13,033	11,023	9,537	9,342
Commitments and contingencies	**70,847**	69,206	61,435	52,867	40,807
Share Information and Valuation					
Share Information					
Per share (sen)					
Basic earnings	**99.5**	87.2	73.3	76.9	63.3
Diluted earnings	**99.5**	87.2	73.3	76.9	62.9
Net dividend					
– Cash dividend	**48.0**	45.5	41.3	41.0	55.3
– Share dividend	**–**	–	1 for 68	1 for 35	–
Net assets	**424.4**	372.1	319.4	284.2	278.7
Share price as at 31 December (RM)					
– Local	**13.38**	13.02	11.30	8.85	11.00
– Foreign	**13.20**	13.00	11.26	8.75	11.00
Market capitalisation (RM Million)	**47,066**	45,964	39,868	31,152	38,807
Valuations (Local Share)					
Net dividend yield (%)	**3.6**	3.5	3.7	4.6	5.0
Net dividend yield (including share dividend) (%)	**3.6**	3.5	5.1	7.5	5.0
Dividend payout ratio (%)	**48.3**	52.3	56.6	53.2	87.4
Dividend payout ratio (including share dividend) (%)	**48.3**	52.3	79.3	84.8	87.4
Price to earnings multiple (times)	**13.4**	14.9	15.4	11.5	17.4
Price to book multiple (times)	**3.2**	3.5	3.5	3.1	3.9

Five Year Group Financial Summary

+13.3%
Customer Deposits

+13.5%
Gross Loans

Year Ended 31 December	2011	2010	2009	2008	2007
Financial Ratios (%)					
Profitability Ratios					
Net interest margin on average interest bearing assets [1]	**3.3**	3.4	3.2	3.2	3.2
Net return on equity [2]	**26.8**	27.1	26.1	30.4	26.3
Return on average assets	**1.9**	1.8	1.6	1.8	1.9
Return on average risk-weighted assets	**3.0**	3.1	2.8	3.2	3.3
Cost/income ratio	**29.8**	30.7	32.6	31.2	33.1
Asset Quality Ratios					
Net loan to deposit ratio	**87.2**	87.1	79.2	78.3	78.8
Gross impaired loans ratio [3]	**0.9**	1.1	1.4	1.0	1.4
Loan loss coverage	**188.9**	143.5	120.3^	159.7	119.5
Capital Adequacy Ratios					
Tier I capital ratio	**10.7**	10.7	10.5	8.3	9.1
Risk-weighted capital ratio	**15.9**	14.4	14.6	13.7	13.6
Capital base (RM'Million)	**25,940**	20,274	18,221	15,775	13,478
Tier 1 – equity capital	**13,475**	11,159	9,161	8,157	7,627
– debt capital	**3,916**	3,896	3,964	1,440	1,346
Tier 2 – loan impairment reserves	**2,456**	2,165	2,052	1,760	1,523
– debt capital	**6,138**	3,102	3,218	4,419	2,982
Others	**(45)**	(48)	(174)	(1)	–
Productivity Ratios					
No. of employees	**17,511**	17,369	17,169	16,160	14,287
Gross loan per employee (RM'000)	**10,148**	9,013	8,015	7,467	7,098
Deposits per employee (RM'000)	**11,443**	10,183	9,953	9,356	8,821
Profit before tax per employee (RM'000)	**263**	235	193	209	210
Market Share (%)					
Domestic market share					
Loans, advances and financing	**16.3**	16.3	15.9	14.8	14.4
Deposits from customers	**14.7**	14.8	16.3	15.5	14.8
Core customer deposits	**16.3**	16.3	15.4	14.7	13.7

1 *Excluding negotiable instruments of deposit and money market deposits which are on-lent to interbank.*

2 *Based on equity attributable to equity holders of the Bank, adjusted for dividend declared subsequent to year end.*

3 *FYE 2009 to 2011 are based on a more stringent criteria on classification of impaired loans under FRS 139. FYE 2007 to 2008 are based on 3 months classification under old GP3.*

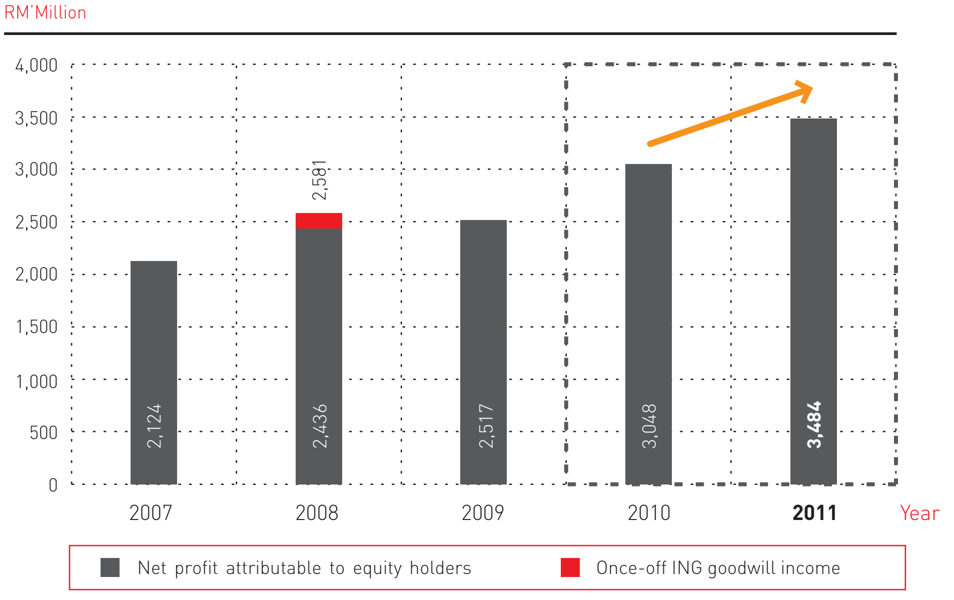
^ *Restated after adoption of FRS 139.*

SUMMARY OF FIVE-YEAR GROUP GROWTH

Delivering Sterling Performance Despite Ongoing Economic Volatility

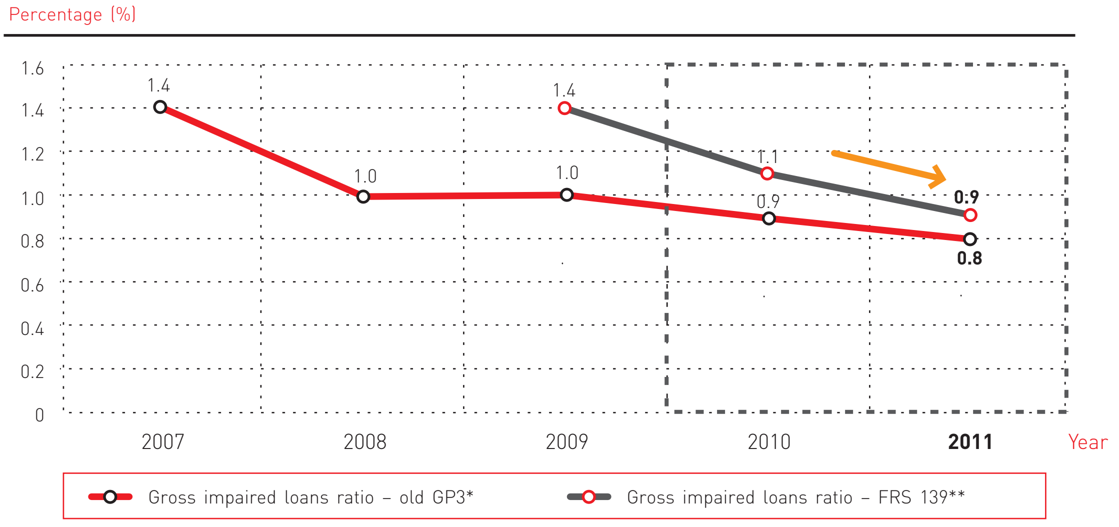
Sustainable Profit Growth

Strong Financial Performance



Superior Asset Quality

Improving Gross Impaired Loans Ratio



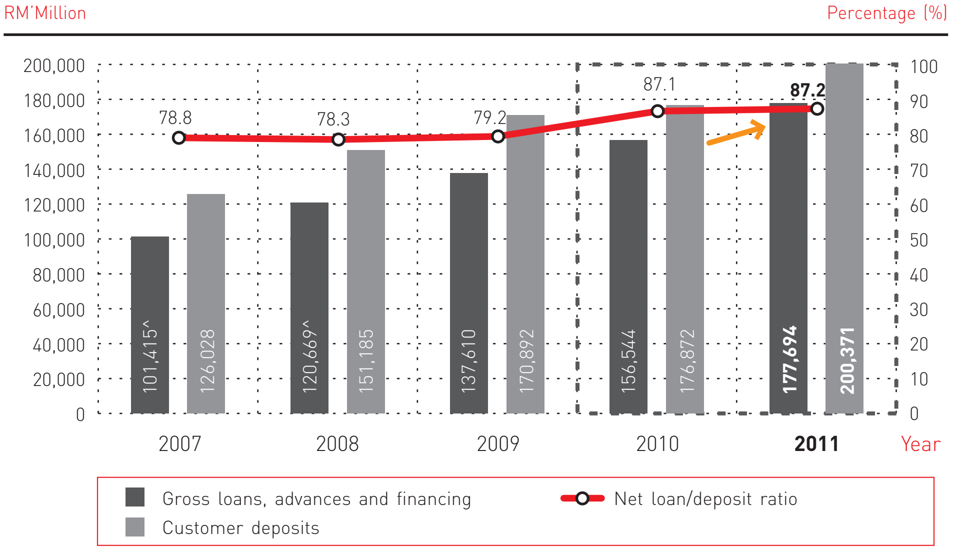
* *Old GP3 – loans in arrears for 3 months or more*

** *FRS 139 – loans in arrears for 3 months or more and significant loans in arrears for less than 3 months which show indications of impairment*

Summary of Five-Year Group Growth

Strong Balance Sheet Growth

Healthy Loans and Customer Deposits Growth with Stable Loan/Deposit Ratio



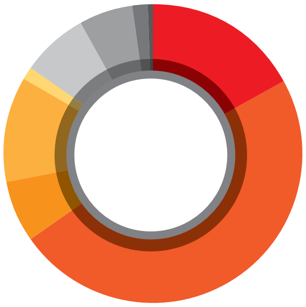
^ *Including Islamic financing sold to Cagamas*

Steady Asset Growth

SEGMENTAL ANALYSIS

For the year ended 31 December 2011

2011



Operating Revenue

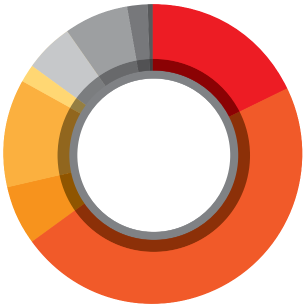
Domestic

17.2%	Hire purchase
48.2%	Retail operations
6.8%	Corporate lending
11.3%	Treasury and capital market operations
1.5%	Investment banking
7.0%	Fund management
–	Others

Overseas

5.9%	Hong Kong SAR
1.7%	Cambodia
0.4%	Other countries

2010



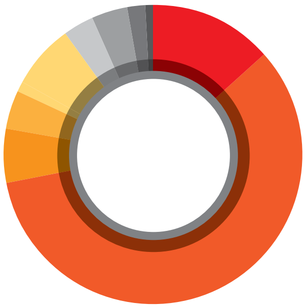
Operating Revenue

Domestic

17.8%	Hire purchase
47.3%	Retail operations
6.5%	Corporate lending
11.5%	Treasury and capital market operations
1.9%	Investment banking
5.4%	Fund management
–	Others

Overseas

7.0%	Hong Kong SAR
2.3%	Cambodia
0.3%	Other countries



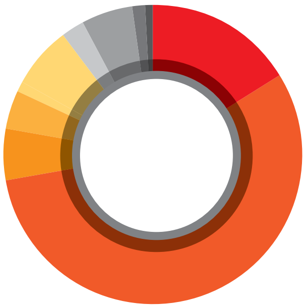
Profit Before Tax

Domestic

13.6%	Hire purchase
58.5%	Retail operations
5.8%	Corporate lending
4.2%	Treasury and capital market operations
1.1%	Investment banking
7.0%	Fund management
3.4%	Others

Overseas

3.8%	Hong Kong SAR
2.0%	Cambodia
0.6%	Other countries



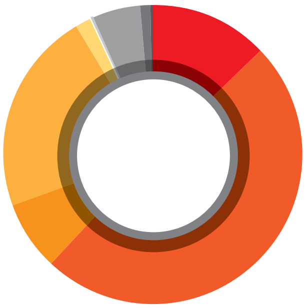
Profit Before Tax

Domestic

16.3%	Hire purchase
56.1%	Retail operations
5.6%	Corporate lending
4.0%	Treasury and capital market operations
1.2%	Investment banking
6.7%	Fund management
2.5%	Others

Overseas

5.4%	Hong Kong SAR
1.6%	Cambodia
0.6%	Other countries



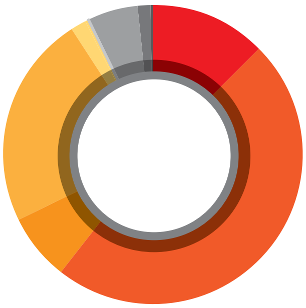
Total Assets

Domestic

12.8%	Hire purchase
49.3%	Retail operations
7.4%	Corporate lending
22.1%	Treasury and capital market operations
1.6%	Investment banking
0.1%	Fund management
0.1%	Others

Overseas

5.3%	Hong Kong SAR
1.1%	Cambodia
0.2%	Other countries



Total Assets

Domestic

12.7%	Hire purchase
48.1%	Retail operations
7.0%	Corporate lending
23.2%	Treasury and capital market operations
1.7%	Investment banking
0.1%	Fund management
0.1%	Others

Overseas

5.7%	Hong Kong SAR
1.2%	Cambodia
0.2%	Other countries

ANALYSIS OF THE FINANCIAL STATEMENTS

Analysis of the Income Statement

Net Income

The Public Bank Group's overall net income increased by 8.3% from RM6,838.5 million in 2010 to RM7,408.6 million in 2011.

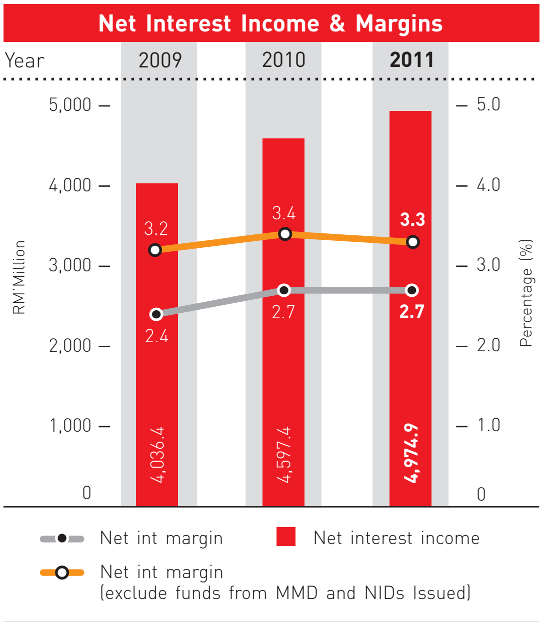
	2011 RM'000	2010 RM'000	Variance RM'000	Variance %	Contribution %
Net interest income	**4,974,931**	4,597,420	377,511	↑ 8.2	67.2
Net income from Islamic banking business	**868,342**	781,288	87,054	↑ 11.1	11.7
Other operating income	**1,565,297**	1,459,792	105,505	↑ 7.2	21.1
Net income	**7,408,570**	6,838,500	570,070	↑ 8.3	100.0

Net interest income

Net interest income is the main source of revenue for the Public Bank Group, accounting for 67.2% of the Group's total net income in 2011.

Net interest income of the Group grew by 8.2% or RM377.5 million to RM4,974.9 million in 2011 as compared to RM4,597.4 million in 2010.

Net interest margin on interest-bearing assets (exclude funds from wholesale deposits) remained stable at 3.3% in 2011. Net interest margin remained under pressure as cost of funds continued to rise whilst intense market competition drove down loan pricing. The impressive volume growth in the Group's loans and core customer deposits contributed to the overall higher net interest income of the Group in 2011.



Net income from Islamic banking business

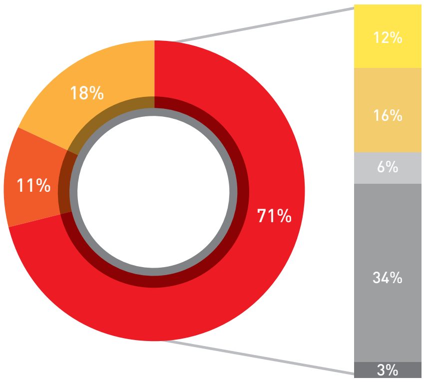
The Public Bank Group's net income from Islamic banking business accounted for 11.7% of the Group's total net income in 2011. The Group's net income from Islamic banking business rose by 11.1% or RM87.1 million to RM868.3 million in 2011 mainly driven by strong growth in Islamic financing and core deposits, as reflected by the higher net financing income of RM83.5 million.

Other operating income

Other operating income of the Public Bank Group contributed 21.1% of the Group's total net income in 2011. The increase in other operating income by 7.2% or RM105.5 million from RM1,459.8 million in 2010 to RM1,565.3 million in 2011 was primarily due to higher income from the Group's fund management business and higher investment income.

	2011 RM'000	2010 RM'000	Variance RM'000	Variance %
Net fee and comission income	**1,118,909**	1,031,770	87,139	↑ 8.5
of which:				
Commissions	**193,594**	202,236	(8,642)	↓ (4.3)
Service charges and fees	**249,425**	213,675	35,750	↑ 16.7
Net brokerage and commissions	**100,946**	105,237	(4,291)	↓ (4.1)
Income from fund management activities	**525,317**	470,255	55,062	↑ 11.7
Net gains and losses on financial instruments	**166,154**	129,745	36,409	↑ 28.1
Other income	**280,234**	298,277	(18,043)	↓ (6.0)
of which:				
Profits from foreign exchange business	**217,563**	250,563	(33,000)	↓ (13.2)
Total other operating income	**1,565,297**	1,459,792	105,505	↑ 7.2

Other Operating Income Contribution 2011



The Group's fee income increased by 8.5% or RM87.1 million to RM1,118.9 million in 2011 primarily due to higher income from the Group's fund management business. The fund management business maintained good growth momentum in 2011, achieving a 11.7% increase in income to RM525.3 million as compared to RM470.3 million in 2010 as a result of increase in net asset value of unit trust funds under management by 10.2% to RM44.75 billion as at the end of 2011. The higher fee income was also contributed by an increase in service charges and fees which grew from RM213.7 million in 2010 to RM249.4 million in 2011, an increase of 16.7%. Net brokerage and commissions from stock-broking activities dropped by 4.1% as a result of the generally lacklustre performance on Bursa Malaysia.

Net gains and losses on financial instruments increased by 28.1% or RM36.4 million to RM166.1 million in 2011, from RM129.7 million in 2010. The increase was attributable to higher net gain from financial investments available-for-sale of RM31.0 million from RM122.3 million in 2010 to RM153.3 million in 2011.

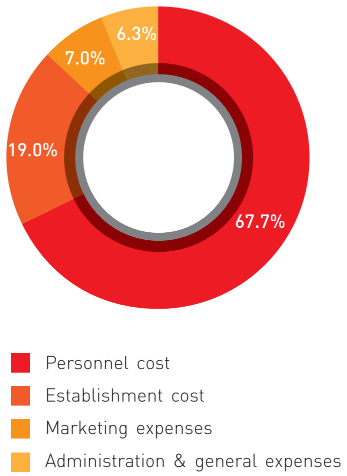
Other income decreased by 6.0% or RM18.0 million to RM280.2 million in 2011 mainly due to the lower volume of foreign exchange business.

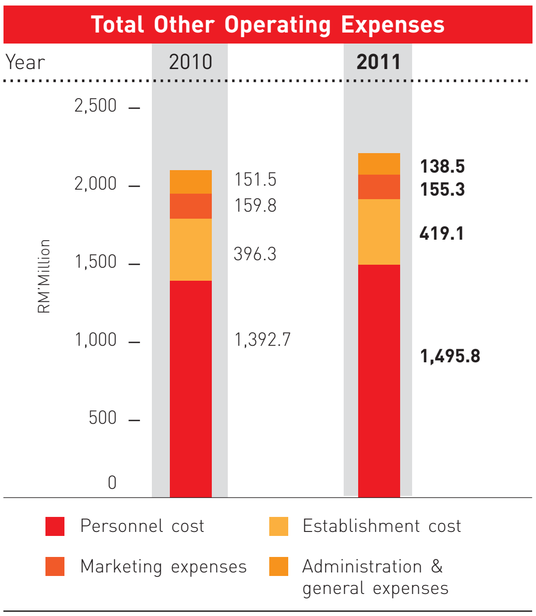
Analysis of the Financial Statements

Other operating expenses

While carefully managing costs, the Public Bank Group continued to make investments to support long-term business growth. The Group's other operating expenses increased by 5.2% or RM108.4 million to RM2,208.7 million in 2011 primarily due to higher personnel and establishment expenses. Personnel cost remained the chief operating cost of the Group, accounting for 67.7% of total other operating expenses, as the Group continued to invest in its people. The cost to income ratio improved further to below 30% in 2011 as a result of the much higher income growth of 8.3% relative to the operating expenses growth of 5.2%.

Other Operating Expenses Contribution 2011





Personnel cost increased by 7.4% to RM1,495.8 million in 2011 as compared to RM1,392.7 million in 2010. The increase was due to annual salary increment and an increased staff strength to support business expansion as reflected by the increase in the number of employees of the Group to 17,511 as at the end of 2011 as compared to 17,369 as at the end of 2010.

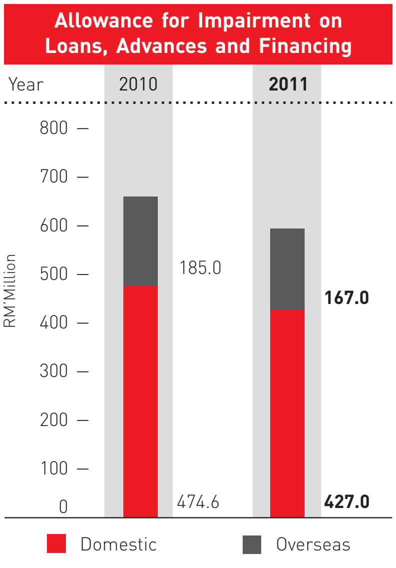
Establishment cost increased marginally by 5.8% to RM419.1 million in 2011 from RM396.3 million in 2010 mainly as a result of the opening of new branches and expansion of existing branches to cater for higher business volumes. Establishment cost represent 19.0% of total other operating expenses of the Group.

The Group's marketing expenses as well as administration and general expenses dropped by 2.8% and 8.6% respectively to RM155.3 million and RM138.5 million respectively in 2011. Marketing expenses and administration and general expenses accounted for 13.3% of the Group's total other operating expenses.

Allowance for impairment on loans, advances and financing

The Public Bank Group's domestic collective assessment allowance was computed based on BNM's guidelines on Classification and Impairment Provision for Loans/Financing, whereby collective assessment allowance was computed based on 1.5% of total outstanding loans/financing, net of individual assessment allowance. The domestic allowance for impairment on loans, advances and financing decreased by RM47.6 million in 2011 from RM474.6 million in 2010 mainly due to higher recoveries of impaired loans.

The overseas allowance for impairment on loan, advances and financing reduced from RM185.0 million in 2010 to RM167.0 million in 2011 as the economic and credit conditions continued to improve in the Group's Hong Kong and Cambodia operations.



Impairment loss on other assets

Impairment loss written back in 2011 was RM1.6 million as compared to impairment loss of RM5.2 million in 2010 mainly due to reversal of impairment loss on foreclosed properties in 2011.

Tax expenses and zakat

The Public Bank Group's tax expense increased by RM99.5 million or 10.1% to RM1,086.6 million as compared to RM987.1 million in 2010 in line with the higher pre-tax profits in 2011.

The Group's effective tax rate was 23.6% in 2011, lower than Malaysia's statutory tax rate of 25.0% mainly due to certain income not subject to tax and the effects of lower tax rates in jurisdictions outside Malaysia.

Analysis of the Statement of Financial Position

	2011 RM'Million	2010 RM'Million	Variance RM'Million	Variance %
Assets				
Cash and balances with banks	**18,634**	34,690	(16,056)	(46.3%)
Reverse repurchase agreements	**9,287**	366	8,921	>100%
Financial assets held-for-trading	**10,657**	6,361	4,296	67.5%
Financial investments available-for-sale	**16,719**	17,852	(1,133)	(6.3%)
Financial investments held-to-maturity	**7,629**	5,230	2,399	45.9%
Loans, advances and financing	**174,804**	153,983	20,821	13.5%
Statutory deposits with Central Banks	**5,598**	1,612	3,986	>100%
Other assets	**6,083**	6,235	(152)	(2.4%)
Total Assets	**249,411**	226,329	23,082	10.2%
Liabilities				
Deposits from customers	**200,371**	176,872	23,499	13.3%
Deposits from banks	**15,807**	21,327	(5,520)	(25.9%)
Debt securities issued and other borrowed funds	**11,318**	8,095	3,223	39.8%
Other liabilities	**6,354**	6,350	4	0.1%
Total Liabilities	**233,850**	212,644	21,206	10.0%
Total Equity	**15,561**	13,685	1,876	13.7%
Total Liabilities and Equity	**249,411**	226,329	23,082	10.2%

Total assets

The Public Bank Group's total assets grew by RM23.08 billion or 10.2% to RM249.41 billion for the financial year ended 31 December 2011. The increase was the result of another year of strong loan growth of 13.5%, achieved in the face of stiff competition.

As at the end of December 2011, net loans, advances and financing represented 70.1% of the Group's total asset base, as compared to 68.0% the previous year. The proportion of interest-bearing assets has remained high, at 93.1%.

Cash and balances with banks

Cash and balances with banks decreased by RM16.06 billion as excess liquidity held in short-term money market placements were utilised in loan disbursements to customers.

Reverse repurchase agreements

During the year, the Group's holdings of reverse repurchase agreements, as an alternative avenue for the placement of liquid funds, increased by RM8.92 billion.

Financial investments

The Group's financial investments comprise primarily of government-related securities and money market instruments, which are mainly held for yield and liquidity purposes. Holdings of trading book positions, classified under financial assets held-for-trading has increased by RM4.30 billion, and comprises 30.4% of the Group's financial investments. This was mainly due to an increase in holdings of money market instruments.

The Group's banking book positions are held under its financial investments available-for-sale and financial investments held-to-maturity portfolios. Financial investments available-for-sale decreased by RM1.13 billion due to lower holdings of government-related securities, whereas financial investments held-to-maturity increased by RM2.40 billion as a result of increased holdings of money market instruments. As at 31 December 2011, 47.8% and 21.8% of the Group's financial investments were held in financial investments available-for-sale and financial investments held-to-maturity respectively.

Loans, advances and financing

The Group's loan book grew by RM20.82 billion or 13.5% to RM174.80 billion as at end 2011. During the same period, domestic loan growth was even stronger at 14.1%, as the Public Bank Group continued to focus on its core strengths in the financing of residential properties, transport vehicles and small- and medium-sized enterprises, which grew by 17.5%, 9.5% and 13.8% respectively. The Group's loan growth has continued to outpace that of the Malaysian banking industry, resulting in a market share of 16.3% as at the end of November 2011. Despite adopting a strong organic growth strategy, the asset quality of the loan base has not been compromised, with the impaired loan ratio receding to 0.9% as at the end of 2011.

Statutory Deposits with Central Banks

The marked increase of RM3.99 billion during the year was a result of the gradual increase of the statutory reserve requirement rate from 1% at the beginning of the year to 4% as at end 2011, in line with Bank Negara Malaysia's monetary policy to reduce liquidity within the domestic banking system.

Total liabilities and equity

The Public Bank Group's total liabilities grew by RM21.21 billion in 2011 due to strong growth in customer deposits of RM23.50 billion offset by a drop in deposits from banks of RM5.52 billion. The Group's shareholders' equity has also grown to RM15.56 billion, to correspond with the expansion in the asset base. This was mainly due to strong net profits of RM3.48 billion registered during the year.

Deposits from customers

The Group's deposits from customers grew by RM23.50 billion or 13.3% to RM200.37 billion on the back of a surge in core customer deposits as well as wholesale deposits. Domestic deposits registered strong growth rates, resulting in a market share of 14.7% as at November 2011. As a result, the Group's loan to deposit ratio remained healthy at 87.2%.

Deposits from banks

Deposits from banks, consisting mainly of interbank borrowings, decreased by RM5.52 billion due to the Group's funding and gapping activities.

Debt securities issued and other borrowed funds

The Group's debt securities comprise subordinated notes, innovative Tier 1 capital securities and non-innovative Tier 1 stapled securities. These funds allow the Group to diversify its funding base, whilst strengthening its capital position and improving its return on equity. During the year, the Group issued RM3.0 billion in nominal value of subordinated notes under its RM5.0 billion subordinated Medium Term Note programme.

STATEMENT OF RESPONSIBILITY BY DIRECTORS

In respect of the preparation of the annual audited financial statements

The Directors are responsible for ensuring that the annual audited financial statements of the Group and the Bank are drawn up in accordance with the requirements of the Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines, the provisions of the Companies Act, 1965 and the Listing Requirements of Bursa Malaysia Securities Berhad.

The Directors are also responsible for ensuring that the annual audited financial statements of the Group and the Bank are prepared with reasonable accuracy from the accounting records of the Group and the Bank so as to give a true and fair view of the financial position of the Group and the Bank as of 31 December 2011 and of their financial performance and cash flows for the year then ended.

In preparing the annual audited financial statements, the Directors have:

a. applied the appropriate and relevant accounting policies on a consistent basis;

b. made judgments and estimates that are reasonable and prudent; and

c. prepared the annual audited financial statements on a going concern basis.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Group and the Bank to prevent and detect fraud and other irregularities.

financial statements

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DIRECTORS' REPORT

for the financial year ended 31 December 2011

The Directors have pleasure in presenting to the members their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2011.

Principal Activities

The Bank is principally engaged in all aspects of commercial banking and the provision of related financial services.

The principal activities of the subsidiary and associated companies are as disclosed in Notes 13 and 14 to the financial statements respectively.

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

Financial Results

	Group RM'000	Bank RM'000
Profit before tax expense and zakat	4,610,633	4,085,281
Tax expense and zakat	(1,086,609)	(816,525)
Profit for the year	3,524,024	3,268,756
Attributable to:		
Equity holders of the Bank	3,483,810	3,268,756
Non-controlling interests	40,214	–
Profit for the year	3,524,024	3,268,756

Dividends

The amount of dividends paid by the Bank since 31 December 2010 were as follows:

	RM'000
In respect of financial year ended 31 December 2010:	
Second interim franked dividend of 25% less 25% tax and single tier dividend of 8%, on 3,502,135,130 ordinary shares of RM1.00 each, paid on 23 February 2011	936,821
In respect of financial year ended 31 December 2011:	
First interim single tier dividend of 20% on 3,502,125,130 ordinary shares of RM1.00 each, paid on 17 August 2011	700,425
	1,637,246

Dividends (Cont'd.)

Subsequent to the financial year end, on 30 January 2012, the Directors declared a second interim single tier dividend of 28.0%, with the total amounting to approximately RM980,595,036 in respect of the current financial year. This is computed based on the issued and paid-up capital as at 31 December 2011, excluding treasury shares held by the Bank, of 3,502,125,130 ordinary shares of RM1.00 each, to be paid and distributed to shareholders whose names appear in the Record of Depositors at the close of business on 17 February 2012. The financial statements for the current financial year do not reflect these dividends. Upon declaration, the cash dividend payment will be accounted for in equity as an appropriation of retained earnings during the financial year ending 31 December 2012. The Directors do not propose any final dividend for the financial year ended 31 December 2011.

Issue of Shares

There were no changes to the authorised, issued and paid-up capital of the Bank during the financial year.

Share Buy-Back

On 14 March 2011, the shareholders of the Bank renewed their approval for the Bank to buy-back its own shares. During the financial year, the Bank bought back from the open market, 20,000 PBB Shares listed and quoted as "Local" on the Main Market of Bursa Malaysia at an average buy-back price of RM13.40 per share. The total consideration paid for the share buy-back of PBB Shares by the Bank during the financial year, including transaction costs, was RM268,951 and was financed by internally generated funds. The PBB Shares bought back are held as treasury shares in accordance with Section 67A Subsection 3(A)(b) of the Companies Act, 1965. None of the treasury shares held were resold or cancelled during the financial year.

As at 31 December 2011, the Bank held 29,800,704 PBB Shares as treasury shares out of its total issued and paid-up share capital of 3,531,925,834 PBB Shares. Such treasury shares are held at a carrying amount of RM215,571,989. Further information is disclosed in Note 27 to the financial statements.

Reserves, Provisions and Allowances

There were no material transfers to or from reserves or provisions or allowances during the year other than those disclosed in Note 9, Note 10 and Note 28 to the financial statements.

Bad and Doubtful Debts and Financing

Before the income statements, statements of comprehensive income and statements of financial position of the Group and the Bank were made out, the Directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of bad debts and financing and the making of allowance for doubtful debts and financing, and satisfied themselves that all known bad debts and financing had been written off and adequate allowance had been made for doubtful 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 bad debts and financing, or the amount of the allowance for doubtful debts and financing in the financial statements of the Group and the Bank, inadequate to any substantial extent.

Current Assets

Before the income statements, statements of comprehensive income and statements of financial position of the Group and the Bank were made out, the Directors took reasonable steps to ensure that current assets, other than debts and financing, which were unlikely to be realised in the ordinary course of business at their values as shown in the accounting records of the Group and the Bank have been written down to an amount which they might be expected to realise.

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 the Bank misleading.

Valuation Methods

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

Contingent and Other Liabilities

At the date of this report, there does not exist:

(a) any charge on the assets of the Group or the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or

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

No contingent liability or other liability of the Group and 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 or the Bank to meet their obligations as and when they fall due.

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 the Bank, which would render any amount stated in the financial statements misleading.

Items of Unusual Nature

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

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 likely, in the opinion of the Directors, to affect substantially the results of the operations of the Group and the Bank for the current financial year in which this report is made.

Significant Events During The Year

The significant events during the financial year are as disclosed in Note 53 to the financial statements.

Subsequent Events

There were no material events subsequent to the reporting date that require disclosure or adjustments to the financial statements.

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, including those as set out in the Guidelines on Financial Reporting for Financial Institutions and the Guidelines on Classification and Impairment Provisions for Loans/Financing.

Directors of The Bank

The Directors who served since the date of the last report are:

Tan Sri Dato' Sri Dr. Teh Hong Piow
Tan Sri Datuk Seri Utama Thong Yaw Hong
Tan Sri Dato' Sri Tay Ah Lek
Dato' Sri Lee Kong Lam
Dato' Yeoh Chin Kee
Dato' Haji Abdul Aziz bin Dato' Dr. Omar
Quah Poh Keat
Tang Wing Chew (appointed on 29 March 2011)
Y.A.M. Tengku Abdul Rahman Ibni Sultan Haji Ahmad Shah Al-Mustain Billah (retired on 20 March 2011)
Dato' (Dr) Haji Mohamed Ishak bin Haji Mohamed Ariff (retired on 14 March 2011)

In accordance with Article 111 of the Bank's Articles of Association, Tan Sri Dato' Sri Tay Ah Lek and Quah Poh Keat retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 109 of the Bank's Articles of Association, Tang Wing Chew retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

Tan Sri Dato' Sri Dr. Teh Hong Piow, Tan Sri Datuk Seri Utama Thong Yaw Hong and Dato' Sri Lee Kong Lam retire pursuant to Section 129 of the Companies Act, 1965 at the forthcoming Annual General Meeting and offer themselves for re-appointment in accordance with Section 129 of the Companies Act, 1965 to hold office until the conclusion of the next Annual General Meeting of the Bank.

Directors' Interests

According to the Register of Directors' Shareholdings, the interests of the Directors in office at the end of the financial year in shares of the Bank, and in shares and in options of its subsidiary company during the financial year were as follows:

Shares Held in the Bank

	Number of Ordinary Shares of RM1.00 Each			
	Balance at 1.1.2011	Acquired	Disposed	Balance at 31.12.2011
Direct interests:				
Tan Sri Dato' Sri Dr. Teh Hong Piow	22,464,802	–	–	22,464,802
Tan Sri Datuk Seri Utama Thong Yaw Hong	7,633,342	–	–	7,633,342
Tan Sri Dato' Sri Tay Ah Lek	6,898,951	–	–	6,898,951
Dato' Sri Lee Kong Lam	380,866	–	–	380,866
Dato' Yeoh Chin Kee	208,739	313,107	(371,846)	150,000
Dato' Haji Abdul Aziz bin Dato' Dr. Omar	632,037	–	(100,000)	532,037

	Number of Ordinary Shares of RM1.00 Each			
	Balance at 1.1.2011	Acquired	Disposed	Balance at 31.12.2011
Indirect interests:				
Tan Sri Dato' Sri Dr. Teh Hong Piow	820,835,261	–	–	820,835,261
Tan Sri Datuk Seri Utama Thong Yaw Hong	857,785	–	–	857,785
Tan Sri Dato' Sri Tay Ah Lek	354,315	–	–	354,315
Dato' Sri Lee Kong Lam	434,957	–	–	434,957
Dato' Yeoh Chin Kee	313,107	–	(313,107)	–

Shares Held in a Subsidiary Company
– Shares Held in Public Financial Holdings Limited ("PFHL")

	Number of Ordinary Shares of HKD0.10 Each			
	Balance at 1.1.2011	Acquired	Disposed	Balance at 31.12.2011
Direct interests:				
Tan Sri Dato' Sri Tay Ah Lek	350,000	–	–	350,000

Directors' Interests (Cont'd.)

Share Options Held in a Subsidiary Company
– Share Options Held under the PFHL Employees' Share Option Scheme ("PFHL Share Options")

	Option Price HKD	Number of PFHL Share Options Balance at 1.1.2011	Granted	Exercised	Lapsed	Balance at 31.12.2011
Tan Sri Dato' Sri Tay Ah Lek	6.35	1,230,000	–	–	–	1,230,000

Other than as disclosed above, none of the Directors in office at the end of the financial year had any interest in shares in the Bank or its related corporations during the financial year.

Tan Sri Dato' Sri Dr. Teh Hong Piow, by virtue of his total direct and indirect interests of 843,300,063 shares in the Bank, and pursuant to Section 6A(4)(c) of the Companies Act, 1965, is deemed interested in the shares in all of the Bank's subsidiary and associated companies to the extent that the Bank has interests.

Directors' Benefits

During and at the end of the financial year, no arrangements subsisted to which the Bank or its subsidiary companies is a party with the object of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate, other than the PFHL Share Options.

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors or the fixed salary of a full time employee of the Bank as disclosed in Note 36 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has substantial financial interest except for those transactions arising in the ordinary course of business as disclosed in Note 42(a) to the financial statements.

Remuneration Committee

The Remuneration Committee carries out the annual review of the overall remuneration policy for Directors, the Chief Executive Officer and key Senior Management Officers whereupon recommendations are made to the Board of Directors for approval.

The members of the Remuneration Committee comprising of all the Non-Executive Directors of the Bank are:

Tan Sri Datuk Seri Utama Thong Yaw Hong *(Independent)*
Dato' Yeoh Chin Kee *(Non-Independent)*
Dato' Haji Abdul Aziz bin Dato' Dr. Omar *(Independent)*
Quah Poh Keat *(Independent)*
Tang Wing Chew *(Independent) (Appointed as Member upon appointment as Director on 29 March 2011)*
Dato' (Dr) Haji Mohamed Ishak bin Haji Mohamed Ariff *(Independent) (Ceased to be a Member upon retirement as Director on 14 March 2011)*
Y.A.M. Tengku Abdul Rahman Ibni Sultan Haji Ahmad Shah Al-Mustain Billah *(Independent) (Ceased to be a Member upon retirement as Director on 20 March 2011)*

Directors' Report

Business Review 2011

The operating environment in Malaysia continued to support banking businesses. The Malaysian banking sector remained resilient with strong profitability, capitalisation and asset quality. Intense competition in the banking industry resulted in competitive interest rates for loans and deposits and compression on net interest margin. Despite the upward revision of the Bank Negara Malaysia Overnight Policy Rate by 25 basis points to 3% in May 2011, the lending rates had remained low.

In 2011, the Public Bank Group continued to record strong growth in its lending and deposit-taking businesses. In its lending business, the Group continued to focus on its core retail lending to consumers, particularly in home mortgages, passenger vehicle hire purchase financing and in retail commercial lending to small- and medium-sized enterprises ("SMEs"). During the year, the Group's total loans outstanding increased by 13.5%, with home mortgages increased by 16.9%, passenger vehicle hire purchase financing increased by 9.6% and loans to SMEs increased by 13.8%.

On deposit-taking business, the Public Bank Group intensified strategies to attract deposits through attractive deposit rates and deposit campaigns. During the year, the Group's fixed deposits increased by 9.1%, savings deposits by 7.4% and current deposits by 12.9%.

Gross impaired loans ratio remained low at 0.9% at end-2011. The strong asset quality was contributed by the Group's prudent lending policies and strong risk management practices. Due to concern of household indebtedness in Malaysia, Bank Negara Malaysia introduced a comprehensive series of pre-emptive measures such as prudential policies applied on the residential property sector, new credit card guidelines and strengthened requirements for banks to adopt prudent and responsible lending practices. Financial education programmes as well as advisory and support arrangements have also served to promote responsible borrowing by households.

The Public Bank Group continued to accelerate growth in its fee-based income such as sales of unit trust funds, bancassurance products, card business, trade finance and remittance business. Jointly with ING Insurance, the Public Bank Group entered into family takaful business in 2011.

The Public Bank Group continued to drive cost efficiency initiatives to further improve productivity. The Group maintained its top ranking in terms of cost efficiency with cost-to-income ratio of 29.8%.

As part of the business expansion strategy, the Public Bank Group continued to expand its branch network during the year. In 2011, the number of Public Bank branches in Malaysia expanded to 252 branches. The Group also expanded and enhanced its strong sales force, network of self-service machines, internet banking and mobile banking and invested in its superior service delivery standards.

The Public Bank Group remained committed to expanding its overseas operations. The Group currently has 83 branches in Hong Kong, 3 branches in China, 23 branches in Cambodia, 7 branches in Vietnam, 3 branches in Laos, 1 branch in Sri Lanka and 3 representative offices in Shanghai, Shenyang and Taipei.

As a responsible corporate citizen, the Public Bank Group continued to undertake corporate social responsibility programmes in nation building, enhancement of the market place, promotion of the workplace, customer care, education, community support and environmental conservation.

Economic Outlook and Prospects for 2012

For 2012, although the economic outlook may be clouded by the challenging external environment, resilient domestic demand and intra-regional trade are expected to continue to drive economic expansion in Malaysia. The Malaysian economy is expected to grow between 5% and 6% in 2012. Inflation should moderate with the slowdown in global commodity price rises and uncertainties in major advanced economies. Unemployment rate is expected to remain low in Malaysia.

On the demand side, stable consumer confidence, firm prices of primary commodities, moderate inflation, accommodative fiscal and monetary policies and measures proposed in Budget 2012 are likely to keep the momentum in private and public consumption. Public and private sector investments should accelerate with the implementation of the Economic Transformation Programme, the 10th Malaysia Plan and Budget 2012.

On the supply side, growth is expected to be broad-based. Commencement of large infrastructure projects should support growth in the construction sector. The manufacturing sector is expected to continue to be supported by strong domestic-oriented industries. Stable domestic economic activities and steady regional trade will continue to spur growth in the services sector.

Fiscal policy is expected to remain prudent and supportive of economic growth. As economic outlook is expected to remain favourable and inflation is likely to moderate in 2012, monetary policy is expected to remain accommodative with interest rates to be kept low and stable.

Business Outlook for 2012

The operating environment for the banking sector is expected to remain positive in 2012. Backed by strong economic fundamentals, pragmatic macroeconomic policies and strong domestic demand, the Malaysian economy is expected to grow by 5% to 6%. Inflation is likely to moderate in 2012. The banking industry is expected to remain resilient. The competitive landscape of the banking sector will increase, hence, net interest margins are likely to remain under pressure.

The Public Bank Group will remain focused on its organic growth strategies in Malaysia to grow both its retail loans and customer deposits. Loan growth will continue to be supported by growth in home mortgages, passenger vehicles hire purchase financing and retail commercial loans to SMEs. Higher household income, low interest rates and implementation of projects under the Economic Transformation Programme and 10th Malaysia Plan will support demand for loans. For its funding base, the Public Bank Group will continue to promote core customer deposits to ensure that it continues to maintain low funding cost and a healthy and liquid balance sheet.

The Public Bank Group will remain focused on maintaining its risk management standards and practices to ensure that it continues to maintain its strong asset quality. The Group will remain vigilant to risks associated with high household debt.

The Public Bank Group will continue to focus on expanding its fee-based activities such as the sale of unit trust funds, bancassurance products, structured investment products, trade finance, remittances and card business. The Group will continue to actively pursue cross-selling initiatives and seek feasible product bundling opportunities. The Public Bank Group will continue to focus on growing its overseas business and tap opportunities from the favourable economic prospects of this region.

Business Outlook for 2012 (Cont'd.)

To grow its business, the Group will further leverage on its PB brand name franchise, wide distribution network, strong sales and marketing force, efficient multiple delivery channels and superior service delivery standards. The Group will accelerate its efforts to achieve greater utilisation of electronic payments. As part of the ongoing initiatives to enhance customer experience, the Group will continue to improve its customer relationship management.

In relation to Basel III, the Public Bank Group will continue to monitor any additional capital requirements to be imposed by Bank Negara Malaysia and ensure healthy capital level at all times as well as identify avenues for more efficient management of the overall liquidity compliance. With the launch of the new Financial Sector Blueprint, the Public Bank Group will continue to play its role in supporting the Malaysian banking sector to become more effective and efficient in its financial intermediation functions.

Auditors

The retiring auditors, Messrs. KPMG, have indicated their willingness to accept re-appointment.

Signed in accordance with a resolution of the Directors:

TAN SRI DATO' SRI DR. TEH HONG PIOW
Director

TAN SRI DATUK SERI UTAMA THONG YAW HONG
Director

Kuala Lumpur
Date: 30 January 2012

STATEMENT BY DIRECTORS

We, TAN SRI DATO' SRI DR. TEH HONG PIOW and TAN SRI DATUK SERI UTAMA THONG YAW HONG, being two of the Directors of PUBLIC BANK BERHAD, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 29 to 252 are properly 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 at 31 December 2011 and of their financial performance and cash flows for the year then ended.

The information set out in Note 56 to the financial statements have been compiled in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants.

Signed in accordance with a resolution of the Directors:

TAN SRI DATO' SRI DR. TEH HONG PIOW
Director

TAN SRI DATUK SERI UTAMA THONG YAW HONG
Director

Kuala Lumpur
Date: 30 January 2012

STATUTORY DECLARATION

I, CHANG SIEW YEN, being the officer primarily responsible for the financial management of PUBLIC BANK BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 29 to 252, 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.

Subscribed and solemnly declared by the
abovenamed **CHANG SIEW YEN** at KUALA LUMPUR
in WILAYAH PERSEKUTUAN this 30 January 2012

BEFORE ME:

Commissioner for Oaths
Kuala Lumpur

INDEPENDENT AUDITORS' REPORT

To the members of Public Bank Berhad

Report on the Financial Statements

We have audited the financial statements of Public Bank Berhad, which comprise the statements of financial position as at 31 December 2011 of the Group and of the Bank, and the income statements, statements of comprehensive income, changes in equity and cash flows of the Group and of the Bank for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 29 to 252.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation of these 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 management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation of the 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 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 at 31 December 2011 and of their financial performance and cash flows for the financial year then ended.

Report on Other Legal and Regulatory Requirements

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

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

(b) We have considered the accounts and the auditors' reports of all the subsidiary companies of which we have not acted as auditors, which are indicated in Note 13 to the financial statements.

(c) We are satisfied that the accounts of the subsidiary companies that have been consolidated with the Bank's financial statements 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 required by us for those purposes.

(d) The audit reports on the accounts of the subsidiary companies did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Reporting Responsibilities

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 56 to the financial statements has been compiled by the Group and the Bank as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance on Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements,* issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

Other Matters

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

KPMG
Firm Number: AF 0758
Chartered Accountants

ADRIAN LEE LYE WANG
Approval Number: 2679/11/13(J)
Chartered Accountant

Petaling Jaya
Date: 30 January 2012

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2011

		Group		Bank	
		2011	2010	2011	2010
	Note	RM'000	RM'000	RM'000	RM'000
Assets					
Cash and balances with banks	3	**18,633,783**	34,690,439	**10,508,349**	27,172,447
Reverse repurchase agreements	4	**9,287,255**	365,877	**8,435,611**	10,737
Financial assets held-for-trading	5	**10,656,825**	6,360,620	**10,406,551**	5,812,736
Derivative financial assets	6	**493,852**	326,622	**492,536**	322,596
Financial investments available-for-sale	7	**16,719,433**	17,852,284	**14,287,941**	14,269,479
Financial investments held-to-maturity	8	**7,629,233**	5,229,617	**7,073,857**	5,230,399
Loans, advances and financing	9	**174,804,286**	153,982,980	**142,255,685**	125,062,183
Other assets	10	**2,008,254**	1,995,880	**1,913,726**	1,703,642
Statutory deposits with Central Banks	11	**5,597,801**	1,612,575	**4,496,365**	1,106,330
Deferred tax assets	12	**46,093**	519,215	**–**	416,470
Investment in subsidiary companies	13	**–**	–	**4,088,581**	3,888,581
Investment in associated companies	14	**155,997**	118,624	**121,325**	101,325
Investment properties	15	**70,754**	65,552	**–**	–
Property and equipment	16	**1,341,940**	1,278,319	**657,124**	617,544
Intangible assets	17	**1,965,476**	1,930,372	**695,393**	695,393
TOTAL ASSETS		**249,410,982**	226,328,976	**205,433,044**	186,409,862
Liabilities					
Deposits from customers	18	**200,370,525**	176,872,119	**159,384,439**	140,789,266
Deposits from banks	19	**15,806,732**	21,327,476	**16,717,349**	21,069,781
Bills and acceptances payable	20	**2,095,335**	2,308,836	**2,095,076**	2,450,006
Recourse obligations on loans sold to Cagamas	21	**11,789**	16,319	**11,789**	16,319
Derivative financial liabilities	6	**236,724**	375,529	**190,325**	340,995
Debt securities issued and other borrowed funds	22	**11,317,833**	8,094,880	**10,422,749**	7,196,528
Other liabilities	23	**3,467,535**	2,839,874	**2,368,327**	1,675,651
Provision for tax expense and zakat	25	**488,178**	800,464	**281,354**	568,565
Deferred tax liabilities	12	**55,625**	8,391	**51,708**	–
TOTAL LIABILITIES		**233,850,276**	212,643,888	**191,523,116**	174,107,111

Statements of Financial Position

	Note	Group 2011 RM'000	Group 2010 RM'000	Bank 2011 RM'000	Bank 2010 RM'000
Equity					
Share capital	26	**3,531,926**	3,531,926	**3,531,926**	3,531,926
Reserves		**11,546,868**	9,716,277	**10,593,574**	8,986,128
Treasury shares	27	**(215,572)**	(215,303)	**(215,572)**	(215,303)
Equity attributable to equity holders of the Bank		**14,863,222**	13,032,900	**13,909,928**	12,302,751
Non-controlling interests		**697,484**	652,188	**–**	–
TOTAL EQUITY		**15,560,706**	13,685,088	**13,909,928**	12,302,751
TOTAL LIABILITIES AND EQUITY		**249,410,982**	226,328,976	**205,433,044**	186,409,862
COMMITMENTS AND CONTINGENCIES	48	**70,847,182**	69,205,908	**66,266,801**	64,532,682
Net assets per share attributable to ordinary equity holders of the Bank (RM)		**4.24**	3.72	**3.97**	3.51

The accompanying notes form an integral part of the financial statements

INCOME STATEMENTS

for the year ended 31 December 2011

	Note	Group 2011 RM'000	Group 2010 RM'000	Bank 2011 RM'000	Bank 2010 RM'000
Operating revenue	2(x)	**12,756,360**	11,035,597	**9,436,092**	8,165,635
Interest income	30	**9,413,030**	8,113,531	**8,529,106**	7,145,714
Interest expense	31	**(4,438,099)**	(3,516,111)	**(4,237,383)**	(3,256,730)
Net interest income		**4,974,931**	4,597,420	**4,291,723**	3,888,984
Net income from Islamic banking business	55	**868,342**	781,288	**–**	–
		5,843,273	5,378,708	**4,291,723**	3,888,984
Net fee and commission income	32	**1,118,909**	1,031,770	**450,004**	411,589
Net gains and losses on financial instruments	33	**166,154**	129,745	**167,482**	137,372
Other operating income	34	**280,234**	298,277	**967,768**	1,054,567
Net income		**7,408,570**	6,838,500	**5,876,977**	5,492,512
Other operating expenses	35	**(2,208,684)**	(2,100,235)	**(1,509,815)**	(1,420,637)
Operating profit		**5,199,886**	4,738,265	**4,367,162**	4,071,875
Allowance for impairment on loans, advances and financing	37	**(594,061)**	(659,566)	**(283,497)**	(383,940)
Writeback of impairment/(Impairment) on other assets	38	**1,598**	(5,188)	**1,616**	(10,278)
		4,607,423	4,073,511	**4,085,281**	3,677,657
Share of profit after tax of equity accounted associated companies		**3,210**	12,686	**–**	–
Profit before tax expense and zakat		**4,610,633**	4,086,197	**4,085,281**	3,677,657
Tax expense and zakat	39	**(1,086,609)**	(987,120)	**(816,525)**	(746,096)
Profit for the year		**3,524,024**	3,099,077	**3,268,756**	2,931,561
Attributable to:					
Equity holders of the Bank		**3,483,810**	3,048,224	**3,268,756**	2,931,561
Non-controlling interests		**40,214**	50,853	**–**	–
Profit for the year		**3,524,024**	3,099,077	**3,268,756**	2,931,561
Earnings per RM1.00 share:					
– basic/diluted (sen)	40	**99.5**	87.2		

The accompanying notes form an integral part of the financial statements

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 December 2011

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Profit for the year	**3,524,024**	3,099,077	**3,268,756**	2,931,561
Other comprehensive income/(loss), net of tax:				
Currency translation differences in respect of				
– foreign operations	**124,934**	(386,680)	**–**	–
– net investment hedge	**(90,853)**	292,272	**–**	–
Net (loss)/gain on revaluation of financial investments available-for-sale	**(27,479)**	53,931	**(28,640)**	37,617
Net change in cash flow hedges	**(3,445)**	(4,361)	**(3,445)**	(4,361)
Income tax relating to components of other comprehensive loss/(income)	**5,166**	(11,795)	**8,021**	(8,314)
Other comprehensive income/(loss) for the year, net of tax	**8,323**	(56,633)	**(24,064)**	24,942
Total comprehensive income for the year	**3,532,347**	3,042,444	**3,244,692**	2,956,503
Total comprehensive income/(loss) for the year attributable to:				
– Equity holders of the Bank	**3,467,837**	3,065,105	**3,244,692**	2,956,503
– Non-controlling interests	**64,510**	(22,661)	**–**	–
	3,532,347	3,042,444	**3,244,692**	2,956,503

The accompanying notes form an integral part of the financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2011

		← Attributable to Equity Holders of the Bank →							
				Non-distributable Reserves	Distributable Reserves				
2011 Group	Note	Share Capital RM'000	Share Premium RM'000	Other Reserves RM'000	Retained Profits RM'000	Treasury Shares RM'000	Total Shareholders' Equity RM'000	Non-controlling Interests RM'000	Total Equity RM'000
At 1 January 2011		3,531,926	1,073,310	3,888,562	4,754,405	(215,303)	13,032,900	652,188	13,685,088
Profit for the year		–	–	–	3,483,810	–	3,483,810	40,214	3,524,024
Currency translation differences in respect of									
– foreign operations		–	–	100,638	–	–	100,638	24,296	124,934
– net investment hedge		–	–	(90,853)	–	–	(90,853)	–	(90,853)
Net loss on revaluation of financial investments available-for-sale		–	–	(27,479)	–	–	(27,479)	–	(27,479)
Net change in cash flow hedges		–	–	(3,445)	–	–	(3,445)	–	(3,445)
Income tax relating to components of other comprehensive income		–	–	5,166	–	–	5,166	–	5,166
Total comprehensive (loss)/ income for the year		–	–	(15,973)	3,483,810	–	3,467,837	64,510	3,532,347
Transactions with owners:									
Buy-back of shares	27	–	–	–	–	(269)	(269)	–	(269)
Transfer to statutory reserves		–	–	29,895	(29,895)	–	–	–	–
Transfer to regulatory reserves		–	–	25,784	(25,784)	–	–	–	–
Transfer to general reserves		–	–	127,746	(127,746)	–	–	–	–
Dividends paid	41	–	–	–	(1,637,246)	–	(1,637,246)	(19,214)	(1,656,460)
		–	–	183,425	(1,820,671)	(269)	(1,637,515)	(19,214)	(1,656,729)
At 31 December 2011		3,531,926	1,073,310	4,056,014	6,417,544	(215,572)	14,863,222	697,484	15,560,706
		Note 26		Note 28		Note 27			

	2011	2010
Net dividends per RM1.00 share declared for the financial year (Note 41):		
– First interim dividend (sen)	**20.00**	18.75
– Second interim dividend (sen)	**28.00**	26.75
	48.00	45.50

The accompanying notes form an integral part of the financial statements

Consolidated Statement of Changes in Equity

2010 Group	Note	Share Capital RM'000	Share Premium RM'000	Non-distributable Reserves: Other Reserves RM'000	Distributable Reserves: Retained Profits RM'000	Distributable Reserves: Treasury Shares RM'000	Total Shareholders' Equity RM'000	Non-controlling Interests RM'000	Total Equity RM'000
		← Attributable to Equity Holders of the Bank					→		
At 1 January 2010		3,531,926	1,439,885	3,787,271	3,094,387	(581,638)	11,271,831	699,287	11,971,118
Profit for the year		–	–	–	3,048,224	–	3,048,224	50,853	3,099,077
Currency translation differences in respect of									
– foreign operations		–	–	(313,166)	–	–	(313,166)	(73,514)	(386,680)
– net investment hedge		–	–	292,272	–	–	292,272	–	292,272
Net gain on revaluation of financial investments available-for-sale		–	–	53,931	–	–	53,931	–	53,931
Net change in cash flow hedges		–	–	(4,361)	–	–	(4,361)	–	(4,361)
Income tax relating to components of other comprehensive income		–	–	(11,795)	–	–	(11,795)	–	(11,795)
Total comprehensive income/ (loss) for the year		–	–	16,881	3,048,224	–	3,065,105	(22,661)	3,042,444
Transactions with owners:									
Buy-back of shares	27	–	–	–	–	(240)	(240)	–	(240)
Transfer to statutory reserves		–	–	68,189	(68,189)	–	–	–	–
Transfer to regulatory reserves		–	–	16,221	(16,221)	–	–	–	–
Dividends paid	41	–	–	–	(1,303,796)	–	(1,303,796)	(24,438)	(1,328,234)
Share dividends	41	–	(366,575)	–	–	366,575	–	–	–
		–	(366,575)	84,410	(1,388,206)	366,335	(1,304,036)	(24,438)	(1,328,474)
At 31 December 2010		3,531,926	1,073,310	3,888,562	4,754,405	(215,303)	13,032,900	652,188	13,685,088
		Note 26		Note 28		Note 27			

The accompanying notes form an integral part of the financial statements

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2011

		Attributable to Equity Holders of the Bank					
				Non-distributable Reserves	Distributable Reserves		
2011 Bank	**Note**	**Share Capital RM'000**	**Share Premium RM'000**	**Other Reserves RM'000**	**Retained Profits RM'000**	**Treasury Shares RM'000**	**Total RM'000**
At 1 January 2011		**3,531,926**	**1,073,310**	**3,538,614**	**4,374,204**	**(215,303)**	**12,302,751**
Profit for the year		**–**	**–**	**–**	**3,268,756**	**–**	**3,268,756**
Net loss on revaluation of financial investments available-for-sale		**–**	**–**	**(28,640)**	**–**	**–**	**(28,640)**
Net change in cash flow hedges		**–**	**–**	**(3,445)**	**–**	**–**	**(3,445)**
Income tax relating to components of other comprehensive income		**–**	**–**	**8,021**	**–**	**–**	**8,021**
Total comprehensive (loss)/ income for the year		**–**	**–**	**(24,064)**	**3,268,756**	**–**	**3,244,692**
Transactions with owners:							
Buy-back of shares	27	**–**	**–**	**–**	**–**	**(269)**	**(269)**
Transfer to general reserves		**–**	**–**	**756**	**(756)**	**–**	**–**
Dividends paid	41	**–**	**–**	**–**	**(1,637,246)**	**–**	**(1,637,246)**
		–	**–**	**756**	**(1,638,002)**	**(269)**	**(1,637,515)**
At 31 December 2011		**3,531,926**	**1,073,310**	**3,515,306**	**6,004,958**	**(215,572)**	**13,909,928**
		Note 26		Note 28	Note 29	Note 27	

The accompanying notes form an integral part of the financial statements

Statement of Changes in Equity

2010 Bank	Note	Share Capital RM'000	Share Premium RM'000	Other Reserves RM'000	Retained Profits RM'000	Treasury Shares RM'000	Total RM'000
		← Attributable to Equity Holders of the Bank →					
				Non-distributable Reserves	Distributable Reserves		
At 1 January 2010		3,531,926	1,439,885	3,513,672	2,746,439	(581,638)	10,650,284
Profit for the year		–	–	–	2,931,561	–	2,931,561
Net gain on revaluation of financial investments available-for-sale		–	–	37,617	–	–	37,617
Net change in cash flow hedges		–	–	(4,361)	–	–	(4,361)
Income tax relating to components of other comprehensive income		–	–	(8,314)	–	–	(8,314)
Total comprehensive income for the year		–	–	24,942	2,931,561	–	2,956,503
Transactions with owners:							
Buy-back of shares	27	–	–	–	–	(240)	(240)
Dividends paid	41	–	–	–	(1,303,796)	–	(1,303,796)
Share dividends	41	–	(366,575)	–	–	366,575	–
		–	(366,575)	–	(1,303,796)	366,335	(1,304,036)
At 31 December 2010		3,531,926	1,073,310	3,538,614	4,374,204	(215,303)	12,302,751
		Note 26		Note 28	Note 29	Note 27	

The accompanying notes form an integral part of the financial statements

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 before tax expense and zakat	**4,610,633**	4,086,197	**4,085,281**	3,677,657
Adjustments for:				
Share of profit after tax of equity accounted associated companies	**(3,210)**	(12,686)	**–**	–
Depreciation of property and equipment	**145,947**	145,628	**113,471**	107,847
Net gain on disposal of property and equipment	**(11)**	(1,827)	**(82)**	(1,584)
Net loss on disposal of foreclosed properties	**3,190**	902	**3,190**	2,770
Allowance for impaired loans and financing	**823,661**	833,404	**441,716**	485,062
Net gain arising from sale of financial investments available-for-sale	**(5,448)**	(4,974)	**(5,216)**	(4,734)
Net loss on disposal of trading derivatives	**12,520**	–	**12,520**	–
Amortisation of cost and accretion of discount relating to debt securities issued	**3,499**	3,341	**3,499**	3,341
Unrealised loss/(gain) on revaluation of financial assets held-for-trading	**333**	(7,285)	**213**	(7,107)
Unrealised gain on revaluation of trading derivatives	**(8,495)**	(5,774)	**(17,204)**	(18,380)
Unrealised (gain)/loss on hedging derivatives	**(8,288)**	8,543	**(6,438)**	6,231
Pension costs – defined benefit plan	**(19,633)**	(6,752)	**(18,875)**	(6,726)
Transfer (from)/to Profit Equalisation Reserve	**(33,436)**	21,560	**–**	–
Dividends from financial investments available-for-sale	**(147,823)**	(113,634)	**(142,859)**	(106,913)
Dividends from subsidiary companies	**–**	–	**(724,677)**	(633,926)
Dividends from associated companies	**–**	–	**(9,692)**	(9,035)
Property and equipment written off	**1,199**	67	**396**	67
Gain on revaluation of investment properties	**(2,711)**	(3,751)	**–**	–
Impairment loss on financial investments available-for-sale	**–**	992	**–**	–
Impairment loss on financial investments held-to-maturity	**45**	–	**45**	–
Impairment (writeback)/loss on foreclosed properties	**(1,643)**	4,196	**(1,661)**	4,178
Impairment loss on subsidiary company	**–**	–	**–**	6,100
Operating profit before working capital changes	**5,370,329**	4,948,147	**3,733,627**	3,504,848

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Cash Flows from Operating Activities (Cont'd.)				
Decrease/(Increase) in operating assets:				
Placements with banks maturing after one month	**544,766**	574,834	**84,211**	635,149
Reverse repurchase agreements	**(8,921,378)**	834,366	**(8,424,874)**	(10,737)
Financial assets held-for-trading	**(4,296,538)**	1,603,587	**(4,594,028)**	1,843,382
Loans, advances and financing	**(21,658,064)**	(19,170,378)	**(17,647,510)**	(17,335,356)
Other assets	**(28,322)**	(245,648)	**(228,847)**	(223,240)
Statutory deposits with Central Banks	**(3,985,226)**	(590,394)	**(3,390,035)**	(517,968)
Increase/(Decrease) in operating liabilities:				
Deposits from customers	**23,506,399**	5,993,573	**18,603,166**	5,421,064
Deposits from banks	**(5,520,744)**	(1,286,824)	**(4,352,432)**	285,852
Bills and acceptances payable	**(213,501)**	1,695,886	**(354,930)**	1,837,276
Recourse obligations on loans sold to Cagamas	**(4,530)**	(5,444)	**(4,530)**	(5,444)
Other liabilities	**424,589**	781,605	**601,007**	147,404
Cash used in operations	**(14,782,220)**	(4,866,690)	**(15,975,175)**	(4,417,770)
Income tax expense and zakat paid	**(873,461)**	(748,164)	**(627,537)**	(564,623)
Net cash used in operating activities	**(15,655,681)**	(5,614,854)	**(16,602,712)**	(4,982,393)
Cash Flows from Investing Activities				
Purchase of property and equipment	**(199,894)**	(128,040)	**(154,241)**	(75,806)
Proceeds from disposal of property and equipment	**979**	2,355	**967**	2,264
Proceeds from disposal of foreclosed properties	**27,560**	31,603	**27,289**	28,740
Proceeds from disposal of investment properties	**–**	114	**–**	–
Net purchase of financial investments	**(1,267,690)**	(4,238,340)	**(1,870,140)**	(1,358,972)
Additional investment in a subsidiary company	**–**	–	**(200,000)**	(200,000)
Additional investment in an associated company	**(40,000)**	–	**(20,000)**	–
Dividends received from associated companies	**9,692**	9,035	**9,692**	9,035
Dividends received from subsidiary companies	**–**	–	**726,976**	597,359
Dividends received from financial investments available-for-sale	**147,761**	113,533	**142,797**	106,812
Net cash used in investing activities	**(1,321,592)**	(4,209,740)	**(1,336,660)**	(890,568)

Statements of Cash Flows

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Cash Flows from Financing Activities				
(Repayment)/Drawdown of borrowings	**(3,268)**	245,251	**–**	–
Dividends paid to equity holders of the Bank	**(1,637,246)**	(1,303,796)	**(1,637,246)**	(1,303,796)
Dividends paid to non-controlling interests	**(19,214)**	(24,438)	**–**	–
Buy-back of shares	**(269)**	(240)	**(269)**	(240)
Net proceeds from issuance of debt securities	**2,997,000**	–	**2,997,000**	–
Net cash generated from/(used in) financing activities	**1,337,003**	(1,083,223)	**1,359,485**	(1,304,036)
Net decrease in cash and cash equivalents	**(15,640,270)**	(10,907,817)	**(16,579,887)**	(7,176,997)
Cash and cash equivalents at beginning of year	**32,082,569**	43,480,452	**24,691,629**	31,868,626
Exchange differences on translation of opening balances	**128,380**	(490,066)	**–**	–
Cash and cash equivalents at end of year	**16,570,679**	32,082,569	**8,111,742**	24,691,629
Note:				
Cash and balances with banks (Note 3)	**18,633,783**	34,690,439	**10,508,349**	27,172,447
Less: Balances with banks with maturity more than one month	**(2,063,104)**	(2,607,870)	**(2,396,607)**	(2,480,818)
Cash and cash equivalents at end of year	**16,570,679**	32,082,569	**8,111,742**	24,691,629

The accompanying notes form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS
– 31 December 2011

1. Principal Activities and General Information

The Group is principally engaged in all aspects of commercial banking, investment banking, financing and Islamic banking business, stock-broking, provision of related financial services, management of unit trust funds and sale of trust units, underwriting of general insurance, and investment holding.

The Bank is principally engaged in all aspects of commercial banking and the provision of related financial services.

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

The Bank is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad. The registered office of the Bank is located at 27th Floor, Menara Public Bank, 146, Jalan Ampang, 50450 Kuala Lumpur.

The financial statements were approved and authorised for issue by the Board of Directors on 30 January 2012.

2. Summary of Significant Accounting Policies

The accounting policies adopted by the Group and the Bank are consistent with those adopted in previous years, except for the adoption of the following Financial Reporting Standards ("FRS"), Amendments to FRSs, IC Interpretations, Amendments to IC Interpretations and Technical Release ("TR"):

FRS 1	First-time Adoption of Financial Reporting Standards
FRS 3	Business Combinations
FRS 127	Consolidated and Separate Financial Statements
IC Interpretation 4	Determining Whether an Arrangement Contains a Lease
IC Interpretation 12	Service Concession Arrangements
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 about 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)"	
TR i-4	Shariah Compliant Sale Contracts

The adoption of FRS 1 and Amendments to FRS 1 does not have any impact on the Group and the Bank as they are not adopting FRSs for the first time. The adoption of IC Interpretation 12 does not have any financial impact on the Group and the Bank as it is not relevant to the business operations of the Group and the Bank. Amendments to FRSs 2, 5 and 138 help to clarify the requirements of or provide further explanation to existing FRSs and do not have any impact to the financial results of the Group and the Bank.

2. Summary of Significant Accounting Policies (Cont'd.)

The main effects of the adoption of the other FRSs, Amendments to FRSs, IC Interpretations, Amendments to IC Interpretations and Technical Release above are summarised below.

(i) ***FRS 3 Business Combinations and FRS 127 Consolidated and Separate Financial Statements*** – The adoption of the two revised standards affects the way in which the Group accounts for business combinations and the preparation of its consolidated financial statements. The revised FRS 127 requires that changes in ownership interest which do not result in a loss of control be accounted for as equity transactions, instead of in the income statement. Where changes in ownership interest results in loss of control, any remaining interest in the entity is remeasured at fair value and any resulting gains or losses is recognised in the income statement. Total comprehensive income will be proportionately allocated to non-controlling interests, even if it results in the non-controlling interests being in a deficit position.

Under the revised FRS 3, all acquisition-related costs are recognised as an expense in the income statement in the period in which they are incurred. All considerations transferred, including contingent considerations, are measured at fair value as at the acquisition date. Any equity interests held prior to the date control is obtained is remeasured at fair value, with the resulting gains or losses recognised in the income statement. There is now an option on a case to case basis to measure non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the net identifiable assets of the assets acquired. Goodwill arising from the business combination is measured as the difference between the aggregate fair value of consideration transferred, any non-controlling interests in the acquiree and the fair value at acquisition date of any previously-held equity interest in the acquiree, and the fair value of identifiable assets acquired and liabilities assumed (including contingent liabilities) at acquisition date.

The revised FRS 3 and FRS 127 apply prospectively to acquisitions occurring on or after 1 January 2011, and therefore had no financial impact on the financial statements of the Group as there were no new business combinations during the year.

(ii) ***Amendments to FRS 132 Financial Instruments: Presentation – Classification of Rights Issues*** – For rights issues which are denominated in a currency other than the functional currency of the issuer, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The application of this amendment did not have any financial impact on the Group and the Bank as there were no rights issues in foreign currency made during the year.

(iii) ***Amendments to IC Interpretation 9 Reassessment of Embedded Derivatives*** – This amendment provided clarification that IC Interpretation 9 does not apply to embedded derivatives acquired via business combinations, and did not have any financial impact on the Group as there were no such embedded derivatives acquired during the financial year.

(iv) ***IC Interpretation 4 Determining Whether an Arrangement Contains a Lease*** – This amendment clarifies that when the fulfillment of an arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset, then the arrangement should be accounted for as a lease under FRS 117, even though it does not take the legal form of a lease. This interpretation did not have any financial impact on the Group and the Bank.

2. Summary of Significant Accounting Policies (Cont'd.)

(v) ***Amendments to FRS 7 Improving Disclosures about Financial Instruments*** – Disclosures on fair value and liquidity have been enhanced upon the adoption of this amendment. In particular, financial instruments measured at fair value are disclosed by class in a three-level fair value measurement hierarchy, with specific disclosures related to transfers between levels in the hierarchy and detailed disclosures on level three of the fair value hierarchy. Certain disclosures on liquidity are also modified. The adoption of this amendment resulted in additional disclosures in the financial statements but did not have any financial impact on the Group and the Bank.

(vi) ***Technical Release i-4 Shariah Compliant Sale Contracts*** – This technical release requires entities to refer to Malaysian Accounting Standards Board ("MASB") approved accounting standards for guidance on the treatment of transactions under Shariah Compliant Sale Contracts. The adoption of this technical release did not have any impact on the financial statements of the Group's Islamic banking business, as it already applies MASB approved accounting standards.

(vii) ***Amendments to FRSs contained in the document entitled "Improvements to FRSs (2010)"*** – The amendments mainly provide guidance, clarify wordings and remove inconsistencies in existing FRSs. These amendments have extended some of the disclosure requirements under FRS 7, such as the quantification of the extent to which collateral and other credit enhancements mitigate credit risk; and removes certain disclosure requirements such as the carrying amount of renegotiated assets. These changes are only presentational in nature and did not have any financial impact on the Group and the Bank.

The following FRSs, Amendments to FRSs and IC Interpretations have been issued by the MASB but are not yet effective:

Effective for annual periods commencing on or after 1 July 2011

IC Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments

Effective for annual periods commencing on or after 1 January 2012

FRS 124	Related Party Disclosures

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to FRS 1)
Disclosures – Transfers of Financial Assets (Amendments to FRS 7)
Deferred Tax: Recovery of Underlying Assets (Amendments to FRS 112)

Effective for annual periods commencing on or after 1 July 2012

Presentation of Items of Other Comprehensive Income (Amendments to FRS 101)

Effective for annual periods commencing on or after 1 January 2013

FRS 9	Financial Instruments (IFRS 9 issued by International Accounting Standards Board ("IASB") in November 2009)
FRS 9	Financial Instruments (IFRS 9 issued by IASB in October 2010)
FRS 10	Consolidated Financial Statements
FRS 11	Joint Arrangements
FRS 12	Disclosure of Interests in Other Entities
FRS 13	Fair Value Measurement
FRS 119	Employee Benefits (as amended in November 2011)
FRS 127	Separate Financial Statements (as amended in November 2011)
FRS 128	Investments in Associates and Joint Ventures (as amended in November 2011)
IC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine

2. Summary of Significant Accounting Policies (Cont'd.)

The Group and the Bank have chosen to early adopt the following FRSs and Amendments to FRSs:

(i) ***FRS 124 Related Party Disclosures*** – The revisions to this standard simplify the definition of a related party, clarifies its intended meaning and eliminates inconsistencies from the definition and gives partial exemption from disclosure for government-related entities. These changes affect disclosures in the financial statements and did not have any impact on the financial results of the Group and the Bank.

(ii) ***Amendments to FRS 112 Deferred Tax: Recovery of Underlying Assets*** – This amendment to FRS 112 addresses the measurement approach for deferred tax assets and liabilities in respect of investment properties which are measured using the fair value approach. The amendment introduces a rebuttable presumption that the investment property is recovered entirely through sale. In such cases, deferred tax assets or liabilities are provided at tax rates applicable when recovering the property entirely through sale. If this presumption is rebutted, deferred tax assets or liabilities are provided based on tax rates applicable when consuming substantially the economic benefits embodied in the property over a period of time (eg. via rental income). The adoption of this amendment to FRS 112 did not have any financial impact on the Group and the Bank.

A brief discussion of the significant new FRSs that have been issued is set out below. Due to the complexity of these new FRSs and their proposed changes, the financial effects of their adoption are currently still being assessed by the Group.

(i) ***FRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2009)*** – The IASB intends to replace IAS 39 with International Financial Reporting Standard ("IFRS") 9. FRS 9 is the IFRS 9 equivalent standard in Malaysia. This issuance of FRS 9 contains the accounting policy changes under the first phase of the IAS 39 replacement project, and specifies how an entity should classify and measure financial assets. This standard requires all financial assets to be classified based on an entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are to be initially measured at fair value. Subsequent to initial recognition, depending on the business model under which these assets are acquired, they will be measured at either fair value or amortised cost.

(ii) ***FRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2010)*** – This issuance of FRS 9 represents the second part of the first phase of IASB's IAS 39 replacement project. This section of the standard specifies the requirements for the classification and measurement of financial liabilities, which are generally similar to the requirements of the original IAS 39. However, this standard requires that for financial liabilities designated as at fair value through profit or loss, changes in fair value attributable to the credit risk of that liability are to be presented in other comprehensive income, whereas the remaining amount of the change in fair value will be presented in the income statement.

(iii) ***FRS 10 Consolidated Financial Statements*** – Upon adoption, FRS 10 supercedes FRS 127 Consolidated and Separate Financial Statements. FRS 10 brings about convergence between FRS 127 and SIC-12, which interprets the requirements of FRS 10 in relation to special purpose entities. A major feature of FRS 10 is where it sets out the requirements on how to apply the control principle in the preparation of consolidated financial statements, especially in circumstances where the investor holds less than the majority of voting power, or where the investee entity is designed in such a manner where voting rights are not the dominant factor in determining control, or in circumstances involving agency relationships, or where the investor has control over specific assets of the entity.

2. Summary of Significant Accounting Policies (Cont'd.)

(iv) ***FRS 11 Joint Arrangements*** – Upon adoption, FRS 11 supercedes FRS 131 Interests in Joint Ventures. Under FRS 11, an entity accounts for its interest in a jointly controlled entity based on the type of joint arrangement, as determined based on an assessment of its rights and obligations arising from the arrangement.

(v) ***FRS 12 Disclosure of Interests in Other Entities*** – This is a combined disclosure standard for interests in subsidiary companies, joint ventures, associated companies and unconsolidated structured entities. The disclosure requirements in this FRS are aimed at providing standardised and comparable information that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's interests in other entities, and the effects of those interests on its financial position, financial performance and cash flows.

(vi) ***FRS 13 Fair Value Measurement*** – This standard defines fair value and sets out a framework for measuring fair value, and the disclosure requirements about fair value. This standard is intended to address the inconsistencies in the requirements for measuring fair value across different accounting standards. The definition of fair value under this standard emphasises the principle that fair value is a market-based measurement, not an entity-specific measurement.

(vii) ***FRS 119 Employee Benefits (as amended in November 2011)*** – This revised FRS 119 affects the accounting treatment of certain items such as the timing of the recognition of certain gains and losses arising from defined benefit plans and the presentation of changes in defined benefit liability or asset. Under the revised FRS 119, actuarial gains and losses (renamed as 'remeasurements') are recognised immediately in other comprehensive income, and are not subsequently recycled to the income statement. The corridor approach for accounting for unrecognised actuarial gains is removed. Past service costs, whether unvested or already vested, are recognised immediately in the income statement as incurred and the annual defined benefit costs in the income statement will include net interest expense/income on the defined benefit asset/liability.

(viii) ***FRS 127 Separate Financial Statements (as amended in November 2011)*** – Upon the issuance and adoption of FRS 10, the accounting requirements relating to the preparation of consolidated financial statements are no longer covered under FRS 127. Therefore, FRS 127 has now been reissued to only cover the requirements relating to the accounting for investments in subsidiary companies, associated companies and joint ventures in the separate financial statements of the entity. In such cases, the entity should account for such investments either at cost, or in accordance with FRS 9.

(ix) ***FRS 128 Investments in Associates and Joint Ventures (as amended in November 2011)*** – This revised FRS 128 incorporates the requirements for accounting for joint ventures into the same accounting standard as that for accounting for investments in associated companies, as the IASB was of the view that the equity method was applicable for both investments in joint ventures and associated companies. However, the revised FRS 128 exempts the investor from applying equity accounting in certain circumstances, ie. where the investment in the associated company or joint venture is held indirectly via venture capital organisations or mutual funds and similar entities. In such cases, the entity shall measure the investment at fair value through profit or loss, in accordance with FRS 9.

2. Summary of Significant Accounting Policies (Cont'd.)

Convergence of the FRS Framework in Malaysia with the IFRS Framework issued by the IASB

In August 2008, the MASB, together with its trustee body, the Financial Reporting Foundation ("FRF"), announced their decision to fully converge the existing FRS framework with the IFRS framework in 2012. The convergence with IFRS means full compliance with IFRSs issued by the IASB.

On 19 November 2011, MASB issued the Malaysian Financial Reporting Standards (hereinafter known as MFRSs or the MFRS framework) for application in the annual periods beginning on or after 1 January 2012, with the exception of entities subject to the application of MFRS 141 Agriculture and/or IC Interpretation 15 Agreements for the Construction of Real Estate. Financial statements that are drawn up in accordance with the new MFRS framework will be equivalent to financial statements prepared by other jurisdictions which adopt IFRSs.

As at 31 December 2011, all the FRSs issued under the existing FRS framework are equivalent to the MFRSs issued under the MFRS framework except for differences in relation to the transitional provisions as well as differences in effective dates contained in certain of the existing FRSs. The impact of the transition to the MFRS framework is as summarised below. The impact described below is based on the Group's best estimates at reporting date. The financial impact may change or additional impacts may be identified, prior to the completion of the Group's first MFRS based financial statements.

Transition to the MFRS Framework

The main impacts arising from the transition to the MFRS Framework are summarised below:

(i) **Application of MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards ("MFRS 1")**

The Group and the Bank will apply MFRS 1 in its first MFRS financial statements for the financial year ending 31 December 2012 and interim financial reports for part of the period covered by the first MFRS financial statements. The objective of MFRS 1 is to ensure that an entity's first MFRS financial statements provide a starting point for accounting in accordance with MFRS and are comparable over all periods presented.

The transition date for the purpose of the presentation of comparative information for the Group and the Bank is 1 January 2011, which is the beginning of the earliest period for which the Group and the Bank present full comparative information under MFRSs in its first MFRS financial statements.

In general, MFRS 1 requires comparative information to be restated as if the requirements of MFRSs effective for annual periods beginning on or after 1 January 2012 have always been applied, except when MFRS 1 allows certain elective exemptions from such full retrospective application or prohibits retrospective application of some aspects of MFRS.

The Group and the Bank will make the following policy elections on transition date:

(a) Not to restate any past business combinations before the date of transition.
(b) Not to apply MFRS 2 Share-based Payment to equity instruments that were granted after 7 November 2002 and vested before the later of (i) the date of transition to MFRSs and (ii) 1 January 2005.
(c) Not to measure properties at the date of transition at its fair value and use that fair value as its deemed cost at that date.

2. Summary of Significant Accounting Policies (Cont'd.)

(i) Application of MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards ("MFRS 1") (Cont'd.)

(d) Not to deem the cumulative translation differences for all foreign operations to be zero at the date of transition.
(e) Not to recognise all cumulative actuarial gains and losses at the date of transition.
(f) Not designate a previously recognised financial asset and liability as a financial asset or financial liability as at fair value through profit or loss or designate a financial asset as available-for-sale at its transition date.

In the Bank's separate financial statements, the Bank will measure its investments in subsidiary companies, jointly controlled entities and associated companies at cost in accordance with MFRS 127 Consolidated and Separate Financial Statements.

The following optional exemptions are not applicable to the Group and the Bank and therefore have not been applied:

(a) Transitional provisions in MFRS 4 Insurance Contracts, as the Group has already adopted FRS 4 which is equivalent to MFRS 4;
(b) Transitional provisions in IC Interpretation 4 Determining Whether an Arrangement Contains a Lease, whereby an entity determines whether an arrangement which exist at the date of transition contains a lease on the basis of facts and circumstances existing at that date, is not applicable to the Group as all lease arrangements have been properly accounted for;
(c) Decommissioning liabilities included in the cost of property, plant and equipment exemption, only relevant when such liabilities have been identified;
(d) Measurement of assets and liabilities of subsidiary companies, associated companies and joint ventures exemption, only relevant when a subsidiary company, associated company or joint venture adopts MFRS at a later date than its parent;
(e) Transitional provisions in IC Interpretation 18 Transfers of Assets from Customers, as there are no such transfers from customers;
(f) Transitional provisions in IC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments, as the Group did not carry out such arrangements;
(g) Guidance for an entity which has a functional currency that was, or is, the currency of a hyperinflationary economy, as the Group does not operate in any hyperinflationary economies;
(h) Transitional provisions in IC Interpretation 12 Service Concession Arrangements, as it is not relevant to the Group's business operations;
(i) Bifurcation of a compound instrument exemption, as the Group does not have such compound instruments at the date of transition;
(j) Transitional provisions in MFRS 123 Borrowing Costs, as the Group has already applied such principles to its qualifying assets; and
(k) Measurement of fair value of financial assets or liabilities where no active market exists at initial recognition, as the Group has already adopted MFRS 139 Financial Instruments: Recognition and Measurement ("MFRS 139") principles in respect of financial instruments.

2. Summary of Significant Accounting Policies (Cont'd.)

(i) **Application of MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards ("MFRS 1") (Cont'd.)**

MFRS 1 prohibits retrospective application of some aspects of other MFRSs relating to:

(a) Estimates, whereby an entity's estimates made in accordance with MFRSs at the date of transition should be consistent with estimates made for the same date in accordance with previous FRSs in Malaysia;
(b) Derecognition of financial assets and financial liabilities, being specific guidance as to the date from which the specific requirements within MFRS 139 apply and allowing the choice of applying such requirements from a retrospective date of the entity's choosing;
(c) Hedge accounting, specifically allowing the designation of an individual item within a net position under previous FRS in Malaysia as a hedged item under MFRS and specific guidance on the treatment of an item designated as a hedge under previous FRS in Malaysia, which fails to meet the hedge accounting requirements of MFRS 139;
(d) Non-controlling interests, specifically relating to the requirements pertaining to the attribution of total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance, accounting for changes in the parent's ownership interest in a subsidiary company that does not result in a loss of control and accounting for loss of control over a subsidiary company.

The Group and the Bank will have complied with the requirements of the above mandatory exceptions, where applicable.

(ii) **Accounting Policy on the Collective Assessment Allowance for Impaired Loans, Advances and Financing**

The Bank and its domestic banking subsidiary companies' collective assessment allowance is currently maintained at 1.5% of total outstanding loans, net of individual assessment allowance, being the transitional arrangement as prescribed in BNM's Guidelines on Classification and Impairment Provisions for Loans/Financing ("the Guidelines").

In conjunction with the convergence of the FRSs in Malaysia with the IFRSs, the Guidelines were revised on 9 November 2011 to align the requirements on the determination of collective assessment allowance with that of the MFRS 139. Based on the revised Guidelines, the transitional arrangement is removed with effect from 1 January 2012.

Under MFRS 139, loans, advances and financing which are not individually significant are collectively assessed using the incurred loss approach. If it is determined that no objective evidence of impairment exists for an individually assessed loan, the loan is also included in the group of loans with similar credit risk characteristics for collective impairment assessment. The future cash flows of each group of loans with similar credit risk characteristics are estimated on the basis of historical loss experience for such assets and discounted to present value. Collective assessment allowance is made on any shortfall in these discounted cash flows against the carrying value of the group of loans.

2. Summary of Significant Accounting Policies (Cont'd.)

(ii) **Accounting Policy on the Collective Assessment Allowance for Impaired Loans, Advances and Financing (Cont'd.)**

Financial Impact

The total collective assessment allowance computed under MFRS 139 is lower than the 1.5% collective assessment allowance required under the transitional arrangements of the Guidelines.

The change in accounting policy on the collective assessment allowance for impaired loans, advances and financing will be accounted for retrospectively and accordingly, will impact the amounts reported in the comparative statements of financial position and income statements. The financial impact on the opening and comparative statements of financial position as well as the income statements of the Group and the Bank is positive and will result in:

(a) an increase in the shareholders' equity and net assets of the Group and the Bank; and
(b) lower allowance for impaired loans, advances and financing of the Group and the Bank. Consequently, the profit before tax and the earnings per share of the Group and Bank in the comparative income statements will be higher.

There are no material differences expected between the statement of cash flows of the Group and Bank presented under MFRSs and the statements of cash flows presented under FRSs, arising from the transition to MFRS.

Future Developments

In November 2009, the IASB issued IFRS 9: Financial Instruments which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued additions to IFRS 9 relating to financial liabilities. Together, these changes represent the first phase in the IASB's planned replacement of IAS 39 – Financial Instruments: Recognition and Measurement with a less complex and improved standard for financial instruments.

The second and third phases in the IASB's project to replace IAS 39 will address the impairment of financial assets measured at amortised cost and hedge accounting. The IASB had issued Exposure Drafts pertaining to Phase 2 and Phase 3 in 2009 and 2010 respectively and there is currently ongoing deliberations on the comments received. It remains uncertain as to how different the final standard will be from the Exposure Drafts. The Group continues to monitor the developments surrounding the IAS 39 replacement project, which includes monitoring any issuance of guidance or interpretations relating to the IFRS or the application of the IFRS. These developments may result in future changes to the Group's accounting policy on allowance for impaired loans, advances and financing.

Guidelines on Profit Equalisation Reserve issued by Bank Negara Malaysia

On 19 May 2011, Bank Negara Malaysia ("BNM") issued its revised Guidelines on Profit Equalisation Reserve, which is effective for annual periods beginning on or after 1 July 2011. Within the revised guideline, BNM has given Islamic banking financial institutions the following three options in respect of managing displaced commercial risk:

(i) to continue with the current practice of setting aside amounts from profits before allocation of the residual profit between the Investment Account Holder ("IAH") and the Islamic Banking Institution ("IBI") in a Profit Equalisation Reserve ("PER");

2. Summary of Significant Accounting Policies (Cont'd.)

Guidelines on Profit Equalisation Reserve issued by Bank Negara Malaysia (Con't.d)

(ii) forgoing all or part of the IBI's share of profit to the IAH by way of varying the profit sharing rate paid to the IAH; or
(iii) transferring the IBI's current or retained profits to the IAH by way of 'hibah' (gift).

The Islamic banking subsidiary company of the Group will continue to set aside a portion of its profits into a PER, upon the adoption of this revised guideline on 1 January 2012. Under the revised guideline, the PER of the IAH continues to be classified as a liability and is recognised at cost, with subsequent apportionments being recognised in the income statement. The eventual distribution of PER as profit distributable to IAH will be treated as an outflow of funds due to the settlement of the obligation to the IAH. However, the PER of the IBI will be classified as a separate reserve in equity and subsequent apportionments to and from distributions to retained profits are treated as a transfer between reserves. These changes to accounting treatment will be accounted for prospectively.

(a) Basis of Accounting

The financial statements of the Group and the Bank have been prepared on the historical cost basis, except for the following assets and liabilities which are stated at fair value: financial assets held-for-trading, financial investments available-for-sale, derivative financial instruments, recognised financial assets and liabilities designated as hedged items in qualifying fair value hedge relationships which are adjusted for changes in fair value attributable to the risk being hedged and investment properties, as disclosed in the notes to the financial statements and are in accordance with the provisions of the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines.

The financial statements incorporate all activities relating to the Islamic banking business which have been undertaken by the Group and the Bank. Islamic banking business refers generally to the acceptance of deposits and granting of financing under the principles of Shariah.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000), unless otherwise stated.

In the preparation of the financial statements, management is required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial statements in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation, uncertainty and critical judgements used in applying accounting policies that have significant effect in determining the amounts recognised in the financial statements include the following:

(i) *Fair value estimation of financial instruments* – For financial instruments measured at fair value, where the fair values cannot be derived from active markets, these fair values are determined using a variety of valuation techniques, including the use of mathematical models. Whilst the Group and the Bank generally use widely recognised valuation models with market observable inputs, judgement is required where market observable data are not available. Such judgement normally incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities and prepayment and default rates.

2. Summary of Significant Accounting Policies (Cont'd.)

(a) Basis of Accounting (Cont'd.)

(ii) *Impairment losses on loans, advances and financing (Note 9)* – For impaired loans, advances and financing ("loan(s)") which are individually assessed, judgement by management is required in the estimation of the amount and timing of future cash flows in the determination of impairment losses. In estimating these cash flows, judgements are made about the realisable value of collateral pledged and the borrower's financial position. These estimations are based on assumptions and the actual results may differ from this, hence resulting in changes to impairment losses.

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

For loans of other banking subsidiary companies which are collectively assessed, judgements are made based on loan portfolio data (eg. credit quality, default rates, recovery rates, etc), credit concentration and economic data (eg. unemployment rates, GDP growth rates, etc) in order to arrive at impairment levels appropriate to the portfolio.

(iii) *Impairment of goodwill and intangible assets (Note 17)* – The Group and the Bank perform an annual assessment of the carrying value of its goodwill and intangible assets against the recoverable amount of the cash-generating units ("CGUs") to which the goodwill and intangible assets have been allocated. The measurement of the recoverable amount of CGUs are determined based on the value-in-use method, incorporating the present value of estimated future cash flows expected to arise from the respective CGU's ongoing operations. Management judgement is used in the determination of the assumptions made, particularly the cash flow projections, discount rates and the growth rates used. The estimation of pre-tax cash flows is sensitive to the periods for which the forecasts are available and to assumptions regarding the long-term sustainable cash flows, and reflect management's view of future performance.

(iv) *Impairment of financial investments available-for-sale (Note 7)* – For equity investments classified as available-for-sale, impairment is recognised when there has been a significant or prolonged decline in the fair value below the investment's cost. Management judgement is required to evaluate the duration and extent by which the fair value of these equity investments is below their cost. In making this judgement, management considers the historical price movements of the individual equity investment, as well as that of the benchmark indicators of the market in which the equity is listed.

(v) *Impairment of other assets* – The assessment of impairment of properties held under property and equipment (Note 16) requires management judgement in the assessment of whether negative fluctuations in values of similar properties in the same location represent an indication of impairment in the value of the individual properties.

2. Summary of Significant Accounting Policies (Cont'd.)

(a) Basis of Accounting (Cont'd.)

(vi) *Valuation of investment properties (Note 15)* – The measurement of the fair value for investment properties performed by management is determined with reference to current prices in an active market for similar properties in the same location and condition and subject to similar lease and other contracts.

(vii) *Income taxes (Note 39)* – The Group and the Bank are subject to income taxes in many jurisdictions. Significant management judgement is required in estimating the provision for income taxes, as there may be differing interpretations of tax law for which the final outcome will not be established until a later date. Liabilities for taxation are recognised based on estimates of whether additional taxes will be payable. The estimation process may involve seeking the advise of experts, where appropriate. Where the final liability for taxation assessed by the Inland Revenue Board is different from the amounts that were initially recorded, these differences will affect the income tax expense and deferred tax provisions in the period in which the estimate is revised or when the final tax liability is established.

(viii) *Deferred tax assets (Note 12)* – Deferred tax assets are recognised for all unutilised tax losses to the extent that it is probable that taxable profit will be available against which the tax losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(ix) *Defined Benefit Plan (Note 24)* – The defined benefit obligation is determined based on an actuarial valuation. The actuarial valuation involves making assumptions regarding discount rates, expected rate of return on fund assets, future salary increases and attrition rates. Due to the long term nature of the defined benefit plan, such estimates are subject to significant uncertainty. The amount of defined benefit asset recognised in the statement of financial position is limited to the present value of economic benefits in the form of refunds or reductions in future contributions to the fund. The levels of future contributions to the plan which are used to assess this limit is subject to some uncertainty due to other assumptions made regarding fund membership levels and future salary increases.

(b) Basis of Consolidation

(i) Subsidiary Companies

The consolidated financial statements include the financial statements of the Bank and its subsidiary companies made up to the end of the financial year.

Subsidiary companies are consolidated from the date on which the Group gains control, and ceases from the date that control ceases. Control exists when the Group directly or indirectly holds the majority of the voting rights and has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial results of the subsidiary companies are included in the consolidated financial statements from the date that control is obtained until the date that the Group loses control.

2. Summary of Significant Accounting Policies (Cont'd.)

(b) Basis of Consolidation (Cont'd.)

(i) Subsidiary Companies (Cont'd.)

The acquisition method of accounting is used to account for the purchase of subsidiaries. The consideration transferred for the acquisition of a subsidiary company is measured at the fair value of the assets given, the equity instruments issued and liabilities incurred or assumed at the date of exchange, as well as any contingent consideration given. Acquisition-related costs are expensed off in the income statement as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed are initially measured at fair value as at acquisition date.

Goodwill is measured as the excess of consideration transferred, any non-controlling interest and the acquisition-date fair value of any previously-held equity interest in the subsidiary company over the fair value of the Group's share of the identifiable net assets acquired. The accounting policy on goodwill is set out in Note 2(l)(i). In the event that the fair value of the Group's share of identifiable net assets acquired exceeds the amount of consideration transferred, any non-controlling interest and the acquisition-date fair value of any previously-held equity interest (ie. a bargain purchase), the entire resulting gain is recognised in the income statement of the Group. Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not attributable, directly or indirectly, to the Group. Non-controlling interests are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from equity holders of the Bank. For each business combination, the Group will elect to measure the amount of non-controlling interest either at fair value or at the non-controlling interest's proportionate share of the subsidiary company's identifiable net assets.

In a business combination achieved in stages, the previously held equity interest is remeasured at the acquisition-date fair value with the resulting gain or loss recognised in the income statement. Changes in the Group's ownership interest in a subsidiary company which does not result in a loss of control are treated as transactions between equity holders and are reported in equity.

In preparing the consolidated financial statements, intragroup transactions and balances and intragroup gains on transactions between group companies are eliminated in full. Intragroup losses are also eliminated unless the transaction provides evidence of impairment of the relevant asset. Consistent accounting policies are applied by the subsidiary companies for transactions and events in similar circumstances. The non-controlling interest's portion of total comprehensive income is attributed to non-controlling interest, even if this results in the non-controlling interest having a deficit balance.

If the Group loses control of a subsidiary company, the assets and liabilities of the subsidiary company, including any goodwill, and non-controlling interests are derecognised at their carrying value on the date that control is lost. Any remaining investment in the entity is recognised at fair value. The difference between the fair value of consideration received and the amounts derecognised and the remaining fair value of the investment is recognised as a gain or loss on disposal in the consolidated income statement.

In the Bank's separate financial statements, investments in subsidiary companies are stated at cost less impairment losses, if any. On disposal of such investments, the difference between the net disposal proceeds and the net carrying value of the investment is recognised as gain or loss on disposal in the Bank's income statement.

2. Summary of Significant Accounting Policies (Cont'd.)

(b) Basis of Consolidation (Cont'd.)

(ii) Associated Companies

Associated companies are those enterprises in which the Group has significant influence but not control, generally where the Group has long term equity interest and voting rights of between 20 to 50 percent. Significant influence is the power to participate in the financial and operating policy decisions of the associated companies but not the power to exercise control over the policies.

Investments in associated companies are accounted for in the Group's consolidated financial statements using the equity method. The Group's investment in associated companies is initially recognised in the consolidated statement of financial position at cost. This initial carrying amount is increased or decreased to recognise the Group's share of post-acquisition net results and other changes to comprehensive income of the associated company less impairment loss, if any, determined on an individual basis. The Group's share of results of the associated company is recognised in the consolidated income statement from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associated company. Consistent accounting policies are applied for transactions and events in similar circumstances.

Goodwill relating to an associated company is included in the carrying amount of the investment. Any excess of the Group's share of the fair value of the associated company's net identifiable assets 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 results of the associated company in the period in which the investment is acquired.

The gain or loss on disposal of an associated company is the difference between the net disposal proceeds and the Group's share of its net assets as of the date of disposal including the cumulative amount of any exchange differences that relate to the associated company being disposed. All gains or losses on disposal of associated companies are recognised in the consolidated income statement.

In the Bank's separate financial statements, the investment in associated companies is stated at cost less impairment losses, if any, determined on an individual basis. On disposal of such investments, the difference between the net disposal proceeds and their carrying amounts is recognised as gain or loss on disposal in the Bank's income statement.

(c) Foreign Currency

(i) Functional and Presentation Currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates, ie. the functional currency. The financial statements of the Group and the Bank are presented in Ringgit Malaysia (RM), which is the Bank's functional currency.

2. Summary of Significant Accounting Policies (Cont'd.)

(c) Foreign Currency (Cont'd.)

(ii) Foreign Currency Transactions and Balances

In preparing the financial statements of the individual entities, transactions in currencies other than each entity's functional currency, ie. foreign currencies, are translated into the functional currency at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the closing exchange rate ruling at the reporting date. Exchange differences arising on the settlement of monetary items or on translating monetary items at reporting date are recognised in the income statement. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate prevailing at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated at exchange rates at the date when the fair value is determined. Any exchange component of a gain or loss on a non-monetary item is recognised directly in other comprehensive income if the gain or loss on the fair value of the non-monetary item is recognised directly in other comprehensive income. Any exchange component of a gain or loss on a non-monetary item is recognised directly in the income statement if the gain or loss on the fair value of the non-monetary item is recognised in the income statement.

(iii) Net Investment in Foreign Operations

Exchange differences arising from monetary items that form part of the Bank's net investment in foreign operations and that are denominated in the functional currency of the Bank or the foreign operation are recognised in the income statement of the Bank. In the Group financial statements, such exchange differences are recognised initially in other comprehensive income and will be recognised in the income statement only upon disposal of the net investment.

(iv) Consolidation of Financial Statements of Foreign Operations

The results and financial position of the Group's foreign operations and its subsidiary company incorporated in the Federal Territory of Labuan, whose functional currencies are not the presentation currency or the currency of a hyperinflationary economy, are translated into the presentation currency at average exchange rates for the year and at the closing exchange rate as at reporting date respectively. All resulting exchange differences are recognised in equity through other comprehensive income as a foreign currency translation reserve and are subsequently recognised in the income statement upon disposal of the foreign operation. Exchange differences arising from foreign currency borrowings designated as hedges of a net investment in a foreign operation are recognised in the foreign currency translation reserve in equity through other comprehensive income until the disposal of the net investment, at which time the accumulated translation differences are taken to the income statement.

Goodwill and fair value adjustments arising from the acquisition of a foreign operation on or after 1 January 2006 are treated as assets and liabilities of the foreign operation and are translated at the closing rate at reporting date. For acquisitions prior to 1 January 2006, the exchange rates as at the date of initial acquisition were used.

2. Summary of Significant Accounting Policies (Cont'd.)

(c) Foreign Currency (Cont'd.)

(iv) Consolidation of Financial Statements of Foreign Operations (Cont'd.)

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

	2011	2010
1 USD	**RM3.1748**	RM3.0825
1 HKD	**RM0.4086**	RM0.3960

(d) Cash and Cash Equivalents

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

(e) Financial Assets and Liabilities

(i) Initial Recognition and Subsequent Measurement

Financial instruments are classified in the following categories – financial instruments at fair value through profit or loss, loans and receivables, financial investments held-to-maturity and financial investments available-for-sale. Management determines the classification of financial instruments at initial recognition.

(1) Financial Instruments at Fair Value through Profit or Loss

Financial assets classified in this category consist of financial assets held-for-trading. Financial assets are classified as held-for-trading if they are acquired principally for the purpose of selling or repurchasing it in the near term. Derivative financial instruments not designated in an effective hedge transaction are also classified in this category. The Group and the Bank do not have any financial instruments designated at fair value through profit or loss.

Financial instruments included in this category are recognised initially at fair value and transaction costs are taken directly to the income statement. Gains and losses from changes in fair value and dividend income are included directly in "Net gains and losses on financial instruments" in the income statement. Interest income is recognised as "Interest income" in the income statement. Regular way purchases and sales of financial assets held-for-trading are recognised on settlement date.

(2) 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 agreements and loans, advances and financing. These financial assets are initially recognised at fair value, including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest income on loans and receivables is recognised in "Interest income" in the income statement. Impairment losses on loans, advances and financing are recognised in the income statement 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.

2. Summary of Significant Accounting Policies (Cont'd.)

(e) Financial Assets and Liabilities (Cont'd.)

(i) Initial Recognition and Subsequent Measurement (Cont'd.)

(3) Financial Investments Held-to-Maturity

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

If the Group or the Bank were to sell or reclassify more than an insignificant amount of financial investments held-to-maturity before maturity, the entire category would be tainted and be reclassified to available-for-sale. Furthermore, the Group and the Bank would be prohibited from classifying any financial assets as held-to-maturity for the following two years.

(4) Financial Investments Available-for-Sale

Financial investments available-for-sale are non-derivative financial assets that are designated as available-for-sale and are not categorised into any of the other categories above. Financial investments available-for-sale include financial assets that are intended to be held for an indefinite period of time, which may be sold in response to liquidity needs or changes in market conditions.

These financial assets are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at fair value. Gains and losses arising from changes in fair value are recognised in the statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, which are recognised in the income statement. If an investment available-for-sale is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement. Likewise, upon disposal of investments available-for-sale, the cumulative fair value gain or loss recognised in the statement of comprehensive income is also transferred to the income statement. Interest income on financial investments available-for-sale is included in "Interest income" and dividend income is recognised in "Net gains and losses on financial instruments" in the income statement. Regular way purchases and sales of financial investments available-for-sale are recognised at settlement date.

Investments in unquoted equity instruments which are classified as available-for-sale and whose fair value cannot be reliably measured are measured at cost. These investments are assessed for impairment at each reporting date.

(5) Financial Liabilities

Financial liabilities are initially recognised at the fair value of consideration received less directly attributable transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortised cost. The Group and the Bank do not have any non-derivative financial liabilities designated at fair value through profit or loss. Financial liabilities measured at amortised cost include deposits from customers, deposits from banks and debt securities issued and other borrowed funds. Certain debt securities issued by the Group and the Bank have been designated in effective hedges of interest rate risk, and the carrying value of these financial liabilities have been adjusted for changes in fair value related to the hedged exposure.

2. Summary of Significant Accounting Policies (Cont'd.)

(e) Financial Assets and Liabilities (Cont'd.)

(ii) Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or when the rights to receive further cash flows from the assets have been transferred to a third party and substantially all the risks and rewards of ownership of the assets are also transferred. Financial liabilities are derecognised when they are redeemed or extinguished.

Collateral furnished by the Group and the Bank under repurchase agreements are not derecognised as the Group and the Bank retain substantially all the risks and rewards on the basis of the pre-determined repurchase price, and hence the criteria for derecognition are not met.

(iii) Reclassification of Financial Assets

The Group and the Bank may choose to reclassify non-derivative assets out from the held-for-trading category, in rare circumstances, where the financial assets are no longer held for the purpose of selling or repurchasing in the short term. In addition, the Group and the Bank may also choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group and the Bank have the intention and ability to hold the financial asset for the foreseeable future or until maturity.

Reclassifications are made at fair value as at the reclassification date, whereby the fair value becomes the new cost or amortised cost, as applicable. Any fair value gains or losses previously recognised in the income statement is not reversed.

As at reporting date, the Group and the Bank have not made any such reclassifications of financial assets.

(iv) Determination of Fair Value

All financial instruments are recognised initially at fair value. At initial recognition, the fair value of a financial instrument is the transaction price, i.e. the fair value of the consideration given or received. Subsequent to initial recognition, the fair value of financial instruments measured at fair value are measured in accordance with the valuation methodologies as set out in Note 45.

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

(v) Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and to settle the liability simultaneously. This is not generally the case with master netting agreements and therefore, the related assets and liabilities are presented on a gross basis in the statement of financial position.

2. Summary of Significant Accounting Policies (Cont'd.)

(f) Derivative Financial Instruments and Hedge Accounting

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value. Derivatives are classified as financial assets when their fair values are positive and financial liabilities when their fair values are negative.

Derivatives which are not designated in an effective hedge transaction are classified as held-for-trading, with changes in fair value recognised in "Net gains and losses on financial instruments" in the income statement. For derivative transactions which meet the specific criteria for hedge accounting, the Group applies either fair value, cash flow or net investment hedge accounting.

At inception of the hedge relationship, the Group and the Bank formally documents the relationship between the hedged item and the hedging instruments, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedge relationship. Hedges are expected to be highly effective in offsetting the designated risk in the hedged item, and are assessed at inception of the hedge relationship and on an ongoing basis to ensure that they remain highly effective throughout the hedge period. A hedge is deemed as highly effective if the changes in the fair value or cash flows attributable to the hedged risk are expected to offset in a range of 80% to 125% during the period for which the hedge is designated.

The Group and the Bank discontinue hedge accounting if the hedging instrument expires, is sold, terminated or exercised or if the hedge no longer meets the criteria for hedge accounting or is revoked.

(i) Fair Value Hedge

Fair value hedges are hedges against exposure to changes in the fair value of a recognised asset or liability, or an unrecognised firm commitment that is attributable to a particular risk, and could affect profit or loss. For designated and qualifying fair value hedges, changes in the fair value of the hedging instrument are recognised in the income statement, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The net result is reported as hedge ineffectiveness under "Net gains and losses on financial instruments" in the income statement.

If the hedging instrument is sold, terminated or exercised or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised to the income statement over the remaining period to maturity using the effective interest rate.

(ii) Cash Flow Hedge

Cash flow hedges are hedges of the exposure to variability in future cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in equity via other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

2. Summary of Significant Accounting Policies (Cont'd.)

(f) Derivative Financial Instruments and Hedge Accounting (Cont'd.)

(ii) Cash Flow Hedge (Cont'd.)

Amounts accumulated in equity are recycled to the income statement in the periods when the hedged forecast cash flows affect the income statement. If the hedged forecast transaction results in the recognition of a non-financial asset or liability, the gain or loss previously recognised in other comprehensive income is adjusted to the initial cost of the asset or liability.

When a hedging instrument expires or is sold, terminated, exercised or where the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement as hedge ineffectiveness.

(iii) Net Investment Hedge

Net investment hedges are hedges against the exposure to exchange rate fluctuations on the net assets of the Group's foreign operations and are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in the foreign currency translation reserve in equity via other comprehensive income while any gain or loss relating to the ineffective portion is recognised directly in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised in equity is transferred to the income statement.

(g) Embedded Derivatives

Some hybrid financial instruments contain both an embedded derivative and a non-derivative component. Where the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract, and the host contract itself is not carried at fair value through profit or loss, the embedded derivative is bifurcated and separately accounted for at fair value, with changes in fair value recognised in the income statement.

(h) Impairment of Financial Assets

(i) Loans, Advances and Financing

Loans, advances and financing ("loan(s)") of the Group and the Bank are classified as impaired when they fulfill any of the following criteria:

(1) principal or interest or both are past due for three (3) months or more;
(2) where a loan is in arrears for less than three (3) months, the loan exhibits indications of credit weaknesses; or
(3) where an impaired loan has been rescheduled or restructured, the loan will continue to be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for a period of six (6) months.

2. Summary of Significant Accounting Policies (Cont'd.)

(h) Impairment of Financial Assets (Cont'd.)

(i) Loans, Advances and Financing (Cont'd.)

For the determination of impairment on loans, the Group and the Bank assess at each reporting date whether there is any objective evidence that a loan or a group of loans is impaired. A loan or a group of loans is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (ie. an "incurred loss event") and that loss event has an impact on the estimated future cash flows of the loan or group of loans that can be reliably estimated.

The criteria that the Group and the Bank use to determine that there is objective evidence of an impairment include:

(1) any significant financial difficulty of the obligor;
(2) a breach of contract, such as a default or delinquency in interest or principal payments;
(3) a high probability of bankruptcy or other financial reorganisation of the obligor;
(4) concerns over the viability of the obligor's business operations and its capacity to trade successfully out of financial difficulties and to generate sufficient cash flows to service its debt obligations; and
(5) any adverse news or developments affecting the local economic conditions or business environment which will adversely affect the repayment capacity of the borrower.

The Group and the Bank first assess individually whether objective evidence of impairment exists individually for loans which are individually significant, or collectively for loans which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed loan, the loan is then included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the loan's carrying amount and the present value of the estimated future cash flows. The carrying amount of the loan is reduced through the use of an allowance account and the amount of loss is recognised in the income statement. Where appropriate, the calculation of the present value of estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For loans which are collectively assessed, the Bank and its domestic banking subsidiary companies 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 allowance.

Collective assessment of loans of other banking subsidiary companies which are not subject to this transitional arrangement is done via grouping of these loans on the basis of similar credit risk characteristics. Future cash flows of each of these groups of loans are estimated on the basis of historical loss experience for such assets and discounted to present value. Collective assessment impairment allowance is made on any shortfall in these discounted cash flows against the carrying value of the group of loans.

2. Summary of Significant Accounting Policies (Cont'd.)

(h) Impairment of Financial Assets (Cont'd.)

(i) Loans, Advances and Financing (Cont'd.)

In conjunction with the convergence of the FRSs in Malaysia with the IFRSs, BNM's guideline on Classification and Impairment Provisions for Loans/Financing was revised on 9 November 2011 to align the requirements on the determination of collective assessment allowance with that of the Malaysian Financial Reporting Standard 139: Financial Instruments: Recognition and Measurement ("MFRS 139"). Based on the revised guideline, the transitional arrangement on collective assessment is removed with effect from 1 January 2012. Thereafter, the Bank and its domestic banking subsidiary companies will apply the same basis for collective assessment impairment allowance as its other banking subsidiaries that were not subject to BNM's transitional arrangement, as disclosed above.

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

(ii) Financial Investments Available-for-Sale

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

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

For debt instruments, impairment is assessed based on the same criteria as other financial investments available-for-sale. Where impairment losses have been previously recognised in the income statement, if there is a subsequent increase in the fair value of the debt instrument that can be objectively related to a credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

(iii) Financial Investments Held-to-Maturity

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

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

2. Summary of Significant Accounting Policies (Cont'd.)

(h) Impairment of Financial Assets (Cont'd.)

(iv) Rescheduled and Restructured Loans

Where a loan shows evidence of credit weaknesses, the Group and the Bank may seek to renegotiate the loan rather than to take possession of collateral. This may involve an extension of the payment arrangements via rescheduling or the renegotiation of new loan terms and conditions via restructuring. Management monitors the renegotiated loan to ensure that all the revised terms are met and that the repayments are made promptly for a continuous period. Where an impaired loan is renegotiated, the borrower must adhere to the revised and/or restructured repayment terms for a continuous period of six months before the loan is classified as non-impaired. These loans continue to be subjected to individual or collective impairment assessment.

(i) Investment Properties

Investment properties are properties which are held to earn rental income or for capital appreciation or both. Properties that are occupied by companies in the Group for conduct of business operations are accounted for as owner-occupied rather than as investment properties upon consolidation.

In accordance with FRS 140, investment properties can be measured using either the cost or fair value method. The Group has adopted the fair value method in measuring investment properties. Investment properties are measured initially at its cost, including transaction cost. Subsequent to initial recognition, all properties are measured at fair value, with any changes recognised in the income statement. When an item of property and equipment is transferred to investment property following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity as a revaluation reserve. If a fair value gain reverses a previously recognised impairment loss, the gain is recognised in the income statement. Upon disposal of the investment property, any surplus previously recorded in revaluation reserve is transferred to retained earnings.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction. Fair values of investment properties are determined either by independent professional valuers or by management based on their judgement and estimates. Management's estimates have been made with reference to current prices in an active market for similar properties in the same location and condition and subject to similar lease and other contracts.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in the income statement.

2. Summary of Significant Accounting Policies (Cont'd.)

(j) Assets Acquired Under Lease

Leases in which the Group is a lessee and assumes substantially all the risks and rewards of ownership are classified as finance leases. All other leases in which the Group is a lessee are classified as operating leases.

(i) Finance Lease

Upon initial recognition, the leased asset and the corresponding lease obligations are measured at an amount equal to the lower of the fair value of the leased asset at the beginning of the lease term and the present value of the minimum lease payments. 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 incremental borrowing rate is used. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to property and equipment. Depreciation is provided at rates which write off the cost or valuation of the asset over the term of the relevant lease or, where it is likely that the Group will obtain ownership of the asset, the life of the asset. Finance charges implicit in the lease payments are charged to the income statement over the period of the lease so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(ii) Operating Lease

All assets under operating leases are not recognised on the statement of financial position. All lease rentals payable are accounted for on a straight-line basis over the lease term and are charged to the income statement. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised in the income statement in the period the termination takes place.

(k) Property and Equipment and Depreciation

All items of property 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 cost of the item can be measured reliably. The carrying amount of replaced parts are derecognised. All other repairs and maintenance are charged to the income statement when they are incurred.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent to initial recognition, property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(n).

2. Summary of Significant Accounting Policies (Cont'd.)

(k) Property and Equipment and Depreciation (Cont'd.)

Freehold land with an unlimited useful life and work-in-progress which are not yet available for use are not depreciated. Depreciation of other property and equipment is provided on a straight line basis calculated to write off the cost of each asset to its residual value over the term of its estimated useful lives at the following principal annual rates:

Leasehold land	Over the remaining leasehold period
Buildings	2.0%
Renovations	Over the term of the leases ranging from 2 – 7 years
Office equipment, furniture and fittings	10.0% – 33.3%
Computer equipment and software	20.0% – 33.3%
Motor vehicles	20.0%

The residual values, useful lives 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 and equipment.

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

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property.

(l) Goodwill and Intangible Assets

(i) Goodwill

For acquisitions prior to 1 January 2006, goodwill acquired in a business combination represents the excess of the cost of the acquisition of subsidiary companies over the Group's interest in the fair values of the net identifiable assets (including intangible assets) at the date of acquisition. With the adoption of FRS 3 Business Combinations beginning 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary companies. Upon the adoption of the revised FRS 3 Business Combinations on 1 January 2011, goodwill is measured as the excess of consideration transferred, any non-controlling interest and the acquisition-date fair value of any previously-held equity interest over the fair value of the Group's share of the identifiable net assets acquired.

Goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment assessment, goodwill is allocated to cash-generating units ("CGU") which are expected to benefit from the synergies of the business combination. Each CGU represents the lowest level at which the goodwill is monitored for internal management purposes and is not larger than an operating segment in accordance with FRS 8 Operating Segments. The carrying amount of goodwill is assessed annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, by comparing the recoverable amount from the CGU against the carrying amount of its net assets, including attributable goodwill. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2. Summary of Significant Accounting Policies (Cont'd.)

(l) Goodwill and Intangible Assets (Cont'd.)

(i) Goodwill (Cont'd.)

Where the fair value of the Group's share of identifiable net assets acquired exceed the amount of consideration transferred, any non-controlling interest and the acquisition-date fair value of any previously-held equity interest, the entire resulting gain is recognised immediately in the income statement.

(ii) Intangible Assets

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Intangible assets are recognised only when the identifiability and economic benefit probability criterion are met. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with an indefinite useful life are not amortised but are reviewed annually for impairment or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Intangible assets with an indefinite useful life are reviewed annually to determine whether the indefinite useful life assumption continues to be supportable.

Intangible assets with a finite useful life will be amortised on a straight line basis over the estimated useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

(m) Foreclosed Properties

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

(n) Impairment of Non-Financial Assets

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

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

Impairment of goodwill is discussed under the accounting policy on goodwill in Note 2(l)(i).

2. Summary of Significant Accounting Policies (Cont'd.)

(o) Repurchase and Reverse Repurchase Agreements

Securities purchased under resale agreements (i.e. reverse repurchase agreements) represent collaterised lending which the Group and the Bank are committed to resell at future dates and are reflected as an asset on the statement of financial position.

Obligations on securities sold under repurchase agreements (i.e. repurchase agreements) represent collaterised borrowing obligations which the Group and the Bank are committed to repurchase at future dates and are reflected as a liability on the statement of financial position. The securities sold under repurchase agreements are treated as pledged assets and are not derecognised from the statement of financial position.

(p) Bills and Acceptances Payable

Bills and acceptances payable represent the Bank's own bills and acceptances rediscounted and outstanding in the market.

(q) General Insurance

General insurance underwriting results are determined after taking into account reinsurances, unearned premium reserves, net commissions and net claims incurred.

Unearned premium reserves ("UPR") represent the unexpired risks at the end of the financial year. A fixed percentage method or time apportionment method is used in determining the UPR at reporting date.

Provision is made for outstanding claims based on the estimated costs of all claims together with related expenses less reinsurance recoveries in respect of claims notified but not settled at reporting date. Provision is also made for the cost of claims together with related expenses incurred but not reported at reporting date based on an actuarial estimation by a qualified actuary using a mathematical method of estimation.

(r) Profit Equalisation Reserve ("PER")

PER is the amount appropriated out of the total Islamic banking gross income in order to maintain a certain level of return to Investment Account Holders ("IAH") which is as stipulated by Bank Negara Malaysia's circular on "Framework of Rate of Return". PER is deducted from the total Islamic banking gross income in deriving the net distributable gross income at a rate which does not exceed the maximum amount of the total of 15% of monthly gross financing income, monthly net trading income, other income and irregular income. The amount appropriated is shared by the IAH and the Group. PER is maintained up to the maximum of 30% of total Islamic banking capital fund.

(s) Provisions

A provision is recognised when there is a present legal or constructive obligation where as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation and the amount can be reliably estimated.

Provisions are reviewed at each reporting date and if it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Where the effect of the value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

2. Summary of Significant Accounting Policies (Cont'd.)

(t) Debt Securities Issued

Debt securities issued are classified as financial liabilities or equity in accordance with the substance of the contractual terms of the instruments. The Group's debt securities issued consist mainly of subordinated notes, Innovative Tier I capital securities and borrowings. These debt securities are classified as liabilities in the statement of financial position as there is a contractual obligation by the Group to make cash payments of either principal or interest or both to holders of the debt securities and that the Group is contractually obliged to settle the financial instrument in cash or another financial instrument.

The Group has also issued Non-Innovative Tier I stapled securities which are potentially perpetual debt instruments, subject to the occurrence of certain events. This debt security is classified as a liability in the statement of financial position as there is a contractual obligation to deliver cash or other financial instruments to its holders in the form of regular interest payments, potentially extending into the indefinite future.

Subsequent to initial recognition, debt securities issued are recognised at amortised cost. Generally, it is the Group's policy to hedge the fixed interest rate risk on these debt securities, and apply fair value hedge accounting. When hedge accounting is applied to fixed-rate debt instruments, the carrying values of the debt securities are adjusted for changes in fair value related to the hedged exposure, instead of being carried at amortised cost.

(u) Share Capital

Ordinary shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Costs directly attributable to the issuance of new equity shares are taken to equity as a deduction from the proceeds.

(v) Treasury Shares

When the Bank re-acquires its own equity shares, the amount of the consideration paid, including directly attributable costs, is recognised in equity. Shares re-acquired are held as treasury shares and presented as a deduction from equity. No gain or loss is recognised in the income statement on the sale, re-issuance or cancellation of the treasury shares. Should such treasury shares be reissued by re-sale in the open market, the difference between the sales consideration and the carrying amount are shown as a movement in equity, as appropriate. Where treasury shares are distributed as share dividends, the cost of the treasury shares are applied in the reduction of the share premium reserve or distributable retained profits or both.

(w) Contingent Liabilities and Contingent Assets

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

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

2. Summary of Significant Accounting Policies (Cont'd.)

(x) Operating Revenue

Operating revenue of the Group comprises all types of revenue derived from commercial banking, investment banking, financing and other Islamic banking activities, stock-broking, general insurance, management of unit trust funds and sale of trust units but excluding all related companies transactions.

Operating revenue of the Bank comprises gross interest income, commissions earned and other income derived from commercial banking operations.

(y) Interest and financing income and expense

For all financial instruments measured at amortised cost and interest/profit-bearing financial assets classified as held-for-trading and available-for-sale, interest and financing income and expense are recognised under "Interest income", "Interest expense" and "Net income from Islamic banking business" respectively in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest/financing income or expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. Significant fees and transaction costs integral to the effective interest rate, as well as premiums or discounts are also considered.

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.

(z) Fee and Commission Income

The Group and the Bank earn fee and commission income from a diverse range of services provided to its customers. Such income are generally recognised on an accrual basis when the services have been provided.

Fees earned for the provision of services over a period of time, such as asset management and loan arrangement and management, are accrued over the period. Fee income from the provision of transaction services, such as funds remittances and stockbroking, are recognised upon completion of the underlying transaction. Fees that are linked to the performance of a certain activity or service, such as corporate advisory services, are recognised upon completion of the performance criteria.

(aa) Dividend Income

Dividend income is recognised when the right to receive payment is established.

2. Summary of Significant Accounting Policies (Cont'd.)

(ab) Employee Benefits

(i) Short-Term Employee 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. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increases 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 Plan

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees' Provident Fund ("EPF"). Overseas subsidiary companies make contributions to their respective countries' statutory pension schemes. Such contributions are recognised as an expense in the income statement as incurred.

(iii) Defined Benefit Plan

The Bank and certain subsidiary companies contribute to a fully funded defined benefit plan approved by the Inland Revenue Board known as the Public Bank Group Officers' Retirement Benefits Fund (the "Fund") for its eligible employees. The obligations under the Fund are determined based on actuarial valuation where the amount of benefit that employees have earned in return for their service in the current and prior years are estimated. The benefit is calculated using the Projected Unit Credit Method in order to determine its present value. Actuarial gains and losses are recognised as income or expense over four years when the cumulative unrecognised actuarial gains or losses for the Fund exceed ten percent (10%) of the higher of the present value of the defined benefit obligation and the fair value of plan assets. Where there are any improvements in benefits for the Fund, past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligations adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and reduced by the fair value of plan assets. Any net defined benefit surplus resulting from this calculation is limited to the net total of any unrecognised actuarial losses and past service cost, and the present value of any economic benefits in the form of refunds or reductions in future contributions to the Fund.

The amount recognised under personnel costs in the income statement includes the current service cost, interest cost, the expected return on plan assets and actuarial gains or losses recognised on the Fund.

(iv) Share-based Compensation Benefits

The Group operates a share-based compensation scheme which allows the eligible directors and employees of Public Financial Holdings Limited ("PFHL") and its subsidiary companies to acquire shares in PFHL.

2. Summary of Significant Accounting Policies (Cont'd.)

(ab) Employee Benefits (Cont'd.)

(iv) Share-based Compensation Benefits (Cont'd.)

Where the Group pays for services of its employees using share options, the fair value of the transaction is recognised as an expense in the income statement over the vesting periods of the grants, with a corresponding increase in equity. The total amount to be recognised as compensation expense is determined by reference to the fair value of the share option at the date of the grant and the number of share options to be vested by the vesting date taking into account, if any, the market vesting conditions upon which the options were granted but excluding the impact of any non-market vesting conditions. At the reporting date, the Group revises its estimate of the number of share options that are expected to vest by the vesting date. Any revision of this estimate is included in the income statement and a corresponding adjustment to equity over the remaining vesting period.

(ac) Tax Expense

Tax expense comprises current and deferred tax. Tax expense is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense in the income statement except to the extent that it relates to items that are charged or credited in other comprehensive income or directly to equity. In such cases, tax expense is charged or credited to other comprehensive income or to equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of prior years.

Deferred tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unutilised tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unutilised tax losses can be utilised. Deferred tax is not provided for goodwill not deductible for tax purposes and the initial recognition of assets and liabilities that at the time of transaction, affects neither accounting nor taxable profit. Deferred tax relating to fair value remeasurement of financial investments available-for-sale and cash flow hedges, which are recognised in other comprehensive income, is also charged or credited directly to other comprehensive income, and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statements.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to set off under the same taxable entity and taxation authority. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

(ad) Dividends

Dividends declared on ordinary shares are accounted for as an appropriation of retained profits in the period in which they are approved.

2. Summary of Significant Accounting Policies (Cont'd.)

(ae) Earnings Per Share

The Group presents basic and diluted (where applicable) earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period net of treasury shares. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. No adjustment is made for anti-dilutive potential ordinary shares.

(af) Segment Reporting

Segment reporting in the financial statements are presented on the same basis as it is used by management internally for evaluating operating segment performance and in deciding how to allocate resources to operating segments. Operating segments are distinguishable components of the Group that engage in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance, and for which discrete financial information is available.

All transactions between operating segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance.

3. Cash and Balances with Banks

	Group		Bank	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Cash and bank balances	**2,288,863**	2,220,245	**1,275,341**	1,382,876
Money market deposit placements:				
– maturing within one month	**14,281,816**	29,862,324	**6,836,401**	23,308,753
– maturing after one month	**2,063,104**	2,607,870	**2,396,607**	2,480,818
	16,344,920	32,470,194	**9,233,008**	25,789,571
	18,633,783	34,690,439	**10,508,349**	27,172,447

4. Reverse Repurchase Agreements

The fair value of securities accepted as collateral under reverse repurchase agreements that the Group and the Bank are permitted to sell or repledge in the absence of default by their owner was RM9,575,356,000 (2010 – RM384,290,000) and RM8,708,692,000 (2010 – RM10,737,000) respectively, of which none (2010 – none) have been resold.

5. Financial Assets Held-For-Trading

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
At fair value				
Government securities and treasury bills:				
Malaysian Government Securities	**350,463**	75,734	**350,463**	75,734
Malaysian Government Investment Certificates	**334,009**	–	**334,009**	–
Bank Negara Malaysia Monetary Notes	**226,552**	412,508	**226,552**	412,508
Bank Negara Malaysia Bills	**–**	99,803	**–**	–
	911,024	588,045	**911,024**	488,242
Money market instruments:				
Negotiable instruments of deposit	**9,445,212**	5,622,472	**9,494,719**	5,323,626
Non-money market instruments:				
Equity securities				
– Quoted shares in Malaysia	**808**	868	**808**	868
Debt securities				
– Cagamas bonds	**–**	15,134	**–**	–
– Unquoted private debt securities	**299,781**	134,101	**–**	–
	300,589	150,103	**808**	868
	10,656,825	6,360,620	**10,406,551**	5,812,736

6. 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 equity prices) of the underlying instruments. These instruments allow the Group and the Bank to transfer, modify or reduce its foreign exchange and interest rate risks via hedge relationships. Derivative financial instruments that are entered into for hedging purposes but which do not meet the hedge effectiveness criteria or which relate to customers' transactions are classified as trading derivatives. The Group and the Bank may also take conservative positions, within certain pre-set limits, with the expectation to make arbitrage gains from favourable movements in prices or rates via its trading derivatives.

6. Derivative Financial Assets/Liabilities (Cont'd.)

The table below shows the Group's and the Bank's derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts as at the reporting date. The notional amounts of these derivative financial instruments refer to the underlying contract value on which changes in the value of the derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the financial year end but are not indicative of either the market risk or credit risk inherent in the derivative contracts. The risks associated with the use of derivative financial instruments, as well as management's policy for controlling these risks are set out in Note 44 to the financial statements.

	2011			2010		
	Contract/ Notional	Fair Value		Contract/ Notional	Fair Value	
Group	**Amount RM'000**	**Assets RM'000**	**Liabilities RM'000**	**Amount RM'000**	**Assets RM'000**	**Liabilities RM'000**
At fair value						
Trading derivatives:						
Foreign exchange contracts						
– Currency forwards	**1,127,329**	**14,538**	**2,594**	1,168,602	6,144	18,402
– Currency swaps	**9,893,067**	**92,043**	**47,232**	13,018,376	80,072	175,499
Interest rate related contracts						
– Interest rate swaps	**460,000**	**16**	**370**	159,190	65	76
Equity related contracts						
– Options purchased	**148,325**	**11,244**	**–**	408,167	21,048	–
Precious metal contracts						
– Forwards	**16,896**	**77**	**2**	929	–	–
	11,645,617	**117,918**	**50,198**	14,755,264	107,329	193,977
Hedging derivatives:						
Fair value hedge						
Interest rate related contracts						
– Interest rate swaps	**12,423,875**	**371,896**	**185,608**	9,879,746	212,544	181,371
Cash flow hedge						
Interest rate related contracts						
– Interest rate swaps	**919,000**	**4,038**	**918**	484,000	6,749	181
	13,342,875	**375,934**	**186,526**	10,363,746	219,293	181,552
Total	**24,988,492**	**493,852**	**236,724**	25,119,010	326,622	375,529

6. Derivative Financial Assets/Liabilities (Cont'd.)

Bank	2011 Contract/ Notional Amount RM'000	2011 Fair Value Assets RM'000	2011 Fair Value Liabilities RM'000	2010 Contract/ Notional Amount RM'000	2010 Fair Value Assets RM'000	2010 Fair Value Liabilities RM'000
At fair value						
Trading derivatives:						
Foreign exchange contracts						
– Currency forwards	**1,102,192**	**14,475**	**2,548**	1,140,748	6,106	18,371
– Currency swaps	**9,547,903**	**90,790**	**46,440**	12,816,888	76,093	173,378
Interest rate related contracts						
– Interest rate swaps	**736,204**	**2,814**	**7,111**	471,478	6,518	19,649
Equity related contracts						
– Options purchased	**148,325**	**11,244**	**–**	408,167	21,048	–
Precious metal contracts						
– Forwards	**16,896**	**77**	**2**	929	–	–
	11,551,520	**119,400**	**56,101**	14,838,210	109,765	211,398
Hedging derivatives:						
Fair value hedge						
Interest rate related contracts						
– Interest rate swaps	**11,719,080**	**369,098**	**133,306**	9,010,480	206,082	129,416
Cash flow hedge						
Interest rate related contracts						
– Interest rate swaps	**919,000**	**4,038**	**918**	484,000	6,749	181
	12,638,080	**373,136**	**134,224**	9,494,480	212,831	129,597
Total	**24,189,600**	**492,536**	**190,325**	24,332,690	322,596	340,995

With the exception of options contracts, the fair values of derivative financial instruments are normally zero or negligible at inception. The subsequent change in value is either favourable or unfavourable as a result of fluctuations in the underlying market interest rates and/or foreign exchange rates relative to the terms of the respective contracts.

The fair value at inception of options contracts purchased represents the consideration paid for these contracts, with subsequent changes in the fair value dependent on the movements in the value of the underlying asset and/or index.

6. Derivative Financial Assets/Liabilities (Cont'd.)

As at 31 December 2011, the Group and the Bank have positions in the following types of derivative financial instruments:

Forwards

Forwards are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps

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

Options

Options are contractual agreements under which the seller grants the purchaser the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date during a set period, a specific amount of an underlying asset at a predetermined price. The seller receives a premium from the purchaser in consideration of risk. Options may be either exchange-traded or negotiated between the purchaser and the seller in the over-the-counter market.

Over-the-counter derivatives may expose the Group and the Bank to the risks associated with the absence of an exchange to close out an open position. This credit risk represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation. To control the level of credit risk, the Group and the Bank continually monitor and assess the credit standing of these counterparties.

Where derivatives of the Group and the Bank have been designated for the purpose of hedging and meet the hedge effectiveness criteria, the accounting treatment of these derivatives will depend on the nature of the instrument hedged and the type of hedge transaction, as described in Note 2(f). These hedge transactions include:

Fair Value Hedges

The Group and the Bank use fair value hedges to protect against changes in the fair value of fixed-rate long-term financial instruments due to movements in market interest rates. The financial instruments hedged for interest rate risk include the Bank's debt securities issued and financial investments available-for-sale. The Group and the Bank primarily use interest rate swaps as hedges of interest rate risk.

The net gains and losses arising from fair value hedges during the year are as follows:

	Group		Bank	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Gain/(Loss) on hedging instruments	**155,173**	(8,818)	**159,184**	(14,619)
(Loss)/Gain on the hedged items attributable to the hedged risk	**(146,840)**	253	**(152,743)**	8,384
Exchange differences	**(42)**	18	**–**	–
Ineffectiveness charged to the income statement (Note 33)	**8,291**	(8,547)	**6,441**	(6,235)

6. Derivative Financial Assets/Liabilities (Cont'd.)

Fair Value Hedges (Cont'd.)

The gains and losses on the ineffective portions of the Group's and the Bank's fair value hedges are recognised immediately in the income statement under "Net gains and losses on financial instruments".

Cash Flow Hedges

The Group and the Bank principally use interest rate swaps to protect against exposures to variability in future interest cash flows on non-trading financial assets and liabilities which bear interest at variable rates.

Set out below is a schedule indicating as at the financial year end, the periods when the hedged cash flows are expected to occur and when they are expected to impact the income statement:

Group and Bank	Within 1 year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	Over 5 years RM'000
2011				
Cash inflows on assets	**1,875**	**1,945**	**–**	**–**
Cash (outflows)/inflows on liabilities	**(848)**	**(2,933)**	**3,080**	**–**
Net cash inflows/(outflows)	**1,027**	**(988)**	**3,080**	**–**
2010				
Cash inflows/(outflows) on assets	2,556	1,991	(42)	–
Cash (outflows)/inflows on liabilities	(206)	1,799	465	–
Net cash inflows	2,350	3,790	423	–

There were no transactions during the year for which cash flow hedge accounting had to be discontinued as a result of the highly probable cash flows being no longer expected to occur.

The net gain on cash flow hedges reclassified from equity to the income statement is recognised in "Net gains and losses on financial instruments". During the financial year, a net gain of RM553,000 (2010 – net gain of RM80,000) was recognised by the Group and the Bank in the income statement.

The gains and losses on the ineffective portions of such derivatives are recognised immediately in the income statement under "Net gains and losses on financial instruments". During the financial year, a loss of RM3,000 (2010 – gain of RM4,000) (Note 33) was recognised by the Group and the Bank due to hedge ineffectiveness.

Hedge of Net Investment in Foreign Operations

The Group's statement of financial position is affected by gains and losses as a result of the revaluation of net assets of its subsidiary companies denominated in currencies other than its functional currency. The Group hedges its exposures to foreign exchange risk via the designation of certain long-term borrowings and short-term interbank borrowing funding pools.

The gains and losses on the ineffective portions recognised in the income statement under "Other operating income" during the financial year that arose from hedges of net investment in foreign operations was a gain of RM2,000 (2010 – loss of RM170,000).

7. Financial Investments Available-For-Sale

	Group 2011 RM'000	Group 2010 RM'000	Bank 2011 RM'000	Bank 2010 RM'000
At fair value				
Government securities and treasury bills:				
Malaysian Government Treasury Bills	**194,678**	–	**194,678**	–
Malaysian Government Securities	**500,182**	2,115,849	**500,182**	2,105,763
Malaysian Government Investment Certificates	**501,137**	2,002,864	**87,828**	1,199,611
Bank Negara Malaysia Monetary Notes	**8,480,813**	5,485,605	**7,492,295**	4,568,078
Bank Negara Malaysia Bills	**–**	1,063,115	**–**	–
	9,676,810	10,667,433	**8,274,983**	7,873,452
Money market instruments:				
Negotiable instruments of deposit	**–**	–	**–**	272,599
Non-money market instruments:				
Equity securities#				
– Quoted shares and convertible loan stocks in Malaysia	**37,069**	37,212	**37,069**	34,947
– Quoted shares and convertible loan stocks outside Malaysia	**7,718**	8,674	**–**	–
– Unquoted shares	**108,836**	108,193	**104,972**	104,479
Debt securities				
– Unquoted private debt securities	**2,072,214**	2,358,606	**1,591,926**	1,833,351
Unit trust funds				
– Public Institutional Bond Fund	**1,668,672**	1,609,313	**1,559,770**	1,505,140
– Others	**3,148,114**	3,062,853	**2,719,221**	2,645,511
	7,042,623	7,184,851	**6,012,958**	6,123,428
	16,719,433	17,852,284	**14,287,941**	14,269,479
# Stated at cost, net of impairment loss amounting to	**35,477**	39,914	**29,115**	33,482

There were no Malaysian Government Securities of the Bank which were utilised to meet the Statutory Reserve Requirement set by Bank Negara Malaysia as at the reporting date (2010 – none) (refer to Note 11).

7. Financial Investments Available-For-Sale (Cont'd.)

A reconciliation of accumulated impairment loss by class of financial instrument is as follows:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Non-money market instruments:				
Equity securities				
At 1 January	**39,914**	42,415	**33,482**	36,972
Impairment made during the year (Note 38)	**–**	992	**–**	–
Amount written off	**(4,437)**	(3,490)	**(4,367)**	(3,490)
Exchange differences	**–**	(3)	**–**	–
At 31 December	**35,477**	39,914	**29,115**	33,482

8. Financial Investments Held-To-Maturity

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
At amortised cost				
Government securities and treasury bills:				
Malaysian Government Treasury Bills	**9,896**	3,654	**9,896**	3,654
Malaysian Government Securities	**1,355,119**	1,933,735	**1,254,175**	1,772,055
Malaysian Government Investment Certificates	**702,108**	549,330	**702,108**	549,330
Foreign government treasury bills	**707,336**	515,429	**98,562**	80,010
	2,774,459	3,002,148	**2,064,741**	2,405,049
Money market instruments:				
Negotiable instruments of deposit	**1,281,183**	1,010,727	**2,309,611**	2,689,862
Bankers' acceptances and Islamic accepted bills	**3,011,092**	492,166	**2,555,206**	–
	4,292,275	1,502,893	**4,864,817**	2,689,862
Non-money market instruments:				
Debt securities				
– Cagamas bonds	**20,246**	5,059	**5,059**	5,059
– Unquoted private debt securities	**543,355**	729,530	**140,342**	140,442
	563,601	734,589	**145,401**	145,501
Accumulated impairment losses	**(1,102)**	(10,013)	**(1,102)**	(10,013)
	7,629,233	5,229,617	**7,073,857**	5,230,399

8. Financial Investments Held-To-Maturity (Cont'd.)

The maturity structure of government securities and treasury bills and money market instruments held is as follows:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Maturity within one year	**5,659,533**	2,833,384	**4,123,739**	2,658,186
More than one year to three years	**1,081,268**	965,868	**1,061,016**	1,730,936
More than three years to five years	**315,648**	700,644	**315,648**	700,644
More than five years	**10,285**	5,145	**1,429,155**	5,145
	7,066,734	4,505,041	**6,929,558**	5,094,911

The indicative market value of government securities and treasury bills and money market instruments is as follows:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Malaysian Government Treasury Bills	**9,897**	3,652	**9,897**	3,652
Malaysian Government Securities	**1,368,167**	1,946,257	**1,267,052**	1,784,640
Malaysian Government Investment Certificates	**708,575**	554,266	**708,575**	554,266
Foreign government treasury bills	**707,216**	515,605	**98,505**	80,186
Negotiable instruments of deposit	**1,279,987**	1,004,047	**2,308,315**	2,683,223
Bankers' acceptances and Islamic accepted bills	**3,010,833**	492,175	**2,555,062**	–

A reconciliation of accumulated impairment loss by class of financial instrument is as follows:

	Group and Bank	
	2011 RM'000	2010 RM'000
Non-money Market Instruments:		
Debt Securities		
At 1 January	**10,013**	12,148
Impairment made during the year (Note 38)	**45**	–
Amount written off	**(8,956)**	(1,104)
Exchange differences	**–**	(1,031)
At 31 December	**1,102**	10,013

9. Loans, Advances and Financing

	Group		Bank	
	2011	**2010**	**2011**	**2010**
	RM'000	**RM'000**	**RM'000**	**RM'000**
At amortised cost				
Overdrafts	**9,447,558**	9,597,674	**8,326,695**	8,500,942
Term loans/financing				
– Housing loans/financing	**51,315,764**	43,891,024	**44,743,319**	38,382,386
– Syndicated term loans/financing	**2,318,612**	2,871,817	**917,264**	1,635,281
– Hire purchase receivables	**38,727,779**	35,328,422	**26,680,963**	24,839,999
– Other term loans/financing	**64,851,835**	54,989,863	**52,886,921**	44,069,685
Credit card receivables	**1,522,267**	1,348,902	**1,512,099**	1,340,914
Bills receivables	**85,401**	108,856	**82,204**	95,828
Trust receipts	**382,921**	377,087	**309,675**	329,412
Claims on customers under acceptance credits #	**3,936,947**	3,582,630	**3,921,063**	3,572,220
Revolving credits	**4,003,269**	3,486,986	**4,144,668**	3,473,437
Staff loans *	**1,101,664**	960,811	**1,033,587**	903,078
Gross loans, advances and financing	**177,694,017**	156,544,072	**144,558,458**	127,143,182
Less: Allowance for impaired loans and financing				
– collective assessment allowance	**(2,644,535)**	(2,296,158)	**(2,168,025)**	(1,914,653)
– individual assessment allowance	**(245,196)**	(264,934)	**(134,748)**	(166,346)
Net loans, advances and financing	**174,804,286**	153,982,980	**142,255,685**	125,062,183

Included in claims on customers under acceptance credits of the Group and the Bank are bankers' acceptance rediscounted of RM1,294,373,000 (2010 – RM1,707,306,000) and RM1,292,261,000 (2010 – RM1,706,661,000) respectively.

* Included in staff loans of the Group and the Bank are loans to directors of subsidiary companies amounting to RM3,373,647 (2010 – RM3,505,221) and RM2,823,326 (2010 – RM2,891,154) respectively.

9. Loans, Advances and Financing (Cont'd.)

Gross loans, advances and financing presented by class of financial instruments are as follows:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Retail loans/financing				
– Housing loans/financing	**51,315,764**	43,891,024	**44,743,319**	38,382,386
– Hire purchase	**38,727,779**	35,328,422	**26,680,963**	24,839,999
– Credit cards	**1,522,267**	1,348,902	**1,512,099**	1,340,914
– Other loans/financing ^	**59,650,401**	52,904,601	**50,654,228**	44,786,687
	151,216,211	133,472,949	**123,590,609**	109,349,986
Corporate loans/financing	**26,477,806**	23,071,123	**20,967,849**	17,793,196
	177,694,017	156,544,072	**144,558,458**	127,143,182

^ Included in other loans/financing are term loans, trade financing, overdrafts and revolving credits.

The maturity structure of gross loans, advances and financing by residual contractual maturity is as follows:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Maturity within one year	**28,165,244**	25,130,683	**23,903,369**	21,330,140
More than one year to three years	**16,730,279**	16,618,501	**12,487,913**	12,363,350
More than three years to five years	**19,594,355**	18,258,072	**14,966,255**	14,188,733
More than five years	**113,204,139**	96,536,816	**93,200,921**	79,260,959
	177,694,017	156,544,072	**144,558,458**	127,143,182

9. Loans, Advances and Financing (Cont'd.)

Gross loans, advances and financing analysed by type of customer are as follows:

	Group		Bank	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Banking institutions	**577,887**	92,478	**412,759**	–
Non-bank financial institutions				
– Stock-broking companies	**2,010**	2,010	**2,010**	2,010
– Others	**7,508,401**	5,751,848	**7,285,444**	5,530,247
Business enterprises				
– Small and medium enterprises	**31,893,730**	28,022,864	**28,410,394**	25,109,061
– Others	**23,208,613**	22,226,128	**18,625,966**	17,595,432
Government and statutory bodies	**324,378**	326,226	**368**	371
Individuals	**112,227,634**	98,089,469	**88,005,106**	77,045,005
Other entities	**32,698**	30,207	**29,501**	27,340
Foreign entities	**1,918,666**	2,002,842	**1,786,910**	1,833,716
	177,694,017	156,544,072	**144,558,458**	127,143,182

Gross loans, advances and financing analysed by geographical distribution are as follows:

	Group		Bank	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Malaysia	**164,081,299**	143,821,595	**144,234,053**	126,889,859
Hong Kong SAR and the People's Republic of China	**11,347,423**	10,699,655	**–**	–
Cambodia	**1,940,890**	1,769,499	**–**	–
Other countries	**324,405**	253,323	**324,405**	253,323
	177,694,017	156,544,072	**144,558,458**	127,143,182

9. Loans, Advances and Financing (Cont'd.)

Gross loans, advances and financing analysed by interest rate/rate of return sensitivity are as follows:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Fixed rate				
– Housing loans/financing	**1,506,165**	1,928,071	**680,468**	1,005,466
– Hire purchase receivables	**37,204,687**	33,750,002	**26,671,253**	24,832,082
– Other fixed rate loans/financing	**16,785,545**	16,155,876	**9,020,044**	8,827,158
Variable rate				
– Base lending rate plus	**96,548,480**	83,051,326	**92,614,278**	80,438,068
– Cost plus	**15,676,220**	12,370,856	**14,996,284**	11,565,882
– Other variable rates	**9,972,920**	9,287,941	**576,131**	474,526
	177,694,017	156,544,072	**144,558,458**	127,143,182

Gross loans, advances and financing analysed by economic purpose are as follows:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Purchase of securities	**1,855,949**	2,445,735	**1,799,724**	2,302,077
Purchase of transport vehicles	**38,947,135**	35,560,624	**26,893,997**	25,044,969
Purchase of landed properties	**91,177,930**	77,877,177	**80,554,811**	68,574,344
(of which: – residential	**52,207,176**	44,440,429	**45,660,415**	38,942,235
– non-residential)	**38,970,754**	33,436,748	**34,894,396**	29,632,109
Purchase of fixed assets (excluding landed properties)	**269,973**	282,626	**238,335**	276,826
Personal use	**9,721,813**	9,035,621	**4,117,175**	4,018,917
Credit card	**1,522,267**	1,348,902	**1,512,099**	1,340,914
Purchase of consumer durables	**16,754**	16,351	**13,358**	13,110
Construction	**1,899,289**	1,490,749	**1,254,784**	910,135
Mergers and acquisitions	**208,269**	8,183	**208,269**	8,183
Working capital	**27,685,514**	22,321,467	**23,837,744**	18,781,703
Other purpose	**4,389,124**	6,156,637	**4,128,162**	5,872,004
	177,694,017	156,544,072	**144,558,458**	127,143,182

9. Loans, Advances and Financing (Cont'd.)

Gross loans, advances and financing analysed by sectors are as follows:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Agriculture, hunting, forestry and fishing	**2,536,271**	3,119,426	**2,273,676**	2,890,865
Mining and quarrying	**136,637**	120,644	**117,603**	112,315
Manufacturing	**7,794,879**	7,100,555	**6,875,511**	6,457,253
Electricity, gas and water	**337,187**	348,775	**305,237**	299,389
Construction	**5,803,527**	6,027,594	**4,914,034**	5,237,417
Wholesale & retail trade and restaurants & hotels	**15,545,359**	14,258,932	**14,248,824**	13,100,713
Transport, storage and communication	**2,952,295**	1,952,217	**2,321,421**	1,366,257
Finance, insurance and business services	**13,304,589**	10,173,718	**11,953,772**	9,055,447
Real estate	**14,295,594**	12,664,808	**11,565,396**	9,745,025
Community, social and personal services	**1,755,094**	1,484,692	**1,358,412**	1,097,004
Households	**112,543,232**	98,534,420	**88,449,903**	77,486,033
Others	**689,353**	758,291	**174,669**	295,464
	177,694,017	156,544,072	**144,558,458**	127,143,182

Movements in impaired loans, advances and financing ("impaired loans/financing") are as follows:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
At 1 January	**1,784,277**	1,892,223	**1,401,321**	1,375,631
Impaired during the year	**2,613,345**	3,006,563	**1,913,028**	2,352,332
Reclassified as non-impaired	**(2,042,648)**	(2,263,308)	**(1,711,860)**	(1,929,911)
Recoveries	**(308,784)**	(263,362)	**(219,155)**	(181,379)
Amount written off	**(509,166)**	(516,878)	**(220,039)**	(184,565)
Loans/financing converted to foreclosed properties/investments	**(14,333)**	(30,435)	**(13,169)**	(28,670)
Exchange differences	**6,966**	(40,526)	**108**	(2,117)
At 31 December	**1,529,657**	1,784,277	**1,150,234**	1,401,321
Gross impaired loans as % of gross loans, advances and financing	**0.86%**	1.14%	**0.80%**	1.10%

9. Loans, Advances and Financing (Cont'd.)

Impaired loans/financing analysed by geographical distribution are as follows:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Malaysia	**1,348,309**	1,579,947	**1,146,075**	1,387,671
Hong Kong SAR and the People's Republic of China	**118,278**	131,135	**–**	–
Cambodia	**58,911**	59,545	**–**	–
Other countries	**4,159**	13,650	**4,159**	13,650
	1,529,657	1,784,277	**1,150,234**	1,401,321

Impaired loans/financing analysed by economic purpose are as follows:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Purchase of securities	**5,892**	7,596	**5,883**	7,588
Purchase of transport vehicles	**267,817**	278,520	**198,061**	205,589
Purchase of landed properties	**660,005**	789,082	**563,476**	704,487
(of which: – residential	**466,238**	500,289	**413,183**	449,634
– non-residential)	**193,767**	288,793	**150,293**	254,853
Purchase of fixed assets (excluding landed properties)	**6,187**	9,041	**6,126**	8,918
Personal use	**176,834**	172,963	**52,995**	54,842
Credit card	**22,284**	27,296	**22,257**	27,290
Purchase of consumer durables	**13**	104	**13**	104
Construction	**33,652**	14,677	**19,696**	14,677
Working capital	**329,539**	442,712	**254,487**	335,777
Other purpose	**27,434**	42,286	**27,240**	42,049
	1,529,657	1,784,277	**1,150,234**	1,401,321

9. Loans, Advances and Financing (Cont'd.)

Impaired loans/financing analysed by sectors are as follows:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Agriculture, hunting, forestry and fishing	**6,254**	16,545	**5,978**	16,407
Mining and quarrying	**145**	1,287	**110**	215
Manufacturing	**152,709**	198,787	**121,174**	160,018
Electricity, gas and water	**1,251**	1,579	**–**	–
Construction	**120,275**	147,581	**105,144**	146,236
Wholesale & retail trade and restaurants & hotels	**109,014**	140,202	**92,027**	125,235
Transport, storage and communication	**103,802**	151,498	**95,242**	145,537
Finance, insurance and business services	**49,142**	89,454	**22,287**	50,318
Real estate	**71,180**	105,459	**39,658**	76,781
Community, social and personal services	**14,501**	13,701	**14,488**	13,569
Households	**899,344**	901,532	**652,370**	665,025
Others	**2,040**	16,652	**1,756**	1,980
	1,529,657	1,784,277	**1,150,234**	1,401,321

9. Loans, Advances and Financing (Cont'd.)

A reconciliation of the allowance for impaired loans/financing by class of financial instrument is as follows:

Group	Retail Loans/Financing Housing Loans/ Financing RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Loans/ Financing RM'000	Corporate Loans/ Financing RM'000	Total RM'000
Collective Assessment Allowance						
2011						
At 1 January 2011	**616,023**	**502,988**	**20,134**	**863,987**	**293,026**	**2,296,158**
Allowance made during the year (Note 37)	**143,424**	**164,525**	**39,338**	**213,455**	**42,409**	**603,151**
Amount written off	**(39,996)**	**(112,100)**	**(36,757)**	**(67,178)**	**–**	**(256,031)**
Exchange differences	**6**	**9**	**2**	**788**	**452**	**1,257**
At 31 December 2011	**719,457**	**555,422**	**22,717**	**1,011,052**	**335,887**	**2,644,535**
2010						
At 1 January 2010	523,011	449,835	17,575	773,119	255,403	2,018,943
Allowance made during the year (Note 37)	136,243	145,819	34,059	164,423	38,940	519,484
Amount written off	(42,891)	(92,509)	(31,497)	(68,732)	–	(235,629)
Exchange differences	(340)	(157)	(3)	(4,823)	(1,317)	(6,640)
At 31 December 2010	616,023	502,988	20,134	863,987	293,026	2,296,158

9. Loans, Advances and Financing (Cont'd.)

A reconciliation of the allowance for impaired loans/financing by class of financial instrument is as follows (Cont'd.):

Bank	Retail Loans Housing Loans RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Loans RM'000	Corporate Loans RM'000	Total RM'000
Collective Assessment Allowance						
2011						
At 1 January 2011	**575,736**	**372,600**	**20,114**	**680,440**	**265,763**	**1,914,653**
Allowance made during the year (Note 37)	**132,507**	**100,642**	**39,324**	**117,787**	**49,241**	**439,501**
Amount written off	**(37,109)**	**(73,028)**	**(36,757)**	**(39,332)**	**–**	**(186,226)**
Exchange differences	**–**	**–**	**–**	**97**	**–**	**97**
At 31 December 2011	**671,134**	**400,214**	**22,681**	**758,992**	**315,004**	**2,168,025**
2010						
At 1 January 2010	490,223	322,253	17,559	587,361	230,935	1,648,331
Allowance made during the year (Note 37)	125,611	110,683	34,052	142,511	34,828	447,685
Amount written off	(40,098)	(60,336)	(31,497)	(49,082)	–	(181,013)
Exchange differences	–	–	–	(350)	–	(350)
At 31 December 2010	575,736	372,600	20,114	680,440	265,763	1,914,653

9. Loans, Advances and Financing (Cont'd.)

A reconciliation of the allowance for impaired loans/financing by class of financial instrument is as follows (Cont'd.):

Group	Retail Loans/Financing: Housing Loans/ Financing RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Loans/ Financing RM'000	Corporate Loans/ Financing RM'000	Total RM'000
Individual Assessment Allowance						
2011						
At 1 January 2011	**188**	**2,199**	**–**	**156,356**	**106,191**	**264,934**
Net allowance made during the year (Note 37)	**1,413**	**2,121**	**–**	**203,862**	**13,114**	**220,510**
Allowance made during the year	**1,456**	**2,503**	**–**	**251,001**	**14,674**	**269,634**
Amount written back in respect of recoveries	**(43)**	**(382)**	**–**	**(47,139)**	**(1,560)**	**(49,124)**
Amount written off	**(537)**	**(3,127)**	**–**	**(237,321)**	**(12,150)**	**(253,135)**
Exchange differences	**19**	**151**	**–**	**10,089**	**2,628**	**12,887**
At 31 December 2011	**1,083**	**1,344**	**–**	**132,986**	**109,783**	**245,196**
2010						
At 1 January 2010	192	3,951	–	163,582	89,740	257,465
Net allowance made during the year (Note 37)	187	2,819	–	285,984	24,930	313,920
Allowance made during the year	187	4,284	–	410,009	30,250	444,730
Amount written back in respect of recoveries	–	(1,465)	–	(124,025)	(5,320)	(130,810)
Amount written off	(164)	(4,036)	–	(271,343)	(5,706)	(281,249)
Exchange differences	(27)	(535)	–	(21,867)	(2,773)	(25,202)
At 31 December 2010	188	2,199	–	156,356	106,191	264,934

9. Loans, Advances and Financing (Cont'd.)

A reconciliation of the allowance for impaired loans/financing by class of financial instrument is as follows (Cont'd.):

Bank	Retail Loans Housing Loans RM'000	Hire Purchase RM'000	Credit Cards RM'000	Other Loans RM'000	Corporate Loans RM'000	Total RM'000
Individual Assessment Allowance						
2011						
At 1 January 2011	**–**	**–**	**–**	**90,691**	**75,655**	**166,346**
Net allowance made during the year (Note 37)	**1,080**	**–**	**–**	**(771)**	**1,906**	**2,215**
Allowance made during the year	**1,080**	**–**	**–**	**29,237**	**3,466**	**33,783**
Amount written back in respect of recoveries	**–**	**–**	**–**	**(30,008)**	**(1,560)**	**(31,568)**
Amount written off	**–**	**–**	**–**	**(33,813)**	**–**	**(33,813)**
At 31 December 2011	**1,080**	**–**	**–**	**56,107**	**77,561**	**134,748**
2010						
At 1 January 2010	–	–	–	66,864	65,657	132,521
Net allowance made during the year (Note 37)	–	–	–	26,224	11,153	37,377
Allowance made during the year	–	–	–	108,228	15,876	124,104
Amount written back in respect of recoveries	–	–	–	(82,004)	(4,723)	(86,727)
Amount written off	–	–	–	(2,397)	(1,155)	(3,552)
At 31 December 2010	–	–	–	90,691	75,655	166,346

10. Other Assets

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Deferred handling fees*	**230,402**	215,499	**162,827**	158,187
Interest/Income receivable	**52,824**	51,236	**39,141**	39,624
Other receivables, deposits and prepayments	**1,231,339**	1,078,469	**1,165,635**	941,235
Manager's stocks**	**22,696**	15,717	**–**	–
Amount due from trust funds ^	**99,987**	147,197	**–**	–
Foreclosed properties#	**109,529**	125,539	**106,652**	123,178
Taxi licenses	**1,093**	6,082	**–**	–
Outstanding contracts on clients' accounts@	**260,384**	356,141	**–**	–
Amount due from subsidiary companies ^^	**–**	–	**42,234**	41,882
Dividend receivable from subsidiary companies (Note 42(b))	**–**	–	**397,237**	399,536
	2,008,254	1,995,880	**1,913,726**	1,703,642
# Stated net of accumulated allowance for impairment loss amounting to	**45,717**	52,336	**44,494**	51,191
@ Stated net of accumulated allowance for bad and doubtful debts amounting to	**2,083**	26,104	**–**	–

* This represents the unamortised balance of handling fees paid to motor vehicle dealers for hire purchase loans.

** Manager's stocks represent trust units held by the fund management subsidiary company.

^ This balance refers to amount due from trust funds managed by the fund management subsidiary company in respect of cancellation and creation of trust units. It also includes management fee receivable from trust funds.

^^ These balances are unsecured, non-interest bearing and are repayable on demand.

@ This balance represents outstanding purchase contracts in respect of the stock-broking business of the investment banking subsidiary company entered into on behalf of clients where settlements have yet to be made by clients. The trade settlement is 3 market days according to the Bursa Malaysia Securities Berhad's trading rules.

11. Statutory Deposits with Central Banks

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Statutory deposits with Bank Negara Malaysia *	**5,275,421**	1,294,861	**4,496,365**	1,106,330
Statutory deposits with the National Bank of Cambodia #	**322,380**	317,714	**–**	–
	5,597,801	1,612,575	**4,496,365**	1,106,330

* The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (revised 1994). The amount of the Statutory Reserve Requirement is determined based on a set percentage of total eligible liabilities.

With effect from 25 June 2009, Bank Negara Malaysia has allowed the Bank, as a Principal Dealer for Government and Bank Negara Malaysia issuances and sukuk, to utilise its holdings of Malaysian Government Securities and Government Investment Certificates in place of cash deposits to meet the Statutory Reserve Requirement, up to a nominal amount of RM350,000,000 on a daily basis. There were no Malaysian Government Securities used to meet the Statutory Reserve Requirement as at the end of the financial year (2010 – none).

These statutory deposits are maintained with the National Bank of Cambodia ("NBC") in respect of:

(i) Cambodian Public Bank Plc and are maintained in compliance with Article 5 of NBC Prakas No. B701-136, the amounts of which are determined as set percentages of Cambodian Public Bank Plc's issued share capital and deposits from customers;

(ii) Campu Lonpac Insurance Plc (formerly known as CampuBank Lonpac Insurance Plc) and are maintained in compliance with Article 53 of the Royale Government's Sub-Decree on Insurance dated 22 October 2001 and Article 1 of the Ministry of Economy and Finance's Circular No. 009 SHV dated 9 December 2002, the amounts are determined as a set percentage of the issued share capital of Campu Lonpac Insurance Plc; and

(iii) Campu Securities Plc (formerly known as CampuBank Securities Plc) and this represents the non-interest bearing deposit specifically earmarked for Campu Securities Plc as required by the Securities and Exchange Commission of Cambodia.

12. Deferred Tax

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
At 1 January	**510,824**	463,568	**416,470**	358,607
Recognised in income statement (net) (Note 39)				
– relating to changes in tax treatment for collective assessment allowance	**(545,445)**	–	**(478,485)**	–
– relating to origination and reversal of temporary differences	**20,011**	58,565	**2,286**	66,638
Recognised in equity (net) (Note 39)	**5,166**	(11,795)	**8,021**	(8,314)
Others	**–**	–	**–**	(461)
Exchange differences	**(88)**	486	**–**	–
At 31 December	**(9,532)**	510,824	**(51,708)**	416,470

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 tax authority. The net deferred tax assets and liabilities shown on the statement of financial position after appropriate offsetting are as follows:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Deferred tax assets, net	**46,093**	519,215	**–**	416,470
Deferred tax liabilities, net	**(55,625)**	(8,391)	**(51,708)**	–
	(9,532)	510,824	**(51,708)**	416,470

Deferred tax assets and liabilities prior to offsetting are summarised as follows:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Deferred tax assets	**66,119**	588,773	**10,367**	480,357
Deferred tax liabilities	**(75,651)**	(77,949)	**(62,075)**	(63,887)
	(9,532)	510,824	**(51,708)**	416,470

12. Deferred Tax (Cont'd.)

The components and movements in deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred tax assets of the Group	Allowance for Impaired Loans RM'000	Tax Losses RM'000	Other Temporary Differences RM'000	Total RM'000
At 1 January 2010	475,261	28,242	34,914	538,417
Recognised in income statement (Note 39)				
– relating to origination and reversal of temporary differences	74,428	(27,689)	16,051	62,790
Recognised in equity (Note 39)	–	–	(11,795)	(11,795)
Exchange differences	(405)	(222)	(12)	(639)
At 31 December 2010	549,284	331	39,158	588,773
Recognised in income statement (Note 39)				
– relating to changes in tax treatment for collective assessment allowance	**(545,445)**	**–**	**–**	**(545,445)**
– relating to origination and reversal of temporary differences	**4,414**	**(214)**	**12,568**	**16,768**
Recognised in equity (Note 39)	**–**	**–**	**5,720**	**5,720**
Exchange differences	**297**	**1**	**5**	**303**
At 31 December 2011	**8,550**	**118**	**57,451**	**66,119**

Deferred tax liabilities of the Group	Excess of Capital Allowances Over Depreciation RM'000	Other Temporary Differences RM'000	Total RM'000
At 1 January 2010	74,177	672	74,849
Recognised in income statement (Note 39)			
– relating to origination and reversal of temporary differences	2,382	1,843	4,225
Exchange differences	(1,125)	–	(1,125)
At 31 December 2010	75,434	2,515	77,949
Recognised in income statement (Note 39)			
– relating to origination and reversal of temporary differences	**(580)**	**(2,663)**	**(3,243)**
Recognised in equity (Note 39)	**–**	**554**	**554**
Exchange differences	**391**	**–**	**391**
At 31 December 2011	**75,245**	**406**	**75,651**

12. Deferred Tax (Cont'd.)

The components and movements in deferred tax assets and liabilities during the financial year prior to offsetting are as follows (Cont'd.):

Deferred tax assets of the Bank	Allowance for Impaired Loans RM'000	Other Temporary Differences RM'000	Total RM'000
At 1 January 2010	412,305	6,567	418,872
Recognised in income statement (Note 39)			
– relating to origination and reversal of temporary differences	66,641	3,619	70,260
Recognised in equity (Note 39)	–	(8,314)	(8,314)
Others	(461)	–	(461)
At 31 December 2010	478,485	1,872	480,357
Recognised in income statement (Note 39)			
– relating to changes in tax treatment for collective assessment allowance	**(478,485)**	**–**	**(478,485)**
– relating to origination and reversal of temporary differences	**–**	**474**	**474**
Recognised in equity (Note 39)	**–**	**8,021**	**8,021**
At 31 December 2011	**–**	**10,367**	**10,367**

Deferred tax liabilities of the Bank	Excess of Capital Allowances Over Depreciation RM'000	Other Temporary Differences RM'000	Total RM'000
At 1 January 2010	60,606	(341)	60,265
Recognised in income statement (Note 39)			
– relating to origination and reversal of temporary differences	3,655	(33)	3,622
At 31 December 2010	64,261	(374)	63,887
Recognised in income statement (Note 39)			
– relating to origination and reversal of temporary differences	**(1,786)**	**(26)**	**(1,812)**
At 31 December 2011	**62,475**	**(400)**	**62,075**

12. Deferred Tax (Cont'd.)

Deferred tax assets have not been recognised in respect of the following items as it is not probable that the respective subsidiary companies will generate sufficient future taxable profits available against which it can be utilised:

	Group 2011 RM'000	Group 2010 RM'000
Unutilised tax losses	**14,911**	14,462
Unutilised capital allowances	**24,674**	24,674

Subject to the agreement by the relevant tax authorities and subject to changes in the Group's shareholdings of the subsidiary companies under Section 44(5A) and (5B) of the Income Tax Act, 1967, the Group has unabsorbed tax losses and unabsorbed capital allowances carried forward of RM15,627,000 (2010 – RM16,468,000) and RM24,674,000 (2010 – RM24,674,000) respectively which give rise to the recognised and unrecognised deferred tax assets in respect of the above unutilised tax losses and unutilised capital allowances.

13. Investment In Subsidiary Companies

	2011		2010	
Bank	**Cost RM'000**	**Market Value RM'000**	**Cost RM'000**	**Market Value RM'000**
Quoted shares outside Malaysia				
– Quoted shares in Hong Kong SAR	**1,672,195**	**1,139,970**	1,672,195	1,795,499
Unquoted shares				
– In Malaysia	**2,150,747**		1,950,747	
– Outside Malaysia	**272,169**		272,169	
	4,095,111		3,895,111	
Less: Accumulated impairment losses	**(6,530)**		(6,530)	
	4,088,581		3,888,581	

13. Investment In Subsidiary Companies (Cont'd.)

Details of the subsidiary companies are as follows:

Name	Principal Activities	Effective Interest 2011 %	Effective Interest 2010 %
Local subsidiary companies			
Public Islamic Bank Berhad	Islamic banking	**100.0**	100.0
Public Investment Bank Berhad +	Investment banking	**100.0**	100.0
Public Invest Nominees (Tempatan) Sdn. Bhd. +	Nominee services	**100.0**	100.0
Public Invest Nominees (Asing) Sdn. Bhd. +	Nominee services	**100.0**	100.0
Public Consolidated Holdings Sdn. Bhd. +	Investment holding	**100.0**	100.0
Public Mutual Berhad +	Sale of trust units and management of unit trusts	**100.0**	100.0
Public Holdings Sdn. Bhd.	Property holding	**100.0**	100.0
Public Nominees (Tempatan) Sdn. Bhd.	Nominee services	**100.0**	100.0
Public Nominees (Asing) Sdn. Bhd.	Nominee services	**100.0**	100.0
Public Bank (L) Ltd.	Offshore banking	**100.0**	100.0
PB Trust (L) Ltd.	Offshore trust company	**100.0**	100.0
PB Venture Capital Sdn. Bhd.	Investment holding	**100.0**	100.0
Public Leasing & Factoring Sdn. Bhd.	Leasing and factoring	**100.0**	100.0
PB International Factors Sdn. Bhd.	Dormant	**100.0**	100.0
PB Properties Sdn. Bhd.	Dormant	**100.0**	100.0
PBFIN Berhad	Dormant	**100.0**	100.0
HHB Holdings Berhad +	Dormant	**–**	100.0
Overseas subsidiary companies			
Cambodian Public Bank Plc +	Banking	**100.0**	100.0
Campu Securities Plc (formerly known as CampuBank Securities Plc) +	Securities dealing and underwriting	**100.0**	100.0
Campu Lonpac Insurance Plc (formerly known as CampuBank Lonpac Insurance Plc) ++	General insurance	**55.0**	55.0
Public Financial Holdings Limited + *	Investment and property holding	**73.2**	73.2
Public Bank (Hong Kong) Limited +	Banking	**73.2**	73.2
Public Finance Limited +	Deposit-taking and finance	**73.2**	73.2
Public Financial Limited +	Investment holding	**73.2**	73.2
Public Securities Limited +	Stock and share broking	**73.2**	73.2
Public Securities (Nominees) Limited +	Nominee services	**73.2**	73.2
Public Financial Securities Limited +	Stock and share broking	**73.2**	73.2
Public Bank (Nominees) Limited +	Nominee services	**73.2**	73.2
Public Futures Limited +	Dormant	**73.2**	73.2
Public Credit Limited +	Dormant	**73.2**	73.2

13. Investment In Subsidiary Companies (Cont'd.)

Details of the subsidiary companies are as follows (Cont'd.):

Name	Principal Activities	Effective Interest 2011 %	Effective Interest 2010 %
Overseas subsidiary companies (Cont'd.)			
Public Pacific Securities Limited +	Dormant	**73.2**	73.2
Public Investments Limited +	Dormant	**73.2**	73.2
Public Realty Limited +	Dormant	**73.2**	73.2
Winton (B.V.I.) Limited +	Investment holding	**73.2**	73.2
Winton Financial Limited +	Provision of financing	**73.2**	73.2
Winton Motors, Limited +	Trading of taxi cabs and taxi licences, and leasing of taxis	**73.2**	73.2
Winton Holdings (Hong Kong) Limited +	Dormant	**73.2**	73.2
Winsure Company, Limited +	Dormant	**70.9**	70.9

* Shares quoted on The Stock Exchange of Hong Kong Limited.
\+ Subsidiary companies not audited by KPMG.
++ Subsidiary company audited by KPMG Cambodia.

All the local subsidiary companies are incorporated in Malaysia. All the overseas subsidiary companies are incorporated in Hong Kong SAR except for Public Financial Holdings Limited which is incorporated in Bermuda, Cambodian Public Bank Plc, Campu Securities Plc and Campu Lonpac Insurance Plc which are incorporated in Cambodia, and Winton (B.V.I.) Limited which is incorporated in the British Virgin Islands.

Significant events affecting the Group's subsidiary companies during the year are as follows:

(a) **Increase in Paid-up Share Capital of Public Islamic Bank Berhad**

During the financial year, the Bank subscribed to 8,000,000 ordinary shares of RM1.00 each issued by Public Islamic Bank Berhad at an issue price of RM25.00 per ordinary share for a total consideration of RM200,000,000.

(b) **Member's Voluntary Winding-up of HHB Holdings Berhad**

On 28 December 2011, HHB Holdings Berhad, a dormant wholly-owned subsidiary of the Bank, commenced Member's Voluntary Winding-up pursuant to Section 254(1) of the Companies Act, 1965. The winding up proceedings have no material effect on the earnings and net assets of the Group for the financial year ended 31 December 2011.

There are no significant restrictions on the ability of the subsidiary companies to transfer funds to the Group in the form of cash dividends or repayment of loans and advances.

14. Investment In Associated Companies

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Unquoted shares, at cost	**141,365**	101,365	**121,325**	101,325
Share of post-acquisition reserves	**14,632**	17,259	**–**	–
	155,997	118,624	**121,325**	101,325

Represented by:		
Group's share of net assets	**155,997**	118,624

The summarised financial information of associated companies is as follows:

	Group	
	2011 RM'000	2010 RM'000
Total assets	**1,252,541**	1,224,416
Total liabilities	**917,181**	983,207
Operating revenue	**135,588**	117,609
Profit after tax	**5,670**	25,534

Details of the associated companies, all of which are unquoted, are as follows:

Name	Principal Activities	Place of Incorporation	Effective Interest 2011 %	Effective Interest 2010 %
PB Trustee Services Berhad	Trustee services	Malaysia	**40.0**	40.0
ING PUBLIC Takaful Ehsan Berhad	Family takaful	Malaysia	**40.0**	–
VID Public Bank	Banking	Socialist Republic of Vietnam	**50.0**	50.0
CPB Properties Company Ltd.	Property holding	Cambodia	**49.0**	49.0

There are no significant restrictions on the ability of the associated companies to transfer funds to the Group in the form of cash dividends.

14. Investment In Associated Companies (Cont'd.)

Incorporation of an Associated Company, ING PUBLIC Takaful Ehsan Berhad ("ING PUBLIC Takaful Ehsan")

On 11 March 2011, ING PUBLIC Takaful Ehsan was incorporated to carry out family takaful business following the approval granted by Bank Negara Malaysia in September 2010 on the application for a family takaful licence. ING PUBLIC Takaful Ehsan is a joint venture company between ING Management Holdings (Malaysia) Sdn Bhd, Public Bank Berhad ("PBB") and Public Islamic Bank Berhad ("PIBB") (a wholly-owned subsidiary of PBB), with equity participation of 60%, 20% and 20% respectively.

PBB and PIBB had then contributed RM20 million each to the issued and paid-up share capital of ING PUBLIC Takaful Ehsan. With that, the Group holds an effective equity interest of 40% in the associated company.

15. Investment Properties

	Note	Group 2011 RM'000	Group 2010 RM'000
At valuation			
At 1 January		**65,552**	69,327
Transfer from owner-occupied property – Property and equipment	16	**–**	907
Revaluation gain from fair value adjustment	34	**2,711**	3,751
Disposals		**–**	(114)
Exchange differences		**2,491**	(8,319)
At 31 December		**70,754**	65,552
Included in the above are:			
Short-term leasehold land and building		**64,888**	60,269
Long-term leasehold land and building		**5,866**	5,283
		70,754	65,552

The Group's investment properties are stated at fair value and are situated in Malaysia and Hong Kong SAR. The investment properties in Malaysia amounting to RM1,950,000 (2010 – RM1,850,000) have been valued on the basis of management's valuations based on current prices in an active market for similar properties in the same location and condition. The investment properties in Hong Kong SAR amounting to RM68,804,000 (2010 – RM63,702,000) have been revalued by CS Surveyors Limited, a firm of independent professionally qualified valuers, on an open market value based on their existing use. The increase in the fair values of RM2,711,000 (2010 – RM3,751,000) has been recognised in the income statement during the financial year.

The investment properties held by the Group are let under operating leases to third parties, from which the Group earned rental income of RM4,887,000 (2010 – RM5,310,000) (Note 34) during the year.

No investment properties were pledged as security for banking facilities at the reporting date.

16. Property and Equipment

Group 2011	Note	Freehold land RM'000	Short term leasehold land RM'000	Long term leasehold land RM'000	Buildings RM'000	Renovations RM'000	Office equipment, furniture & fittings RM'000	Computer equipment & software RM'000	Motor vehicles RM'000	Work-in-progress RM'000	Total RM'000
Cost											
At 1 January 2011		175,877	-	285,376	571,007	283,185	490,970	790,582	23,069	22,727	2,642,793
Additions		567	-	-	2,883	24,847	16,342	132,820	633	21,802	199,894
Disposals		-	-	-	-	(620)	(3,799)	(10,991)	(571)	-	(15,981)
Reclassification		-	120,182	(120,182)	-	(13,181)	12,975	206	-	-	-
Write-offs	35	-	-	-	-	(3,167)	(2,532)	(14,017)	(105)	-	(19,821)
Exchange differences		-	-	8,758	3,089	1,174	470	1,802	153	-	15,446
At 31 December 2011		176,444	120,182	173,952	576,979	292,238	514,426	900,402	23,179	44,529	2,822,331
Accumulated depreciation											
At 1 January 2011		-	-	26,362	148,501	200,076	360,747	605,743	11,946	-	1,353,375
Depreciation charge for the year	35	-	2,575	511	13,512	15,790	28,176	82,916	2,467	-	145,947
Disposals		-	-	-	-	(620)	(3,238)	(10,965)	(566)	-	(15,389)
Reclassification		-	19,841	(19,841)	-	-	81	(81)	-	-	-
Write-offs	35	-	-	-	-	(2,398)	(2,410)	(13,709)	(105)	-	(18,622)
Exchange differences		-	102	771	481	851	282	1,389	105	-	3,981
At 31 December 2011		-	22,518	7,803	162,494	213,699	383,638	665,293	13,847	-	1,469,292
Accumulated impairment loss											
At 1 January/31 December 2011		1,064	-	33	10,002	-	-	-	-	-	11,099
Carrying amounts											
At 31 December 2011		175,380	97,664	166,116	404,483	78,539	130,788	235,109	9,332	44,529	1,341,940
Property and equipment that have been fully depreciated which are still in use are as follows:											
At cost											
At 31 December 2011		-	-	-	395	156,261	197,545	436,046	8,212	-	798,459

16. Property And Equipment (Cont'd.)

Group 2010	Note	Freehold land RM'000	Long term leasehold land RM'000	Buildings RM'000	Renovations RM'000	Office equipment, furniture & fittings RM'000	Computer equipment & software RM'000	Motor vehicles RM'000	Work-in-progress RM'000	Total RM'000
Cost										
At 1 January 2010		175,877	317,625	568,919	271,604	462,091	783,982	21,930	15,336	2,617,364
Additions		-	-	12,969	30,982	25,018	41,448	10,232	7,391	128,040
Disposals		-	-	(231)	(810)	(5,825)	(15,269)	(8,440)	-	(30,575)
Transfer to investment properties	15	-	(453)	(454)	-	-	-	-	-	(907)
Reclassification		-	-	-	(13,592)	13,596	-	(4)	-	-
Write-offs	35	-	-	-	(1,120)	(2,874)	(12,971)	(132)	-	(17,097)
Exchange differences		-	(31,796)	(10,196)	(3,879)	(1,036)	(6,608)	(517)	-	(54,032)
At 31 December 2010		175,877	285,376	571,007	283,185	490,970	790,582	23,069	22,727	2,642,793
Accumulated depreciation										
At 1 January 2010		-	25,668	135,754	186,563	338,390	560,201	18,910	-	1,265,486
Depreciation charge for the year	35	-	3,236	13,655	17,853	31,480	77,546	1,858	-	145,628
Disposals		-	-	(89)	(810)	(5,588)	(15,201)	(8,359)	-	(30,047)
Write-offs	35	-	-	-	(1,119)	(2,838)	(12,941)	(132)	-	(17,030)
Exchange differences		-	(2,542)	(819)	(2,411)	(697)	(3,862)	(331)	-	(10,662)
At 31 December 2010		-	26,362	148,501	200,076	360,747	605,743	11,946	-	1,353,375
Accumulated impairment loss										
At 1 January 2010		1,064	2,729	7,306	-	-	-	-	-	11,099
Reclassification		-	(2,696)	2,696	-	-	-	-	-	-
At 31 December 2010		1,064	33	10,002	-	-	-	-	-	11,099
Carrying amounts										
At 31 December 2010		174,813	258,981	412,504	83,109	130,223	184,839	11,123	22,727	1,278,319
Property and equipment that have been fully depreciated which are still in use are as follows:										
At cost										
At 31 December 2010		-	-	395	139,736	172,433	429,403	8,283	-	750,250

No land and buildings of the Group were pledged as security for banking facilities at the reporting date.

16. Property and Equipment (Cont'd.)

Bank 2011	Note	Freehold land RM'000	Long term leasehold land RM'000	Buildings RM'000	Renovations RM'000	Office equipment, furniture & fittings RM'000	Computer equipment & software RM'000	Motor vehicles RM'000	Total RM'000
Cost									
At 1 January 2011		81,092	58	262,042	223,264	376,249	716,476	16,710	1,675,891
Additions		-	-	-	16,742	12,197	125,189	113	154,241
Disposals		-	-	-	(1)	(2,712)	(10,294)	(540)	(13,547)
Reclassification		-	-	-	(12,738)	12,529	209	-	-
Write-offs	35	-	-	-	(515)	(2,322)	(13,735)	(105)	(16,677)
Exchange differences		-	-	-	113	32	109	15	269
At 31 December 2011		81,092	58	262,042	226,865	395,973	817,954	16,193	1,800,177
Accumulated depreciation									
At 1 January 2011		-	47	79,085	154,587	258,565	557,438	8,625	1,058,347
Depreciation charge for the year	35	-	2	5,232	9,743	23,938	72,719	1,837	113,471
Disposals		-	-	-	(1)	(2,223)	(10,279)	(159)	(12,662)
Reclassification		-	-	-	-	81	(81)	-	-
Write-offs	35	-	-	-	(511)	(2,235)	(13,430)	(105)	(16,281)
Exchange differences		-	-	-	30	22	113	13	178
At 31 December 2011		-	49	84,317	163,848	278,148	606,480	10,211	1,143,053
Carrying amounts									
At 31 December 2011		81,092	9	177,725	63,017	117,825	211,474	5,982	657,124
Property and equipment that have been fully depreciated which are still in use are as follows:									
At cost									
At 31 December 2011		-	-	395	127,343	180,547	403,807	7,085	719,177

16. Property and Equipment (Cont'd.)

Bank 2010	Note	Freehold land RM'000	Long term leasehold land RM'000	Buildings RM'000	Renovations RM'000	Office equipment, furniture & fittings RM'000	Computer equipment & software RM'000	Motor vehicles RM'000	Total RM'000
Cost									
At 1 January 2010		81,092	58	262,076	216,933	357,526	707,498	16,142	1,641,325
Additions		–	–	–	21,553	13,722	32,023	8,508	75,806
Disposals		–	–	(34)	(64)	(5,592)	(9,565)	(7,744)	(22,999)
Reclassification		–	–	–	(13,592)	13,596	–	(4)	–
Write-offs	35	–	–	–	(1,120)	(2,869)	(12,935)	(132)	(17,056)
Exchange differences		–	–	–	(446)	(134)	(545)	(60)	(1,185)
At 31 December 2010		81,092	58	262,042	223,264	376,249	716,476	16,710	1,675,891
Accumulated depreciation									
At 1 January 2010		–	45	73,888	145,015	241,654	514,395	15,347	990,344
Depreciation charge for the year	35	–	2	5,231	10,837	25,035	65,623	1,119	107,847
Disposals		–	–	(34)	(51)	(5,209)	(9,362)	(7,663)	(22,319)
Write-offs	35	–	–	–	(1,119)	(2,833)	(12,905)	(132)	(16,989)
Exchange differences		–	–	–	(95)	(82)	(313)	(46)	(536)
At 31 December 2010		–	47	79,085	154,587	258,565	557,438	8,625	1,058,347
Carrying amounts									
At 31 December 2010		81,092	11	182,957	68,677	117,684	159,038	8,085	617,544
Property and equipment that have been fully depreciated which are still in use are as follows:									
At cost									
At 31 December 2010		–	–	395	114,213	157,893	397,775	7,191	677,467

No land and buildings of the Bank were pledged as security for banking facilities at the reporting date.

16. Property And Equipment (Cont'd.)

Included in property and equipment of the Group and the Bank are computer equipment and software under finance lease with a carrying amount of RM114,600,000 which will expire in three years (2010 – RM41,850,000 expiring in one year).

Details of the terms and conditions of the finance lease arrangement are disclosed in Note 23.

17. Intangible Assets

	Group		Bank	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Goodwill				
At 1 January	**1,903,898**	2,031,105	**695,393**	695,393
Exchange differences	**35,096**	(127,207)	**–**	–
At 31 December	**1,938,994**	1,903,898	**695,393**	695,393
Intangible Assets				
At 1 January	**26,474**	26,506	**–**	–
Exchange differences	**8**	(32)	**–**	–
At 31 December	**26,482**	26,474	**–**	–
Total carrying amounts of goodwill and intangible assets	**1,965,476**	1,930,372	**695,393**	695,393

17. Intangible Assets (Cont'd.)

Impairment Assessment on Goodwill and Intangible Assets

For purposes of impairment assessment, goodwill and intangible assets have been allocated to the Group's cash-generating units ("CGU"), which are either operating segments or at a level not larger than an operating segment, as follows:

Cash-generating unit:	Group RM'000	Bank RM'000	Discount rate %	Nominal growth rate beyond initial cash flow projections %
As at 31 December 2011				
Hire purchase financing	**395,953**	**395,953**	**11.3**	**5.9**
East Malaysia operations (in respect of business acquired from the former Hock Hua Bank)	**299,440**	**299,440**	**10.3**	**5.9**
Hong Kong operations	**1,196,225**	**–**	**7.3**	**5.7**
Fund management	**19,555**	**–**	**10.3**	**5.9**
Investment banking	**54,303**	**–**	**11.3**	**5.9**
	1,965,476	**695,393**		
As at 31 December 2010				
Hire purchase financing	395,953	395,953	11.5	6.0
East Malaysia operations (in respect of business acquired from the former Hock Hua Bank)	299,440	299,440	10.5	6.0
Hong Kong operations	1,161,121	–	7.5	5.7
Fund management	19,555	–	10.5	6.0
Investment banking	54,303	–	11.5	6.0
	1,930,372	695,393		

17. Intangible Assets (Cont'd.)

Impairment Assessment on Goodwill and Intangible Assets (Cont'd.)

Goodwill is allocated to the Group's CGUs expected to benefit from the synergies of the acquisitions. For annual impairment assessment purposes, the recoverable amount of the CGUs are based on their value-in-use. The value-in-use calculations apply a discounted cash flow model using cash flow projections based on financial forecasts approved by management. The key assumptions for the computation of value-in-use include the discount rates and growth rates applied. Discount rates used are based on the pre-tax weighted average cost of capital plus an appropriate risk premium, where applicable, at the date of assessment of the respective CGU. Cash flow projections are based on five year financial budgets approved by management. Cash flows beyond the fifth year are extrapolated to fifty years using a nominal long-term growth rate which does not exceed the average of the last twenty years' inflation-adjusted Gross Domestic Product growth rates of the respective countries where the CGUs operate. Impairment is recognised in the income statement when the carrying amount of a CGU exceeds its recoverable amount.

The intangible assets consist mainly of a share-broking licence and stock exchange trading rights which are deemed to have indefinite useful lives as there are no expiry dates. The recoverable amount of the intangible assets have been assessed using the value-in-use method, by discounting the estimated cash flows from their CGUs. Impairment is recognised in the income statement when the carrying amount of the CGUs exceeds their recoverable amounts.

Management believes that any reasonably possible change in the key assumptions would not cause the carrying amount of the goodwill and intangible assets to exceed the recoverable amount of the CGU. Based on this review, there is no evidence of impairment on the Group's and the Bank's goodwill and intangible assets.

18. Deposits from Customers

	Group		Bank	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
At amortised cost				
Core deposits:				
– Demand deposits	**28,763,993**	25,470,214	**24,963,764**	22,142,587
– Savings deposits	**21,959,727**	20,440,705	**15,476,427**	14,035,444
– Fixed deposits	**106,572,984**	97,727,833	**82,521,018**	76,311,260
	157,296,704	143,638,752	**122,961,209**	112,489,291
Wholesale deposits:				
– Negotiable instruments of deposit	**2,283,027**	3,389,826	**752,718**	899,029
– Money market deposits	**40,589,452**	29,379,017	**35,471,442**	26,938,395
	42,872,479	32,768,843	**36,224,160**	27,837,424
Other deposits	**201,342**	464,524	**199,070**	462,551
	200,370,525	176,872,119	**159,384,439**	140,789,266

18. Deposits from Customers (Cont'd.)

Deposits from customers of the Bank and its wholly-owned Islamic banking subsidiary company, Public Islamic Bank Berhad are insured by Perbadanan Insurans Deposit Malaysia ("PIDM"), up to a maximum limit of RM250,000 per depositor per PIDM member bank. The deposit insurance covers all Ringgit Malaysia and foreign currency deposits held under current accounts, savings accounts and fixed deposits, inclusive of Islamic deposits. This guarantee excludes money market deposits and negotiable instruments of deposits.

Included in deposits from customers of the Group and the Bank are deposits of RM2,043,701,000 (2010 – RM2,133,616,000) and RM1,399,914,000 (2010 – RM1,565,574,000) respectively held as collateral for loans, advances and financing.

The maturity structure of fixed deposits, negotiable instruments of deposit and money market deposits are as follows:

	Group		Bank	
	2011	**2010**	**2011**	**2010**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Due within six months	**132,511,858**	116,981,551	**104,021,136**	91,366,911
More than six months to one year	**16,757,343**	13,333,704	**14,601,339**	12,668,349
More than one year to three years	**154,076**	166,430	**103,227**	100,669
More than three years to five years	**22,186**	14,991	**19,476**	12,755
	149,445,463	130,496,676	**118,745,178**	104,148,684

The deposits are sourced from the following types of customers:

	Group		Bank	
	2011	**2010**	**2011**	**2010**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Federal and state governments	**1,779,056**	1,721,576	**310,388**	576,428
Local government and statutory authorities	**3,192,613**	2,010,704	**2,145,272**	1,333,049
Business enterprises	**61,617,324**	54,490,618	**47,063,188**	41,172,876
Individuals	**91,667,626**	86,653,048	**79,051,389**	73,187,600
Foreign customers	**4,810,192**	5,206,065	**4,172,124**	4,738,222
Others	**37,303,714**	26,790,108	**26,642,078**	19,781,091
	200,370,525	176,872,119	**159,384,439**	140,789,266

19. Deposits from Banks

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
At amortised cost				
Licensed banks	**4,210,837**	3,956,369	**2,948,408**	1,982,454
Licensed Islamic banks	**1,265,141**	1,656,812	**95,243**	416,138
Licensed investment banks	**3,759,282**	8,334,268	**4,840,635**	8,310,404
Bank Negara Malaysia	**2,848,131**	2,820,178	**2,845,613**	2,817,551
Other financial institutions	**3,723,341**	4,559,849	**5,987,450**	7,543,234
	15,806,732	21,327,476	**16,717,349**	21,069,781

20. Bills and Acceptances Payable

Bills and acceptances payable represents the Bank's own bills and acceptances rediscounted and outstanding in the market. These financial liabilities are stated at amortised cost.

21. Recourse Obligations on Loans Sold to Cagamas

This represents the proceeds received from housing loans (excluding Islamic financing) sold directly to Cagamas Berhad with recourse to the Bank. Under this agreement, the Bank undertakes to administer the loans on behalf of Cagamas Berhad and to buy-back any loans which are regarded as defective based on prudential criteria set by Cagamas Berhad. These financial liabilities are stated at amortised cost.

22. Debt Securities Issued and Other Borrowed Funds

		Group		Bank	
	Note	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
At amortised cost					
Borrowings	(a)	**895,084**	898,352	**–**	–
At amortised cost, modified for change in value as a result of fair value hedges					
Subordinated notes	(b)	**6,256,738**	3,188,194	**6,256,738**	3,188,194
Innovative Tier I capital securities	(c)	**1,968,796**	1,918,480	**1,968,796**	1,918,480
Non-Innovative Tier I stapled securities	(d)	**2,197,215**	2,089,854	**2,197,215**	2,089,854
		10,422,749	7,196,528	**10,422,749**	7,196,528
		11,317,833	8,094,880	**10,422,749**	7,196,528

(a) Borrowings

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Unsecured:				
Term loans	**895,084**	866,676	**–**	–
Revolving credit	**–**	31,676	**–**	–
	895,084	898,352	**–**	–

The unsecured term loans are denominated in Hong Kong Dollars. The loans are for a tenure ranging from one to three years and bear interest at HIBOR plus 0.65% to 1.20% (2010 – HIBOR plus 0.95% to 1.20%).

The unsecured revolving credit in the previous year is denominated in Hong Kong Dollars. The loan was for a tenure of one year and bore interest at Cost of Funds plus 0.80%.

22. Debt Securities Issued and Other Borrowed Funds (Cont'd.)

(b) Subordinated Notes

		Group and Bank	
		2011	2010
	Note	RM'000	RM'000
USD400 million 5.00% Subordinated Notes due in 2017, callable with step-up in 2012	(i)	**1,269,029**	1,230,513
Issued under the RM5.0 billion Subordinated Medium Term Note Programme:			
First tranche:			
RM1,400 million 4.73% Subordinated Notes due in 2018, callable with step-up in 2013	(ii)(a)	**1,399,345**	1,398,869
Second tranche:			
RM200 million 4.60% Subordinated Notes due in 2019, callable with step-up in 2014	(ii)(b)	**199,886**	199,846
Third tranche:			
RM223 million 4.60% Subordinated Notes due in 2019, callable with step-up in 2014	(ii)(c)	**222,869**	222,824
Fourth tranche:			
RM50 million 4.60% Subordinated Notes due in 2019, callable with step-up in 2014	(ii)(d)	**49,970**	49,960
Fifth tranche:			
RM3,000 million 4.28% Subordinated Notes due in 2022, callable in 2017	(ii)(e)	**2,997,207**	–
		6,138,306	3,102,012
Unrealised fair value loss arising from fair value hedge		**118,432**	86,182
		6,256,738	3,188,194

(i) On 20 June 2005, the Bank issued USD400 million in aggregate principal amount of Subordinated Notes due in 2017 callable with step-up in 2012. The Notes bear interest at the rate of 5.000% per annum from (and including) 20 June 2005 to (but excluding) 20 June 2012 and, thereafter, at a rate per annum equal to the interest rate of five year US treasury notes plus 2.827%. The interest is payable semi-annually in arrears on 20 June and 20 December in each year commencing on 20 December 2005. The Notes were issued at a price of 99.383 per cent of the principal amount of the Notes. The Notes will, subject to the prior consent of Bank Negara Malaysia, be redeemable in whole but not in part, at the option of the Bank in the event of certain changes affecting taxation in Malaysia or on 20 June 2012 at their principal amount plus accrued interest (if applicable).

22. Debt Securities Issued and Other Borrowed Funds (Cont'd.)

(b) Subordinated Notes (Cont'd.)

(ii) On 13 March 2008, the Bank obtained approval from Bank Negara Malaysia for a Subordinated Medium Term Note Programme ("the MTN Programme") for the issuance of up to RM5.0 billion in aggregate principal value of Subordinated Notes. The tenor of the MTN Programme will be up to fifteen (15) years, with the maturity for each issuance to range between ten (10) to fifteen (15) years, and callable from five (5) years prior to the relevant maturity date of each issuance. Each issuance will bear interest at a rate to be determined prior to the issuance, payable semi-annually in arrears.

The Subordinated Notes to be issued under the MTN Programme shall be issued at par. The Notes will, subject to the prior consent of Bank Negara Malaysia, be redeemable in whole but not in part, at the option of the Bank in the event of certain changes affecting taxation in Malaysia or if there is a more than insubstantial risk that the Notes will no longer qualify as Tier II Capital for the purposes of Bank Negara Malaysia's capital adequacy requirements or on the first call date or at any subsequent interest payment date thereafter at their principal amount plus accrued interest (if applicable).

The Bank has issued the following tranches of Subordinated Notes under the MTN Programme:

(a) On 16 May 2008, the Bank issued the first tranche of RM1,400 million in aggregate principal amount of Subordinated Notes due in 2018 callable with step-up in 2013. The Notes bear interest at the rate of 4.73% per annum from (and including) 16 May 2008 to (but excluding) 16 May 2013 and thereafter, at the rate of 5.73% per annum from (and including) 16 May 2013 to (but excluding) the date of early redemption in full of such Notes or the maturity date of the Notes (whichever is earlier). The interest is payable semi-annually in arrears on 16 May and 16 November each year commencing 16 November 2008.

(b) On 6 November 2009, the Bank issued the second tranche of RM200 million in aggregate principal amount of Subordinated Notes due in 2019 callable with step-up in 2014. The Notes bear interest at the rate of 4.60% per annum from (and including) 6 November 2009 to (but excluding) 6 November 2014 and thereafter, at the rate of 5.60% per annum from (and including) 6 November 2014 to (but excluding) the date of early redemption in full of such Notes or the maturity date of the Notes (whichever is earlier). The interest is payable semi-annually in arrears on 6 May and 6 November each year commencing 6 May 2010.

(c) On 10 December 2009, the Bank issued the third tranche of RM223 million in aggregate principal amount of Subordinated Notes due in 2019 callable with step-up in 2014. The Notes bear interest at the rate of 4.60% per annum from (and including) 10 December 2009 to (but excluding) 10 December 2014 and thereafter, at the rate of 5.60% per annum from (and including) 10 December 2014 to (but excluding) the date of early redemption in full of such Notes or the maturity date of the Notes (whichever is earlier). The interest is payable semi-annually in arrears on 10 June and 10 December each year commencing 10 June 2010.

22. Debt Securities Issued and Other Borrowed Funds (Cont'd.)

(b) Subordinated Notes (Cont'd.)

(d) On 31 December 2009, the Bank issued the fourth tranche of RM50 million in aggregate principal amount of Subordinated Notes due in 2019 callable with step-up in 2014. The Notes bear interest at the rate of 4.60% per annum from (and including) 31 December 2009 to (but excluding) 31 December 2014 and thereafter, at the rate of 5.60% per annum from (and including) 31 December 2014 to (but excluding) the date of early redemption in full of such Notes or the maturity date of the Notes (whichever is earlier). The interest is payable semi-annually in arrears on 30 June and 31 December each year commencing 30 June 2010.

(e) On 3 August 2011, the Bank issued the fifth tranche of RM3,000 million in aggregate principal amount of Subordinated Notes due in 2022 callable in 2017. The Notes bear interest at the rate of 4.28% per annum from (and including) 3 August 2011 to (but excluding) the date of early redemption in full of such Notes or the maturity date of the Notes (whichever is earlier). The interest rate on these Notes will remain unchanged throughout the tenure of the Notes. The interest is payable semi-annually in arrears on 3 February and 3 August each year commencing 3 February 2012.

The above Subordinated Notes constitute unsecured liabilities of the Bank, and are subordinated in right of payment upon the occurrence of any winding up proceeding to the prior payment in full of all deposit liabilities and all other liabilities of the Bank, other than the Innovative Tier I Capital Securities and the Non-Innovative Tier I Stapled Securities, which are subordinated to the Subordinated Notes, in accordance with the terms and conditions of the Subordinated Notes. The Subordinated Notes qualify as Tier II Capital in line with the requirements of BNM's Risk-Weighted Capital Adequacy Framework (General Requirements and Capital Components) for the purpose of determining the capital adequacy ratios of the Group and the Bank.

The Bank has entered into interest rate swap contracts as fair value hedges of its Subordinated Notes in order to minimise its exposure to interest rate volatility, resulting in a change in the value of the Subordinated Notes. The Bank does not restate the value of its Subordinated Notes as a result of changes in its own credit risk.

(c) Innovative Tier I Capital Securities

		Group and Bank	
		2011	2010
	Note	RM'000	RM'000
USD200 million 6.84% Innovative Tier I Capital Securities due in 2036, callable with step-up in 2016	(i)	**634,213**	615,631
RM1,200 million 5.10% Innovative Tier I Capital Securities due in 2036, callable with step-up in 2016	(ii)	**1,199,090**	1,198,907
		1,833,303	1,814,538
Unrealised fair value loss arising from fair value hedge		**135,493**	103,942
		1,968,796	1,918,480

22. Debt Securities Issued and Other Borrowed Funds (Cont'd.)

(c) Innovative Tier I Capital Securities (Cont'd.)

(i) On 22 August 2006, the Bank issued USD200 million in aggregate principal amount of Innovative Tier I Capital Securities ("the USD IT-I Securities") due in 2036 and callable with step-up in 2016. The USD IT-I Securities bear interest at the rate of 6.84% per annum from (and including) 22 August 2006 to (but excluding) 22 August 2016 and thereafter, at the interest rate per annum of 2.30% above the London Interbank Offered Rate for three-month US Dollar deposits. The interest is payable semi-annually in arrears on 22 February and 22 August each year commencing on 22 February 2007 to 22 August 2016, and thereafter quarterly in arrears on 22 February, 22 May, 22 August and 22 November of each year.

The Bank may, at its option, defer the payment of interest up to a limit of 50 per cent of the aggregate principal of the USD IT-I Securities, with any subsequent deferral in excess of this limit subject to the prior approval of Bank Negara Malaysia ("BNM"). If the Bank has not made a payment of interest, whether deferred or not, it shall not pay any dividend to its ordinary shareholders and/or any interest on any security or instrument ranking junior to the USD IT-I Securities. The USD IT-I Securities were issued at a price of 100.0 percent of the principal amount of the USD IT-I Securities. The USD IT-I Securities will, subject to the prior consent of BNM, be redeemable in whole but not in part, at the option of the Bank in the event of certain changes affecting taxation in Malaysia or if there is a more than insubstantial risk that the USD IT-I Securities will no longer qualify as Tier I Capital for the purposes of BNM's capital adequacy requirement or on 22 August 2016 or on any subsequent interest payment date thereafter at their principal amount plus accrued interest (if applicable).

(ii) On 22 December 2006, the Bank issued RM1,200 million in aggregate principal amount of Innovative Tier I Capital Securities ("the RM IT-I Securities") due in 2036 and callable with step-up in 2016. The RM IT-I Securities bear interest at the rate of 5.10% per annum from (and including) 22 December 2006 to (but excluding) 22 December 2016 and thereafter, at the interest rate per annum of 1.82% above the three-month Kuala Lumpur Interbank Offered Rate. The interest is payable semi-annually in arrears on 22 June and 22 December each year commencing on 22 June 2007 to 22 December 2016, and thereafter quarterly in arrears on 22 March, 22 June, 22 September and 22 December of each year.

The Bank may, at its option, defer the payment of interest up to a limit of 50 per cent of the aggregate principal of the RM IT-I Securities, with any subsequent deferral in excess of this limit subject to the prior approval of BNM. If the Bank has not made a payment of interest, whether deferred or not, it shall not pay any dividend to its ordinary shareholders and/or any interest on any security or instrument ranking junior to the RM IT-I Securities. The RM IT-I Securities were issued at a price of 100.0 percent of the principal amount of the RM IT-I Securities. The RM IT-I Securities will, subject to the prior consent of BNM, be redeemable in whole but not in part, at the option of the Bank in the event of certain changes affecting taxation in Malaysia or if there is a more than insubstantial risk that the RM IT-I Securities will no longer qualify as Tier I Capital for the purposes of BNM's capital adequacy requirement or on 22 December 2016 or on any interest payment date thereafter at their principal amount plus accrued interest (if applicable).

22. Debt Securities Issued and Other Borrowed Funds (Cont'd.)

(c) Innovative Tier I Capital Securities (Cont'd.)

The Innovative Tier I Capital Securities above are unsecured liabilities of the Bank and rank pari passu among themselves and equally with the Non-Innovative Tier I Stapled Securities, and are subordinated in right of payment upon occurrence of any winding up proceeding to the prior payment in full of all deposit liabilities and all other liabilities including the Subordinated Notes of the Bank in accordance with the terms and conditions of the Innovative Tier I Capital Securities. The Innovative Tier I Capital Securities qualify as Tier I Capital in line with the requirements of BNM's Risk-Weighted Capital Adequacy Framework (General Requirements and Capital Components) for the purpose of determining the capital adequacy ratios of the Group and the Bank, up to a maximum of 15% of the Tier I Capital, with the excess qualifying as Tier II Capital.

The Bank has entered into interest rate swap contracts as fair value hedges of its Innovative Tier I Capital Securities in order to minimise its exposure to interest rate volatility, resulting in a change in the value of the capital securities. The Bank does not restate the value of its Innovative Tier I Capital Securities as a result of changes in its own credit risk.

(d) Non-Innovative Tier I stapled securities

		Group and Bank	
	Note	2011 RM'000	2010 RM'000
Issued under the RM5.0 billion Non-Innovative Tier I Stapled Securities Programme:			
First tranche:			
RM1,200 million 7.50% Stapled Securities callable in 2019	(i)	**1,194,388**	1,193,633
Second tranche:			
RM888 million 7.20% Stapled Securities callable in 2019	(ii)	**888,000**	888,000
		2,082,388	2,081,633
Unrealised fair value loss arising from fair value hedge		**114,827**	8,221
		2,197,215	2,089,854

On 16 March 2009, the Bank and PBFIN Berhad ("PBFIN"), a wholly-owned subsidiary company of the Bank, obtained approval from Bank Negara Malaysia for a Non-Innovative Tier I Stapled Securities ("Stapled Securities") Programme ("the NIT-I Programme") for the issuance of up to RM5.0 billion in nominal value of Stapled Securities, comprising the following securities:

(a) Non-Cumulative Perpetual Capital Securities ("NCPCS") issued by the Bank; and

(b) Subordinated Notes ("Sub-Notes") issued by PBFIN.

The NCPCS are stapled to an equivalent amount in nominal value of the Sub-Notes.

22. Debt Securities Issued and Other Borrowed Funds (Cont'd.)

(d) Non-Innovative Tier I stapled securities (Cont'd.)

Under the NIT-I Programme, the tenor of the NCPCS will be perpetual, with the first optional redemption date to be on a date falling no earlier than the fifth (5th) anniversary of the first issue date, whilst the Sub-Notes have a maturity of fifty (50) years. The NCPCS will not be subject to the payment of any distribution until the occurence of an assignment event, upon which distribution will be accrued at a fixed interest rate to be determined prior to each issuance of NCPCS. The Sub-Notes will bear interest at a rate which is the same rate as the distribution of the NCPCS together with which the Sub-Notes is stapled, payable semi-annually in arrears. Therefore, the Stapled Securities are effectively issued by the Bank and PBFIN at a pre-determined fixed interest rate.

The Bank and PBFIN have issued the following tranches of Stapled Securities under the NIT-I Programme:

(i) On 5 June 2009, the Bank and PBFIN issued the first tranche of RM1,200 million in nominal value of Stapled Securities. The first optional redemption date of the NCPCS will be on 5 June 2019, whilst the Sub-Notes are due on 5 June 2059. The Stapled Securities were issued at par. The Sub-Notes bear interest at a rate of 7.50% per annum, payable semi-annually. Should an assignment event occur, the NCPCS will also accrue interest at a rate of 7.50% per annum.

(ii) On 13 November 2009, the Bank and PBFIN issued the second tranche of RM888 million in nominal value of Stapled Securities. The first optional redemption date of the NCPCS will be on 13 November 2019, whilst the Sub-Notes are due on 13 November 2059. The Stapled Securities were issued at par. The Sub-Notes bear interest at a rate of 7.20% per annum, payable semi-annually. Should an assignment event occur, the NCPCS will also accrue interest at a rate of 7.20% per annum.

The other salient features of the NIT-I Programme are as follows:

The Bank may, at its option, redeem the NCPCS in whole but not in part, on a date falling no earlier than the fifth (5th) anniversary of the first issue date or on any distribution payment date thereafter, subject to fulfilling the following redemption conditions:

(i) the Bank is solvent at the time of redemption and immediately thereafter;
(ii) the Bank is not in breach of BNM's minimum capital adequacy ratio requirements; and
(iii) the Bank has obtained written approval from BNM prior to the redemption.

22. Debt Securities Issued and Other Borrowed Funds (Cont'd.)

(d) Non-Innovative Tier I stapled securities (Cont'd.)

The NCPCS will cease to be stapled to the Sub-Notes only upon the occurence of an assignment event. Once unstapled, ownership of the Sub-Notes will be assigned to the Bank pursuant to a note assignment agreement entered into between the Bank and investors of the Stapled Securities on the date of the issue of the Stapled Securities. These investors will then hold only the NCPCS. An assignment event means the occurence of any of the following events:

(i) the Bank elects that an assignment event occurs; or
(ii) BNM determines that an assignment event should occur; or
(iii) the redemption of the NCPCS pursuant to:
  (a) a tax redemption, whereby there is a more than an insubstantial risk that, as a result of changes in the applicable tax regulations, the Bank and/or PBFIN would become obliged to pay additional amounts or will no longer be able to obtain tax deductions for interest payments on the Sub-Notes or the inter-company loan between the Bank and PBFIN; or
  (b) a regulatory redemption, whereby the NCPCS no longer qualify as Non-Innovative Tier I Capital of the Bank for the purposes of BNM's capital adequacy ratio requirements; or
  (c) redemption of the NCPCS on the optional redemption date.
(iv) the deferral of any interest on the Sub-Notes; or
(v) the Bank is in breach of BNM's minimum capital adequacy ratio requirements; or
(vi) the commencement of winding up proceeding in respect of the Bank or PBFIN; or
(vii) the appointment of an administrator in connection with the restructuring of the Bank or PBFIN; or
(viii) the occurence of the optional redemption date; or
(ix) PBFIN ceases to be, directly or indirectly, a wholly-owned subsidiary company of the Bank.

The Bank will not be able to pay any dividends to its shareholders or make any interest payments on any securities ranking pari passu with or junior to the NCPCS or acquire any of its ordinary shares or redeem any securities ranking pari passu with or junior to the NCPCS (collectively referred to as the "Dividend and Capital Stopper") if, following the occurence of an assignment event, the Bank does not pay a distribution on the NCPCS on its due date for payment. The Dividend and Capital Stopper will only cease to be effective upon the resumption of payments of distribution on the NCPCS for a continuous period of one year.

The NCPCS are direct and unsecured obligations of the Bank. The NCPCS rank pari passu and without preference among themselves, with the existing RM1,200 million and USD200 million Innovative Tier I Capital Securities and with the most junior class of preference shares (if any), but in priority to the rights and claims of holders of ordinary shares of the Bank. The NCPCS are subordinated in right of payment upon the occurence of any winding up proceeding to the prior payment in full of all deposit liabilities and all other liabilities of the Bank including the Subordinated Notes of the Bank.

22. Debt Securities Issued and Other Borrowed Funds (Cont'd.)

(d) Non-Innovative Tier I stapled securities (Cont'd.)

The Sub-Notes constitute direct and unsecured obligations of PBFIN. The Sub-Notes rank pari passu and without preference among themselves and with the most junior class of preference shares (if any) of PBFIN, but in priority to the rights and claims of holders of ordinary shares of PBFIN. The Sub-Notes will be subordinated in right of payment upon the occurence of any winding up proceeding of PBFIN to the prior payment in full of all liabilities of PBFIN except to those liabilities which rank equal with or junior to the Sub-Notes.

The NCPCS qualify as Non-Innovative Tier I Capital Instruments in line with the requirements of BNM's Risk-Weighted Capital Adequacy Framework (General Requirements and Capital Components), and qualify for inclusion as Tier I Capital for the purpose of determining the capital adequacy ratios of the Group and the Bank, up to a total limit of 50% for Innovative and Non-Innovative Tier I Capital Securities, with the excess qualifying as Tier II Capital.

The Group has entered into interest rate swap contracts as fair value hedges of its Stapled Securities in order to minimise its exposure to interest rate volatility, resulting in a change in the value of the capital securities. The Bank does not restate the value of its Non-Innovative Tier I Capital Securities as a result of changes in its own credit risk.

23. Other Liabilities

	Group		Bank	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Interest/Income payable	**866,442**	749,173	**748,209**	660,711
Other payables and accruals	**2,218,605**	1,579,007	**1,595,561**	1,050,122
Amount due to trust funds *	**65,013**	89,858	**–**	–
Unprocessed sales and/or redemptions #	**50,798**	83,708	**–**	–
Employee benefits (Note 24(a))	**(92,709)**	(73,076)	**(89,528)**	(70,569)
Profit Equalisation Reserve (Note 55(m))	**–**	33,436	**–**	–
Finance lease liabilities **	**93,779**	14,548	**93,779**	14,548
Outstanding contracts on clients' accounts ^	**249,464**	341,637	**–**	–
Dividend payable to shareholders	**16,143**	21,583	**2,933**	2,964
Amount due to subsidiary companies @	**–**	–	**17,373**	17,875
	3,467,535	2,839,874	**2,368,327**	1,675,651

* This balance refers to amount due to trust funds managed by the fund management subsidiary company in respect of cancellation and creation of trust units.

\# The unprocessed sales and/or redemptions are in respect of the fund management activities of a subsidiary company.

23. Other Liabilities (Cont'd.)

** Finance lease liabilities of the Group and the Bank are payable as follows:

	2011			2010		
	Future Minimum Lease Payments RM'000	Future Finance Charges RM'000	Present Value of Finance Lease Liabilities RM'000	Future Minimum Lease Payments RM'000	Future Finance Charges RM'000	Present Value of Finance Lease Liabilities RM'000
Less than one year	**35,932**	**2,876**	**33,056**	14,750	202	14,548
Between one and three years	**62,885**	**2,162**	**60,723**	–	–	–
	98,817	**5,038**	**93,779**	14,750	202	14,548

The Bank's finance lease of computer equipment and software in the previous year expired during the year. During the year, the Bank leased new computer equipment and software under finance lease which will expire in three years (Note 16). At the end of the lease term, the Bank has the option to acquire the assets at a nominal price deemed to be a bargain purchase option. There are no restrictive covenants imposed by the lease agreement and no arrangements have been entered into for contingent rental payments.

^ These balances relate to contracts entered by the stock-broking business of the investment banking subsidiary company on behalf of clients where settlements are yet to be made and amount due to Bursa Malaysia Securities Clearing Sdn. Bhd. The trade settlement is three (3) market days according to Bursa Malaysia Securities Berhad's trading rules.

@ These balances are unsecured, non-interest bearing and have no fixed terms of repayment.

24. Employee Benefits

(a) Defined Benefit Plan

The Bank and certain subsidiary companies contribute to a fully funded defined benefit plan known as the Public Bank Group Officers' Retirement Benefits Fund ("the Fund") for its eligible employees. Under the Fund, eligible employees are entitled to one month of the final/last drawn salary for each completed year of service with the Group upon attainment of the retirement age of 55. For employees who leave before the attainment of the retirement age, the retirement benefit will be computed based on the scale rate stipulated in the rules of the Fund.

Governance

The assets of the Fund are held separately from the assets of the Group and the Bank and are administered by a board of trustees. There are six (6) trustees currently, all of whom are members of senior management of the Bank.

24. Employee Benefits (Cont'd.)

(a) Defined Benefit Plan (Cont'd.)

The amounts recognised in the statements of financial position are determined as follows:

	Group		Bank	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Present value of funded obligations	**(490,348)**	(447,908)	**(473,529)**	(432,545)
Fair value of plan assets	**703,729**	689,234	**679,591**	665,593
	213,381	241,326	**206,062**	233,048
Unrecognised actuarial gain	**(120,672)**	(168,250)	**(116,534)**	(162,479)
Net assets (Note 23)	**92,709**	73,076	**89,528**	70,569

Movements in the present value of funded obligations are as follows:

	Group		Bank	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Obligation at 1 January	**447,908**	397,078	**432,545**	382,227
Allocation adjustment	**–**	–	**–**	1,232
Current service cost	**32,193**	27,147	**31,089**	26,216
Interest cost	**27,456**	21,356	**26,514**	20,623
Benefits paid – the Fund	**(29,444)**	(19,339)	**(28,434)**	(18,676)
Actuarial loss on funded obligations	**12,235**	21,666	**11,815**	20,923
Obligation at 31 December	**490,348**	447,908	**473,529**	432,545

Movements in the fair value of plan assets are as follows:

	Group		Bank	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Fair value at 1 January	**689,234**	563,614	**665,593**	542,534
Allocation adjustment	**–**	–	**–**	1,748
Expected return on plan assets	**54,450**	44,292	**52,582**	42,773
Benefits paid – the Fund	**(29,444)**	(19,339)	**(28,434)**	(18,676)
Actuarial (loss)/gain on plan assets	**(10,511)**	100,667	**(10,150)**	97,214
Fair value at 31 December	**703,729**	689,234	**679,591**	665,593

24. Employee Benefits (Cont'd.)

(a) Defined Benefit Plan (Cont'd.)

The fair value of plan assets constitutes the following:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Deposit placements and cash	**634,034**	25	**612,287**	24
Government Securities	**456,321**	389,584	**440,669**	376,221
Equity securities *	**538,726**	525,307	**520,248**	507,289
Unit trust funds	**297,585**	309,102	**287,378**	298,500
Properties #	**323,085**	303,651	**312,003**	293,236
Other assets (net)	**27,652**	14,942	**26,704**	14,429
Borrowings	**(1,573,674)**	(853,377)	**(1,519,698)**	(824,106)
	703,729	689,234	**679,591**	665,593

* Included in the fair value of equity securities are ordinary shares of the Bank held by the Fund with a fair value of RM350,332,000 (2010 – RM341,792,000).

\# All the properties held as plan assets of the Group and the Bank are occupied by the Bank and certain subsidiary companies of the Group.

The amounts recognised in other operating expenses in the income statements are as follows:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Current service cost	**32,193**	27,147	**31,089**	26,216
Interest cost	**27,456**	21,356	**26,514**	20,623
Expected return on plan assets	**(54,450)**	(44,292)	**(52,582)**	(42,773)
Actuarial gains recognised	**(24,832)**	(10,963)	**(23,980)**	(10,587)
Allocation adjustment	**–**	–	**84**	(205)
Amount included under "personnel costs" (Note 35(a))	**(19,633)**	(6,752)	**(18,875)**	(6,726)
Expected return on plan assets	**54,450**	44,292	**52,582**	42,773
Actuarial (loss)/gain on plan assets	**(10,511)**	100,667	**(10,150)**	97,214
Actual return on plan assets	**43,939**	144,959	**42,432**	139,987

24. Employee Benefits (Cont'd.)

(a) Defined Benefit Plan (Cont'd.)

The surplus of the defined benefit plan for the past five years are as follows:

	2011 RM'000	2010 RM'000	2009 RM'000	2008 RM'000	2007 RM'000
Group					
Present value of funded obligations	**(490,348)**	(447,908)	(397,078)	(373,995)	(342,574)
Fair value of plan assets	**703,729**	689,234	563,614	437,201	590,401
Plan surplus	**213,381**	241,326	166,536	63,206	247,827
Experience adjustment on plan liabilities	**12,235**	21,666	(2,256)	8,397	65,911
Experience adjustment on plan assets	**(10,511)**	100,667	111,651	(179,710)	170,040
Bank					
Present value of funded obligations	**(473,529)**	(432,545)	(382,227)	(360,009)	(335,894)
Fair value of plan assets	**679,591**	665,593	542,534	420,850	578,888
Plan surplus	**206,062**	233,048	160,307	60,841	242,994
Experience adjustment on plan liabilities	**11,815**	20,923	(2,173)	8,221	64,626
Experience adjustment on plan assets	**(10,150)**	97,214	107,475	(175,937)	166,725

No estimated contributions are expected to be paid to the plan in the forthcoming financial year by the Group and the Bank.

Principal actuarial assumptions used at the reporting date (expressed as weighted averages):

	Group and Bank	
	2011	2010
Discount rate	**6.25%**	6.25%
Expected return on plan assets	**8.00%**	8.00%
Expected rate of salary increases	**7.00%**	7.00%

The principal actuarial assumptions are based on the latest actuarial valuation performed as of 31 December 2010.

24. Employee Benefits (Cont'd.)

(a) Defined Benefit Plan (Cont'd.)

The expected rate of return on plan assets is based on the average rate of earnings expected on the funds invested to provide for the benefits included in the projected benefit obligation.

(b) Equity Compensation Benefits

Public Financial Holdings Limited Group Employees' Share Option Scheme

On 18 May 2005, an offer of options under the Public Financial Holdings Limited Group Employees' Share Option Scheme ("PFHL ESOS") was made to eligible participants to subscribe for 66,526,000 ordinary shares of Public Financial Holdings Limited ("PFHL"). The expiry date of granting of share options under the PFHL ESOS is 27 February 2012 with the exercise period of ten (10) years from the grant date.

The salient features of the PFHL ESOS are as follows:

(i) Eligible participants of the PFHL ESOS include directors and employees working under "continuous contracts" for the purposes of the Hong Kong Employment Ordinance;

(ii) The total number of shares to be issued under the PFHL ESOS shall not exceed in aggregate thirty percent (30%) of the issued and paid-up share capital of PFHL at any point of time during the tenure of the PFHL ESOS.

In addition, any individual director or employee's maximum entitlement shall not exceed one percent (1%) of the ordinary shares of PFHL in issue in the 12 months period up to (and including) the date of the grant. Any substantial shareholder or independent non-executive director's maximum entitlement shall not exceed one tenth percent (0.1%) of the ordinary shares of PFHL in issue and have an aggregate value based on the closing price of the ordinary shares of PFHL at the date of each grant, in excess of HKD5 million in the 12 months period up to (and including) the date of grant;

(iii) The option exercise price for each ordinary share of HKD0.10 each of PFHL shall be determined by the directors at their discretion based on the higher of the closing price of the ordinary shares of PFHL on the Hong Kong Stock Exchange ("HKSE") at the offer date and the average closing price of the ordinary shares of PFHL on the HKSE for five (5) business days immediately preceding the offer date and the nominal value of an ordinary share of PFHL; and

(iv) The Group is not legally bound or obliged to repurchase or settle the options in cash.

24. Employee Benefits (Cont'd.)

(b) Equity Compensation Benefits (Cont'd.)

A summary of the movements in the number of PFHL ESOS and the weighted average exercise prices are as follows:

	2011		2010	
	Number of share options '000	Weighted average exercise price HKD	Number of share options '000	Weighted average exercise price HKD
At 1 January	**28,509**	**6.35**	29,325	6.35
Lapsed	**(2,096)**	**6.35**	(816)	6.35
At 31 December	**26,413**	**6.35**	28,509	6.35
Options exercisable at end of financial year	**26,413**	**6.35**	28,509	6.35
Weighted average share price during the financial year		**4.59**		4.53

Details of PFHL ESOS outstanding as at the end of the financial year are as follows:

Grant Date	Exercise Period	Exercise Price	Number of share options outstanding '000
18 May 2005	10 June 2005 to 9 June 2015	HKD6.35	26,413

The weighted average remaining contractual maturity of the PFHL ESOS outstanding as at the end of the financial year was 3.44 years (2010 – 4.44 years).

There were no new PFHL ESOS granted during the financial year (2010 – Nil). All share options issued have been vested prior to 1 January 2006 and, as allowed by the transitional provisions in FRS 2 Share-based Payments, the recognition and measurement principles in FRS 2 have not been applied.

25. Provision For Tax Expense And Zakat

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Tax expense	**487,789**	800,138	**281,354**	568,565
Zakat	**389**	326	**–**	–
	488,178	800,464	**281,354**	568,565

26. Share Capital

	Number of Ordinary Shares of RM1.00 Each		Amount	
Group and Bank	2011 '000	2010 '000	2011 RM'000	2010 RM'000
Authorised:				
Ordinary shares of RM1.00 each	**10,000,000**	10,000,000	**10,000,000**	10,000,000
Issued and fully paid:				
Ordinary shares of RM1.00 each	**3,531,926**	3,531,926	**3,531,926**	3,531,926

27. Treasury Shares

The amount relates to the acquisition cost of treasury shares.

On 14 March 2011, the shareholders of the Bank renewed their approval for the Bank to buy-back its own shares. During the financial year, the Bank bought back from the open market, 20,000 (2010 – 20,000) of its issued ordinary shares of RM1.00 each ("PBB Shares") listed and quoted as "Local" on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Malaysia"). The average buy-back price was RM13.40 (2010 – RM11.97) per share. The total consideration paid for the share buy-back of PBB Shares by the Bank during the financial year, including transaction costs, was RM268,951 (2010 – RM240,250) and was financed by internally generated funds. The PBB Shares bought back are held as treasury shares in accordance with Section 67A Subsection 3(A)(b) of the Companies Act, 1965.

None of the treasury shares held were resold or cancelled during the financial year.

Of the total 3,531,925,834 (2010 – 3,531,925,834) issued and paid-up PBB Shares as at 31 December 2011, 29,800,704 (2010 – 29,780,704) PBB Shares are held as treasury shares by the Bank. Treasury shares have no rights to voting, dividends and participation in other distribution. As at 31 December 2011, the number of outstanding PBB Shares in issue after the set-off is therefore 3,502,125,130 (2010 – 3,502,145,130) ordinary shares of RM1.00 each.

28. Other Reserves

Group	Statutory Reserves RM'000	Capital Reserves RM'000	Foreign Currency Translation Reserves RM'000	Hedging Reserves RM'000	Revaluation Reserves RM'000	Regulatory Reserves RM'000	General Reserves RM'000	Total RM'000
At 1 January 2011	3,821,211	60,442	(93,772)	4,923	(5,281)	101,039	-	3,888,562
Currency translation differences in respect of								
– foreign operations	-	-	100,638	-	-	-	-	100,638
– net investment hedge	-	-	(90,853)	-	-	-	-	(90,853)
Net unrealised loss on change in fair value of financial investments available-for-sale	-	-	-	-	(22,031)	-	-	(22,031)
Net realised gain on financial investments available-for-sale reclassified to income statement (Note 33)	-	-	-	-	(5,448)	-	-	(5,448)
Net unrealised loss of derivatives designated as cash flow hedges	-	-	-	(2,892)	-	-	-	(2,892)
Net realised gain on cash flow hedges reclassified to the income statement	-	-	-	(553)	-	-	-	(553)
Deferred tax (Note 39)	-	-	-	861	4,305	-	-	5,166
Transfer from retained profits	29,895	-	-	-	-	25,784	127,746	183,425
At 31 December 2011	3,851,106	60,442	(83,987)	2,339	(28,455)	126,823	127,746	4,056,014

28. Other Reserves (Cont'd.)

Group	Statutory Reserves RM'000	Capital Reserves RM'000	Foreign Currency Translation Reserves RM'000	Hedging Reserves RM'000	Revaluation Reserves RM'000	Regulatory Reserves RM'000	Total RM'000
At 1 January 2010	3,753,022	60,442	(72,878)	8,194	(46,327)	84,818	3,787,271
Currency translation differences in respect of							
– foreign operations	–	–	(313,166)	–	–	–	(313,166)
– net investment hedge	–	–	292,272	–	–	–	292,272
Net unrealised gain on change in fair value of financial investments available-for-sale	–	–	–	–	62,638	–	62,638
Net realised gain on financial investments available-for-sale reclassified to income statement (Note 33)	–	–	–	–	(8,707)	–	(8,707)
Net unrealised loss of derivatives designated as cash flow hedges	–	–	–	(4,281)	–	–	(4,281)
Net realised gain on cash flow hedges reclassified to the income statement	–	–	–	(80)	–	–	(80)
Deferred tax (Note 39)	–	–	–	1,090	(12,885)	–	(11,795)
Transfer from retained profits	68,189	–	–	–	–	16,221	84,410
At 31 December 2010	3,821,211	60,442	(93,772)	4,923	(5,281)	101,039	3,888,562

28. Other Reserves (Cont'd.)

Bank	Statutory Reserves RM'000	Hedging Reserves RM'000	Revaluation Reserves RM'000	General Reserves RM'000	Total RM'000
At 1 January 2011	**3,531,926**	**4,923**	**1,765**	**–**	**3,538,614**
Net unrealised loss on change in fair value of financial investments available-for-sale	**–**	**–**	**(23,424)**	**–**	**(23,424)**
Net realised gain on financial investments available-for-sale reclassified to income statement (Note 33)	**–**	**–**	**(5,216)**	**–**	**(5,216)**
Net unrealised loss of derivatives designated as cash flow hedges	**–**	**(2,892)**	**–**	**–**	**(2,892)**
Net realised gain on cash flow hedges reclassified to the income statement	**–**	**(553)**	**–**	**–**	**(553)**
Transfer from retained profits	**–**	**–**	**–**	**756**	**756**
Deferred tax (Note 39)	**–**	**861**	**7,160**	**–**	**8,021**
At 31 December 2011	**3,531,926**	**2,339**	**(19,715)**	**756**	**3,515,306**
At 1 January 2010	3,531,926	8,194	(26,448)	–	3,513,672
Net unrealised gain on change in fair value of financial investments available-for-sale	–	–	46,084	–	46,084
Net realised gain on financial investments available-for-sale reclassified to income statement (Note 33)	–	–	(8,467)	–	(8,467)
Net unrealised loss of derivatives designated as cash flow hedges	–	(4,281)	–	–	(4,281)
Net realised gain on cash flow hedges reclassified to the income statement	–	(80)	–	–	(80)
Deferred tax (Note 39)	–	1,090	(9,404)	–	(8,314)
At 31 December 2010	3,531,926	4,923	1,765	–	3,538,614

The statutory reserves of the Group and the Bank are maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and Section 15 of the Islamic Banking Act, 1983 and are not distributable as cash dividends.

28. Other Reserves (Cont'd.)

The capital reserves of the Group arose mainly from the capitalisation of retained profits that resulted from bonus issues by subsidiary companies and the restructuring exercise involving certain subsidiary companies undertaken by the Group in previous years.

The foreign currency translation reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign subsidiary companies and the subsidiary companies incorporated in the Federal Territory of Labuan, after off-setting the impact of the effective portion of net investment hedges.

The hedging reserves are in respect of the effective portion of unrealised fair value gains and losses on cash flow hedging instruments.

The revaluation reserves are in respect of unrealised fair value gains and losses on financial investments available-for-sale, after off–setting the impact of related fair value hedges.

The regulatory reserves maintained by the Group's banking subsidiary companies in Hong Kong SAR are in line with the requirements of the Hong Kong Monetary Authority. The reserve is held as a buffer to absorb potential credit losses in excess of the requirements of accounting standards.

The general reserves of the Group and the Bank represent non-distributable profit reserves maintained in compliance with the requirements of the guidelines of the Central Bank of Sri Lanka and Prakas B7–010–182 and Circular No. B7–011–001 issued by the National Bank of Cambodia respectively.

29. Retained Profits

Prior to the year of assessment 2008, company income tax was based on the full imputation system where tax on dividend was imposed at both the company's and shareholders' level. The tax at shareholders' level took into account the tax imputed at the company's level through tax credits.

Pursuant to the Finance Act, 2007, the single tier system was introduced and took effect from the year of assessment 2008. Under the single tier system, tax on a company's profit is a final tax and dividend distributed to shareholders will be exempted from tax. With the implementation of the single tier system, companies with a credit balance in the Section 108 account are allowed either to elect for an irrevocable option to switch over to the single tier system or to continue using the available credit balance as at 31 December 2007 after adjusting for any tax deductions for the purpose of dividend distribution, until 31 December 2013.

The Bank has elected for the irrevocable option to disregard the remaining available Section 108 balance of RM63,899,000 on 23 February 2011. With such election, the Bank has switched over to the Single Tier System and is therefore allowed to distribute only Single Tier dividend henceforth.

30. Interest Income

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Loans and advances	**7,980,679**	6,793,220	**7,215,709**	5,997,346
Balances with banks	**623,366**	556,710	**601,974**	481,056
Financial investments available-for-sale	**203,439**	204,233	**191,762**	183,652
Financial investments held-to-maturity	**266,371**	308,098	**189,410**	260,808
Others	**90,327**	77,677	**90,298**	77,502
	9,164,182	7,939,938	**8,289,153**	7,000,364
Financial assets held-for-trading	**248,848**	173,593	**239,953**	145,350
	9,413,030	8,113,531	**8,529,106**	7,145,714

Included in interest income on loans and advances for the current year is interest accrued on impaired loans of the Group and the Bank of RM62,195,000 (2010 – RM70,162,000) and RM60,096,000 (2010 – RM65,552,000) respectively.

31. Interest Expense

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Deposits from banks	**346,458**	270,312	**335,032**	220,942
Deposits from customers	**3,756,178**	2,977,139	**3,579,222**	2,784,639
Loans sold to Cagamas	**590**	827	**590**	827
Debt securities issued and other borrowed funds	**329,755**	264,583	**317,716**	247,465
Others	**5,118**	3,250	**4,823**	2,857
	4,438,099	3,516,111	**4,237,383**	3,256,730

32. Fee and Commission Income and Expense

	Group		Bank	
	2011	2010	**2011**	2010
	RM'000	RM'000	**RM'000**	RM'000
Fee and commission income:				
Commissions	**193,594**	202,236	**238,663**	240,085
Service charges and fees	**249,425**	213,675	**180,906**	150,569
Guarantee fees	**29,676**	29,328	**26,121**	23,556
Processing fees	**16,110**	14,018	**2,532**	2,954
Commitment fees	**59,311**	60,212	**56,433**	56,791
Unit trust management fees	**545,095**	485,094	**–**	–
Fee on sale of trust units	**321,586**	251,526	**–**	–
Net brokerage and commissions from stock-broking activities	**100,946**	105,237	**–**	–
Other fee and commission income	**45,154**	32,612	**34,778**	22,263
	1,560,897	1,393,938	**539,433**	496,218
Fee and commission expense:				
Loan-related fees	**(82,225)**	(84,026)	**(78,128)**	(75,483)
Unit trust agency fees	**(341,364)**	(266,365)	**–**	–
Other fee and commission expense	**(18,399)**	(11,777)	**(11,301)**	(9,146)
	(441,988)	(362,168)	**(89,429)**	(84,629)
Net fee and commission income	**1,118,909**	1,031,770	**450,004**	411,589

33. Net Gains and Losses on Financial Instruments

	Group 2011 RM'000	Group 2010 RM'000	Bank 2011 RM'000	Bank 2010 RM'000
Net gain/(loss) arising on financial assets held-for-trading:				
– net gain on disposal	**8,919**	6,596	**8,464**	6,444
– gross dividend income	**34**	25	**34**	25
– unrealised revaluation (loss)/gain	**(333)**	7,285	**(213)**	7,107
	8,620	13,906	**8,285**	13,576
Net (loss)/gain arising on trading derivatives:				
– net loss on disposal	**(12,520)**	(3,733)	**(12,520)**	(3,733)
– unrealised revaluation gain	**8,495**	5,774	**17,204**	18,380
	(4,025)	2,041	**4,684**	14,647
Net gain arising on financial investments available-for-sale:				
– net gain on disposal (Note 28)	**5,448**	8,707	**5,216**	8,467
– gross dividend income	**147,823**	113,634	**142,859**	106,913
	153,271	122,341	**148,075**	115,380
Gain/(loss) representing ineffective portions of hedging derivatives:				
– fair value hedge (Note 6)	**8,291**	(8,547)	**6,441**	(6,235)
– cash flow hedge (Note 6)	**(3)**	4	**(3)**	4
	8,288	(8,543)	**6,438**	(6,231)
	166,154	129,745	**167,482**	137,372

34. Other Operating Income

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Gross dividend income from:				
Associated companies	**–**	–	**9,692**	9,035
Subsidiary companies:				
– quoted outside Malaysia	**–**	–	**51,674**	67,923
– unquoted in Malaysia	**–**	–	**673,003**	566,003
	–	–	**734,369**	642,961
Other income:				
Foreign exchange profit	**217,563**	250,563	**193,532**	380,664
Rental income from:				
– investment properties (Note 15)	**4,887**	5,310	**–**	–
– other properties	**13,375**	10,513	**10,553**	6,641
Net gain on disposal of property and equipment	**11**	1,827	**82**	1,584
Net loss on disposal of foreclosed properties	**(3,190)**	(902)	**(3,190)**	(2,770)
Gain on revaluation of investment properties (Note 15)	**2,711**	3,751	**–**	–
Others	**44,877**	27,215	**32,422**	25,487
	280,234	298,277	**233,399**	411,606
	280,234	298,277	**967,768**	1,054,567

35. Other Operating Expenses

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Personnel costs				
– Salaries, allowances and bonuses	**1,260,198**	1,162,832	**972,686**	888,385
– Pension costs	**118,813**	120,933	**101,477**	103,994
– Others	**116,778**	108,886	**102,775**	98,083
	1,495,789	1,392,651	**1,176,938**	1,090,462
Establishment costs				
– Depreciation	**145,947**	145,628	**113,471**	107,847
– Rental	**80,365**	75,310	**77,741**	74,231
– Insurance	**20,590**	17,265	**16,302**	13,548
– Water and electricity	**40,563**	39,239	**30,020**	28,775
– General repairs and maintenance	**69,483**	61,982	**62,331**	55,286
– Information technology expenses	**26,249**	25,789	**14,682**	14,518
– Others	**35,919**	31,070	**24,531**	21,193
	419,116	396,283	**339,078**	315,398
Marketing expenses				
– Advertisement and publicity	**75,174**	78,473	**25,019**	25,665
– Others	**80,138**	81,348	**34,720**	40,217
	155,312	159,821	**59,739**	65,882
Administration and general expenses				
– Communication expenses	**35,144**	34,675	**34,975**	29,820
– Legal and professional fees	**45,123**	49,022	**36,101**	38,627
– Others	**58,200**	67,783	**29,467**	40,799
	138,467	151,480	**100,543**	109,246
Shared service cost charged to Public Islamic Bank Berhad (Note 55(u))	**–**	–	**(166,483)**	(160,351)
Total other operating expenses	**2,208,684**	2,100,235	**1,509,815**	1,420,637

35. Other Operating Expenses (Cont'd.)

(a) Included in other operating expenses are the following statutory disclosures:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Auditors' remuneration *:				
– statutory audit fees	**2,842**	2,913	**981**	989
– audit related services	**716**	451	**313**	278
– other services	**200**	228	**90**	86
Depreciation of property and equipment (Note 16)	**145,947**	145,628	**113,471**	107,847
Direct operating expenses of investment properties that:				
– generated rental income	**40**	38	**–**	–
Directors' remuneration (Note 36)	**37,957**	32,028	**28,207**	23,000
Pension costs				
– defined contribution plan	**138,446**	127,685	**120,352**	110,720
– defined benefit plan (Note 24(a))	**(19,633)**	(6,752)	**(18,875)**	(6,726)
Property and equipment written off (Note 16)	**1,199**	67	**396**	67
Rental of premises	**80,365**	75,310	**77,741**	74,231

* Included in the auditors' remuneration of the Group are fees paid to accounting firms other than the Bank's auditors for statutory audit fees, audit related services and other services amounting to RM1,575,000 (2010 – RM1,667,000), RM358,000 (2010 – RM83,000) and RM52,000 (2010 – RM102,000) respectively.

Included in the auditors' remuneration of the Bank are fees paid in relation to the Bank's overseas branches for statutory audit fees, audit related services and other services of RM81,000 (2010 – RM89,000), RM16,000 (2010 – RM Nil) and RM33,000 (2010 – RM6,000) respectively.

Audit related services included half year limited review, validation review based on agreed-upon procedures and review of statement of internal control.

(b) Employees

The number of persons employed by the Group and the Bank (excluding Directors) as at the end of the financial year was 17,511 (2010 – 17,369) and 14,352 (2010 – 14,292) respectively.

36. Directors' Remuneration

	Group		Bank	
	2011	**2010**	**2011**	**2010**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Directors of the Bank:				
Executive Directors:				
Fees	**1,172**	1,045	**390**	330
Salary and other remuneration, including meeting allowances	**5,713**	4,611	**5,564**	4,471
Bonuses	**8,440**	6,754	**8,440**	6,754
Benefits-in-kind	**73**	54	**73**	54
	15,398	12,464	**14,467**	11,609
Non–Executive Directors:				
Fees	**3,529**	3,298	**1,365**	1,265
Other remuneration	**13,273**	11,026	**12,411**	10,139
Benefits-in-kind	**33**	29	**33**	29
	16,835	14,353	**13,809**	11,433
Past Director:				
Other remuneration	**37**	41	**37**	41
Benefits-in-kind	**13**	13	**13**	13
	50	54	**50**	54
Directors of subsidiary companies:				
Executive Directors:				
Fees	**287**	265	**–**	–
Salary and other remuneration, including meeting allowances	**2,969**	2,868	**–**	–
Bonuses	**2,144**	1,775	**–**	–
Benefits-in-kind	**370**	256	**–**	–
	5,770	5,164	**–**	–

36. Directors' Remuneration (Cont'd.)

	Group		Bank	
	2011	2010	**2011**	2010
	RM'000	RM'000	**RM'000**	RM'000
Directors of subsidiary companies (Cont'd.):				
Non-Executive Directors:				
Fees	**297**	299	**–**	–
Other remuneration	**96**	46	**–**	–
	393	345	**–**	–
Grand total	**38,446**	32,380	**28,326**	23,096
Total (excluding benefits-in-kind) (Note 35)	**37,957**	32,028	**28,207**	23,000

Included in the remuneration of the Executive Directors is the remuneration attributable to the Chief Executive Officer of the Bank, including benefits-in-kind, during the financial year amounting to RM8,151,000 (2010 – RM6,548,000).

36. Directors' Remuneration (Cont'd.)

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

	Remuneration received from the Bank						Remuneration received from Subsidiary Companies		
2011	Salary RM'000	Fees RM'000	Bonus RM'000	Other Emoluments RM'000	Benefits-in-kind RM'000	Bank Total RM'000	Fees RM'000	Other Emoluments RM'000	Group Total RM'000
Executive Directors:									
Tan Sri Dato' Sri Tay Ah Lek	1,620	195	4,845	1,452	39	8,151	447	75	8,673
Dato' Sri Lee Kong Lam	1,356	195	3,595	1,136	34	6,316	335	74	6,725
	2,976	390	8,440	2,588	73	14,467	782	149	15,398
Non-Executive Directors:									
Tan Sri Dato' Sri Dr. Teh Hong Piow	-	260	-	11,336	33	11,629	555	52	12,236
Tan Sri Datuk Seri Utama Thong Yaw Hong	-	260	-	439	-	699	491	180	1,370
Dato' Yeoh Chin Kee	-	195	-	126	-	321	126	116	563
Y.A.M. Tengku Abdul Rahman Ibni Sultan Haji Ahmad Shah Al-Mustain Billah #	-	49	-	24	-	73	29	24	126
Dato' Haji Abdul Aziz bin Dato' Dr. Omar	-	195	-	204	-	399	275	178	852
Dato' (Dr) Haji Mohamed Ishak bin Haji Mohamed Ariff *	-	49	-	29	-	78	189	68	335
Quah Poh Keat	-	195	-	160	-	355	403	155	913
Tang Wing Chew	-	162	-	93	-	255	96	89	440
	-	1,365	-	12,411	33	13,809	2,164	862	16,835
Total Directors' remuneration	2,976	1,755	8,440	14,999	106	28,276	2,946	1,011	32,233

\# This represents the remuneration paid to this Director until his retirement on 20 March 2011.

* This represents the remuneration paid to this Director until his retirement on 14 March 2011.

36. Directors' Remuneration (Cont'd.)

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

	Remuneration received from the Bank						Remuneration received from Subsidiary Companies		
2010	Salary RM'000	Fees RM'000	Bonus RM'000	Other Emoluments RM'000	Benefits-in-kind RM'000	Bank Total RM'000	Fees RM'000	Other Emoluments RM'000	Group Total RM'000
Executive Directors:									
Tan Sri Dato' Sri Tay Ah Lek	1,296	165	3,877	1,180	30	6,548	417	69	7,034
Dato' Sri Lee Kong Lam	1,080	165	2,877	915	24	5,061	298	71	5,430
	2,376	330	6,754	2,095	54	11,609	715	140	12,464
Non-Executive Directors:									
Tan Sri Dato' Sri Dr. Teh Hong Piow	-	220	-	9,053	29	9,302	525	46	9,873
Tan Sri Datuk Seri Utama Thong Yaw Hong	-	220	-	447	-	667	446	169	1,282
Dato' Yeoh Chin Kee	-	165	-	119	-	284	117	109	510
Y.A.M. Tengku Abdul Rahman Ibni Sultan Haji Ahmad Shah Al-Mustain Billah	-	165	-	101	-	266	105	98	469
Dato' Haji Abdul Aziz bin Dato' Dr. Omar	-	165	-	183	-	348	235	168	751
Dato' (Dr) Haji Mohamed Ishak bin Haji Mohamed Ariff	-	165	-	118	-	283	235	150	668
Quah Poh Keat	-	165	-	118	-	283	370	147	800
	-	1,265	-	10,139	29	11,433	2,033	887	14,353
Total Directors' remuneration	2,376	1,595	6,754	12,234	83	23,042	2,748	1,027	26,817

37. Allowance for Impairment on Loans, Advances and Financing

	Group 2011 RM'000	Group 2010 RM'000	Bank 2011 RM'000	Bank 2010 RM'000
Allowance for impaired loans and financing:				
Collective assessment allowance (Note 9)	**603,151**	519,484	**439,501**	447,685
– Retail loans/financing				
– housing loans/financing	**143,424**	136,243	**132,507**	125,611
– hire purchase	**164,525**	145,819	**100,642**	110,683
– credit cards	**39,338**	34,059	**39,324**	34,052
– other loans/financing	**213,455**	164,423	**117,787**	142,511
– Corporate loans/financing	**42,409**	38,940	**49,241**	34,828
Individual assessment allowance (Note 9)	**220,510**	313,920	**2,215**	37,377
– Retail loans/financing				
– housing loans/financing	**1,413**	187	**1,080**	–
– hire purchase	**2,121**	2,819	**–**	–
– other loans/financing	**203,862**	285,984	**(771)**	26,224
– Corporate loans/financing	**13,114**	24,930	**1,906**	11,153
Bad debts recovered from stock-broking activities	**(179)**	(47)	**–**	–
Impaired loans and financing written off	**601**	607	**419**	450
Impaired loans and financing recovered	**(230,022)**	(174,398)	**(158,638)**	(101,572)
	594,061	659,566	**283,497**	383,940

38. (Writeback of Impairment)/Impairment on Other Assets

	Group 2011 RM'000	Group 2010 RM'000	Bank 2011 RM'000	Bank 2010 RM'000
Financial investments available-for-sale				
– Non-money market instruments				
– equity securities (Note 7)	**–**	992	**–**	–
Financial investments held-to-maturity				
– Non-money market instruments				
– debt securities (Note 8)	**45**	–	**45**	–
Foreclosed properties	**(1,643)**	4,196	**(1,661)**	4,178
Investment in subsidiary company	**–**	–	**–**	6,100
	(1,598)	5,188	**(1,616)**	10,278

39. Tax Expense and Zakat

	Group		Bank	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Malaysian income tax				
– In respect of current year profit	**1,039,799**	995,220	**810,748**	806,874
– In respect of changes in tax treatment for collective assessment allowance	**(545,445)**	–	**(478,485)**	–
Overseas income tax	**63,266**	56,908	**8,265**	5,053
	557,620	1,052,128	**340,528**	811,927
Under/(Over) provision in prior years				
– Malaysian income tax	**1,912**	(6,032)	**–**	–
– Overseas income tax	**1,325**	(667)	**(202)**	807
	560,857	1,045,429	**340,326**	812,734
Deferred tax expense/(income) (Note 12)				
– In respect of changes in tax treatment for collective assessment allowance	**545,445**	–	**478,485**	–
– Relating to origination and reversal of temporary differences arising from:	**(20,011)**	(58,565)	**(2,286)**	(66,638)
– allowance for losses on loans/financing	**(4,414)**	(74,428)	**–**	(66,641)
– tax losses	**214**	27,689	**–**	–
– excess of depreciation over capital allowances	**(580)**	2,382	**(1,786)**	3,655
– other temporary differences	**(15,231)**	(14,208)	**(500)**	(3,652)
Tax expense	**1,086,291**	986,864	**816,525**	746,096
Zakat	**318**	256	**–**	–
	1,086,609	987,120	**816,525**	746,096

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% on the estimated chargeable profit for the year. The computation of deferred tax assets and deferred tax liabilities is also based on the statutory tax rate of 25%.

Tax in foreign jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

39. Tax Expense and Zakat (Cont'd.)

A reconciliation of income tax expense applicable to profit before tax expense at the statutory tax rate to income tax expense at the effective income tax rate of the Group and of the Bank are as follows:

Group	2011 %	2011 RM'000	2010 %	2010 RM'000
Profit before tax expense		**4,610,633**		4,086,197
Income tax using Malaysian tax rate of 25%	**25.0**	**1,152,658**	25.0	1,021,549
Effects of different tax rates in foreign jurisdictions	**(0.6)**	**(29,863)**	(1.1)	(43,151)
Income not subject to tax	**(1.7)**	**(77,103)**	(1.7)	(71,743)
Effects of utilisation of unrecognised benefit of tax losses	**–**	**(2)**	–	(6)
Expenses not deductible for tax purposes	**1.0**	**46,433**	1.0	40,639
Income subject to tax at Bank but eliminated at Group	**(0.2)**	**(9,069)**	1.1	46,275
	23.5	**1,083,054**	24.3	993,563
Under/(Over) provision in prior years	**0.1**	**3,237**	(0.2)	(6,699)
Tax expense for the year	**23.6**	**1,086,291**	24.1	986,864

Bank	2011 %	2011 RM'000	2010 %	2010 RM'000
Profit before tax expense		**4,085,281**		3,677,657
Income tax using Malaysian tax rate of 25%	**25.0**	**1,021,320**	25.0	919,414
Income not subject to tax	**(5.4)**	**(221,339)**	(5.2)	(193,092)
Expenses not deductible for tax purposes	**0.4**	**16,746**	0.5	18,967
	20.0	**816,727**	20.3	745,289
(Over)/Under provision in prior years	**–**	**(202)**	–	807
Tax expense for the year	**20.0**	**816,525**	20.3	746,096

39. Tax Expense and Zakat (Cont'd.)

	Group		Bank	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Tax recognised directly in equity				
Relating to unrealised (loss)/gain on financial investments available-for-sale (Note 28)	**(4,305)**	12,885	**(7,160)**	9,404
Relating to net loss on cash flow hedges (Note 28)	**(861)**	(1,090)	**(861)**	(1,090)
Tax recognised directly in equity (Note 12)	**(5,166)**	11,795	**(8,021)**	8,314
Tax savings arising from tax losses				
Tax savings arising from utilisation of tax losses	**2**	6	**–**	–

40. Earnings Per Share

(a) Basic Earnings Per Share

The calculation of the basic earnings per share is based on the net profit attributable to equity holders of the Bank for the financial year divided by the weighted average number of ordinary shares of RM1.00 each in issue during the financial year excluding the weighted average treasury shares held by the Bank.

	Group		Bank	
	2011	**2010**	**2011**	**2010**
Net profit attributable to equity holders of the Bank (RM'000)	**3,483,810**	3,048,224	**3,268,756**	2,931,561
'000				
Number of ordinary shares at beginning of the year	**3,502,145**	3,451,449	**3,502,145**	3,451,449
Effect of share dividend distributed during the year	**–**	44,881	**–**	44,881
Effects of shares bought back and held as treasury shares	**(13)**	(14)	**(13)**	(14)
Weighted average number of ordinary shares in issue	**3,502,132**	3,496,316	**3,502,132**	3,496,316
Basic earnings per share (sen)	**99.5**	87.2	**93.3**	83.8

40. Earnings Per Share (Cont'd.)

(b) Diluted Earnings Per Share

The Group and the Bank have no dilution in their earnings per ordinary share as there are no dilutive potential ordinary shares.

41. Dividends

	Group and Bank 2011 RM'000	Group and Bank 2010 RM'000
Dividends recognised as distribution to ordinary equity holders of the Bank:		
First interim single tier dividend of 20.0% (2010 – 25.0% less 25.0% tax) in respect of the financial year ended 31 December 2011	**700,425**	656,653
Second interim dividend of 25.0% less 25.0% tax and single tier dividend of 8.0% in respect of the financial year ended 31 December 2010 (2009 –25.0% less 25.0% tax)	**936,821**	647,143
	1,637,246	1,303,796

Subsequent to the financial year end, on 30 January 2012, the Directors declared a second interim single tier dividend of 28.0%, with the total amounting to approximately RM980,595,036 computed based on the outstanding issued and paid-up capital, excluding treasury shares held by the Bank, of 3,502,125,130 ordinary shares of RM1.00 each, in respect of the financial year ended 31 December 2011. The financial statements for the current financial year do not reflect these dividends. Upon declaration, the dividend payment will be accounted for in equity as an appropriation of retained earnings during the financial year ending 31 December 2012. The Directors do not propose any final dividend in respect of the year ended 31 December 2011.

41. Dividends (Cont'd.)

Accordingly, based on the above, the gross and net dividend declared per share for each financial year are as follows:

	Gross per share		Net per share	
	2011	2010	2011	2010
	Sen	Sen	Sen	Sen
Dividends per RM1.00 ordinary share:				
Cash Dividends				
Paid:				
First interim single tier dividend of 20.0% (2010 – 25.0% less 25.0% tax)	**20.00**	25.00	**20.00**	18.75
Declared subsequent to the financial year end:				
Second interim dividend:				
– Franked dividend – Nil (2010 – 25.0% less 25.0% tax)	**–**	25.00	**–**	18.75
– Single tier dividend of 28.0% (2010 – 8.0%)	**28.00**	8.00	**28.00**	8.00
	48.00	58.00	**48.00**	45.50

42. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or if one other party controls both. The related parties of the Group and the Bank are:

(i) Subsidiary Companies
Details of the subsidiary companies are shown in Note 13.

(ii) Associated Companies
Associated companies are those entities in which the Group has significant influence but not control, and where it generally holds interest of between 20% to 50% in the entities as disclosed in Note 14.

(iii) Key Management Personnel
Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Bank either directly or indirectly. The key management personnel of the Group and the Bank includes Executive Directors and Non-Executive Directors of the Bank and certain members of senior management of the Bank and heads of major subsidiary companies (including close members of their families) of the Group.

42. Related Party Transactions (Cont'd.)

(iv) Public Bank Group Officers' Retirement Benefits Fund
Details of the retirement benefits fund are shown in Note 24(a).

(v) Companies in Which Certain Directors Have Substantial Financial Interest
These are entities in which significant voting power in such entities directly or indirectly resides with certain Directors of the Bank.

All related party transactions are conducted on normal commercial terms which are not more favourable than those generally available to the public.

(a) The significant transactions of the Group and the Bank with its related parties are as follows:

Group	Key Management Personnel 2011 RM'000	Key Management Personnel 2010 RM'000	Companies in which Certain Directors have Substantial Interest 2011 RM'000	Companies in which Certain Directors have Substantial Interest 2010 RM'000	Public Bank Group Officers' Retirement Benefits Fund 2011 RM'000	Public Bank Group Officers' Retirement Benefits Fund 2010 RM'000
Income earned:						
Interest on loans, advances and financing	**–**	–	**–**	–	**39,879**	23,539
Commission income	**–**	–	**30,328**	26,765	**–**	–
Rental income	**147**	147	**2,435**	2,435	**–**	–
Brokerage income	**5**	6	**2**	–	**–**	260
Others	**–**	–	**–**	1,194	**–**	–
	152	153	**32,765**	30,394	**39,879**	23,799
Expenditure incurred:						
Interest on deposits	**82,308**	61,850	**6,478**	5,198	**–**	1
Interest on debt securities issued	**113**	113	**2,283**	–	**–**	–
Rental of premises	**–**	–	**587**	584	**19,546**	17,988
Insurance premiums	**–**	–	**26,506**	23,966	**–**	–
	82,421	61,963	**35,854**	29,748	**19,546**	17,989

42. Related Party Transactions (Cont'd.)

(a) The significant transactions of the Group and the Bank with its related parties are as follows (Cont'd.):

Bank	Subsidiary Companies 2011 RM'000	Subsidiary Companies 2010 RM'000	Associated Companies 2011 RM'000	Associated Companies 2010 RM'000	Key Management Personnel 2011 RM'000	Key Management Personnel 2010 RM'000	Companies in which Certain Directors have Substantial Interest 2011 RM'000	Companies in which Certain Directors have Substantial Interest 2010 RM'000	Public Bank Group Officers' Retirement Benefits Fund 2011 RM'000	Public Bank Group Officers' Retirement Benefits Fund 2010 RM'000
Income earned:										
Interest on interbank lending and money market instruments held	**91,608**	26,614	**-**	-	**-**	-	**-**	-	**-**	-
Interest on loans, advances and financing	**7,537**	6,239	**243**	8	**-**	-	**-**	-	**39,879**	23,539
Dividend income (Note 34)	**724,677**	633,926	**9,692**	9,035	**-**	-	**-**	-	**-**	-
Shared service costs charged (Note 35)	**166,483**	160,351	**-**	-	**-**	-	**-**	-	**-**	-
Commission income	**62,959**	52,344	**-**	-	**-**	-	**30,037**	26,494	**-**	-
Rental income	**1,725**	1,111	**-**	-	**147**	147	**11**	11	**-**	-
Others	**2,336**	-	**-**	-	**-**	-	**-**	-	**-**	-
	1,057,325	880,585	**9,935**	9,043	**147**	147	**30,048**	26,505	**39,879**	23,539
Expenditure incurred:										
Interest on deposits	**125,886**	80,129	**73**	-	**82,295**	61,829	**6,445**	4,785	**-**	1
Interest on debt securities issued	**-**	-	**-**	-	**113**	113	**2,283**	-	**-**	-
Rental of premises	**24,464**	24,219	**-**	-	**-**	-	**587**	584	**19,030**	17,472
Insurance premiums	**-**	-	**-**	-	**-**	-	**21,900**	19,556	**-**	-
Brokerage commission	**42**	328	**-**	-	**-**	-	**-**	-	**-**	-
Corporate advisory fees	**2,205**	5	**-**	-	**-**	-	**-**	-	**-**	-
Others	**-**	3,075	**-**	-	**-**	-	**-**	-	**-**	-
	152,597	107,756	**73**	-	**82,408**	61,942	**31,215**	24,925	**19,030**	17,473

Included in the significant transactions of the Group are interest on deposits paid to Directors of the Bank (including close members of their families) amounting to RM82,197,000 (2010 – RM61,719,000) and rental received from a Director of the Bank amounting to RM147,000 (2010 – RM147,000).

Included in the significant transactions of the Bank are interest on deposits paid to Directors of the Bank (including close members of their families) amounting to RM82,197,000 (2010 – RM61,717,000) and rental received from a Director of the Bank amounting to RM147,000 (2010 – RM147,000).

42. Related Party Transactions (Cont'd.)

(b) The significant outstanding balances of the Group and the Bank with its related parties are as follows:

Group	Associated Companies 2011 RM'000	Associated Companies 2010 RM'000	Key Management Personnel 2011 RM'000	Key Management Personnel 2010 RM'000	Companies in which Certain Directors have Substantial Interest 2011 RM'000	Companies in which Certain Directors have Substantial Interest 2010 RM'000	Public Bank Group Officers' Retirement Benefits Fund 2011 RM'000	Public Bank Group Officers' Retirement Benefits Fund 2010 RM'000
Amount due from related parties								
Interbank lending	**129,615**	51,472	**-**	-	**-**	-	**-**	-
Loans, advances and financing	**-**	-	**-**	-	**-**	-	**1,574,667**	850,440
Rental deposits	**-**	-	**-**	-	**-**	-	**4,939**	4,671
	129,615	51,472	**-**	-	**-**	-	**1,579,606**	855,111
Amount due to related parties								
Demand deposits	**4,262**	907	**11,674**	10,708	**8,059**	6,705	**22**	15
Term deposits	**17,339**	107,397	**2,895,131**	2,649,993	**88,913**	256,737	**-**	-
Debt securities issued	**-**	-	**1,500**	1,500	**55,000**	-	**-**	-
Interbank borrowing	**26,069**	-	**-**	-	**-**	-	**-**	-
Others	**-**	-	**375**	435	**-**	-	**10**	23
	47,670	108,304	**2,908,680**	2,662,636	**151,972**	263,442	**32**	38
Commitments and contingencies								
Commitments	**-**	-	**-**	-	**-**	-	**430,333**	1,154,555
	-	-	**-**	-	**-**	-	**430,333**	1,154,555

42. Related Party Transactions (Cont'd.)

(b) The significant outstanding balances of the Group and the Bank with its related parties are as follows (Cont'd.):

Bank	Subsidiary Companies 2011 RM'000	Subsidiary Companies 2010 RM'000	Associated Companies 2011 RM'000	Associated Companies 2010 RM'000	Key Management Personnel 2011 RM'000	Key Management Personnel 2010 RM'000	Companies in which Certain Directors have Substantial Interest 2011 RM'000	Companies in which Certain Directors have Substantial Interest 2010 RM'000	Public Bank Group Officers' Retirement Benefits Fund 2011 RM'000	Public Bank Group Officers' Retirement Benefits Fund 2010 RM'000
Amount due from related parties										
Interbank lending	**2,029,281**	780,998	**129,615**	51,472	**-**	-	**-**	-	**-**	-
Loans, advances and financing	**246,510**	221,876	**-**	-	**-**	-	**-**	-	**1,574,667**	850,440
Money market instruments held	**3,608,132**	2,862,476	**-**	-	**-**	-	**-**	-	**-**	-
Dividend receivable (Note 10)	**397,237**	399,536	**-**	-	**-**	-	**-**	-	**-**	-
Rental deposits	**32,728**	32,648	**-**	-	**-**	-	**-**	-	**4,810**	4,542
Interest receivable	**950**	226	**-**	-	**-**	-	**-**	-	**-**	-
Others	**8,556**	9,008	**-**	-	**-**	-	**-**	-	**-**	-
	6,323,394	4,306,768	**129,615**	51,472	**-**	-	**-**	-	**1,579,477**	854,982
Amount due to related parties										
Demand deposits	**35,318**	95,391	**885**	907	**11,457**	10,592	**8,059**	6,705	**22**	15
Term deposits	**3,264,081**	2,225,526	**3,039**	107,397	**2,894,398**	2,648,674	**88,913**	254,535	**-**	-
Debt securities issued	**-**	-	**-**	-	**1,500**	1,500	**55,000**	-	**-**	-
Interbank borrowing	**2,886,282**	3,716,182	**26,069**	-	**-**	-	**-**	-	**-**	-
Interest payable	**5,110**	6,088	**-**	-	**-**	-	**-**	-	**-**	-
Others	**12,263**	11,787	**-**	-	**-**	154	**-**	-	**10**	23
	6,203,054	6,054,974	**29,993**	108,304	**2,907,355**	2,660,920	**151,972**	261,240	**32**	38
Commitments and contingencies										
Guarantees	**12,879**	11,879	**-**	-	**-**	-	**-**	-	**-**	-
Commitments	**864,494**	875,716	**-**	-	**-**	-	**-**	-	**430,333**	1,154,555
	877,373	887,595	**-**	-	**-**	-	**-**	-	**430,333**	1,154,555

Included in the significant outstanding balances of the Group and the Bank are demand deposits and term deposits payable to Directors of the Bank (including close members of their families) amounting to RM2,903,020,000 (2010 – RM2,653,871,000) and RM2,902,939,000 (2010 – RM2,653,787,000) respectively.

42. Related Party Transactions (Cont'd.)

(c) There were no loans granted to the Directors of the Bank. Loans made to other key management personnel of the Group and the Bank are on similar terms and conditions generally available to other employees within the Group.

None of the loans granted to key management personnel (2010 – Nil) are impaired.

(d) Key Management Personnel Compensation

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

	Group		Bank	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Short-term employee benefits				
Fees	**4,701**	4,343	**1,755**	1,595
Salary and other remuneration, including meeting allowances	**31,473**	27,275	**25,981**	22,119
Benefits-in-kind	**569**	545	**144**	123
Post-employment benefits	**5,275**	4,415	**4,765**	3,945
	42,018	36,578	**32,645**	27,782

Included in the total key management personnel compensation are:

	Group		Bank	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Directors' remuneration including benefits-in-kind – Directors of the Bank	**32,233**	26,817	**28,276**	23,042

The movement in share options of key management personnel is as follows:

	PFHL ESOS	
	2011 '000	**2010 '000**
At 1 January/31 December	**3,928**	3,928

The share options were granted on the same terms and conditions as those offered to other employees of the Group (Note 24(b)).

43. Credit Transactions and Exposures with Connected Parties

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Oustanding credit exposures with connected parties	**614,385**	591,821	**928,229**	802,278
of which:				
Total credit exposure which is impaired or in default	**142**	658	**138**	658
Total credit exposures	**180,418,706**	154,614,268	**160,274,445**	137,802,923
Percentage of outstanding credit exposures to connected parties				
– as a proportion of total credit exposures	**0.34%**	0.38%	**0.58%**	0.58%
– as a proportion of capital base	**2.37%**	2.92%	**4.32%**	4.89%
– which is impaired or in default	**0.02%**	0.11%	**0.01%**	0.08%

The disclosure on Credit Transactions and Exposures with Connected Parties above is presented in accordance with para 9.1 of Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties.

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

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

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

43. Credit Transactions and Exposures with Connected Parties (Cont'd.)

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.

44. Financial Risk Management

Overview

The Group's business activities involve the use of financial instruments, including derivatives. These activities expose the Group to a variety of financial risks, mainly credit risk, market risk and liquidity risk.

The Group's financial risks are subject to the Board of Directors' oversight, through the Risk Management Committee ("RMC"), a Board Committee, which oversees the establishment of enterprise-wide risk management policies and processes. The RMC is assisted by the specific risk oversight committees which are the Assets & Liabilities Management Committee ("ALCO"), the Credit Risk Management Committee ("CRMC") and the Operational Risk Management Committee.

Credit Risk

Credit risk is the potential loss of revenue as a result of failure by the customers or counterparties to meet their contractual financial obligations. As the Group's primary business is in commercial banking, the Group's exposure to credit risk is primarily from its lending and financing to retail consumers, Small- and Medium-sized Enterprises ("SMEs") and corporate customers. Trading and investing the surplus funds of the Group, such as trading or holding of debt securities, settlement of transactions, also expose the Group to credit risk and counterparty credit risk.

<u>Risk Governance</u>

The CRMC supports the RMC in credit risk management oversight. The CRMC reviews the Group's credit risk framework and policies, aligns credit risk management with business strategies and planning, reviews credit profile of the credit portfolios and recommends necessary actions to ensure that the credit risk remains within established risk tolerance level.

The Group's credit risk management includes the establishment of comprehensive credit risk policies, guidelines and procedures which document the Group's lending standards, discretionary power for loans approval, credit risk rating, acceptable collateral and valuation, and the review, rehabilitation and restructuring of problematic and delinquent loans. All credit approving authorities are guided by credit policies, guidelines and procedures which are periodically reviewed to ensure their continued relevance.

Within the Risk Management Division, the Credit Risk Management Department has functional responsibility for credit risk management which includes formulating and reviewing group-wide risk policies, guidelines and procedures. Other independent risk management and control units are responsible for managing the credit portfolios and ensuring the risk policies are implemented and complied with.

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach

The management of credit risk starts with experienced key personnel being appointed to the Credit Committee. The Credit Committee approves major credit decisions, guidelines and procedures to manage, control and monitor credit risk. All loan applications of significant amounts are approved at Head Office or by the Credit Committee while experienced senior credit officers at branches are given authority to approve loans with lower risk exposure. The Board of Directors of the respective entities has the authority to reject or modify the terms and conditions of loans which have been approved by the Credit Committee. The credit approving authorities are assigned discretionary powers based on their seniority and track record.

(a) Lending to Retail Consumers and SMEs

The credit granting to retail consumers and SMEs is individually underwritten, which amongst others, includes the assessment of the historical repayment track record and the current repayment capacity of the customer through the use of an internal credit risk rating scoresheet. The credit approving authorities have the responsibility to ensure that credit risk is properly assessed and all crucial credit information of the customer are included in the loan application.

(b) Lending to Corporate and Institutional Customers

The credit granting to corporate and institutional customers is individually underwritten and risk-rated. Credit officers identify and assess the credit risks of large corporate or institutional customers, or customer groups, taking into consideration their financial and business profiles, industry and economic factors, collateral, or other credit support such as standby letters of credit or bank guarantees.

(c) Credit Risk from Trading and Investment Activities

The management of the credit risk arising from the Group's trading or investing its surplus funds is primarily via the setting of issuers' credit limits which are specifically approved by the relevant approving authorities. In addition, the Group's investment policy also stipulates the minimum investment grade for debt securities, types of permissible transactions and the maximum tenure. The investment policy is also subject to regular review. The holdings of Collateralised Debt Obligations ("CDO") or Collateralised Loan Obligations ("CLO") require the specific approval of the Board of Directors. As at reporting date, the Group does not have any direct or indirect exposure to asset-backed securities, CDO or CLO and does not participate in any securitisation deals.

(d) Counterparty Credit Risk on Derivative Financial Instruments

Counterparty credit risk ("CCR") on derivative financial instruments is the risk that the Group's counterparty in a foreign exchange, interest rate, commodity, equity, option or credit derivative contract defaults prior to maturity date of the contract and the Group, at the relevant time, has a claim on the counterparty. Derivative financial instruments are primarily entered into for hedging purposes. The Group may also take conservative trading derivative positions, within certain pre-set limits, with the expectation to make arbitrage gains from favourable movements in prices or rates.

Unlike on-balance sheet financial instruments, the Group's financial loss is not the entire contracted principal value of the derivatives, but equivalent to the cost to replace the defaulted derivative financial instruments with another similar contract. The Group will only suffer a loss if the contract carries a positive economic value at time of default.

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(d) Counterparty Credit Risk on Derivative Financial Instruments (Cont'd.)

The CCR arising from all derivative financial instruments is managed via the establishment of credit exposure limits and daily settlement limits for each counterparty. Over-the-Counter ("OTC") derivative financial instruments, especially Interest Rate Swaps and Options are transacted under master agreements, International Swaps and Derivatives Association ("ISDA") and Credit Support Annex ("CSA") agreements. ISDA allows for the close-out netting in the event of default by a counterparty and CSA provides credit protection with the requirements to post collateral, usually in the form of cash or government securities upon any excess in threshold levels.

All outstanding financial derivative positions are marked-to-market on a daily basis. Treasury Control & Processing Department monitors counterparties' positions and promptly follows up with the requirements to post collateral upon any excess in the threshold levels.

Where possible, the Group settles its OTC derivatives via the Payment-versus-Payment ("PVP") settlement method to further reduce settlement risk. For derivative financial instruments where the PVP settlement method is not possible, the Group establishes settlement limits through the Group's credit approval process.

Independent credit reviews are performed regularly to complement risk identification as well as to evaluate the quality of credit appraisals and the competency of credit personnel. Internal risk management reports are presented to both the CRMC and the RMC, containing information on economic trends across major portfolios, quality of credit portfolios, results of independent credit review, results of the credit profiling conducted, significant credit exposures to connected parties and credit concentration by economic sectors and by large single customers. Such information allows senior management, CRMC and RMC to identify adverse credit trends, take corrective actions and formulate business strategies.

There have been no changes to the process for managing credit risk and the methods used to measure credit risk.

(i) Credit Risk Exposures and Credit Risk Concentration

The following table presents the Group's and the Bank's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For on-balance sheet financial assets, the maximum exposure to credit risk equals their carrying amount. For financial guarantees, the maximum exposure to credit risk is the maximum amount that the Group or the Bank would have to pay if the obligations for which the instruments are issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit granted to customers.

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions.

By Industry Analysis

The analysis of credit risk concentration presented below relates only to financial assets subject to credit risk and are based on the industry in which the counterparties are engaged (for non-individual counterparties) or the economic purpose of the credit exposure (for individuals). The exposures to credit risk are presented without taking into account any collateral held or other credit enhancements.

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Industry Analysis (Cont'd.)

Group 2011	Government and Central Banks RM'000	Financial Services RM'000	Transport and Business Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
On-Balance Sheet Exposures									
Cash and balances with banks	10,153,521	8,480,262	-	-	-	-	-	-	18,633,783
Reverse repurchase agreements	9,287,255	-	-	-	-	-	-	-	9,287,255
Financial assets held-for-trading									
- Government securities and treasury bills	911,024	-	-	-	-	-	-	-	911,024
- Money market instruments	-	9,445,212	-	-	-	-	-	-	9,445,212
- Non-money market instruments	62,700	86,630	50,621	59,896	40,742	-	-	-	300,589
Derivative financial assets	-	493,852	-	-	-	-	-	-	493,852
Financial investments available-for-sale									
- Government securities and treasury bills	9,676,810	-	-	-	-	-	-	-	9,676,810
- Non-money market instruments	79	4,975,481	902,664	1,162,469	1,930	-	-	-	7,042,623
Financial investments held-to-maturity									
- Government securities and treasury bills	2,774,459	-	-	-	-	-	-	-	2,774,459
- Money market instruments	-	4,292,275	-	-	-	-	-	-	4,292,275
- Non-money market instruments	1,086	383,623	103,268	34,579	39,943	-	-	-	562,499
Gross loans, advances and financing									
- Retail loans/financing									
- housing loans/financing	-	-	-	-	-	51,315,764	-	-	51,315,764
- hire purchase	90	4,216	2,392,396	3,227,639	1,257,455	-	31,845,845	138	38,727,779
- credit cards	-	-	-	-	-	-	-	1,522,267	1,522,267
- other loans/financing	23,296	41,196	3,986,837	18,572,656	9,606,043	2,603,478	211,819	24,605,076	59,650,401
- Corporate loans/financing	-	8,320,977	3,235,738	5,211,724	9,700,540	-	-	8,827	26,477,806
Statutory deposits with Central Banks	5,597,801	-	-	-	-	-	-	-	5,597,801
	38,488,121	36,523,724	10,671,524	28,268,963	20,646,653	53,919,242	32,057,664	26,136,308	246,712,199
Commitments and Contingencies									
Contingent liabilities	851	58,424	896,507	1,151,018	801,768	-	-	14,847	2,923,415
Commitments	511,204	1,496,307	3,413,467	10,207,718	6,636,285	8,868,399	25,234	11,776,661	42,935,275
	512,055	1,554,731	4,309,974	11,358,736	7,438,053	8,868,399	25,234	11,791,508	45,858,690
Total Credit Exposures	39,000,176	38,078,455	14,981,498	39,627,699	28,084,706	62,787,641	32,082,898	37,927,816	292,570,889

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Industry Analysis (Cont'd.)

Group 2010	Government and Central Banks RM'000	Financial Services RM'000	Transport and Business Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
On-Balance Sheet Exposures									
Cash and balances with banks	28,397,686	6,292,753	–	–	–	–	–	–	34,690,439
Reverse repurchase agreements	365,877	–	–	–	–	–	–	–	365,877
Financial assets held-for-trading									
– Government securities and treasury bills	588,045	–	–	–	–	–	–	–	588,045
– Money market instruments	–	5,622,472	–	–	–	–	–	–	5,622,472
– Non-money market instruments	63,454	20,242	868	–	65,539	–	–	–	150,103
Derivative financial assets	–	326,622	–	–	–	–	–	–	326,622
Financial investments available-for-sale									
– Government securities and treasury bills	10,667,433	–	–	–	–	–	–	–	10,667,433
– Non-money market instruments	15	4,832,608	1,150,690	1,199,811	1,727	–	–	–	7,184,851
Financial investments held-to-maturity									
– Government securities and treasury bills	3,002,148	–	–	–	–	–	–	–	3,002,148
– Money market instruments	–	1,502,893	–	–	–	–	–	–	1,502,893
– Non-money market instruments	1,086	584,068	69,109	5,068	65,245	–	–	–	724,576
Gross loans, advances and financing									
– Retail loans/financing									
– housing loans/financing	–	–	–	–	–	43,891,024	–	–	43,891,024
– hire purchase	158	4,007	1,746,743	3,013,575	1,146,431	–	29,416,721	787	35,328,422
– credit cards	–	–	–	–	–	–	–	1,348,902	1,348,902
– other loans/financing	25,120	37,093	3,455,163	16,866,005	8,420,862	2,502,355	201,093	21,396,910	52,904,601
– Corporate loans/financing	–	6,378,583	1,463,390	5,400,730	9,822,778	–	–	5,642	23,071,123
Statutory deposits with Central Banks	1,612,575	–	–	–	–	–	–	–	1,612,575
	44,723,597	25,601,341	7,885,963	26,485,189	19,522,582	46,393,379	29,617,814	22,752,241	222,982,106
Commitments and Contingencies									
Contingent liabilities	625	246,745	655,102	1,106,575	884,005	–	–	18,867	2,911,919
Commitments	501,134	4,584,592	3,123,421	10,281,416	4,462,845	7,717,766	364	10,503,441	41,174,979
	501,759	4,831,337	3,778,523	11,387,991	5,346,850	7,717,766	364	10,522,308	44,086,898
Total Credit Exposures	45,225,356	30,432,678	11,664,486	37,873,180	24,869,432	54,111,145	29,618,178	33,274,549	267,069,004

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Industry Analysis (Cont'd.)

Bank 2011	Government and Central Banks RM'000	Financial Services RM'000	Transport and Business Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
On-Balance Sheet Exposures									
Cash and balances with banks	2,257,000	8,251,349	-	-	-	-	-	-	10,508,349
Reverse repurchase agreements	8,435,611	-	-	-	-	-	-	-	8,435,611
Financial assets held-for-trading									
- Government securities and treasury bills	911,024	-	-	-	-	-	-	-	911,024
- Money market instruments	-	9,494,719	-	-	-	-	-	-	9,494,719
- Non-money market instruments	-	-	808	-	-	-	-	-	808
Derivative financial assets	-	492,536	-	-	-	-	-	-	492,536
Financial investments available-for-sale									
- Government securities and treasury bills	8,274,983	-	-	-	-	-	-	-	8,274,983
- Non-money market instruments	-	4,434,461	769,308	807,259	1,930	-	-	-	6,012,958
Financial investments held-to-maturity									
- Government securities and treasury bills	2,064,741	-	-	-	-	-	-	-	2,064,741
- Money market instruments	-	4,864,817	-	-	-	-	-	-	4,864,817
- Non-money market instruments	1,086	5,059	98,211	-	39,943	-	-	-	144,299
Gross loans and advances									
- Retail loans									
- housing loans	-	-	-	-	-	44,743,319	-	-	44,743,319
- hire purchase	63	3,373	1,735,001	2,888,730	1,107,527	-	20,946,269	-	26,680,963
- credit cards	-	-	-	-	-	-	-	1,512,099	1,512,099
- other loans	-	28,008	3,315,180	17,280,723	8,765,767	2,508,937	204,018	18,551,595	50,654,228
- Corporate loans	-	7,662,940	2,883,047	3,816,817	6,596,218	-	-	8,827	20,967,849
Statutory deposits with Central Banks	4,496,365	-	-	-	-	-	-	-	4,496,365
	26,440,873	35,237,262	8,801,555	24,793,529	16,511,385	47,252,256	21,150,287	20,072,521	200,259,668
Commitments and Contingencies									
Contingent liabilities	851	20,303	659,675	832,838	628,059	-	-	4,018	2,145,744
Commitments	511,204	1,756,177	2,179,888	9,774,053	6,341,282	8,022,155	22,684	11,324,014	39,931,457
	512,055	1,776,480	2,839,563	10,606,891	6,969,341	8,022,155	22,684	11,328,032	42,077,201
Total Credit Exposures	26,952,928	37,013,742	11,641,118	35,400,420	23,480,726	55,274,411	21,172,971	31,400,553	242,336,869

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Industry Analysis (Cont'd.)

Bank 2010	Government and Central Banks RM'000	Financial Services RM'000	Transport and Business Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
On-Balance Sheet Exposures									
Cash and balances with banks	22,943,533	4,228,914	–	–	–	–	–	–	27,172,447
Reverse repurchase agreements	10,737	–	–	–	–	–	–	–	10,737
Financial assets held-for-trading									
– Government securities and treasury bills	488,242	–	–	–	–	–	–	–	488,242
– Money market instruments	–	5,323,626	–	–	–	–	–	–	5,323,626
– Non-money market instruments	–	–	868	–	–	–	–	–	868
Derivative financial assets	–	322,596	–	–	–	–	–	–	322,596
Financial investments available-for-sale									
– Government securities and treasury bills	7,873,452	–	–	–	–	–	–	–	7,873,452
– Money market instruments	–	272,599	–	–	–	–	–	–	272,599
– Non-money market instruments	–	4,308,028	1,018,597	795,076	1,727	–	–	–	6,123,428
Financial investments held-to-maturity									
– Government securities and treasury bills	2,405,049	–	–	–	–	–	–	–	2,405,049
– Money market instruments	–	2,689,862	–	–	–	–	–	–	2,689,862
– Non-money market instruments	1,086	5,059	64,052	46	65,245	–	–	–	135,488
Gross loans and advances									
– Retail loans									
– housing loans	–	–	–	–	–	38,382,386	–	–	38,382,386
– hire purchase	110	3,572	1,618,548	2,798,876	1,040,922	–	19,377,971	–	24,839,999
– credit cards	–	–	–	–	–	–	–	1,340,914	1,340,914
– other loans	–	25,619	2,882,829	15,736,860	7,710,766	2,415,581	190,225	15,824,807	44,786,687
– Corporate loans	–	5,870,210	1,111,073	4,587,532	6,218,739	–	–	5,642	17,793,196
Statutory deposits with Central Banks	1,106,330	–	–	–	–	–	–	–	1,106,330
	34,828,539	23,050,085	6,695,967	23,918,390	15,037,399	40,797,967	19,568,196	17,171,363	181,067,906
Commitments and Contingencies									
Contingent liabilities	625	95,604	655,102	818,491	878,336	–	–	11,296	2,459,454
Commitments	501,134	4,380,223	1,525,152	9,919,312	4,266,927	7,069,717	–	10,078,073	37,740,538
	501,759	4,475,827	2,180,254	10,737,803	5,145,263	7,069,717	–	10,089,369	40,199,992
Total Credit Exposures	35,330,298	27,525,912	8,876,221	34,656,193	20,182,662	47,867,684	19,568,196	27,260,732	221,267,898

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Geographical Analysis

The analysis of credit concentration risk of financial assets of the Group and the Bank categorised by geographical distribution (i.e. based on the geographical location where the credit risk resides) is as follows:

Group 2011	Malaysia RM'000	Hong Kong & China PRC RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
On-Balance Sheet Exposures					
Cash and balances with banks	14,390,682	2,389,180	507,687	1,346,234	18,633,783
Reverse repurchase agreements	9,272,886	–	–	14,369	9,287,255
Financial assets held-for-trading					
– Government securities and treasury bills	911,024	–	–	–	911,024
– Money market instruments	9,445,212	–	–	–	9,445,212
– Non-money market instruments	300,589	–	–	–	300,589
Derivative financial assets	353,826	2,563	–	137,463	493,852
Financial investments available-for-sale					
– Government securities and treasury bills	9,676,810	–	–	–	9,676,810
– Non-money market instruments	7,031,989	2,780	79	7,775	7,042,623
Financial investments held-to-maturity					
– Government securities and treasury bills	2,067,123	608,774	–	98,562	2,774,459
– Money market instruments	3,866,399	123,279	–	302,597	4,292,275
– Non-money market instruments	199,122	41,866	–	321,511	562,499
Gross loans, advances and financing					
– Retail loans/financing					
– housing loans/financing	47,910,465	3,360,273	34,373	10,653	51,315,764
– hire purchase	36,995,526	1,707,787	14,756	9,710	38,727,779
– credit cards	1,512,099	6,850	3,318	–	1,522,267
– other loans/financing	55,666,191	1,762,815	1,888,443	332,952	59,650,401
– Corporate loans/financing	21,048,568	5,061,492	–	367,746	26,477,806
Statutory deposits with Central Banks	5,275,421	–	322,380	–	5,597,801
	225,923,932	15,067,659	2,771,036	2,949,572	246,712,199
Commitments and Contingencies					
Contingent liabilities	2,402,832	145,702	344,384	30,497	2,923,415
Commitments	41,153,641	1,430,707	315,983	34,944	42,935,275
	43,556,473	1,576,409	660,367	65,441	45,858,690
Total Credit Exposures	269,480,405	16,644,068	3,431,403	3,015,013	292,570,889

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Geographical Analysis (Cont'd.)

Group 2010	Malaysia RM'000	Hong Kong & China PRC RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
On-Balance Sheet Exposures					
Cash and balances with banks	30,487,145	2,162,429	505,966	1,534,899	34,690,439
Reverse repurchase agreements	355,140	–	–	10,737	365,877
Financial assets held-for-trading					
– Government securities and treasury bills	588,045	–	–	–	588,045
– Money market instruments	5,622,472	–	–	–	5,622,472
– Non-money market instruments	150,103	–	–	–	150,103
Derivative financial assets	62,311	11,366	–	252,945	326,622
Financial investments available-for-sale					
– Government securities and treasury bills	10,667,433	–	–	–	10,667,433
– Non-money market instruments	7,179,304	2,694	15	2,838	7,184,851
Financial investments held-to-maturity					
– Government securities and treasury bills	2,486,720	435,418	–	80,010	3,002,148
– Money market instruments	1,444,385	934	–	57,574	1,502,893
– Non-money market instruments	145,567	–	–	579,009	724,576
Gross loans, advances and financing					
– Retail loans/financing					
– housing loans/financing	40,890,669	2,961,043	31,161	8,151	43,891,024
– hire purchase	33,486,157	1,810,869	23,479	7,917	35,328,422
– credit cards	1,340,914	6,222	1,766	–	1,348,902
– other loans/financing	49,231,483	1,693,655	1,713,093	266,370	52,904,601
– Corporate loans/financing	18,085,213	4,584,429	–	401,481	23,071,123
Statutory deposits with Central Banks	1,294,861	–	317,714	–	1,612,575
	203,517,922	13,669,059	2,593,194	3,201,931	222,982,106
Commitments and Contingencies					
Contingent liabilities	2,427,806	156,531	303,192	24,390	2,911,919
Commitments	38,472,535	2,302,920	303,265	96,259	41,174,979
	40,900,341	2,459,451	606,457	120,649	44,086,898
Total Credit Exposures	244,418,263	16,128,510	3,199,651	3,322,580	267,069,004

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Geographical Analysis (Cont'd.)

Bank 2011	Malaysia RM'000	Hong Kong & China PRC RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
On-Balance Sheet Exposures					
Cash and balances with banks	8,390,944	772,124	–	1,345,281	10,508,349
Reverse repurchase agreements	8,421,242	–	–	14,369	8,435,611
Financial assets held-for-trading					
– Government securities and treasury bills	911,024	–	–	–	911,024
– Money market instruments	9,494,719	–	–	–	9,494,719
– Non-money market instruments	808	–	–	–	808
Derivative financial assets	353,826	1,247	–	137,463	492,536
Financial investments available-for-sale					
– Government securities and treasury bills	8,274,983	–	–	–	8,274,983
– Non-money market instruments	6,012,901	–	–	57	6,012,958
Financial investments held-to-maturity					
– Government securities and treasury bills	1,966,179	–	–	98,562	2,064,741
– Money market instruments	4,864,817	–	–	–	4,864,817
– Non-money market instruments	144,299	–	–	–	144,299
Gross loans and advances					
– Retail loans					
– housing loans	44,732,666	–	–	10,653	44,743,319
– hire purchase	26,671,253	–	–	9,710	26,680,963
– credit cards	1,512,099	–	–	–	1,512,099
– other loans	50,350,186	–	–	304,042	50,654,228
– Corporate loans	20,098,282	551,794	–	317,773	20,967,849
Statutory deposits with Central Banks	4,496,365	–	–	–	4,496,365
	196,696,593	1,325,165	–	2,237,910	200,259,668
Commitments and Contingencies					
Contingent liabilities	2,107,130	12,258	621	25,735	2,145,744
Commitments	39,424,322	476,213	–	30,922	39,931,457
	41,531,452	488,471	621	56,657	42,077,201
Total Credit Exposures	238,228,045	1,813,636	621	2,294,567	242,336,869

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(i) Credit Risk Exposures and Credit Risk Concentration (Cont'd.)

By Geographical Analysis (Cont'd.)

Bank 2010	Malaysia RM'000	Hong Kong & China PRC RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
On-Balance Sheet Exposures					
Cash and balances with banks	25,816,135	234,752	–	1,121,560	27,172,447
Reverse repurchase agreements	–	–	–	10,737	10,737
Financial assets held-for-trading					
– Government securities and treasury bills	488,242	–	–	–	488,242
– Money market instruments	5,323,626	–	–	–	5,323,626
– Non-money market instruments	868	–	–	–	868
Derivative financial assets	62,311	11,318	–	248,967	322,596
Financial investments available-for-sale					
– Government securities and treasury bills	7,873,452	–	–	–	7,873,452
– Money market instruments	272,599	–	–	–	272,599
– Non-money market instruments	6,123,428	–	–	–	6,123,428
Financial investments held-to-maturity					
– Government securities and treasury bills	2,325,039	–	–	80,010	2,405,049
– Money market instruments	2,689,862	–	–	–	2,689,862
– Non-money market instruments	135,488	–	–	–	135,488
Gross loans and advances					
– Retail loans					
– housing loans	38,374,235	–	–	8,151	38,382,386
– hire purchase	24,832,082	–	–	7,917	24,839,999
– credit cards	1,340,914	–	–	–	1,340,914
– other loans	44,549,431	–	–	237,256	44,786,687
– Corporate loans	17,129,705	356,563	–	306,928	17,793,196
Statutory deposits with Central Banks	1,106,330	–	–	–	1,106,330
	178,443,747	602,633	–	2,021,526	181,067,906
Commitments and Contingencies					
Contingent liabilities	2,423,185	11,879	–	24,390	2,459,454
Commitments	37,186,334	462,375	–	91,829	37,740,538
	39,609,519	474,254	–	116,219	40,199,992
Total Credit Exposures	218,053,266	1,076,887	–	2,137,745	221,267,898

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(ii) Credit Quality of Gross Loans, Advances and Financing

Gross loans, advances and financing are analysed as follows:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Neither past due nor impaired	**155,451,804**	134,883,902	**127,036,038**	110,018,054
Past due but not impaired	**20,712,556**	19,875,893	**16,372,186**	15,723,807
Impaired	**1,529,657**	1,784,277	**1,150,234**	1,401,321
	177,694,017	156,544,072	**144,558,458**	127,143,182

(a) Neither Past Due Nor Impaired

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

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

The credit quality of gross loans, advances and financing which is neither past due nor impaired is analysed as follows:

	2011			2010		
	Good RM'000	Satisfactory RM'000	Total RM'000	Good RM'000	Satisfactory RM'000	Total RM'000
Group						
Retail loans/financing						
– housing loans/financing	**39,548,652**	**4,320,137**	**43,868,789**	31,739,228	4,780,714	36,519,942
– hire purchase	**24,650,664**	**4,389,984**	**29,040,648**	21,603,635	4,968,184	26,571,819
– credit cards	**899,015**	**364,036**	**1,263,051**	784,750	300,972	1,085,722
– other loans/financing	**51,356,887**	**4,153,602**	**55,510,489**	43,313,871	4,762,377	48,076,248
Corporate loans/financing	**23,932,893**	**1,835,934**	**25,768,827**	20,668,331	1,961,840	22,630,171
	140,388,111	**15,063,693**	**155,451,804**	118,109,815	16,774,087	134,883,902
Bank						
Retail loans						
– housing loans	**34,331,550**	**3,773,694**	**38,105,244**	27,428,816	4,285,071	31,713,887
– hire purchase	**17,091,856**	**2,893,190**	**19,985,046**	15,168,358	3,699,855	18,868,213
– credit cards	**889,851**	**363,495**	**1,253,346**	778,347	299,783	1,078,130
– other loans	**44,142,860**	**3,202,103**	**47,344,963**	36,854,708	3,936,639	40,791,347
Corporate loans	**18,824,662**	**1,522,777**	**20,347,439**	15,750,327	1,816,150	17,566,477
	115,280,779	**11,755,259**	**127,036,038**	95,980,556	14,037,498	110,018,054

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(ii) Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(b) Past Due But Not Impaired

Past due but not impaired loans, advances and financing are loans/financing where the customer has failed to make a principal or interest/profit payment when contractually due, and includes loans/financing which are due one or more days after the contractual due date but less than three (3) months.

An aging analysis of loans, advances and financing which are past due but not impaired is as follows:

Group	1 day to < 1 month RM'000	1 month to < 2 months RM'000	2 months to < 3 months RM'000	Total RM'000
2011				
Retail loans/financing				
– housing loans/financing	**3,832,483**	**2,238,316**	**906,303**	**6,977,102**
– hire purchase	**5,699,364**	**3,083,356**	**692,617**	**9,475,337**
– credit cards	**142,801**	**68,879**	**25,252**	**236,932**
– other loans/financing	**2,083,441**	**1,086,496**	**337,342**	**3,507,279**
Corporate loans/financing	**508,444**	**7,252**	**210**	**515,906**
	12,266,533	**6,484,299**	**1,961,724**	**20,712,556**
2010				
Retail loans/financing				
– housing loans/financing	3,764,421	2,159,629	941,477	6,865,527
– hire purchase	5,277,407	2,708,855	595,913	8,582,175
– credit cards	154,321	56,888	24,681	235,890
– other loans/financing	2,472,329	1,167,686	311,085	3,951,100
Corporate loans/financing	233,026	6,247	1,928	241,201
	11,901,504	6,099,305	1,875,084	19,875,893

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(ii) Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(b) Past Due But Not Impaired (Cont'd.)

Bank	1 day to < 1 month RM'000	1 month to < 2 months RM'000	2 months to < 3 months RM'000	Total RM'000
2011				
Retail loans				
– housing loans	**3,401,075**	**2,003,670**	**820,806**	**6,225,551**
– hire purchase	**3,988,151**	**2,112,949**	**450,921**	**6,552,021**
– credit cards	**142,595**	**68,868**	**25,033**	**236,496**
– other loans	**1,746,255**	**884,506**	**236,384**	**2,867,145**
Corporate loans	**485,376**	**5,597**	**–**	**490,973**
	9,763,452	**5,075,590**	**1,533,144**	**16,372,186**
2010				
Retail loans				
– housing loans	3,407,304	1,956,769	854,564	6,218,637
– hire purchase	3,704,150	1,791,891	369,724	5,865,765
– credit cards	154,189	56,720	24,585	235,494
– other loans	2,102,649	945,264	255,894	3,303,807
Corporate loans	92,984	5,825	1,295	100,104
	9,461,276	4,756,469	1,506,062	15,723,807

(c) Impaired Loans, Advances and Financing

Loans, advances and financing are classified as impaired when they fulfill any of the following criteria:

(i) principal or interest/profit or both are past due for three (3) months or more;

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

(iii) where an impaired loan/financing has been rescheduled or restructured, the loan/financing continues to be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for a period of six (6) months.

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(ii) Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(c) Impaired Loans, Advances and Financing (Cont'd.)

In addition, loans/financing that are considered individually significant, the Group assesses on a case-by-case basis at each reporting date whether there is any objective evidence that a loan/financing is impaired. The criteria that the Group uses to determine that there is objective evidence of impairment include:

(i) any significant financial difficulty of the issuer or obligor;
(ii) a breach of contract, such as a default or delinquency in interest/profit or principal payments;
(iii) high probability of bankruptcy or other financial reorganisation of the borrower;
(iv) the viability of the customer's business operations and its capability to trade successfully out of financial difficulties and to generate sufficient cash flow to service its debt obligations; and
(v) any adverse news or developments affecting the local economic conditions or business environment of the borrower which will adversely affect the repayment capacity of the borrower.

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 follows:

Group	Total Gross Impaired Loans, Advances and Financing RM'000	of which Individually Assessed as Impaired: Gross Individually Assessed Impaired Loans/ Financing RM'000	Individual Assessment Allowance RM'000	Fair Value of Collateral RM'000
2011				
Retail loans/financing				
– housing loans/financing	**469,873**	**5,549**	**1,083**	**5,219**
– hire purchase	**211,794**	**2,656**	**1,344**	**2,433**
– credit cards	**22,284**	**–**	**–**	**–**
– other loans/financing	**632,633**	**351,830**	**132,986**	**375,373**
Corporate loans/financing	**193,073**	**193,073**	**109,783**	**142,569**
	1,529,657	**553,108**	**245,196**	**525,594**
2010				
Retail loans/financing				
– housing loans/financing	505,555	619	188	841
– hire purchase	174,428	3,803	2,199	3,669
– credit cards	27,290	–	–	–
– other loans/financing	877,253	564,537	156,356	554,246
Corporate loans/financing	199,751	199,751	106,191	149,088
	1,784,277	768,710	264,934	707,844

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(ii) Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(c) Impaired Loans, Advances and Financing (Cont'd.)

Bank	Total Gross Impaired Loans and Advances RM'000	of which Individually Assessed as Impaired: Gross Individually Assessed Impaired Loans RM'000	Individual Assessment Allowance RM'000	Fair Value of Collateral RM'000
2011				
Retail loans				
– housing loans	**412,524**	**4,520**	**1,080**	**4,190**
– hire purchase	**143,896**	**–**	**–**	**–**
– credit cards	**22,257**	**–**	**–**	**–**
– other loans	**442,120**	**204,790**	**56,107**	**230,610**
Corporate loans	**129,437**	**129,437**	**77,561**	**111,445**
	1,150,234	**338,747**	**134,748**	**346,245**
2010				
Retail loans				
– housing loans	449,862	–	–	–
– hire purchase	106,021	–	–	–
– credit cards	27,290	–	–	–
– other loans	691,533	416,672	90,691	430,020
Corporate loans	126,615	126,615	75,655	110,212
	1,401,321	543,287	166,346	540,232

(iii) Collateral

The main types of collateral obtained by the Group and the Bank to mitigate credit risk are as follows:

- for residential mortgages – charges over residential properties
- for commercial property loans – charges over the properties being financed
- for motor vehicle financing – ownership claims over the vehicles financed
- for share margin financing – pledges over securities from listed exchange
- for other loans – charges over business assets such as premises, inventories, trade receivables or deposits

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iii) Collateral (Cont'd.)

(a) Estimates of fair value of collateral for gross loans, advances and financing are based on the value the collateral assessed at the time of loan application, and are updated whenever there is new information available or when a loan/financing is classified as impaired. Estimates of fair value of collateral for other financial assets are based on available, quoted and observable market prices or dealer price quotations.

	2011		2010	
	Outstanding Balance RM'000	**Fair Value of Collateral RM'000**	**Outstanding Balance RM'000**	**Fair Value of Collateral RM'000**
Group				
Reverse repurchase agreements	**9,287,255**	**9,575,356**	365,877	384,290
Derivative financial assets #	**493,852**	**296,290**	326,622	107,858
Gross loans, advances and financing	**177,694,017**	**269,299,598**	156,544,072	236,993,602
	187,475,124	**279,171,244**	157,236,571	237,485,750
Bank				
Reverse repurchase agreements	**8,435,611**	**8,708,692**	10,737	10,737
Derivative financial assets #	**492,536**	**296,273**	322,596	107,844
Gross loans and advances	**144,558,458**	**231,836,821**	127,143,182	203,459,934
	153,486,605	**240,841,786**	127,476,515	203,578,515

For derivative instruments which are subject to master netting agreements and are settled on a net basis, the collateral values represent the cash collateral received on the net positive marked-to-market position with the same counterparty.

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iii) Collateral (Cont'd.)

(b) The collateral held for gross loans, advances and financing are further analysed as follows:

Group	2011 Outstanding Balance RM'000	2011 Fair Value of Collateral RM'000	2010 Outstanding Balance RM'000	2010 Fair Value of Collateral RM'000
Neither past due nor impaired				
Retail loans/financing				
– housing loans/financing	**43,868,789**	**69,282,836**	36,519,942	56,711,352
– hire purchase	**29,040,648**	**39,403,625**	26,571,819	35,895,061
– credit cards	**1,263,051**	**65,860**	1,085,722	69,959
– other loans/financing	**55,510,489**	**102,710,495**	48,076,248	90,346,974
Corporate loans/financing	**25,768,827**	**27,590,226**	22,630,171	25,361,798
	155,451,804	**239,053,042**	134,883,902	208,385,144
Past due but not impaired				
Retail loans/financing				
– housing loans/financing	**6,977,102**	**10,149,697**	6,865,527	9,525,172
– hire purchase	**9,475,337**	**11,726,814**	8,582,175	10,496,140
– credit cards	**236,932**	**536**	235,890	694
– other loans/financing	**3,507,279**	**5,913,153**	3,951,100	6,083,563
Corporate loans/financing	**515,906**	**567,874**	241,201	393,416
	20,712,556	**28,358,074**	19,875,893	26,498,985
Impaired				
Retail loans/financing				
– housing loans/financing	**469,873**	**657,866**	505,555	677,061
– hire purchase	**211,794**	**251,350**	174,428	197,198
– credit cards	**22,284**	**–**	27,290	–
– other loans/financing	**632,633**	**836,696**	877,253	1,084,684
Corporate loans/financing	**193,073**	**142,570**	199,751	150,530
	1,529,657	**1,888,482**	1,784,277	2,109,473
Total gross loans, advances and financing				
Retail loans/financing				
– housing loans/financing	**51,315,764**	**80,090,399**	43,891,024	66,913,585
– hire purchase	**38,727,779**	**51,381,789**	35,328,422	46,588,399
– credit cards	**1,522,267**	**66,396**	1,348,902	70,653
– other loans/financing	**59,650,401**	**109,460,344**	52,904,601	97,515,221
Corporate loans/financing	**26,477,806**	**28,300,670**	23,071,123	25,905,744
	177,694,017	**269,299,598**	156,544,072	236,993,602

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iii) Collateral (Cont'd.)

(b) The collateral held for gross loans, advances and financing are further analysed as follows (Cont'd.):

Bank	2011 Outstanding Balance RM'000	2011 Fair Value of Collateral RM'000	2010 Outstanding Balance RM'000	2010 Fair Value of Collateral RM'000
Neither past due nor impaired				
Retail loans				
– housing loans	**38,105,244**	**62,378,171**	31,713,887	50,986,697
– hire purchase	**19,985,046**	**28,240,491**	18,868,213	26,470,269
– credit cards	**1,253,346**	**65,860**	1,078,130	69,959
– other loans	**47,344,963**	**94,215,502**	40,791,347	82,074,999
Corporate loans	**20,347,439**	**22,458,980**	17,566,477	20,766,819
	127,036,038	**207,359,004**	110,018,054	180,368,743
Past due but not impaired				
Retail loans				
– housing loans	**6,225,551**	**9,110,088**	6,218,637	8,646,009
– hire purchase	**6,552,021**	**8,227,698**	5,865,765	7,358,587
– credit cards	**236,496**	**536**	235,494	694
– other loans	**2,867,145**	**5,047,393**	3,303,807	5,103,211
Corporate loans	**490,973**	**543,493**	100,104	208,018
	16,372,186	**22,929,208**	15,723,807	21,316,519
Impaired				
Retail loans				
– housing loans	**412,524**	**583,583**	449,862	600,992
– hire purchase	**143,896**	**173,220**	106,021	124,039
– credit cards	**22,257**	**–**	27,290	–
– other loans	**442,120**	**680,360**	691,533	937,987
Corporate loans	**129,437**	**111,446**	126,615	111,654
	1,150,234	**1,548,609**	1,401,321	1,774,672
Total gross loans and advances				
Retail loans				
– housing loans	**44,743,319**	**72,071,842**	38,382,386	60,233,698
– hire purchase	**26,680,963**	**36,641,409**	24,839,999	33,952,895
– credit cards	**1,512,099**	**66,396**	1,340,914	70,653
– other loans	**50,654,228**	**99,943,255**	44,786,687	88,116,197
Corporate loans	**20,967,849**	**23,113,919**	17,793,196	21,086,491
	144,558,458	**231,836,821**	127,143,182	203,459,934

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iii) Collateral (Cont'd.)

(c) Repossessed Collateral

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

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Residential properties	**72,313**	82,319	**70,029**	80,111
Non-residential properties	**37,216**	43,220	**36,623**	43,067
	109,529	125,539	**106,652**	123,178

Repossessed collateral are sold as soon as practicable. Repossessed collateral are recognised in other assets on the statements of financial position. The Group and the Bank do not occupy repossessed properties for its business use.

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iv) Credit Quality of Financial Investments

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

Financial Assets Held-for-trading

	As At 31 December 2011						As At 31 December 2010					
	Money Market Instruments			Non-money Market Instruments - Debt Securities			Money Market Instruments			Non-money Market Instruments - Debt Securities		
	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000
Group												
AAA+ to AA-	-	6,812,185	6,812,185	-	113,648	113,648	-	3,563,206	3,563,206	-	83,696	83,696
A+ to A-	-	2,603,088	2,603,088	-	-	-	-	1,909,026	1,909,026	-	-	-
P-1	-	-	-	-	186,133	186,133	-	-	-	-	-	-
Unrated	-	29,939	29,939	-	-	-	-	150,240	150,240	-	65,539	65,539
	-	9,445,212	9,445,212	-	299,781	299,781	-	5,622,472	5,622,472	-	149,235	149,235
Bank												
AAA+ to AA-	-	6,315,421	6,315,421	-	-	-	-	3,264,360	3,264,360	-	-	-
A+ to A-	-	2,348,624	2,348,624	-	-	-	-	1,909,026	1,909,026	-	-	-
Unrated	-	830,674	830,674	-	-	-	-	150,240	150,240	-	-	-
	-	9,494,719	9,494,719	-	-	-	-	5,323,626	5,323,626	-	-	-

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iv) Credit Quality of Financial Investments (Cont'd.)

Set out below are the credit quality of money market instruments and non-money market instruments-debt securities analysed by ratings from external credit ratings agencies (Cont'd.):

Financial Investments Available-for-sale

	As At 31 December 2011						As At 31 December 2010					
	Money Market Instruments			Non-money Market Instruments - Debt Securities			Money Market Instruments			Non-money Market Instruments - Debt Securities		
	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000
Group												
AAA+ to AA-	-	-	-	453,294	15,641	468,935	-	-	-	-	15,575	15,575
A+ to A-	-	-	-	1,186,905	-	1,186,905	-	-	-	953,499	-	953,499
BBB+ to BBB-	-	-	-	406,320	-	406,320	-	-	-	1,379,483	-	1,379,483
Unrated	-	-	-	-	10,054	10,054	-	-	-	-	10,049	10,049
	-	-	-	2,046,519	25,695	2,072,214	-	-	-	2,332,982	25,624	2,358,606
Bank												
AAA+ to AA-	-	-	-	453,294	15,641	468,935	-	-	-	-	15,575	15,575
A+ to A-	-	-	-	1,078,523	-	1,078,523	-	-	-	731,645	-	731,645
BBB+ to BBB-	-	-	-	44,468	-	44,468	-	-	-	1,086,131	-	1,086,131
Unrated	-	-	-	-	-	-	-	272,599	272,599	-	-	-
	-	-	-	1,576,285	15,641	1,591,926	-	272,599	272,599	1,817,776	15,575	1,833,351

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iv) Credit Quality of Financial Investments (Cont'd.)

Set out below are the credit quality of money market instruments and non-money market instruments-debt securities analysed by ratings from external credit ratings agencies (Cont'd.):

Financial Investments Held-to-maturity

	As At 31 December 2011						As At 31 December 2010					
	Money Market Instruments			Non-money Market Instruments - Debt Securities			Money Market Instruments			Non-money Market Instruments - Debt Securities		
	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000	International Ratings RM'000	Domestic Ratings RM'000	Total RM'000
Group												
AAA+ to AA-	315,338	3,611,592	3,926,930	1,009	153,309	154,318	58,508	983,166	1,041,674	523,300	134,321	657,621
A+ to A-	110,538	234,736	345,274	-	-	-	-	210,214	210,214	55,709	-	55,709
P-1	-	-	-	362,368	29,557	391,925	-	-	-	-	-	-
Unrated	-	20,071	20,071	-	16,256	16,256	-	251,005	251,005	-	11,200	11,200
Defaulted*	-	-	-	-	-	-	-	-	-	-	46	46
	425,876	3,866,399	4,292,275	363,377	199,122	562,499	58,508	1,444,385	1,502,893	579,009	145,567	724,576
Bank												
AAA+ to AA-	-	4,861,317	4,861,317	-	133,100	133,100	-	2,589,878	2,589,878	-	124,242	124,242
A+ to A-	-	3,500	3,500	-	-	-	-	99,984	99,984	-	-	-
Unrated	-	-	-	-	11,199	11,199	-	-	-	-	11,200	11,200
Defaulted*	-	-	-	-	-	-	-	-	-	-	46	46
	-	4,864,817	4,864,817	-	144,299	144,299	-	2,689,862	2,689,862	-	135,488	135,488

* Stated net of accumulated impairment losses

44. Financial Risk Management (Cont'd.)

Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(iv) Credit Quality of Financial Investments (Cont'd.)

The ratings shown for money market instruments (e.g. negotiable instruments of deposit and bankers' acceptances) are based on the ratings assigned to the respective financial institution issuing the financial instruments. The ratings shown for debt securities are based on the ratings assigned to the specific debt issuance.

As at the reporting date, none of the financial investment above is past due.

Market Risk

Market risk is the risk of loss arising from movements in market variables, such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates. In addition, the market risk of Islamic banking activities of the Group includes rate of return risk and displaced commercial risk.

Risk Governance

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

Types of Market Risk

(i) Traded Market Risk

Traded market risk, primarily the interest rate/rate of return risk and credit spread risk, exist in the Group's trading book positions held for the purpose of benefiting from short-term price movements, which are conducted primarily by the treasury operations.

Risk Management Approach

The Group's traded market risk framework comprises market risk policies and practices, delegation of authority, market risk limits and valuation methodologies. The Group's traded market risk for its interest rate/rate of return sensitive fixed income instruments is measured by the present value of one (1) basis point change ("PV01") and is monitored independently by the Compliance Unit on a daily basis against approved market risk limits. In addition, the Compliance Unit is also responsible to monitor and report on limit excesses and the daily mark-to-market valuation of fixed income securities. The market risk limits are determined after taking into account the risk appetite and the risk-return relationship and are periodically reviewed by Risk Management Division. Changes to market risk limits must be approved by the Board of Directors. The trading book positions and limits are regularly reported to the ALCO. The Group maintains its policy of prohibiting exposures in trading financial derivative positions unless with the prior specific approval of the Board of Directors.

During the financial year, the Group's and the Bank's traded market risk exposures on fixed income securities as measured by PV01, averaged at RM209,000 (2010 – RM173,000) and RM172,000 (2010 – RM153,000) respectively. The composition of the Group's and the Bank's trading portfolio is set out in Note 5 to the financial statements.

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk

The Group's core non-traded market risks are interest rate/rate of return risk in the banking book, displaced commercial risk in the Group's Islamic banking business, foreign exchange risk and equity risk.

(a) Interest Rate/Rate of Return Risk in the Banking Book ("IRR/RoRBB")

IRR/RoRBB is the risk to the Group's earnings and economic value of equity ("EVE") arising from adverse movements in interest rate/rate of return. The sources of IRR/RoRBB are repricing risk, yield curve risk, basis risk and optionality risk.

Risk Management Approach

The primary objective in managing the IRR/RoRBB is to manage the volatility in the Group's net interest/profit income ("NII/NPI") and EVE, whilst balancing the cost of such hedging activities on the current revenue streams. This is achieved in a variety of ways such as the offsetting of positions against each other for any matching assets and liabilities, the acquisition of new financial assets and liabilities to narrow the mismatch in interest rate/rate of return sensitive assets and liabilities and entering into derivative financial instruments which have the opposite effects. The use of derivative financial instruments to hedge interest rate risk is set out in Note 6 to the financial statements.

The Group uses various tools including repricing gap reports, sensitivity analysis and income scenario simulations to measure its IRR/RoRBB. The impact on NII/NPI and EVE is considered at all times in measuring the IRR/RoRBB. Limits and policies approved by the RMC are established and are regularly reviewed to ensure its relevance.

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

(i) The following tables indicate the effective interest rate/rate of return at the reporting date and the Group's and the Bank's sensitivity to interest rate/rate of return by time band based on the earlier of contractual repricing date and maturity date. Actual repricing dates may differ from contractual repricing dates due to prepayment of loans, advances and financing or early withdrawal of deposits.

	Non trading book											
Group 2011	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non-interest/ profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate/rate of return %
ASSETS												
Cash and balances with banks	14,700,775	1,870,931	185,769	-	-	-	-	-	1,876,308	-	18,633,783	2.71
Reverse repurchase agreements	3,309,144	5,126,467	-	-	-	-	-	-	-	851,644	9,287,255	2.99
Financial assets held-for-trading	-	-	-	-	-	-	-	-	-	10,656,825	10,656,825	3.20
Financial investments available-for-sale	1,982,033	1,529,631	5,462,773	43,072	1,744,443	766,186	15,641	108,383	5,067,271	-	16,719,433	2.75
Financial investments held-to-maturity	2,718,581	2,200,029	1,163,089	367,866	764,552	231,806	171,940	10,284	1,086	-	7,629,233	3.09
Loans, advances and financing												
– non-impaired	119,978,352	8,733,820	9,668,639	9,676,408	7,352,758	5,679,249	4,077,534	10,997,600	-	-	176,164,360	5.67
– impaired*	-	-	-	-	-	-	-	-	(1,360,074)	-	(1,360,074)	-
Other non-interest/profit sensitive balances	-	-	-	-	-	-	-	-	11,562,249	117,918	11,680,167	-
TOTAL ASSETS	142,688,885	19,460,878	16,480,270	10,087,346	9,861,753	6,677,241	4,265,115	11,116,267	17,146,840	11,626,387	249,410,982	

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

Group 2011	Non trading book: Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non-interest/ profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate/rate of return %
LIABILITIES AND EQUITY												
Deposits from customers	112,943,600	30,019,972	32,283,490	129,824	13,872	15,723	6,463	-	24,957,581	-	200,370,525	2.67
Deposits from banks	9,427,699	3,003,697	2,546,056	204,604	135,908	89,054	64,784	-	334,930	-	15,806,732	2.86
Bills and acceptances payable	555,736	703,033	33,417	-	-	-	-	-	803,149	-	2,095,335	3.24
Recourse obligations on loans sold to Cagamas	1,369	2,738	7,217	465	-	-	-	-	-	-	11,789	4.22
Debt securities issued and other borrowed funds	122,365	446,626	1,595,993	1,400,000	473,000	-	1,834,950	5,088,000	356,899	-	11,317,833	3.65
Other non-interest/profit sensitive balances	-	-	-	-	-	-	-	-	4,197,864	50,198	4,248,062	-
Total Liabilities	123,050,769	34,176,066	36,466,173	1,734,893	622,780	104,777	1,906,197	5,088,000	30,650,423	50,198	233,850,276	
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	-	14,863,222	-	14,863,222	-
Non-controlling interests	-	-	-	-	-	-	-	-	697,484	-	697,484	-
TOTAL LIABILITIES AND EQUITY	123,050,769	34,176,066	36,466,173	1,734,893	622,780	104,777	1,906,197	5,088,000	46,211,129	50,198	249,410,982	
On-balance sheet interest/ profit sensitivity gap	19,638,116	(14,715,188)	(19,985,903)	8,352,453	9,238,973	6,572,464	2,358,918	6,028,267	(29,064,289)	11,576,189	-	
Off-balance sheet interest/ profit sensitivity gap (interest rate swaps)	913,096	(6,400,021)	(708,902)	1,552,000	(937,814)	(746,066)	1,334,950	4,992,757	-	-	-	
TOTAL INTEREST/PROFIT SENSITIVITY GAP	20,551,212	(21,115,209)	(20,694,805)	9,904,453	8,301,159	5,826,398	3,693,868	11,021,024	(29,064,289)	11,576,189	-	

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

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

Group 2010	Non trading book: Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non-interest/ profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate/rate of return %
ASSETS												
Cash and balances with banks	30,539,997	2,495,700	107,600	-	-	-	-	-	1,547,142	-	34,690,439	2.57
Reverse repurchase agreements	10,737	-	-	-	-	-	-	-	-	355,140	365,877	2.94
Financial assets held-for-trading	-	-	-	-	-	-	-	-	-	6,360,620	6,360,620	2.96
Financial investments available-for-sale	3,022,835	2,784,189	4,564,408	300,633	42,948	1,334,342	741,430	115,944	4,945,555	-	17,852,284	2.54
Financial investments held-to-maturity	986,027	964,958	1,485,915	664,092	347,538	599,745	134,839	45,371	1,132	-	5,229,617	3.14
Loans, advances and financing												
- non-impaired	101,810,775	7,693,242	9,268,805	9,053,927	7,462,739	5,060,930	4,497,391	9,911,986	-	-	154,759,795	5.71
- impaired *	-	-	-	-	-	-	-	-	(776,815)	-	(776,815)	-
Other non-interest/profit sensitive balances	-	-	-	-	-	-	-	-	7,741,729	105,430	7,847,159	-
TOTAL ASSETS	136,370,371	13,938,089	15,426,728	10,018,652	7,853,225	6,995,017	5,373,660	10,073,301	13,458,743	6,821,190	226,328,976	

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

Group 2010	Non trading book: Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non-interest/ profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate/rate of return %
LIABILITIES AND EQUITY												
Deposits from customers	92,554,997	31,477,938	30,051,704	142,642	23,458	6,401	9,081	-	22,605,898	-	176,872,119	2.34
Deposits from banks	9,566,939	9,142,193	1,810,708	182,768	231,806	157,477	89,128	-	146,457	-	21,327,476	2.43
Bills and acceptances payable	482,503	971,928	106,167	-	-	-	-	-	748,238	-	2,308,836	2.99
Recourse obligations on loans sold to Cagamas	2,093	1,518	6,587	5,797	324	-	-	-	-	-	16,319	4.25
Debt securities issued and other borrowed funds	898,352	-	-	1,233,000	1,400,000	473,000	-	3,904,500	186,028	-	8,094,880	3.45
Other non-interest/profit sensitive balances	-	-	-	-	-	-	-	-	3,835,188	189,070	4,024,258	-
Total Liabilities	103,504,884	41,593,577	31,975,166	1,564,207	1,655,588	636,878	98,209	3,904,500	27,521,809	189,070	212,643,888	
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	-	13,032,900	-	13,032,900	-
Non-controlling interests	-	-	-	-	-	-	-	-	652,188	-	652,188	-
TOTAL LIABILITIES AND EQUITY	103,504,884	41,593,577	31,975,166	1,564,207	1,655,588	636,878	98,209	3,904,500	41,206,897	189,070	226,328,976	
On-balance sheet interest/ profit sensitivity gap	32,865,487	(27,655,488)	(16,548,438)	8,454,445	6,197,637	6,358,139	5,275,451	6,168,801	(27,748,154)	6,632,120	-	
Off-balance sheet interest/ profit sensitivity gap (interest rate swaps)	764,500	(4,214,405)	(1,187,012)	912,492	1,552,000	(915,213)	(724,387)	3,812,025	-	-	-	
TOTAL INTEREST/PROFIT SENSITIVITY GAP	33,629,987	(31,869,893)	(17,735,450)	9,366,937	7,749,637	5,442,926	4,551,064	9,980,826	(27,748,154)	6,632,120	-	

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

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

	Non trading book											
Bank 2011	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
ASSETS												
Cash and balances with banks	6,836,401	2,294,575	102,032	-	-	-	-	-	1,275,341	-	10,508,349	2.55
Reverse repurchase agreements	3,309,144	5,126,467	-	-	-	-	-	-	-	-	8,435,611	2.99
Financial assets held-for-trading	-	-	-	-	-	-	-	-	-	10,406,551	10,406,551	3.17
Financial investments available-for-sale	1,527,458	995,688	5,452,729	43,072	1,208,392	527,077	15,641	-	4,517,884	-	14,287,941	2.74
Financial investments held-to-maturity	1,116,813	1,488,092	1,528,864	346,606	759,495	231,806	171,940	1,429,155	1,086	-	7,073,857	3.46
Loans and advances												
- non-impaired	106,931,806	6,573,383	6,573,870	6,835,474	4,983,251	3,772,220	2,576,942	5,161,278	-	-	143,408,224	5.54
- impaired *	-	-	-	-	-	-	-	-	(1,152,539)	-	(1,152,539)	-
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	12,345,650	119,400	12,465,050	-
TOTAL ASSETS	119,721,622	16,478,205	13,657,495	7,225,152	6,951,138	4,531,103	2,764,523	6,590,433	16,987,422	10,525,951	205,433,044	

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

Bank 2011	Non trading book: Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
LIABILITIES AND EQUITY												
Deposits from customers	90,155,951	20,103,113	27,350,696	83,125	9,722	15,086	4,390	-	21,662,356	-	159,384,439	2.80
Deposits from banks	11,900,951	2,974,050	1,028,483	204,604	135,908	89,054	64,784	-	319,515	-	16,717,349	2.25
Bills and acceptances payable	555,811	703,033	33,417	-	-	-	-	-	802,815	-	2,095,076	3.24
Recourse obligations on loans sold to Cagamas	1,369	2,738	7,217	465	-	-	-	-	-	-	11,789	4.22
Debt securities issued and other borrowed funds	-	-	1,269,900	1,400,000	473,000	-	1,834,950	5,088,000	356,899	-	10,422,749	3.84
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	2,835,613	56,101	2,891,714	-
Total Liabilities	102,614,082	23,782,934	29,689,713	1,688,194	618,630	104,140	1,904,124	5,088,000	25,977,198	56,101	191,523,116	
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	-	13,909,928	-	13,909,928	-
TOTAL LIABILITIES AND EQUITY	102,614,082	23,782,934	29,689,713	1,688,194	618,630	104,140	1,904,124	5,088,000	39,887,126	56,101	205,433,044	
On-balance sheet interest sensitivity gap	17,107,540	(7,304,729)	(16,032,218)	5,536,958	6,332,508	4,426,963	860,399	1,502,433	(22,899,704)	10,469,850	-	
Off-balance sheet interest sensitivity gap (interest rate swaps)	801,980	(6,717,496)	(708,902)	1,552,000	(826,698)	(523,834)	1,334,950	5,088,000	-	-	-	
TOTAL INTEREST SENSITIVITY GAP	17,909,520	(14,022,225)	(16,741,120)	7,088,958	5,505,810	3,903,129	2,195,349	6,590,433	(22,899,704)	10,469,850	-	

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

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

	Non trading book											
Bank 2010	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
ASSETS												
Cash and balances with banks	23,415,833	2,451,011	29,807	-	-	-	-	-	1,275,796	-	27,172,447	2.69
Reverse repurchase agreements	10,737	-	-	-	-	-	-	-	-	-	10,737	8.27
Financial assets held-for-trading	-	-	-	-	-	-	-	-	-	5,812,736	5,812,736	2.93
Financial investments available-for-sale	2,004,129	2,266,508	3,525,727	280,508	42,948	1,212,858	511,833	15,575	4,409,393	-	14,269,479	2.52
Financial investments held-to-maturity	503,115	528,230	1,652,282	1,444,433	326,309	594,688	134,839	45,371	1,132	-	5,230,399	3.36
Loans and advances												
- non-impaired	90,620,306	5,465,720	6,474,888	6,386,257	5,387,044	3,398,137	3,210,892	4,798,617	-	-	125,741,861	5.56
- impaired *	-	-	-	-	-	-	-	-	(679,678)	-	(679,678)	-
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	8,742,116	109,765	8,851,881	-
TOTAL ASSETS	116,554,120	10,711,469	11,682,704	8,111,198	5,756,301	5,205,683	3,857,564	4,859,563	13,748,759	5,922,501	186,409,862	

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

<u>Types of Market Risk</u> (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

Bank 2010	Non trading book: Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
LIABILITIES AND EQUITY												
Deposits from customers	73,720,431	21,205,735	25,941,293	80,245	15,515	4,947	8,299	-	19,812,801	-	140,789,266	2.54
Deposits from banks	8,373,409	10,658,843	1,152,097	148,292	231,806	157,477	89,129	-	258,728	-	21,069,781	2.06
Bills and acceptances payable	590,488	1,010,006	106,167	-	-	-	-	-	743,345	-	2,450,006	2.99
Recourse obligations on loans sold to Cagamas	2,093	1,518	6,587	5,797	324	-	-	-	-	-	16,319	4.25
Debt securities issued and other borrowed funds	-	-	-	1,233,000	1,400,000	473,000	-	3,904,500	186,028	-	7,196,528	3.73
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	2,373,814	211,397	2,585,211	-
Total Liabilities	82,686,421	32,876,102	27,206,144	1,467,334	1,647,645	635,424	97,428	3,904,500	23,374,716	211,397	174,107,111	
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	-	12,302,751	-	12,302,751	-
TOTAL LIABILITIES AND EQUITY	82,686,421	32,876,102	27,206,144	1,467,334	1,647,645	635,424	97,428	3,904,500	35,677,467	211,397	186,409,862	
On-balance sheet interest sensitivity gap	33,867,699	(22,164,633)	(15,523,440)	6,643,864	4,108,656	4,570,259	3,760,136	955,063	(21,928,708)	5,711,104	-	
Off-balance sheet interest sensitivity gap (interest rate swaps)	656,613	(4,522,655)	(1,187,012)	912,492	1,552,000	(807,326)	(508,612)	3,904,500	-	-	-	
TOTAL INTEREST SENSITIVITY GAP	34,524,312	(26,687,288)	(16,710,452)	7,556,356	5,660,656	3,762,933	3,251,524	4,859,563	(21,928,708)	5,711,104	-	

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

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

(ii) Interest Rate/Rate of Return Risk Sensitivity Analysis

The following tables present the projected Group's and Bank's sensitivity to a 100 basis point parallel rate movement across all maturities applied on the Group's and Bank's interest rate/rate of return sensitivity gap as at the reporting date. Where the current interest rate/rate of return is lower than 1%, the downward rate shock applied is restricted to the prevailing interest rate/rate of return.

	2011		2010	
	–100 bps	**+100 bps**	**–100 bps**	**+100 bps**
	Increase/(Decrease)			
	RM'000	**RM'000**	**RM'000**	**RM'000**
Group				
Impact on NII/NPI	**(109,495)**	**21,556**	(60,715)	31,795
Impact on EVE	**1,261,842**	**(1,275,985)**	1,197,751	(1,201,809)
Bank				
Impact on NII/NPI	**(121,790)**	**69,085**	(167,956)	83,542
Impact on EVE	**817,462**	**(814,397)**	715,262	(707,499)

The reported amounts do not take into account actions that would be taken by treasury operations or business units to mitigate the impact of this interest rate/rate of return risk. In reality, treasury operations seek to proactively change the interest rate/rate of return risk profile to minimise losses and maximise net revenue. The projection assumes that interest rate/rate of return of all maturities move by the same amount and, therefore, does not reflect the potential impact on the NII/NPI and EVE of some rates changing while others remain unchanged. The projection also assumes constant statements of financial position and that all positions run to maturity.

The repricing profile of loans/financing that does not have maturity is based on the earliest possible repricing dates. Actual dates may differ from contractual dates owing to prepayments. Loans/financing prepayment is generally estimated based on past statistics and trends, where possible and material. The impact on the NII/NPI is measured on a monthly basis and the impact on the EVE is on a quarterly basis, both of which are reported to the ALCO and the RMC.

(iii) Stress testing is conducted semi-annually to determine the adequacy of capital in meeting the impact of extreme interest rate/rate of return movements on the Group's and the Bank's statements of financial position. Stress testing is performed to provide early warnings of potential losses to facilitate the proactive management of interest rate/rate of return risk.

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(b) Displaced Commercial Risk

Displaced commercial risk ("DCR") refers to the risk of Public Islamic Bank Berhad ("PIBB") bearing the credit and market risk losses as a result of paying a return that exceeds the actual return that was supposedly to be earned by the Investment Account Holders ("IAH") based on the contractual profit sharing ratio. PIBB does not have Profit Sharing Investment Accounts ("PSIA") which are eligible for risk absorbent treatment.

Risk Management Approach

PIBB uses the Profit Equalisation Reserve ("PER") to manage its DCR and is governed by the Profit Equalisation Reserve Framework. PER is created by setting aside an amount out of the total gross income before distribution to the IAH and to PIBB. The amount of PER set aside is shared by both the IAH and PIBB. PER may be released to smoothen the rate of return. In the event that there is no PER balance to be released, PIBB may employ the following techniques to ensure that the IAH receive market rate of return:

(i) to forgo part or all of PIBB's share of profit as mudharib to the IAH by way of varying the percentage of profit taken as the mudharib share in order to increase the share attributed to the IAH in any particular year; and/or

(ii) to transfer PIBB's current year profits or retained earnings to the IAH on the basis of hibah.

(c) Foreign Exchange Risk

Foreign exchange risk refers to the adverse impact arising from movements in exchange rates on foreign currency positions originating from treasury money market activities and from the Group's investments and retained earnings in its subsidiary companies, overseas branches and associated companies, whose functional currencies are not in Ringgit Malaysia. The main foreign currencies in which the Group's businesses are transacted in are United States Dollars and Hong Kong Dollars.

Risk Management Approach

The Group manages such risk through funding in the same functional currencies, where possible. In addition, Net Open Position ("NOP") limit is set for overall NOP as well as NOP limits for individual currencies. The decision to hedge the Group's net investment in its overseas operations is based on its potential economic benefit and is periodically assessed by the ALCO.

(i) The following tables summarise the assets, liabilities and net open position by currency as at the reporting date, which are mainly in Ringgit Malaysia, Hong Kong Dollars and United States Dollars. Other currencies mainly include exposure to Euro, Australian Dollars, Chinese Renminbi, New Zealand Dollars, Sri Lanka Rupees, Great Britain Pounds and Japanese Yen.

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(c) Foreign Exchange Risk (Cont'd.)

Group 2011	Malaysian Ringgit RM'000	Hong Kong Dollars RM'000	United States Dollars RM'000	Others RM'000	Total RM'000
ASSETS					
Cash and balances with banks	13,389,538	1,208,476	2,429,787	1,605,982	18,633,783
Reverse repurchase agreements	9,272,886	-	-	14,369	9,287,255
Financial assets held-for-trading	10,656,825	-	-	-	10,656,825
Derivative financial assets	379,741	1,316	112,795	-	493,852
Financial investments available-for-sale	14,638,429	2,780	2,070,449	7,775	16,719,433
Financial investments held-to-maturity	6,132,645	719,044	121,666	655,878	7,629,233
Loans, advances and financing	159,352,358	10,725,655	4,264,891	461,382	174,804,286
Other assets	1,151,305	28,374	68,058	760,517	2,008,254
Statutory deposits with Central Banks	5,250,936	-	345,135	1,730	5,597,801
Deferred tax assets	46,093	-	-	-	46,093
Investment in associated companies	42,445	-	113,552	-	155,997
Investment properties	1,950	68,804	-	-	70,754
Property and equipment	941,228	305,423	93,909	1,380	1,341,940
Intangible assets	769,251	1,196,225	-	-	1,965,476
TOTAL ASSETS	222,025,630	14,256,097	9,620,242	3,509,013	249,410,982
LIABILITIES					
Deposits from customers	177,011,694	8,786,500	10,392,532	4,179,799	200,370,525
Deposits from banks	12,575,445	91,529	3,139,758	-	15,806,732
Bills and acceptances payable	2,094,757	-	217	361	2,095,335
Recourse obligations on loans sold to Cagamas	11,789	-	-	-	11,789
Derivative financial liabilities	52,363	838	183,523	-	236,724
Debt securities issued and other borrowed funds	8,409,509	895,084	2,013,240	-	11,317,833
Other liabilities	1,524,785	693,499	508,583	740,668	3,467,535
Provision for tax expense and zakat	450,154	5,807	23,573	8,644	488,178
Deferred tax liabilities	52,367	3,258	-	-	55,625
TOTAL LIABILITIES	202,182,863	10,476,515	16,261,426	4,929,472	233,850,276
Non-controlling interests	-	684,512	12,972	-	697,484
On-Balance Sheet Open Position	19,842,767	3,095,070	(6,654,156)	(1,420,459)	14,863,222
Off-Balance Sheet Open Position	(4,843,728)	(2,048,762)	5,052,287	1,840,203	-
NET OPEN POSITION	14,999,039	1,046,308	(1,601,869)	419,744	14,863,222

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(c) Foreign Exchange Risk (Cont'd.)

Group 2010	Malaysian Ringgit RM'000	Hong Kong Dollars RM'000	United States Dollars RM'000	Others RM'000	Total RM'000
ASSETS					
Cash and balances with banks	29,982,339	1,769,392	1,996,739	941,969	34,690,439
Reverse repurchase agreements	355,140	–	–	10,737	365,877
Financial assets held-for-trading	6,360,620	–	–	–	6,360,620
Derivative financial assets	154,318	4,026	168,278	–	326,622
Financial investments available-for-sale	15,484,632	2,694	2,356,154	8,804	17,852,284
Financial investments held-to-maturity	4,076,624	435,419	137,350	580,224	5,229,617
Loans, advances and financing	139,748,466	10,271,192	3,612,735	350,587	153,982,980
Other assets	1,258,010	210,026	145,396	382,448	1,995,880
Statutory deposits with Central Banks	1,277,681	–	333,753	1,141	1,612,575
Deferred tax assets	515,821	–	3,322	72	519,215
Investment in associated companies	2,035	–	116,589	–	118,624
Investment properties	1,850	63,702	–	–	65,552
Property and equipment	882,630	302,238	91,552	1,899	1,278,319
Intangible assets	769,251	1,161,121	–	–	1,930,372
TOTAL ASSETS	200,869,417	14,219,810	8,961,868	2,277,881	226,328,976
LIABILITIES					
Deposits from customers	152,061,430	9,541,746	11,302,857	3,966,086	176,872,119
Deposits from banks	17,499,324	87,551	3,740,601	–	21,327,476
Bills and acceptances payable	2,304,563	–	2,379	1,894	2,308,836
Recourse obligations on loans sold to Cagamas	16,319	–	–	–	16,319
Derivative financial liabilities	192,317	2,152	181,060	–	375,529
Debt securities issued and other borrowed funds	5,188,569	898,352	2,007,959	–	8,094,880
Other liabilities	1,787,540	410,584	269,174	372,576	2,839,874
Provision for tax expense and zakat	771,828	15,902	11,100	1,634	800,464
Deferred tax liabilities	3,499	4,892	–	–	8,391
TOTAL LIABILITIES	179,825,389	10,961,179	17,515,130	4,342,190	212,643,888
Non-controlling interests	–	640,398	11,790	–	652,188
On-Balance Sheet Open Position	21,044,028	2,618,233	(8,565,052)	(2,064,309)	13,032,900
Off-Balance Sheet Open Position	(8,350,139)	(1,636,880)	7,674,686	2,312,333	–
NET OPEN POSITION	12,693,889	981,353	(890,366)	248,024	13,032,900

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(c) Foreign Exchange Risk (Cont'd.)

Bank 2011	Malaysian Ringgit RM'000	Hong Kong Dollars RM'000	United States Dollars RM'000	Others RM'000	Total RM'000
ASSETS					
Cash and balances with banks	6,565,943	1,460,272	1,628,491	853,643	10,508,349
Reverse repurchase agreements	8,421,242	–	–	14,369	8,435,611
Financial assets held-for-trading	10,406,551	–	–	–	10,406,551
Derivative financial assets	379,741	–	112,795	–	492,536
Financial investments available-for-sale	12,687,748	–	1,600,136	57	14,287,941
Financial investments held-to-maturity	6,975,296	–	57,647	40,914	7,073,857
Loans and advances	140,191,987	551,793	1,361,391	150,514	142,255,685
Other assets	1,083,176	36,444	49,056	745,050	1,913,726
Statutory deposits with Central Banks	4,471,880	–	24,485	–	4,496,365
Investment in subsidiary companies	1,941,626	1,672,194	474,761	–	4,088,581
Investment in associated companies	20,030	–	101,295	–	121,325
Property and equipment	650,965	–	4,779	1,380	657,124
Intangible assets	695,393	–	–	–	695,393
TOTAL ASSETS	194,491,578	3,720,703	5,414,836	1,805,927	205,433,044
LIABILITIES					
Deposits from customers	153,910,329	5,380	2,760,544	2,708,186	159,384,439
Deposits from banks	11,376,143	–	5,341,206	–	16,717,349
Bills and acceptances payable	2,094,498	–	217	361	2,095,076
Recourse obligations on loans sold to Cagamas	11,789	–	–	–	11,789
Derivative financial liabilities	52,363	–	137,962	–	190,325
Debt securities issued and other borrowed funds	8,409,509	–	2,013,240	–	10,422,749
Other liabilities	511,652	703,906	471,568	681,201	2,368,327
Provision for tax expense and zakat	274,409	–	6,318	627	281,354
Deferred tax liabilities	51,708	–	–	–	51,708
TOTAL LIABILITIES	176,692,400	709,286	10,731,055	3,390,375	191,523,116
On-Balance Sheet Open Position	17,799,178	3,011,417	(5,316,219)	(1,584,448)	13,909,928
Off-Balance Sheet Open Position	(4,843,728)	(2,072,454)	5,099,871	1,816,311	–
NET OPEN POSITION	12,955,450	938,963	(216,348)	231,863	13,909,928

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(c) Foreign Exchange Risk (Cont'd.)

Bank 2010	Malaysian Ringgit RM'000	Hong Kong Dollars RM'000	United States Dollars RM'000	Others RM'000	Total RM'000
ASSETS					
Cash and balances with banks	25,268,063	542,280	842,832	519,272	27,172,447
Reverse repurchase agreements	–	–	–	10,737	10,737
Financial assets held-for-trading	5,812,736	–	–	–	5,812,736
Derivative financial assets	154,318	–	168,278	–	322,596
Financial investments available-for-sale	12,428,490	–	1,840,933	56	14,269,479
Financial investments held-to-maturity	5,150,342	–	23,509	56,548	5,230,399
Loans and advances	123,396,046	356,363	1,266,245	43,529	125,062,183
Other assets	1,096,092	104,556	126,354	376,640	1,703,642
Statutory deposits with Central Banks	1,089,150	–	17,180	–	1,106,330
Deferred tax assets	416,398	–	–	72	416,470
Investment in subsidiary companies	1,741,626	1,672,194	474,761	–	3,888,581
Investment in associated companies	30	–	101,295	–	101,325
Property and equipment	610,770	–	4,875	1,899	617,544
Intangible assets	695,393	–	–	–	695,393
TOTAL ASSETS	177,859,454	2,675,393	4,866,262	1,008,753	186,409,862
LIABILITIES					
Deposits from customers	134,880,381	7,857	3,039,915	2,861,113	140,789,266
Deposits from banks	13,865,518	–	7,204,263	–	21,069,781
Bills and acceptances payable	2,445,733	–	2,379	1,894	2,450,006
Recourse obligations on loans sold to Cagamas	16,319	–	–	–	16,319
Derivative financial liabilities	192,316	–	148,679	–	340,995
Debt securities issued and other borrowed funds	5,188,569	–	2,007,959	–	7,196,528
Other liabilities	870,836	219,261	216,043	369,511	1,675,651
Provision for tax expense and zakat	567,226	–	–	1,339	568,565
TOTAL LIABILITIES	158,026,898	227,118	12,619,238	3,233,857	174,107,111
On-Balance Sheet Open Position	19,832,556	2,448,275	(7,752,976)	(2,225,104)	12,302,751
Off-Balance Sheet Open Position	(8,350,139)	(1,572,812)	7,623,185	2,299,766	–
NET OPEN POSITION	11,482,417	875,463	(129,791)	74,662	12,302,751

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(c) Foreign Exchange Risk (Cont'd.)

(ii) Structural foreign exchange risk represents the Group's currency exposure in its net investments in overseas operations and capital funds/retained earnings of overseas branches operations. Where possible, the Group manages such risk through funding investments in the same functional currencies. In addition, as part of its risk management strategy, the Group has designated certain funding in United States Dollars to hedge part of its Hong Kong Dollars structural currency exposure due to the pegging of Hong Kong Dollars to United States Dollars. The structural currency exposures of the Group as at the reporting date are as follows:

Group	Hedged RM'000	Unhedged RM'000	Total RM'000
2011			
United States Dollars	**1,695,317**	**(871,051)**	**824,266**
Hong Kong Dollars	**1,844,530**	**337,345**	**2,181,875**
Other currencies	**–**	**401,289**	**401,289**
	3,539,847	**(132,417)**	**3,407,430**
2010			
United States Dollars	1,109,700	(224,830)	884,870
Hong Kong Dollars	1,704,623	244,871	1,949,494
Other currencies	–	333,686	333,686
	2,814,323	353,727	3,168,050

(iii) Sensitivity Analysis

Considering that other risk variables remain constant, the foreign currency revaluation sensitivity for the Group on its non-trading unhedged positions as at each reporting date is summarised below:

Group	Change in Currency Rates %	Revaluation Sensitivity RM'000
2011		
United States Dollars	**+/- 5**	**–/+ 43,553**
Hong Kong Dollars	**+/- 5**	**+/- 16,867**
2010		
United States Dollars	+/- 5	–/+ 11,242
Hong Kong Dollars	+/- 5	+/- 12,244

44. Financial Risk Management (Cont'd.)

Market Risk (Cont'd.)

Types of Market Risk (Cont'd.)

(ii) Non-Traded Market Risk (Cont'd.)

(d) Equity Risk

Equity risk refers to the adverse impact arising from movements in equity prices on equity positions held by the Group and the Bank for yield purposes.

Risk Management Approach

The Group manages such risk via pre-approved portfolio size and cut-loss limits. Decisions concerning such positions are made by the Share Investment Committee.

Considering that other risk variables remain constant, the table below summarises the impact on the carrying amount of equity positions as at each reporting date should there be a change in equity market prices:

Group	Change in Equity Market Prices %	Sensitivity of Equity RM'000
2011	**+/- 20**	**+/- 9,119**
2010	+/- 20	+/- 9,351

Liquidity and Funding Risk

Liquidity risk is the risk that the Group is unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due or securing the funding requirements at excessive cost. Funding risk is the risk that the Group does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient.

Risk Governance

The ALCO is the primary party responsible for liquidity management based on guidelines approved by the RMC. Liquidity policies and frameworks are reviewed by the ALCO and approved by the RMC prior to implementation.

Risk Management Approach

The liquidity risk management of the Group is aligned with the New Liquidity Framework issued by BNM, and is measured and managed based on projected cash flows. In addition to ensuring compliance with the New Liquidity Framework, the Group maintains a liquidity compliance buffer to meet any unexpected cash outflows.

The day-to-day funding management is undertaken by the treasury operations and this includes the maintenance of a portfolio of highly liquid assets that can be easily liquidated as protection against any unforeseen interruption to cash flow and the replenishment of funds as they matured or are borrowed by customers. As at 31 December 2011, the Group holds a sizeable balance of government securities amounting to RM13,362.3 million (2010 - RM14,257.6 million) or 38% (2010 - 48%) of its portfolio of securities.

44. Financial Risk Management (Cont'd.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

The Group's liquidity and funding position is supported by the Group's significant retail deposit base, accompanied by funding from wholesale markets. The Group's retail deposit base comprises current and savings deposits which, although payable on demand, have traditionally in aggregate provided stable sources of funding. The Group's reputation, earnings generation capacity, strong credit rating, financial and capital strength including offering of competitive deposit rates are core attributes to preserve depositors' confidence and ensure liquidity. The Group accesses the wholesale markets through the issuance of certificate of deposits and the taking of money market deposits to meet short-term obligations and to maintain its presence in the local money markets.

The primary tools for monitoring liquidity are the maturity mismatch analysis, assessment on the concentration of funding, the availability of unencumbered assets and the use of market-wide information to identify possible liquidity problems. Liquidity positions are reported to the ALCO on a monthly basis in Ringgit Malaysia and United States Dollars.

Contingency funding plans are in place to identify early warning signals of a liquidity problem. The contingency funding plans also set out the crisis escalation process as well as the various strategies to be employed to preserve liquidity including an orderly communication channel during a liquidity problem. A liquidity stress test programme is in place to ensure liquidity stress tests are systematically performed by the various entities under the Group to determine the cash flow mismatches under the "Specific Institution Liquidity Problem" and "Systemic Liquidity Problem" scenarios and the possible sources of funding to meet the shortfalls during a liquidity crisis.

Overseas subsidiary companies and overseas branches are required to comply with their respective local regulatory liquidity requirements and internal liquidity limits set by Head Office. Similar risk management processes as practiced by the Bank are adopted by its overseas subsidiary companies and overseas branches. It is the Group's policy that the overseas subsidiary companies and overseas branches strive to attain a self-funding position in funding their respective operations.

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity:

The following tables show the maturity analysis of the carrying amounts of the Group's and the Bank's assets and liabilities based on remaining contractual maturity. The contractual maturity profile often does not reflect the actual behavioural patterns. In particular, the Group has significant amounts of "core deposits" of non-bank customers which are contractually at call (included in the "Up to 7 days" time band) but which are historically a stable source of long-term funding for the Group and the Bank.

The Group and the Bank are subject to liquidity requirements to support calls under outstanding contingent liabilities and commitments as set out in Note 48 to the financial statements. The total outstanding contractual amounts of these items do not represent future cash requirements since the Group and the Bank expects many of these commitments (such as direct credit substitutes) to expire or be unconditionally cancelled without being called or drawn upon, whereas many of the contingent liabilities (such as letters of credit) are reimbursable by customers.

44. Financial Risk Management (Cont'd.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (Cont'd.):

Group 2011	Up to 7 Days RM'000	> 7 Days - 1 Month RM'000	> 1 - 3 Months RM'000	> 3 - 6 Months RM'000	> 6 - 12 Months RM'000	> 1 Year RM'000	Total RM'000
ASSETS							
Cash and balances with banks	12,446,928	4,130,155	1,870,931	184,978	791	-	18,633,783
Reverse repurchase agreements	1,174,967	2,485,164	5,627,124	-	-	-	9,287,255
Financial investments	6,378,773	6,536,691	9,141,795	5,992,812	2,137,899	4,817,521	35,005,491
Loans, advances and financing	10,577,737	4,915,137	7,756,416	8,736,518	15,894,851	126,923,627	174,804,286
Derivative financial assets	27,049	33,982	28,788	38,986	1,363	363,684	493,852
Other asset balances	35,285	11,708	5,304	524	2	11,133,492	11,186,315
TOTAL ASSETS	30,640,739	18,112,837	24,430,358	14,953,818	18,034,906	143,238,324	249,410,982
LIABILITIES							
Deposits from customers	85,357,149	52,343,187	30,019,974	15,575,756	16,707,735	366,724	200,370,525
Deposits from banks	1,198,778	8,228,921	3,003,697	1,594,730	951,325	829,281	15,806,732
Recourse obligations on loans sold to Cagamas	342	1,027	2,738	3,429	3,788	465	11,789
Debt securities issued and other borrowed funds	-	-	-	1,269,900	-	10,047,933	11,317,833
Derivative financial liabilities	1,108	29,772	17,205	6,347	1,144	181,148	236,724
Other liability balances	238,105	701,287	973,717	134,560	109,867	3,949,137	6,106,673
TOTAL LIABILITIES	86,795,482	61,304,194	34,017,331	18,584,722	17,773,859	15,374,688	233,850,276
EQUITY							
Equity attributable to equity holders of the Bank	-	-	-	-	-	14,863,222	14,863,222
Non-controlling interests	-	-	-	-	-	697,484	697,484
TOTAL EQUITY	-	-	-	-	-	15,560,706	15,560,706
NET MATURITY MISMATCH	(56,154,743)	(43,191,357)	(9,586,973)	(3,630,904)	261,047	112,302,930	-

44. Financial Risk Management (Cont'd.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (Cont'd.):

Group 2010	Up to 7 Days RM'000	> 7 Days - 1 Month RM'000	> 1 - 3 Months RM'000	> 3 - 6 Months RM'000	> 6 - 12 Months RM'000	> 1 Year RM'000	Total RM'000
ASSETS							
Cash and balances with banks	16,362,576	15,724,563	2,495,700	77,793	29,807	–	34,690,439
Reverse repurchase agreements	3,799	6,938	355,140	–	–	–	365,877
Financial investments	7,381,710	4,250,130	7,228,400	5,068,842	1,062,222	4,451,217	29,442,521
Loans, advances and financing	10,654,320	3,855,170	6,008,602	7,999,952	14,304,778	111,160,158	153,982,980
Derivative financial assets	4,783	27,835	47,787	11,703	1,678	232,836	326,622
Other asset balances	22,505	24,538	4,143	–	50	7,469,301	7,520,537
TOTAL ASSETS	34,429,693	23,889,174	16,139,772	13,158,290	15,398,535	123,313,512	226,328,976
LIABILITIES							
Deposits from customers	69,715,759	44,998,677	31,473,157	16,739,528	13,300,857	644,141	176,872,119
Deposits from banks	4,033,253	5,680,142	9,142,193	1,249,480	561,228	661,180	21,327,476
Recourse obligations on loans sold to Cagamas	–	–	1,335	–	1,177	13,807	16,319
Debt securities issued and other borrowed funds	–	–	–	–	–	8,094,880	8,094,880
Derivative financial liabilities	15,798	89,828	68,540	23,242	960	177,161	375,529
Other liability balances	211,655	623,372	1,161,944	211,372	100,145	3,649,077	5,957,565
TOTAL LIABILITIES	73,976,465	51,392,019	41,847,169	18,223,622	13,964,367	13,240,246	212,643,888
EQUITY							
Equity attributable to equity holders of the Bank	–	–	–	–	–	13,032,900	13,032,900
Non-controlling interests	–	–	–	–	–	652,188	652,188
TOTAL EQUITY	–	–	–	–	–	13,685,088	13,685,088
NET MATURITY MISMATCH	(39,546,772)	(27,502,845)	(25,707,397)	(5,065,332)	1,434,168	96,388,178	–

44. Financial Risk Management (Cont'd.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (Cont'd.):

Bank 2011	Up to 7 Days RM'000	> 7 Days - 1 Month RM'000	> 1 - 3 Months RM'000	> 3 - 6 Months RM'000	> 6 - 12 Months RM'000	> 1 Year RM'000	Total RM'000
ASSETS							
Cash and balances with banks	5,277,962	2,833,780	2,294,575	102,032	-	-	10,508,349
Reverse repurchase agreements	1,024,526	2,284,618	5,126,467	-	-	-	8,435,611
Financial investments	5,407,098	5,499,104	7,182,538	6,482,031	1,891,532	5,306,046	31,768,349
Loans and advances	9,771,210	4,332,834	6,378,642	7,057,616	12,487,800	102,227,583	142,255,685
Derivative financial assets	26,960	32,799	28,749	38,981	1,363	363,684	492,536
Other asset balances	20,136	10,812	8,754	389	-	11,932,423	11,972,514
TOTAL ASSETS	21,527,892	14,993,947	21,019,725	13,681,049	14,380,695	119,829,736	205,433,044
LIABILITIES							
Deposits from customers	66,601,685	45,017,636	20,103,113	12,786,529	14,564,167	311,309	159,384,439
Deposits from banks	1,646,083	10,574,383	2,974,050	898,009	130,474	494,350	16,717,349
Recourse obligations on loans sold to Cagamas	342	1,027	2,738	3,429	3,788	465	11,789
Debt securities issued and other borrowed funds	-	-	-	1,269,900	-	9,152,849	10,422,749
Derivative financial liabilities	936	29,247	17,105	6,306	1,144	135,587	190,325
Other liability balances	218,388	678,246	916,454	124,263	107,007	2,752,107	4,796,465
TOTAL LIABILITIES	68,467,434	56,300,539	24,013,460	15,088,436	14,806,580	12,846,667	191,523,116
EQUITY							
Equity attributable to equity holders of the Bank	-	-	-	-	-	13,909,928	13,909,928
TOTAL EQUITY	-	-	-	-	-	13,909,928	13,909,928
NET MATURITY MISMATCH	(46,939,542)	(41,306,592)	(2,993,735)	(1,407,387)	(425,885)	93,073,141	-

44. Financial Risk Management (Cont'd.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(a) Maturity analysis of assets and liabilities based on remaining contractual maturity (Cont'd.):

Bank 2010	Up to 7 Days RM'000	> 7 Days - 1 Month RM'000	> 1 - 3 Months RM'000	> 3 - 6 Months RM'000	> 6 - 12 Months RM'000	> 1 Year RM'000	Total RM'000
ASSETS							
Cash and balances with banks	11,692,501	12,999,128	2,451,011	–	29,807	–	27,172,447
Reverse repurchase agreements	3,799	6,938	–	–	–	–	10,737
Financial investments	6,172,965	3,221,529	6,055,015	3,636,777	1,616,966	4,609,362	25,312,614
Loans and advances	9,942,173	3,045,517	4,891,813	6,624,557	11,382,916	89,175,207	125,062,183
Derivative financial assets	4,758	23,843	47,778	11,703	1,678	232,836	322,596
Other asset balances	15,810	20,003	3,766	–	46	8,489,660	8,529,285
TOTAL ASSETS	27,832,006	19,316,958	13,449,383	10,273,037	13,031,413	102,507,065	186,409,862
LIABILITIES							
Deposits from customers	56,073,940	37,000,695	21,205,688	13,286,459	12,652,482	570,002	140,789,266
Deposits from banks	2,155,485	6,476,652	10,658,843	1,108,079	44,018	626,704	21,069,781
Recourse obligations on loans sold to Cagamas	–	–	1,335	–	1,177	13,807	16,319
Debt securities issued and other borrowed funds	–	–	–	–	–	7,196,528	7,196,528
Derivative financial liabilities	15,477	88,022	68,515	22,400	960	145,621	340,995
Other liability balances	197,657	700,520	1,162,765	208,938	101,793	2,322,549	4,694,222
TOTAL LIABILITIES	58,442,559	44,265,889	33,097,146	14,625,876	12,800,430	10,875,211	174,107,111
EQUITY							
Equity attributable to equity holders of the Bank	–	–	–	–	–	12,302,751	12,302,751
TOTAL EQUITY	–	–	–	–	–	12,302,751	12,302,751
NET MATURITY MISMATCH	(30,610,553)	(24,948,931)	(19,647,763)	(4,352,839)	230,983	79,329,103	–

44. Financial Risk Management (Cont'd.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(b) Behavioural maturity of deposits from customers

In practice, deposits from customers behave differently from their contractual terms and typically, short-term customer accounts and non-maturing savings and current deposits extend to a longer period than their contractual maturity. The Group's and the Bank's behavioural maturity for deposits from customers are as follows:

	Deposits from Customers						
	Up to 7 Days RM'000	> 7 Days - 1 Month RM'000	> 1 - 3 Months RM'000	> 3 - 6 Months RM'000	> 6 - 12 Months RM'000	> 1 Year RM'000	Total RM'000
Group							
2011							
By contractual maturity	**85,357,149**	**52,343,187**	**30,019,974**	**15,575,756**	**16,707,735**	**366,724**	**200,370,525**
By behavioural maturity	**22,415,420**	**8,278,557**	**13,913,215**	**12,650,689**	**9,895,369**	**133,217,275**	**200,370,525**
Difference	**62,941,729**	**44,064,630**	**16,106,759**	**2,925,067**	**6,812,366**	**(132,850,551)**	**-**
2010							
By contractual maturity	69,715,759	44,998,677	31,473,157	16,739,528	13,300,857	644,141	176,872,119
By behavioural maturity	21,188,070	16,508,417	13,046,580	5,717,290	12,167,603	108,244,159	176,872,119
Difference	48,527,689	28,490,260	18,426,577	11,022,238	1,133,254	(107,600,018)	-
Bank							
2011							
By contractual maturity	**66,601,685**	**45,017,636**	**20,103,113**	**12,786,529**	**14,564,167**	**311,309**	**159,384,439**
By behavioural maturity	**9,621,444**	**3,237,473**	**6,165,476**	**9,266,962**	**6,056,794**	**125,036,290**	**159,384,439**
Difference	**56,980,241**	**41,780,163**	**13,937,637**	**3,519,567**	**8,507,373**	**(124,724,981)**	**-**
2010							
By contractual maturity	56,073,940	37,000,695	21,205,688	13,286,459	12,652,482	570,002	140,789,266
By behavioural maturity	12,857,364	9,673,967	3,806,290	3,107,860	10,340,052	101,003,733	140,789,266
Difference	43,216,576	27,326,728	17,399,398	10,178,599	2,312,430	(100,433,731)	-

44. Financial Risk Management (Cont'd.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(c) Maturity analysis of financial liabilities on an undiscounted basis

The following tables show the contractual undiscounted cash flows payable for financial liabilities by remaining contractual maturity. The financial liabilities in the tables below will not agree to the carrying amounts reported in the statements of financial position as the tables incorporate all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments. The contractual maturity profile does not necessarily reflect the behavioural cash flows.

Within the "More than 1 year" maturity time band are financial liabilities with principal amount of RM2,088.0 million (2010 - RM2,088.0 million), all of which relate to Non-Innovative Tier I Stapled Securities whereby the interest payments are computed up to the first optional redemption date.

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

Group	Up to 7 Days RM'000	> 7 Days - 1 Month RM'000	> 1 - 3 Months RM'000	> 3 - 6 Months RM'000	> 6 - 12 Months RM'000	> 1 Year RM'000	Total RM'000
2011							
Deposits from customers	**85,367,511**	**52,408,968**	**30,167,834**	**15,750,532**	**17,078,955**	**376,008**	**201,149,808**
Deposits from banks	**1,199,110**	**8,238,830**	**3,018,165**	**1,612,013**	**971,946**	**865,403**	**15,905,467**
Debt securities issued and other borrowed funds	**-**	**122,365**	**542,352**	**1,697,038**	**182,663**	**10,616,728**	**13,161,146**
Others	**298,880**	**702,417**	**996,548**	**146,982**	**141,542**	**4,102,733**	**6,389,102**
Total Liabilities	**86,865,501**	**61,472,580**	**34,724,899**	**19,206,565**	**18,375,106**	**15,960,872**	**236,605,523**
2010							
Deposits from customers	69,722,032	45,047,432	31,605,410	16,894,432	13,550,508	651,706	177,471,520
Deposits from banks	4,049,500	5,685,893	9,179,219	1,260,866	571,456	705,064	21,451,998
Debt securities issued and other borrowed funds	–	–	51,391	53,569	142,086	9,692,725	9,939,771
Others	415,103	625,222	1,181,347	231,502	140,434	3,800,350	6,393,958
Total Liabilities	74,186,635	51,358,547	42,017,367	18,440,369	14,404,484	14,849,845	215,257,247

44. Financial Risk Management (Cont'd.)

Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(c) Maturity analysis of financial liabilities on an undiscounted basis (Cont'd.)

Bank	Up to 7 Days RM'000	> 7 Days - 1 Month RM'000	> 1 - 3 Months RM'000	> 3 - 6 Months RM'000	> 6 - 12 Months RM'000	> 1 Year RM'000	Total RM'000
2011							
Deposits from customers	**66,609,609**	**45,075,874**	**20,203,949**	**12,939,434**	**14,917,373**	**316,917**	**160,063,156**
Deposits from banks	**1,646,447**	**10,584,550**	**2,984,761**	**906,643**	**132,029**	**513,098**	**16,767,528**
Debt securities issued and other borrowed funds	**–**	**–**	**95,726**	**1,370,945**	**182,663**	**10,616,728**	**12,266,062**
Others	**282,105**	**679,374**	**935,623**	**129,353**	**133,939**	**2,863,753**	**5,024,147**
Total Liabilities	**68,538,161**	**56,339,798**	**24,220,059**	**15,346,375**	**15,366,004**	**14,310,496**	**194,120,893**
2010							
Deposits from customers	56,079,364	37,043,706	21,306,795	13,423,529	12,929,127	576,627	141,359,148
Deposits from banks	2,155,939	6,482,580	10,696,548	1,114,978	44,802	653,017	21,147,864
Debt securities issued and other borrowed funds	–	–	51,391	53,569	142,086	8,756,698	9,003,744
Others	415,866	702,546	1,178,303	216,872	128,059	2,440,842	5,082,488
Total Liabilities	58,651,169	44,228,832	33,233,037	14,808,948	13,244,074	12,427,184	176,593,244

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This risk is managed through an operational risk management framework with established operational risk management processes put in place. To manage and mitigate operational risk, the Group places great emphasis on the importance of proper monitoring and reporting of business units' adherence to established risk policies, procedures and limits by independent control and support units, oversight provided by the management and the Board of Directors, and independent assessment of the adequacy and reliability of the risk management processes by the Internal Audit Division.

The operational risk management processes include establishment of system of internal controls, identification and assessment of operational risk inherent in new and existing products, processes and systems, regular disaster recovery and business continuity planning and simulations, self-compliance audit, and operational risk incident reporting and data collection.

45. Fair Values of Financial Instruments

(a) Financial instruments measured at fair value

Determination of fair value and the fair value hierarchy

FRS 7 Financial Instruments: Disclosures requires the classification of financial instruments held at fair value according to a hierarchy that reflects the significance of inputs used in making the measurements, in particular, whether the inputs used are observable or unobservable. The following levels of hierarchy are used for determining and disclosing the fair value of financial instruments:

Level 1 – quoted market prices: quoted prices (unadjusted) in active markets for identical instruments;

Level 2 – valuation techniques based on observable inputs: inputs other than quoted prices included within Level 1 that are observable for the instrument, whether directly (i.e. prices) or indirectly (i.e. derived from prices), are used; and

Level 3 – valuation techniques using significant unobservable inputs: inputs used are not based on observable market data and the unobservable inputs have a significant impact on the instrument's valuation.

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

Where such quoted and observable market prices are not available, fair values are determined using appropriate valuation techniques, which include the use of mathematical models, such as discounted cash flow models and option pricing models, comparison to similar instruments for which market observable prices exist and other valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length. Valuation techniques used incorporate assumptions regarding discount rates, interest rate yield curves, estimates of future cash flows and other factors. Changes in these assumptions could materially affect the fair values derived. The Group and the Bank generally use widely recognised valuation techniques with market observable inputs for the determination of fair value, which require minimal management judgement and estimation, due to the low complexity of the financial instruments held.

45. Fair Values of Financial Instruments (Cont'd.)

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

Determination of fair value and the fair value hierarchy (Cont'd.)

The following tables show the Group's and the Bank's financial instruments which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy:

Group 2011	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets held-for-trading				
– Government securities and treasury bills	–	911,024	–	911,024
– Money market instruments	–	9,445,212	–	9,445,212
– Non-money market instruments	808	299,781	–	300,589
	808	10,656,017	–	10,656,825
Financial investments available-for-sale				
– Government securities and treasury bills	–	9,676,810	–	9,676,810
– Non-money market instruments #	3,192,901	3,740,886	–	6,933,787
	3,192,901	13,417,696	–	16,610,597
Derivative financial assets	–	482,608	11,244	493,852
Total financial assets measured at fair value	3,193,709	24,556,321	11,244	27,761,274
Financial liabilities				
Derivative financial liabilities	–	236,724	–	236,724
Total financial liabilities measured at fair value	–	236,724	–	236,724

45. Fair Values of Financial Instruments (Cont'd.)

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

Determination of fair value and the fair value hierarchy (Cont'd.)

The following tables show the Group's and the Bank's financial instruments which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy (Cont'd.):

Group **2010**	**Level 1** **RM'000**	**Level 2** **RM'000**	**Level 3** **RM'000**	**Total** **RM'000**
Financial assets				
Financial assets held-for-trading				
– Government securities and treasury bills	–	588,045	–	588,045
– Money market instruments	–	5,622,472	–	5,622,472
– Non-money market instruments	868	149,235	–	150,103
	868	6,359,752	–	6,360,620
Financial investments available-for-sale				
– Government securities and treasury bills	–	10,667,433	–	10,667,433
– Non-money market instruments #	3,108,739	3,967,919	–	7,076,658
	3,108,739	14,635,352	–	17,744,091
Derivative financial assets	–	305,574	21,048	326,622
Total financial assets measured at fair value	3,109,607	21,300,678	21,048	24,431,333
Financial liabilities				
Derivative financial liabilities	–	375,529	–	375,529
Total financial liabilities measured at fair value	–	375,529	–	375,529

Excluding the carrying amount of equity securities – unquoted shares of the Group of RM108,836,000 (2010 – RM108,193,000) which are not carried at fair value.

45. Fair Values of Financial Instruments (Cont'd.)

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

Determination of fair value and the fair value hierarchy (Cont'd.)

The following tables show the Group's and the Bank's financial instruments which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy (Cont'd.):

Bank 2011	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets held-for-trading				
– Government securities and treasury bills	–	911,024	–	911,024
– Money market instruments	–	9,494,719	–	9,494,719
– Non-money market instruments	808	–	–	808
	808	10,405,743	–	10,406,551
Financial investments available-for-sale				
– Government securities and treasury bills	–	8,274,983	–	8,274,983
– Non-money market instruments #	2,756,290	3,151,696	–	5,907,986
	2,756,290	11,426,679	–	14,182,969
Derivative financial assets	–	481,292	11,244	492,536
Total financial assets measured at fair value	2,757,098	22,313,714	11,244	25,082,056
Financial liabilities				
Derivative financial liabilities	–	190,325	–	190,325
Total financial liabilities measured at fair value	–	190,325	–	190,325

45. Fair Values of Financial Instruments (Cont'd.)

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

Determination of fair value and the fair value hierarchy (Cont'd.)

The following tables show the Group's and the Bank's financial instruments which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy (Cont'd.):

Bank **2010**	**Level 1** **RM'000**	**Level 2** **RM'000**	**Level 3** **RM'000**	**Total** **RM'000**
Financial assets				
Financial assets held-for-trading				
– Government securities and treasury bills	–	488,242	–	488,242
– Money market instruments	–	5,323,626	–	5,323,626
– Non-money market instruments	868	–	–	868
	868	5,811,868	–	5,812,736
Financial investments available-for-sale				
– Government securities and treasury bills	–	7,873,452	–	7,873,452
– Money market instruments	–	272,599	–	272,599
– Non-money market instruments #	2,680,458	3,338,491	–	6,018,949
	2,680,458	11,484,542	–	14,165,000
Derivative financial assets	–	301,548	21,048	322,596
Total financial assets measured at fair value	2,681,326	17,597,958	21,048	20,300,332
Financial liabilities				
Derivative financial liabilities	–	340,995	–	340,995
Total financial liabilities measured at fair value	–	340,995	–	340,995

Excluding the carrying amount of equity securities - unquoted shares of the Bank of RM104,972,000 (2010 – RM104,479,000) which are not carried at fair value.

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

45. Fair Values of Financial Instruments (Cont'd.)

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

Determination of fair value and the fair value hierarchy (Cont'd.)

Reconciliation of movements in Level 3 financial instruments:

	Group and Bank	
	2011	**2010**
	RM'000	**RM'000**
Derivative Financial Assets		
At 1 January	**21,048**	23,387
(Losses)/Gains		
– recognised in Income Statement	**(4,225)**	170
Sales	**(5,579)**	(2,275)
Settlements	**–**	(234)
At 31 December	**11,244**	21,048
Total (losses)/gains recognised in the Income Statement relating to those assets or liabilities held at the end of the financial year	**(4,342)**	1,034

Changing one or more of the inputs to reasonable alternative assumptions would not change the value significantly for the financial assets in Level 3 of the fair value hierarchy.

45. Fair Values of Financial Instruments (Cont'd.)

(b) Fair values of financial instruments not carried at fair value

Set out below is a comparison of the carrying amounts and fair values of the financial instruments of the Group and the Bank which are not measured at fair value in the financial statements. These tables do not include non-financial assets and liabilities.

	2011		2010	
Group	**Carrying Amount RM'000**	**Fair Value RM'000**	**Carrying Amount RM'000**	**Fair Value RM'000**
Financial assets				
Cash and balances with banks	**18,633,783**	**18,633,783**	34,690,439	34,690,439
Reverse repurchase agreements	**9,287,255**	**9,287,255**	365,877	365,877
Financial investments available-for-sale				
– Non-money market instruments	**108,836**	**108,836**	108,193	108,193
Financial investments held-to-maturity				
– Government securities and treasury bills	**2,774,459**	**2,793,855**	3,002,148	3,019,780
– Money market instruments	**4,292,275**	**4,290,820**	1,502,893	1,496,222
– Non-money market instruments#	**562,499**	**566,698**	724,576	728,388
Loans, advances and financing*				
– Retail loans/financing				
– housing loans/financing	**51,314,681**	**51,357,871**	43,890,836	44,001,718
– hire purchase	**38,726,435**	**39,115,212**	35,326,223	35,828,882
– credit cards	**1,522,267**	**1,522,267**	1,348,902	1,348,902
– other loans/financing	**59,517,415**	**59,489,406**	52,748,245	52,758,724
– Corporate loans/financing	**26,368,023**	**26,392,682**	22,964,932	22,852,900
Financial liabilities				
Deposits from customers				
– Core deposits	**157,296,704**	**157,292,180**	143,638,752	143,639,242
– Wholesale deposits	**42,872,479**	**42,872,493**	32,768,843	32,767,051
– Other deposits	**201,342**	**201,342**	464,524	464,524
Deposits from banks	**15,806,732**	**15,806,657**	21,327,476	21,327,476
Bills and acceptances payable	**2,095,335**	**2,095,335**	2,308,836	2,308,836
Recourse obligations on loans sold to Cagamas	**11,789**	**11,859**	16,319	16,934
Debt securities issued and other borrowed funds	**11,317,833**	**11,858,216**	8,094,880	8,507,405

45. Fair Values of Financial Instruments (Cont'd.)

(b) Fair values of financial instruments not carried at fair value (cont'd.)

Bank	2011 Carrying Amount RM'000	2011 Fair Value RM'000	2010 Carrying Amount RM'000	2010 Fair Value RM'000
Financial assets				
Cash and balances with banks	**10,508,349**	**10,508,349**	27,172,447	27,172,447
Reverse repurchase agreements	**8,435,611**	**8,435,611**	10,737	10,737
Financial investments available-for-sale				
– Non-money market instruments	**104,972**	**104,972**	104,479	104,479
Financial investments held-to-maturity				
– Government securities and treasury bills	**2,064,741**	**2,084,029**	2,405,049	2,422,744
– Money market instruments	**4,864,817**	**4,863,377**	2,689,862	2,683,223
– Non-money market instruments#	**144,299**	**148,512**	135,488	139,588
Loans, advances and financing*				
– Retail loans				
– housing loans	**44,742,239**	**44,743,121**	38,382,386	38,382,742
– hire purchase	**26,680,963**	**26,987,687**	24,839,999	25,210,496
– credit cards	**1,512,099**	**1,512,099**	1,340,914	1,340,914
– other loans	**50,598,121**	**50,598,121**	44,695,996	44,695,996
– Corporate loans	**20,890,288**	**20,902,522**	17,717,541	17,602,847
Financial liabilities				
Deposits from customers				
– Core deposits	**122,961,209**	**122,955,785**	112,489,291	112,489,368
– Wholesale deposits	**36,224,160**	**36,224,174**	27,837,424	27,835,632
– Other deposits	**199,070**	**199,070**	462,551	462,551
Deposits from banks	**16,717,349**	**16,717,349**	21,069,781	21,069,781
Bills and acceptances payable	**2,095,076**	**2,095,076**	2,450,006	2,450,006
Recourse obligations on loans sold to Cagamas	**11,789**	**11,859**	16,319	16,934
Debt securities issued and other borrowed funds	**10,422,749**	**10,963,132**	7,196,528	7,609,053

The accumulated impairment losses of the Group and the Bank of RM1,102,000 (2010 – RM10,013,000) were netted off against the carrying amounts.

* The collective assessment allowance of the Group and the Bank of RM2,644,535,000 (2010 – RM2,296,158,000) and RM2,168,025,000 (2010 – RM1,914,653,000) respectively, are not included in the carrying amounts.

45. Fair Values of Financial Instruments (Cont'd.)

(b) Fair values of financial instruments not carried at fair value (Cont'd.)

The methods and assumptions used to estimate the fair values of the financial instruments not carried at fair value are as follows:

(a) *Cash and balances with banks and reverse repurchase agreements* – The carrying amount of cash and bank balances approximate fair value due to the relatively short maturity of the financial instruments. The fair values of money market placements and reverse repurchase agreements with remaining maturity of less than one year also approximate their carrying amounts due to the relatively short maturity of the financial instruments. For those financial instruments with maturity of more than one year, the fair values are estimated based on discounted cash flows using market interest rates at which similar placements would be made with financial institutions of similar credit risk and remaining period to maturity.

(b) *Financial investments available-for-sale and financial investments held-to-maturity* – The fair values of financial investments held-to-maturity are estimated based on broker/dealer price quotations.

Financial investments available-for-sale as disclosed above consist of only equity securities-unquoted shares which are measured at cost less impairment. The carrying amounts of these financial instruments are deemed to approximate the fair values as their fair values cannot be reliably measured.

(c) *Loans, advances and financing* – The fair values of fixed rate loans/financing with remaining maturity of less than one year and variable rate loans/financing are estimated to approximate their carrying amounts. For fixed rate loans/financing with remaining maturity of more than one year, the fair values are estimated based on discounted cash flows using market rates of loans/financing of similar credit risks and maturity.

The fair values of impaired loans/financing are represented by their carrying amounts, net of any individual assessment allowance, being the expected recoverable amount.

(d) *Deposits from customers* – The fair values of deposits payable on demand (demand and savings deposits), or deposits with remaining maturity of less than one year are estimated to approximate their carrying amounts. The fair values of deposits with remaining maturity of more than one year are estimated using discounted cash flows based on market rates for similar deposits from customers. The fair values of Islamic deposits are deemed to approximate their carrying amounts as rates of return are determined at the end of their holding periods based on the profit generated from the assets invested. The fair values of wholesale deposits are estimated based on quoted or observable market prices. Where such quoted or observable market prices are not available, the fair values of these wholesale deposits are estimated using the discounted cash flows technique.

(e) *Deposits from banks and bills and acceptances payable* – The fair values of these financial instruments with remaining maturity of less than one year approximate their carrying amounts due to the relatively short maturity of the financial instruments.

(f) *Recourse obligations on loans sold to Cagamas* – The fair values of recourse obligations on loans sold to Cagamas with remaining maturity of less than one year are estimated to approximate their carrying amounts. The fair values of recourse obligations on loans sold to Cagamas with remaining maturity of more than one year are estimated using discounted cash flows based on prevailing Cagamas rates with similar remaining period to maturity.

(g) *Debt securities issued and other borrowed funds* – The fair values of borrowings approximate their carrying amounts as these are variable rate borrowings. The fair values of debt securities issued are estimated based on quoted or observable market prices.

46. Operating Leases

The Group and the Bank as a Lessee

The Group and the Bank leases a number of premises under operating leases. The leases typically run for an initial period of three years, with an option to renew the leases. None of the leases include contingent rentals. Total future minimum lease payments under these non-cancellable operating leases are as follows:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Within one year	**24,459**	19,555	**654**	1,155
Between one and five years	**22,266**	14,547	**746**	534
More than five years	**7,299**	7,894	**–**	–
	54,024	41,996	**1,400**	1,689

The Group as a Lessor

The Group leases out its investment properties under operating leases with the term of the leases ranging from one to five years. None of the leases includes contingent rentals. Total future minimum lease payments under these non-cancellable operating leases are as follows:

	Group	
	2011 RM'000	2010 RM'000
Within one year	**3,426**	2,512
Between one and five years	**1,458**	1,938
	4,884	4,450

47. Capital and Other Commitments

	Group 2011 RM'000	Group 2010 RM'000	Bank 2011 RM'000	Bank 2010 RM'000
Capital expenditure:				
Authorised and contracted for:				
– Land and buildings	**61,751**	83,601	**–**	–
– Renovations	**1,135**	3,226	**–**	–
– Office equipment, furniture and fittings	**1,569**	3,487	**1,457**	2,842
– Computer equipment and software	**34,957**	26,574	**23,077**	23,589
– Motor vehicles	**98**	62	**–**	–
	99,510	116,950	**24,534**	26,431
Authorised but not contracted for:				
– Land and buildings	**4,400**	5,900	**–**	–
– Renovations	**5,392**	5,310	**–**	–
– Office equipment, furniture and fittings	**291**	339	**–**	39
– Computer equipment and software	**3,456**	4,674	**97**	96
– Motor vehicles	**90**	85	**–**	–
– Additional investment in an associated company	**129,593**	158,579	**129,593**	158,579
	143,222	174,887	**129,690**	158,714
	242,732	291,837	**154,224**	185,145

48. Commitments and Contingencies

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

48. Commitments and Contingencies (Cont'd.)

The notional amounts of the commitments and contingencies of the Group and the Bank are as follows:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Contingent liabilities				
Direct credit substitutes	**1,482,009**	1,580,171	**1,120,615**	1,476,910
Transaction-related contingent items	**900,696**	772,945	**779,091**	676,528
Short term self-liquidating trade-related contingencies	**515,710**	483,803	**221,038**	231,016
Obligations under an on-going underwriting agreement	**25,000**	75,000	**25,000**	75,000
	2,923,415	2,911,919	**2,145,744**	2,459,454
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	**19,490,137**	15,412,139	**18,177,027**	14,338,422
– not exceeding one year	**19,919,554**	22,717,264	**18,413,664**	20,522,993
Unutilised credit card lines	**3,486,222**	3,038,271	**3,330,591**	2,875,523
Forward asset purchases	**39,362**	7,305	**10,175**	3,600
	42,935,275	41,174,979	**39,931,457**	37,740,538
Derivative financial instruments				
Foreign exchange related contracts:				
– less than one year	**11,013,882**	14,180,707	**10,643,581**	13,951,365
– one year to less than five years	**6,514**	6,271	**6,514**	6,271
Interest rate related contracts:				
– less than one year	**2,058,803**	710,853	**2,058,803**	570,013
– one year to less than five years	**6,560,830**	5,815,108	**6,227,481**	5,491,445
– five years and above	**5,183,242**	3,996,975	**5,088,000**	3,904,500
Commodity related contracts:				
– less than one year	**16,896**	929	**16,896**	929
Equity related contracts:				
– less than one year	**–**	227,140	**–**	227,140
– one year to less than five years	**148,325**	181,027	**148,325**	181,027
	24,988,492	25,119,010	**24,189,600**	24,332,690
	70,847,182	69,205,908	**66,266,801**	64,532,682

Disclosure of the credit equivalent amount and risk-weighted asset amount of the commitments and contingencies above, as required by Bank Negara Malaysia's Risk-Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3), is presented in the Pillar 3 disclosures section of the Annual Report.

49. Capital Adequacy

(a) The capital adequacy ratios of the Group and the Bank as at 31 December are as follows:

	Group 2011	Group 2010	Bank 2011	Bank 2010
Before deducting second interim dividends				
Tier I capital ratio	**10.7%**	10.7%	**12.9%**	13.2%
Risk-weighted capital ratio	**15.9%**	14.4%	**15.9%**	14.1%
After deducting second interim dividends				
Tier I capital ratio	**10.1%**	10.0%	**12.1%**	12.4%
Risk-weighted capital ratio	**15.3%**	13.7%	**15.2%**	13.3%

The capital adequacy ratios of the Group consist of capital base and risk-weighted assets derived from consolidated balances of the Bank and its subsidiary companies. The capital adequacy ratios of the Bank consist of capital base and risk-weighted assets derived from the Bank and from its wholly-owned offshore banking subsidiary company, Public Bank (L) Ltd.

The capital adequacy ratios of the Group and the Bank are computed in accordance with Bank Negara Malaysia's revised Risk-Weighted Capital Adequacy Framework (RWCAF-Basel II). The Group and the Bank have adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk. The minimum regulatory capital adequacy requirement is 8.0% (2010 – 8.0%) for the risk-weighted capital ratio.

The capital adequacy ratios of the banking subsidiary companies of the Group are as follows:

	Public Islamic Bank Berhad [1]	Public Investment Bank Berhad [2]	Public Bank (L) Ltd [3]	Public Bank (Hong Kong) Limited [4]	Public Finance Limited [4]	Cambodian Public Bank Plc [5]
2011						
Before deducting interim dividends*:						
Tier I capital ratio	**12.2%**	**18.1%**	**19.6%**	**16.1%**	**29.6%**	**N/A**
Risk-weighted capital ratio	**13.7%**	**18.3%**	**20.0%**	**16.1%**	**30.8%**	**20.5%**
After deducting interim dividends*:						
Tier I capital ratio	**10.8%**	**16.8%**	**19.6%**	**16.1%**	**27.0%**	**N/A**
Risk-weighted capital ratio	**12.3%**	**17.0%**	**20.0%**	**16.1%**	**28.1%**	**20.5%**

49. Capital Adequacy (Cont'd.)

(a) The capital adequacy ratios of the banking subsidiary companies of the Group are as follows (Cont'd.):

	Public Islamic Bank Berhad [1]	Public Investment Bank Berhad [2]	Public Bank (L) Ltd [3]	Public Bank (Hong Kong) Limited [4]	Public Finance Limited [4]	Cambodian Public Bank Plc [5]
2010						
Before deducting interim dividends*:						
Tier I capital ratio	12.6%	19.4%	11.8%	15.2%	31.5%	N/A
Risk-weighted capital ratio	14.2%	19.6%	12.1%	15.2%	32.6%	24.4%
After deducting interim dividends*:						
Tier I capital ratio	11.3%	18.2%	11.8%	15.2%	28.2%	N/A
Risk-weighted capital ratio	12.9%	18.4%	12.1%	15.2%	29.3%	24.4%

* Refers to interim dividends which have been declared subsequent to the financial year end.

1 The capital adequacy ratios of Public Islamic Bank Berhad are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks (CAFIB), which are based on the Basel II capital accord. Public Islamic Bank Berhad has adopted the Standardised Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk. The minimum regulatory capital adequacy requirement is 8.0% for the risk-weighted capital ratio.

2 The capital adequacy ratios of Public Investment Bank Berhad are computed in accordance with Bank Negara Malaysia's revised Risk-Weighted Capital Adequacy Framework, which are based on the Basel II capital accord. Public Investment Bank Berhad has adopted the Standardised Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk. The minimum regulatory capital adequacy requirement is 8.0% for the risk-weighted capital ratio.

3 The capital adequacy ratios of Public Bank (L) Ltd. for capital compliance on a standalone basis are computed in accordance with the Guidelines on Risk-Weighted Capital Adequacy issued by the Labuan Financial Services Authority (Labuan FSA), which is based on the Basel I capital accord. The minimum regulatory capital adequacy requirements are 4.0% and 8.0% for the Tier I capital ratio and risk-weighted capital ratio respectively.

4 The capital adequacy ratios of these two subsidiary companies, which are located in Hong Kong SAR, are computed in accordance with the Banking (Capital) Rules under section 98A of the Banking Ordinance issued by the Hong Kong Monetary Authority, which is based on the Basel II capital accord. These two subsidiary companies have adopted the Standardised Approach for Credit and Market Risk. Public Bank (Hong Kong) Limited has adopted the Basic Indicator Approach for Operational Risk and Public Finance Limited has adopted the Standardised Approach for Operational Risk. The minimum regulatory capital adequacy requirement is 8.0% for the risk-weighted capital ratio.

5 The amount presented here is the Solvency Ratio of Cambodian Public Bank Plc, which is the nearest equivalent regulatory compliance ratio. This ratio is computed in accordance with Prakas B7-010-182, B7-00-46, B7-04-206 and B7-07-135 issued by the National Bank of Cambodia. This ratio is derived as Cambodian Public Bank Plc's net worth divided by its risk-weighted assets and off-balance sheet items. The minimum regulatory Solvency Ratio requirement is 15.0%.

49. Capital Adequacy (Cont'd.)

(b) The components of Tier I and Tier II Capital of the Group and of the Bank are as follows:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Tier I Capital				
Paid-up share capital	**3,531,926**	3,531,926	**3,531,926**	3,531,926
Share premium	**1,073,310**	1,073,310	**1,073,310**	1,073,310
Other reserves	**3,955,307**	3,787,881	**3,522,609**	3,508,238
Retained profits	**6,417,544**	4,754,405	**6,236,502**	4,641,801
Innovative Tier I capital securities	**1,833,303**	1,814,538	**1,833,303**	1,814,538
Non-Innovative Tier I stapled securities	**2,082,388**	2,081,633	**2,082,388**	2,081,633
Treasury shares	**(215,572)**	(215,303)	**(215,572)**	(215,303)
Non-controlling interests	**697,484**	652,188	**–**	–
Less: Goodwill	**(1,938,994)**	(1,903,898)	**(695,393)**	(695,393)
Less: Deferred tax assets, net	**(46,093)**	(521,359)	**–**	(418,699)
Total Tier I Capital	**17,390,603**	15,055,321	**17,369,073**	15,322,051
Tier II Capital				
Collective assessment allowance#	**2,456,351**	2,164,761	**2,021,614**	1,819,307
Subordinated notes	**6,138,306**	3,102,012	**6,138,306**	3,102,012
Total Tier II Capital	**8,594,657**	5,266,773	**8,159,920**	4,921,319
Total capital	**25,985,260**	20,322,094	**25,528,993**	20,243,370
Less: Investment in subsidiary and associated companies	**(960)**	(960)	**(3,987,284)**	(3,787,284)
Less: Holdings of other financial institutions' capital instruments	**(44,468)**	(47,439)	**(44,468)**	(47,439)
Capital base	**25,939,832**	20,273,695	**21,497,241**	16,408,647

In arriving at the capital base of the Group and the Bank above, the second interim dividends were not deducted.

Excludes collective assessment allowance on impaired loans restricted from Tier II capital of the Group and the Bank of RM188,184,000 (2010 – RM131,397,000) and RM155,453,000 (2010 – RM104,039,000) respectively.

49. Capital Adequacy (Cont'd.)

(c) 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	**148,664,399**	128,486,892	**123,065,342**	106,083,803
Market risk	**1,670,798**	1,063,445	**2,774,099**	1,788,639
Operational risk	**12,692,078**	11,546,113	**9,048,375**	8,446,853
	163,027,275	141,096,450	**134,887,816**	116,319,295

Detailed information on the risk exposures above, as prescribed under BNM's Risk-Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3) is presented in the Pillar 3 disclosures section of the Annual Report.

50. Capital Management

The Group actively manages its capital to support underlying risks in its business activities and to enable future business growth. The Group's capital management strategy is to continue to maximise shareholder value via an efficient capital structure, whilst ensuring that it complies with regulatory capital requirements. The allocation of capital resources represents part of the Group's strategic planning review and is subject to the approval of the Board of Directors.

The Group's capital is managed in line with the objectives of the Group Capital Management Framework. The key objectives under the framework include meeting regulatory capital requirements, optimising return to shareholders, maintaining adequate levels and optimum mix of capital, maintaining strong external credit ratings and allocation of capital across business units and subsidiaries. In order to meet these objectives, the Group actively manages its capital structure and makes adjustments to address changes in the economic environment, regulatory requirements and risk characteristics inherent in its business operations. These initiatives include issuances of capital securities, share buy-back activities, adjustments to the amount of dividends distributed to shareholders and a focus on growth in non-interest income and other less capital-intensive business activities.

The Group's and Bank's regulatory capital are determined under Bank Negara Malaysia's revised Risk-Weighted Capital Adequacy Framework and their capital ratios have complied with the minimum requirements set under this guideline. Information on the Group's and Bank's capital adequacy ratios, regulatory minimum capital requirements and the components of capital base are disclosed in Note 49 (a) and (b).

51. Segment Information

The following segment information has been prepared in accordance with FRS 8 Operating Segments, which defines the requirements for the disclosure of financial information of an entity's operating segments. It is prepared on the basis of the "management approach", which requires presentation of the segments on the basis of internal reports about the components of the entity which are regularly reviewed by the chief operating decision-maker in order to allocate resources to a segment and to assess its performance.

The Group's operating and reportable segments are business units engaged in providing different products or services and business units operating in different geographical locations. These businesses are managed and assessed separately as each requires a differentiated strategy focused on the specific products and services provided for the economic, competitive, geographical and regulatory environment in which it operates. For each operating segment, the Board Executive Committee (the chief operating decision-maker) reviews the internal management reports monthly in order to assess their performance.

The Group's domestic business, which also includes Islamic banking business, is organised into the following key operating segments:

(i) Hire Purchase

The hire purchase operations is focused on the provision of passenger vehicle financing to all levels of customers.

(ii) Retail Operations

Retail operations focuses on providing products and services to individual customers and small– and medium-sized enterprises. The products and services offered to customers include credit facilities (mortgages, trade and personal loans), credit cards, remittance services, deposit collection and investment products.

(iii) Corporate Lending

The corporate lending operations caters to the funding needs of large corporate customers which are primarily public listed companies and their related corporations.

(iv) Treasury and Capital Market Operations

The treasury and capital market operations is involved in proprietary trading in treasury related products and services such as foreign exchange, money market operations and securities trading. Income from customer trading is reflected under Retail Operations.

(v) Investment Banking

The investment banking operations caters to the business needs of large corporate customers through the provision of financial solutions and direct lending. The services offered include structured financing, corporate advisory services, merger and acquisition, share-broking and debt restructuring advisory services.

(vi) Fund Management

The fund management operations consists of sale of trust units and the management of unit trust funds as conducted by the Bank's wholly-owned subsidiary company, Public Mutual Berhad.

51. Segment Information (Cont'd.)

The Group's domestic business, which also includes Islamic banking business, is organised into the following key operating segments (Cont'd.):

(vii) Others

Others refer mainly to non-core operations such as property holding.

The Group's overseas business operations is organised according to the following geographical locations:

(i) Hong Kong SAR

This includes all business operations conducted by the Group's subsidiaries in Hong Kong SAR and the People's Republic of China, including retail and commercial banking and lending, wealth management services, stockbroking and other related financial services.

(ii) Cambodia

This comprises all business operations conducted by the Group's subsidiary companies in Cambodia, which includes mainly financing, deposit-taking, general insurance businesses and stockbroking.

(iii) Other Countries

This refers to the Group's banking business operations in the Socialist Republic of Vietnam, Lao People's Democratic Republic and Sri Lanka.

There are no changes in the operating segments during the year.

Measurement and Evaluation of Segment Performance

The Board Executive Committee evaluates operating segments' performance on the basis of revenue, profit, cost-to-income ratio, loans and deposit growth and asset quality. Expenses directly associated with each operating segment are included in determining their respective profit. Transactions between operating segments are based on mutually agreed allocation bases. Funds are allocated between segments and inter-segment funding cost transfers are reflected in net interest income. In addition to the operating segments, the segment information disclosed also includes internal service providers (head office), which operate on a non-profit basis, and inter-segment eliminations.

Major Customers

Revenues from no one single customer amounted to greater than 10% of the Group's revenues for the current financial year (2010 – none).

51. Segment Information (Cont'd.)

By Business Segments:

2011	Hire Purchase RM'000	Retail Operations RM'000	Corporate Lending RM'000	Treasury and Capital Market Operations RM'000	Investment Banking RM'000	Fund Management RM'000	Others RM'000	Head Office RM'000	Total Domestic Operations RM'000	Hong Kong SAR RM'000	Cambodia RM'000	Other Countries RM'000	Total Overseas Operations RM'000	Inter-segment Elimination RM'000	Group Total RM'000
	← Domestic Operating Segments →									← Overseas Operating Segments →					
External revenue	2,150,378	6,004,260	845,770	1,408,192	191,297	867,354	4,640	290,289	11,762,180	733,407	216,691	44,082	994,180	-	12,756,360
Revenue from other segments	-	911,302	11,393	678,443	36,382	10,018	28,056	1,170,564	2,846,158	1	3,108	-	3,109	(2,849,267)	-
Total revenue	2,150,378	6,915,562	857,163	2,086,635	227,679	877,372	32,696	1,460,853	14,608,338	733,408	219,799	44,082	997,289	(2,849,267)	12,756,360
Net interest income and Islamic banking income	920,342	3,704,538	243,604	99,714	11,923	10,691	(7,308)	226,347	5,209,851	476,421	127,136	29,865	633,422	-	5,843,273
Other income	5,060	563,612	36,859	114,845	67,280	475,642	32,467	180,278	1,476,043	106,578	41,966	5,782	154,326	(65,072)	1,565,297
Net income	925,402	4,268,150	280,463	214,559	79,203	486,333	25,159	406,625	6,685,894	582,999	169,102	35,647	787,748	(65,072)	7,408,570
Other operating expenses	(161,340)	(1,288,176)	(8,596)	(18,807)	(27,932)	(164,483)	(14,611)	(260,860)	(1,944,805)	(270,358)	(48,661)	(9,932)	(328,951)	65,072	(2,208,684)
of which:															
Depreciation	*(2,223)*	*(66,299)*	*(146)*	*(633)*	*(749)*	*(5,661)*	*(4,438)*	*(42,936)*	*(123,085)*	*(12,650)*	*(8,571)*	*(1,641)*	*(22,862)*	-	*(145,947)*
Allowance for impairment on loans, advances and financing	(134,930)	(286,406)	(5,626)	-	(83)	-	-	-	(427,045)	(136,723)	(29,696)	(597)	(167,016)	-	(594,061)
Impairment written back/(loss)	-	1,643	-	(45)	-	-	-	-	1,598	-	-	-	-	-	1,598
Profit by segments	629,132	2,695,211	266,241	195,707	51,188	321,850	10,548	145,765	4,315,642	175,918	90,745	25,118	291,781	-	4,607,423
Reconciliation of segment profits to consolidated profits:															
Share of (loss)/profit after tax of equity accounted associated companies									(1,498)				4,708		3,210
Profit before tax expense and zakat									4,314,144				296,489		4,610,633
Cost-to-income ratio	17.4%	30.2%	3.1%	8.8%	35.3%	33.8%	58.1%	64.2%	29.1%	46.4%	28.8%	27.9%	41.8%		29.8%
Gross loans	37,096,794	104,950,298	21,727,954	-	255,789	48,349	2,115	-	164,081,299	11,347,423	1,940,890	324,405	13,612,718	-	177,694,017
Loan growth	10.4%	14.9%	16.7%	-	7.3%	14.5%	-3.6%	-	14.1%	6.1%	9.7%	28.1%	7.0%	-	13.5%
Impaired loans	209,138	1,008,483	130,688	-	-	-	-	-	1,348,309	118,278	58,911	4,159	181,348	-	1,529,657
Impaired loan ratio	0.6%	1.0%	0.6%	-	-	-	-	-	0.8%	1.0%	3.0%	1.3%	1.3%	-	0.9%
Deposits from customers	-	133,891,761	314,594	48,823,150	3,415,424	-	-	-	186,444,929	11,223,467	2,384,771	317,358	13,925,596	-	200,370,525
Deposit growth	-	12.4%	43.0%	19.2%	51.7%	-	-	-	14.7%	-3.6%	0.0%	16.2%	-2.6%	-	13.3%
Addition to non-current assets	1,515	48,203	80	1,667	203	6,668	22,340	101,937	182,613	6,810	9,561	910	17,281	-	199,894
Segment assets	36,779,630	141,293,536	21,335,561	63,249,589	4,549,325	254,877	270,800	16,715,960	284,449,278	15,178,197	3,158,187	580,350	18,916,734	(57,252,413)	246,113,599
Reconciliation of segment assets to consolidated assets:															
Investment in associated companies									42,445				113,552		155,997
Unallocated assets									1,175,910				-		1,175,910
Intangible assets									769,251				1,196,225		1,965,476
Total assets									286,436,884				20,226,511		249,410,982

51. Segment Information (Cont'd.)

By Business Segments (Cont'd.):

2010	Domestic Operating Segments: Hire Purchase RM'000	Retail Operations RM'000	Corporate Lending RM'000	Treasury and Capital Market Operations RM'000	Investment Banking RM'000	Fund Management RM'000	Others RM'000	Head Office RM'000	Total Domestic Operations RM'000	Overseas Operating Segments: Hong Kong SAR RM'000	Cambodia RM'000	Other Countries RM'000	Total Overseas Operations RM'000	Inter-segment Elimination RM'000	Group Total RM'000
External revenue	1,903,486	5,054,729	689,388	1,230,592	201,138	576,100	4,990	354,840	10,015,263	746,630	242,824	30,880	1,020,334	-	11,035,597
Revenue from other segments	-	780,971	9,386	405,296	40,727	(36,820)	27,431	1,308,057	2,535,048	552	3,176	-	3,728	(2,538,776)	-
Total revenue	1,903,486	5,835,700	698,774	1,635,888	241,865	539,280	32,421	1,662,897	12,550,311	747,182	246,000	30,880	1,024,062	(2,538,776)	11,035,597
Net interest income and Islamic banking income	932,515	3,258,586	247,726	70,361	10,767	6,649	(6,121)	181,379	4,701,862	513,093	137,298	26,455	676,846	-	5,378,708
Other income	1,695	536,277	36,632	111,768	74,427	431,386	32,303	176,242	1,400,730	113,142	36,783	(3,366)	146,559	(87,497)	1,459,792
Net income	934,210	3,794,863	284,358	182,129	85,194	438,035	26,182	357,621	6,102,592	626,235	174,081	23,089	823,405	(87,497)	6,838,500
Other operating expenses	(157,107)	(1,181,846)	(7,839)	(18,936)	(34,077)	(164,198)	(14,310)	(270,133)	(1,848,446)	(285,529)	(43,060)	(10,697)	(339,286)	87,497	(2,100,235)
of which:															
Depreciation	*(1,963)*	*(65,261)*	*(95)*	*(517)*	*(863)*	*(9,779)*	*(4,530)*	*(38,258)*	*(121,266)*	*(13,210)*	*(9,175)*	*(1,977)*	*(24,362)*	-	*(145,628)*
Allowance for impairment on loans, advances and financing	(111,512)	(315,471)	(47,620)	-	4	-	-	-	(474,599)	(118,168)	(67,608)	809	(184,967)	-	(659,566)
Impairment loss	-	(4,196)	-	(71)	(921)	-	-	-	(5,188)	-	-	-	-	-	(5,188)
Profit by segments	665,591	2,293,350	228,899	163,122	50,200	273,837	11,872	87,488	3,774,359	222,538	63,413	13,201	299,152	-	4,073,511
Reconciliation of segment profits to consolidated profits:															
Share of profit after tax of equity accounted associated companies									325				12,361		12,686
Profit before tax expense and zakat									3,774,684				311,513		4,086,197
Cost-to-income ratio	16.8%	31.1%	2.8%	10.4%	40.0%	37.5%	54.7%	75.5%	30.3%	45.6%	24.7%	46.3%	41.2%		30.7%
Gross loans	33,587,286	91,328,598	18,622,935	-	238,340	42,242	2,194	-	143,821,595	10,699,655	1,769,499	253,323	12,722,477	-	156,544,072
Loan growth	12.3%	16.8%	16.5%	-	1.2%	22.9%	8.7%	-	15.6%	-2.0%	-14.9%	1.5%	-4.0%	-	13.8%
Impaired loans	170,625	1,281,482	127,840	-	-	-	-	-	1,579,947	131,135	59,545	13,650	204,330	-	1,784,277
Impaired loan ratio	0.5%	1.4%	0.7%	-	-	-	-	-	1.1%	1.2%	3.4%	5.4%	1.6%	-	1.1%
Deposits from customers	-	119,138,035	219,982	40,968,996	2,250,895	-	-	-	162,577,908	11,637,297	2,383,889	273,025	14,294,211	-	176,872,119
Deposit growth	-	13.3%	-27.7%	-11.3%	-46.4%	-	-	-	4.3%	-8.8%	15.0%	10.1%	-5.2%	-	3.5%
Addition to non-current assets	2,358	48,485	525	176	1,192	10,612	8,765	23,366	95,479	7,667	23,011	1,883	32,561	-	128,040
Segment assets	33,309,944	125,962,460	18,272,729	60,618,548	4,487,882	274,857	254,947	12,494,619	255,675,986	14,856,076	3,055,204	485,632	18,396,912	(50,878,944)	223,193,954
Reconciliation of segment assets to consolidated assets:															
Investment in associated companies									2,035				116,589		118,624
Unallocated assets									1,086,026				-		1,086,026
Intangible assets									769,251				1,161,121		1,930,372
Total assets									257,533,298				19,674,622		226,328,976

52. Rating Statement

As at 31 December 2011, the Bank was accorded the following ratings:

Agencies	Date accorded/ Reaffirmed	Ratings
Rating Agency Malaysia Berhad	15 June 2011 (Reaffirmed)	Long-Term Rating: AAA
	15 June 2011 (Reaffirmed)	Short-Term Rating: P1
	15 June 2011 (Reaffirmed)	Outlook: Stable
	15 June 2011 (Reaffirmed)	Subordinated Medium-Term Notes Programme: AA1
	15 June 2011 (Reaffirmed)	Innovative Tier I Capital Securities: AA2
	15 June 2011 (Reaffirmed)	Non-Cumulative Perpetual Capital Securities Programme: AA2
Moody's Investors Services	4 April 2011 (Reaffirmed)	Long-Term Deposits Rating: A3
	4 April 2011 (Reaffirmed)	Short-Term Deposits Rating: P-1
	4 April 2011 (Reaffirmed)	Financial Strength: C
	4 April 2011 (Reaffirmed)	Outlook: Stable
	4 April 2011 (Reaffirmed)	Subordinated Notes: A3
Standard & Poor's	8 December 2011 (Reaffirmed)	Long-Term Rating: A-
	8 December 2011 (Reaffirmed)	Short-Term Rating: A-2
		Asean Regional Scale Rating:
	8 December 2011 (Reaffirmed)	Long-Term Rating: axAA
	8 December 2011 (Reaffirmed)	Short-Term Rating: axA-1
	8 December 2011 (Reaffirmed)	Outlook: Stable
	8 December 2011 (Reaffirmed)	Subordinated Notes (due 2017): BBB+
	8 December 2011	Innovative Tier-I Capital Securities: BBB- (2010: BBB)

53. Significant Events

The significant events relating to changes in the composition of the Group are disclosed in Notes 13 and 14, and those relating to debt issuances are disclosed in Note 22(b).

54. Subsequent Events

There were no material events subsequent to the reporting date that require disclosure or adjustments to the financial statements.

55. Islamic Banking Business

The financial position as at 31 December 2011 and results for the financial year ended on this date under the Islamic banking business of the Group, which is conducted by its wholly-owned subsidiary company, Public Islamic Bank Berhad, are summarised as follows:

Statement of Financial Position as at 31 December 2011

		Group	
	Note	2011 RM'000	2010 RM'000
ASSETS			
Cash and balances with banks	(c)	**6,257,092**	4,571,596
Financial assets held-for-trading	(d)	**1,249,014**	298,846
Financial investments available-for-sale	(e)	**1,830,720**	2,138,048
Financial investments held-to-maturity	(f)	**5,022**	5,022
Financing and advances	(g)	**19,199,676**	16,339,975
Other assets	(h)	**81,185**	68,446
Statutory deposits with Bank Negara Malaysia		**775,700**	167,000
Deferred tax assets	(i)	**–**	70,407
Investment in an associated company		**20,000**	–
Property and equipment		**1,619**	1,545
Total Assets		**29,420,028**	23,660,885
LIABILITIES AND ISLAMIC BANKING FUNDS			
Deposits from customers	(j)	**20,029,935**	15,306,731
Deposits from banks	(k)	**7,179,533**	6,379,985
Bills and acceptances payable	(l)	**334**	4,893
Other liabilities	(m)	**71,182**	70,471
Provision for zakat and taxation	(n)	**40,314**	83,417
Deferred tax liabilities	(i)	**398**	–
Total Liabilities		**27,321,696**	21,845,497
Islamic Banking Funds		**2,098,332**	1,815,388
Total Liabilities and Islamic Banking Funds		**29,420,028**	23,660,885
COMMITMENTS AND CONTINGENCIES	(w)	**1,910,159**	1,171,568

The accompanying notes form an integral part of the financial statements

55. Islamic Banking Business (Cont'd.)

Income Statement for the year ended 31 December 2011

	Note	Group 2011 RM'000	Group 2010 RM'000
Income derived from investment of depositors' funds and others	(o)	**1,278,146**	1,163,021
Income derived from investment of Islamic Banking Funds	(p)	**98,125**	84,583
Allowance for impairment on financing and advances	(q)	**(102,922)**	(72,531)
Impairment on other assets	(r)	**(11)**	(18)
Profit Equalisation Reserve	(m)	**33,436**	(21,560)
Total distributable income		**1,306,774**	1,153,495
Income attributable to the depositors	(s)	**(541,365)**	(444,756)
Total net income		**765,409**	708,739
Personnel expenses	(t)	**(16,903)**	(17,176)
Other overheads and expenditures	(u)	**(167,216)**	(167,602)
Profit before zakat and taxation		**581,290**	523,961
Zakat	(v)	**(318)**	(256)
Taxation	(v)	**(142,884)**	(126,445)
Profit for the year		**438,088**	397,260

Net income from Islamic banking business as reported in the income statement of the Group is derived as follows:

	Note	Group 2011 RM'000	Group 2010 RM'000
Income derived from investment of depositors' funds and others	(o)	**1,278,146**	1,163,021
Income derived from investment of Islamic Banking Funds	(p)	**98,125**	84,583
Income attributable to the depositors	(s)	**(541,365)**	(444,756)
Profit Equalisation Reserve	(m)	**33,436**	(21,560)
Net income from Islamic banking business reported in the income statement of the Group		**868,342**	781,288

The accompanying notes form an integral part of the financial statements

55. Islamic Banking Business (Cont'd.)

Statement of Comprehensive Income for the year ended 31 December 2011

	Group 2011 RM'000	Group 2010 RM'000
Profit for the year	**438,088**	397,260
Other comprehensive income/(loss):		
Net gain/(loss) on revaluation of financial investments available-for-sale	**1,720**	(988)
Income tax relating to components of other comprehensive (income)/loss	**(430)**	247
Other comprehensive income/(loss) for the year, net of tax	**1,290**	(741)
Total comprehensive income for the year	**439,378**	396,519

The accompanying notes form an integral part of the financial statements

55. Islamic Banking Business (Cont'd.)

Statement of Changes in Islamic Banking Funds for the year ended 31 December 2011

Group	Capital Funds RM'000	← Non-distributable Reserves: Share Premium RM'000	Non-distributable Reserves: Statutory Reserves RM'000	Non-distributable Reserves → Revaluation Reserves RM'000	Distributable Reserves: Retained Profits RM'000	Total RM'000
At 1 January 2011	**178,217**	**1,229,500**	**187,546**	**(255)**	**220,380**	**1,815,388**
Profit for the year	–	–	–	–	**438,088**	**438,088**
Net gain on revaluation of financial investment available-for-sale	–	–	–	**1,720**	–	**1,720**
Income tax relating to components of other comprehensive income	–	–	–	**(430)**	–	**(430)**
Total comprehensive income for the year	–	–	–	**1,290**	**438,088**	**439,378**
Issue of shares	**8,000**	**192,000**	–	–	–	**200,000**
Transfer to statutory reserves	–	–	**20,000**	–	**(20,000)**	–
Dividends paid	–	–	–	–	**(356,434)**	**(356,434)**
At 31 December 2011	**186,217**	**1,421,500**	**207,546**	**1,035**	**282,034**	**2,098,332**

The accompanying notes form an integral part of the financial statements

55. Islamic Banking Business (Cont'd.)

Statement of Changes in Islamic Banking Funds for the year ended 31 December 2011 (Cont'd.)

Group	Capital Funds RM'000	← Non-distributable Reserves Share Premium RM'000	Statutory Reserves RM'000	Revaluation Reserves RM'000 →	Distributable Reserves Retained Profits RM'000	Total RM'000
At 1 January 2010	290,217	1,037,500	140,374	486	191,167	1,659,744
Profit for the year	–	–	–	–	397,260	397,260
Net loss on revaluation of financial investment available-for-sale	–	–	–	(988)	–	(988)
Income tax relating to components of other comprehensive loss	–	–	–	247	–	247
Total comprehensive (loss)/income for the year	–	–	–	(741)	397,260	396,519
Issue of shares	8,000	192,000	–	–	–	200,000
Transfer to statutory reserves	–	–	47,172	–	(47,172)	–
Transfer to conventional business	(120,000)	–	–	–	(10,484)	(130,484)
Dividends paid	–	–	–	–	(310,391)	(310,391)
At 31 December 2010	178,217	1,229,500	187,546	(255)	220,380	1,815,388

The accompanying notes form an integral part of the financial statements

55. Islamic Banking Business (Cont'd.)

Statement of Cash Flows for the year ended 31 December 2011

	Group	
	2011	**2010**
	RM'000	**RM'000**
Cash Flows from Operating Activities		
Profit before zakat and taxation	**581,290**	523,961
Adjustments for:		
Depreciation of property and equipment	**357**	174
Net gain on disposal of foreclosed properties	**(29)**	–
Allowance for impairment on financing and advances	**113,979**	85,193
Net gain arising from sale of financial investments available-for-sale	**(65)**	(220)
Unrealised gain on revaluation of financial assets held-for-trading	**(46)**	(7)
Pension cost – defined benefit plan	**(410)**	(221)
Transfer (from)/to Profit Equalisation Reserve	**(33,436)**	21,560
Dividends from financial investments available-for-sale	**(10,819)**	(7,766)
Impairment loss on foreclosed properties	**11**	18
Operating profit before working capital changes	**650,832**	622,692
(Increase)/Decrease in operating assets:		
Financial assets held-for-trading	**(950,122)**	(218,851)
Financing and advances	**(2,973,680)**	(1,918,563)
Statutory deposits with Bank Negara Malaysia	**(608,700)**	(23,000)
Other assets	**(12,721)**	1,627
Increase/(Decrease) in operating liabilities:		
Deposits from customers	**4,723,204**	2,233,030
Deposits from banks	**799,548**	(1,671,197)
Bills and acceptances payable	**(4,559)**	4,893
Other liabilities	**34,557**	217
Cash generated from/(used in) operations	**1,658,359**	(969,152)
Tax expense and zakat paid	**(115,930)**	(88,248)
Net cash generated from/(used in) operating activities	**1,542,429**	(1,057,400)

55. Islamic Banking Business (Cont'd.)

Statement of Cash Flows for the year ended 31 December 2011 (Cont'd.)

	Group	
	2011 RM'000	2010 RM'000
Cash Flows from Investing Activities		
Purchase of property and equipment	**(431)**	(1,255)
Net disposal/(purchase) of financial investments available-for-sale	**309,113**	(864,304)
Dividends received from financial investments available-for-sale	**10,819**	7,766
Investment in an associated company	**(20,000)**	–
Net cash generated from/(used in) investing activities	**299,501**	(857,793)
Cash flows from financing activities		
Proceeds from issuance of shares	**200,000**	200,000
Net capital funds transferred to conventional business	**–**	(130,484)
Dividend paid	**(356,434)**	(310,391)
Net cash used in financing activities	**(156,434)**	(240,875)
Net increase/(decrease) in cash and cash equivalents	**1,685,496**	(2,156,068)
Cash and cash equivalents at beginning of year	**4,571,596**	6,727,664
Cash and cash equivalents at end of year	**6,257,092**	4,571,596

The accompanying notes form an integral part of the financial statements

55. Islamic Banking Business (Cont'd.)

Notes to the Financial Statements for the year ended 31 December 2011

(a) Significant Accounting Policies

The accounting policies adopted by the Islamic banking business are consistent with those adopted by the Group and the Bank as disclosed in Note 2 to the financial statements of the Group and the Bank. The significant accounting policies and methods of computation are consistent with those adopted in previous years, except for the adoption of the Financial Reporting Standards ("FRS"), Amendments to FRSs, IC Interpretations, Amendments to IC Interpretations and Technical Release, which became effective on 1 January 2011 as disclosed in Note 2 to the financial statements of the Group and the Bank.

(b) Basis of Accounting

The financial statements of the Islamic banking business have been prepared on a basis consistent with that of the Group and the Bank as disclosed in Note 2 to the financial statements of the Group and the Bank. These financial statements have been prepared under the accrual basis of accounting and comply with Shariah requirements.

(c) Cash and Balances with Banks

	Group	
	2011 RM'000	**2010 RM'000**
Cash and bank balances	**70,932**	47,556
Money market deposit placements		
– maturing within one month	**6,186,160**	4,524,040
	6,257,092	4,571,596

(d) Financial Assets Held-for-Trading

	Group	
	2011 RM'000	**2010 RM'000**
At fair value		
Money market instruments:		
Negotiable instruments of deposit	**1,249,014**	298,846
	1,249,014	298,846

55. Islamic Banking Business (Cont'd.)

(e) Financial Investments Available-for-Sale

	Group 2011 RM'000	Group 2010 RM'000
At fair value		
Government securities and treasury bills:		
Malaysian Government Investment Certificates	**413,309**	803,253
Bank Negara Malaysia Monetary Notes	**988,518**	917,527
	1,401,827	1,720,780
Non-money market instruments:		
Unit trust funds	**428,893**	417,268
	1,830,720	2,138,048

(f) Financial Investments Held-to-Maturity

	Group 2011 RM'000	Group 2010 RM'000
At amortised cost		
Non-money market instruments:		
Debt securities		
– Unquoted private debt securities	**5,022**	5,022

55. Islamic Banking Business (Cont'd.)

(g) Financing and Advances

(i) Net financing and advances analysed by type are as follows:

	Group	
	2011 RM'000	2010 RM'000
At amortised cost		
Cash line	**246,412**	159,508
Term financing		
– House financing	**3,177,799**	2,516,434
– Syndicated financing	**401,792**	381,496
– Hire purchase receivables	**10,324,273**	8,654,075
– Other term financing	**5,335,516**	4,798,625
Revolving credit	**7,611**	79,390
Gross financing and advances	**19,493,403**	16,589,528
Less: Allowance for impaired financing and advances		
– collective assessment allowance	**(292,381)**	(248,832)
– individual assessment allowance	**(1,346)**	(721)
Net financing and advances	**19,199,676**	16,339,975

All the Group's Islamic banking financing and advances are located in Malaysia.

(ii) The maturity structure of gross financing and advances are as follows:

	Group	
	2011 RM'000	2010 RM'000
Maturity within one year	**592,903**	438,079
More than one year to three years	**1,615,249**	1,491,039
More than three years to five years	**3,099,493**	2,762,752
More than five years	**14,185,758**	11,897,658
Gross financing and advances	**19,493,403**	16,589,528

55. Islamic Banking Business (Cont'd.)

(g) Financing and Advances (Cont'd.)

(iii) Gross financing and advances presented by class of financial instrument are as follows:

	Group	
	2011	**2010**
	RM'000	**RM'000**
Retail financing		
– House financing	**3,177,799**	2,516,434
– Hire purchase	**10,324,273**	8,654,075
– Other financing	**5,248,564**	4,617,979
	18,750,636	15,788,488
Corporate financing	**742,767**	801,040
	19,493,403	16,589,528

(iv) Gross financing and advances analysed by contract are as follows:

	Group	
	2011	**2010**
	RM'000	**RM'000**
Bai' Bithaman Ajil-i (deferred payment sale)	**5,488,222**	4,656,767
Ijarah Thamma Al-Bai'-i (leasing)	**10,324,273**	8,654,075
Ijarah Muntahia Bittamlik	**101,104**	80,809
Bai-Al-Einah-i	**3,579,804**	3,197,877
	19,493,403	16,589,528

(v) Gross financing and advances analysed by type of customer are as follows:

	Group	
	2011	**2010**
	RM'000	**RM'000**
Other domestic non-bank financial institutions	**222,957**	208,585
Domestic business enterprises		
– Small and medium enterprises	**1,321,766**	973,451
– Others	**472,732**	537,497
Government and statutory authorities	**324,010**	325,855
Individuals	**17,103,400**	14,495,813
Other domestic entities	**3,197**	2,867
Foreign customers	**45,341**	45,460
	19,493,403	16,589,528

55. Islamic Banking Business (Cont'd.)

(g) Financing and Advances (Cont'd.)

(vi) Gross financing and advances analysed by profit rate sensitivity are as follows:

	Group	
	2011 RM'000	2010 RM'000
Fixed rate		
– House financing	**774,518**	891,323
– Hire purchase receivables	**10,324,273**	8,654,075
– Other fixed rate financing	**4,216,263**	4,085,444
Variable rate		
– BFR plus	**3,828,522**	2,529,065
– Cost plus	**349,827**	429,621
	19,493,403	16,589,528

(vii) Gross financing and advances analysed by economic purpose are as follows:

	Group	
	2011 RM'000	2010 RM'000
Purchase of securities	**114**	8
Purchase of transport vehicles	**10,323,981**	8,655,897
Purchase of landed properties	**4,583,503**	3,744,874
(of which: – residential	**3,137,434**	2,469,002
– non-residential)	**1,446,069**	1,275,872
Purchase of fixed assets (excluding landed properties)	**19,913**	5,800
Personal use	**3,720,077**	3,308,884
Purchase of consumer durables	**3,396**	3,241
Construction	**41,017**	28,536
Working capital	**552,837**	571,026
Other purpose	**248,565**	271,262
	19,493,403	16,589,528

55. Islamic Banking Business (Cont'd.)

(g) Financing and Advances (Cont'd.)

(viii) Gross financing and advances analysed by sectors are as follows:

	Group	
	2011 RM'000	2010 RM'000
Agriculture, hunting, forestry and fishing	**206,981**	179,429
Mining and quarrying	**17,628**	7,296
Manufacturing	**114,652**	96,625
Electricity, gas and water	**1,218**	1,191
Construction	**318,911**	246,503
Wholesale & retail trade and restaurants & hotels	**357,755**	276,127
Transport, storage and communication	**78,696**	62,191
Finance, insurance and business services	**401,248**	319,444
Real estate	**442,531**	449,141
Community, social and personal services	**396,661**	387,688
Households	**17,148,741**	14,541,272
Others	**8,381**	22,621
	19,493,403	16,589,528

(ix) Movements in impaired financing and advances are as follows:

	Group	
	2011 RM'000	2010 RM'000
At 1 January	**162,629**	146,515
Impaired during the year	**432,444**	412,215
Reclassified as non-impaired during the year	**(317,261)**	(304,277)
Recoveries	**(33,566)**	(33,497)
Amount written off	**(69,805)**	(56,562)
Financing converted to foreclosed properties	**(1,164)**	(1,765)
Gross impaired financing and advances	**173,277**	162,629
Gross impaired financing as a percentage of gross financing and advances	**0.89%**	0.98%

55. Islamic Banking Business (Cont'd.)

(g) Financing and Advances (Cont'd.)

(x) Impaired financing and advances analysed by economic purpose are as follows:

	Group	
	2011	**2010**
	RM'000	**RM'000**
Purchase of securities	**9**	8
Purchase of transport vehicles	**67,100**	69,469
Purchase of landed properties	**63,978**	56,227
(of which: – residential	**52,026**	50,036
– non-residential)	**11,952**	6,191
Purchase of fixed assets (excluding landed properties)	**61**	123
Personal use	**41,287**	35,805
Working capital	**648**	760
Other purpose	**194**	237
	173,277	162,629

Impaired financing and advances analysed by sectors are as follows:

	Group	
	2011	**2010**
	RM'000	**RM'000**
Agriculture, hunting, forestry and fishing	**276**	138
Mining and quarrying	**35**	132
Manufacturing	**565**	933
Construction	**1,175**	1,345
Wholesale & retail trade and restaurants & hotels	**980**	2,977
Transport, storage and communication	**8,384**	5,101
Finance, insurance and business services	**743**	814
Real estate	**–**	41
Community, social and personal services	**13**	132
Households	**160,885**	150,975
Others	**221**	41
	173,277	162,629

All the Group's Islamic banking business impaired financing and advances are located in Malaysia.

55. Islamic Banking Business (Cont'd.)

(g) Financing and Advances (Cont'd.)

(xi) A reconciliation of the allowance for impaired financing and advances are as follows:

	Retail Financing				
	House Financing RM'000	Hire Purchase RM'000	Other Financing RM'000	Corporate Financing RM'000	Total RM'000
2011					
Collective Assessment Allowance					
At 1 January 2011	**37,747**	**129,812**	**69,257**	**12,016**	**248,832**
Allowance made during the year (Note 55(q))	**12,807**	**64,124**	**37,297**	**(874)**	**113,354**
Amount written off	**(2,887)**	**(39,072)**	**(27,846)**	**–**	**(69,805)**
At 31 December 2011	**47,667**	**154,864**	**78,708**	**11,142**	**292,381**
2010					
Collective Assessment Allowance					
At 1 January 2010	31,096	125,400	56,307	8,119	220,922
Allowance made during the year (Note 55(q))	11,390	36,585	32,600	3,897	84,472
Amount written off	(4,739)	(32,173)	(19,650)	–	(56,562)
At 31 December 2010	37,747	129,812	69,257	12,016	248,832

55. Islamic Banking Business (Cont'd.)

(g) Financing and Advances (Cont'd.)

(xi) A reconciliation of the allowance for impaired financing and advances are as follows (Cont'd.):

	Retail Financing				
	House Financing RM'000	Hire Purchase RM'000	Other Financing RM'000	Corporate Financing RM'000	Total RM'000
2011					
Individual Assessment Allowance					
At 1 January 2011	**–**	**–**	**721**	**–**	**721**
Net allowance made during the year (Note 55(q))	**–**	**–**	**625**	**–**	**625**
Allowance made during the year	**–**	**–**	**995**	**–**	**995**
Amount written back in respect of recoveries	**–**	**–**	**(370)**	**–**	**(370)**
At 31 December 2011	**–**	**–**	**1,346**	**–**	**1,346**
2010					
Individual Assessment Allowance					
At 1 January 2010	–	–	–	–	–
Allowance made during the year (Note 55(q))	–	–	721	–	721
At 31 December 2010	–	–	721	–	721

(h) Other Assets

	Group 2011 RM'000	Group 2010 RM'000
Deferred handling fees*	**67,575**	57,312
Income receivable	**9,172**	8,445
Other receivables, deposits and prepayments	**1,561**	335
Foreclosed properties#	**2,877**	2,354
	81,185	68,446
# Stated net of accumulated allowance for impairment loss	**916**	845

* This represents the unamortised balance of handling fees paid to motor vehicle dealers for hire purchase financing.

55. Islamic Banking Business (Cont'd.)

(i) Deferred Tax Assets/(Liabilities)

	Group	
	2011	**2010**
	RM'000	**RM'000**
At 1 January	**70,407**	82,630
Recognised in income statement (Note 55(v))		
– relating to changes in tax treatment for collective assessment allowance	**(62,208)**	–
– relating to origination and reversal of temporary differences	**(8,167)**	11,876
Recognised in equity	**(430)**	247
Transfer of tax credit on tax losses	**–**	(24,807)
Others	**–**	461
At 31 December	**(398)**	70,407

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 tax authority. The net deferred tax assets shown on the statement of financial position is as follows:

	Group	
	2011	**2010**
	RM'000	**RM'000**
Deferred tax assets	**–**	70,567
Deferred tax liabilities	**(398)**	(160)
Deferred tax (liabilities)/assets, net	**(398)**	70,407

55. Islamic Banking Business (Cont'd.)

(i) Deferred Tax Assets/(Liabilities) (Cont'd.)

The components and movements in deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred tax assets of the Group	Allowance for Impaired Financing and Advances RM'000	Profit Equalisation Reserve RM'000	Tax Losses RM'000	Total RM'000
At 1 January 2010	54,754	2,969	24,807	82,530
Recognised in income statement (Note 55(v))				
– relating to origination and reversal of temporary differences	6,993	5,390	–	12,383
Transfer of credit on tax losses	–	–	(24,807)	(24,807)
Others	461	–	–	461
At 31 December 2010	62,208	8,359	–	70,567
Recognised in income statement (Note 55(v))				
– relating to changes in tax treatment for collective assessment allowance	**(62,208)**	**–**	**–**	**(62,208)**
– relating to origination and reversal of temporary differences	**–**	**(8,359)**	**–**	**(8,359)**
At 31 December 2011	**–**	**–**	**–**	**–**

Deferred tax liabilities of the Group	Excess of Capital Allowances Over Depreciation RM'000	Other Temporary Differences RM'000	Total RM'000
At 1 January 2010	90	(190)	(100)
Recognised in income statement (Note 55(v))			
– relating to origination and reversal of temporary differences	73	434	507
Recognised in equity	–	(247)	(247)
At 31 December 2010	163	(3)	160
Recognised in income statement (Note 55(v))			
– relating to origination and reversal of temporary differences	**–**	**(192)**	**(192)**
Recognised in equity	**–**	**430**	**430**
At 31 December 2011	**163**	**235**	**398**

55. Islamic Banking Business (Cont'd.)

(j) Deposits From Customers

(i) By contract and type of deposit:

	Group 2011 RM'000	Group 2010 RM'000
At amortised cost		
Non-Mudharabah Fund		
Wadiah current deposits-i	**2,307,971**	2,075,047
Wadiah savings deposits-i	**4,295,000**	3,861,945
Istismar general investment deposits-i	**2,584,424**	–
Negotiable instruments of deposit-i	**1,136,468**	2,188,896
	10,323,863	8,125,888
Mudharabah Fund		
Mudharabah current deposits-i	**26,779**	–
Mudharabah savings deposits-i	**72,294**	75,642
Mudharabah general investment deposits-i	**7,141,559**	6,241,737
Mudharabah special investment deposits-i	**2,465,440**	863,464
	9,706,072	7,180,843
	20,029,935	15,306,731

Included in Deposits from Customers of the Bank are deposits of RM19,431,000 (2010 – RM13,937,000) held as collateral for financing and advances.

(ii) By class of financial instrument:

	Group 2011 RM'000	Group 2010 RM'000
Core deposits	**16,428,027**	12,254,371
Wholesale deposits	**3,601,908**	3,052,360
	20,029,935	15,306,731

(iii) By type of customers:

	Group 2011 RM'000	Group 2010 RM'000
Federal and state governments	**1,468,668**	1,145,148
Local government and statutory authorities	**1,047,341**	677,655
Business enterprises	**4,633,957**	3,804,140
Individuals	**4,759,562**	4,266,189
Foreign customers	**241,701**	97,021
Others	**7,878,706**	5,316,578
	20,029,935	15,306,731

55. Islamic Banking Business (Cont'd.)

(j) Deposits From Customers (Cont'd.)

(iv) The maturity structure of negotiable instruments of deposit-i, general and special investment deposits-i are as follows:

	Group	
	2011 RM'000	2010 RM'000
Due within six months	**11,732,731**	8,954,324
More than six months to one year	**1,583,343**	326,722
More than one year to three years	**10,389**	10,892
More than three years to five years	**1,428**	2,159
	13,327,891	9,294,097

(k) Deposits from Banks

	Group	
	2011 RM'000	2010 RM'000
At amortised cost		
Non-Mudharabah Fund		
Licensed banks	**2,814,469**	2,746,812
Licensed Islamic banks	**1,169,898**	1,240,674
Licensed investment banks	**878,388**	414,504
Bank Negara Malaysia	**2,518**	2,627
Other financial institutions	**2,314,260**	1,875,112
	7,179,533	6,279,729
Mudharabah Fund		
Other financial institutions	**–**	100,256
	–	100,256
	7,179,533	6,379,985

(l) Bills and acceptances payable represents the Group's own bills and acceptances rediscounted and outstanding in the market. These financial liabilities are stated at amortised cost.

55. Islamic Banking Business (Cont'd.)

(m) Other Liabilities

	Group 2011 RM'000	Group 2010 RM'000
Income payable	**54,191**	33,350
Other payables and accruals	**18,929**	5,212
Employee benefits	**(1,938)**	(1,527)
Profit Equalisation Reserve (Note 23)	**–**	33,436
	71,182	70,471

The movements in Profit Equalisation Reserve are as follows:

	2011 RM'000	2010 RM'000
At 1 January	**33,436**	11,876
Net (decrease)/increase:	**(33,436)**	21,560
– Amount arising during the year	**6,194**	36,777
– Amount written back	**(39,630)**	(15,217)
At 31 December	**–**	33,436

(n) Provision for Zakat and Taxation

	Group 2011 RM'000	Group 2010 RM'000
Zakat	**389**	326
Tax expense	**39,925**	83,091
	40,314	83,417

55. Islamic Banking Business (Cont'd.)

(o) Income Derived from Investment of Depositors' Funds and Others

	Group 2011 RM'000	Group 2010 RM'000
Income derived from investment of:		
(i) General investment deposits	**547,177**	345,314
(ii) Other deposits	**730,969**	817,707
	1,278,146	1,163,021

(i) Income derived from investment of general investment deposits:

	2011 RM'000	2010 RM'000
Finance income and Hibah		
Financing and advances	**452,978**	286,770
Financial investments available-for-sale	**13,011**	7,408
Financial investments held-to-maturity	**71**	49
Balances with banks	**63,670**	41,926
	529,730	336,153
Financial assets held-for-trading	**4,812**	1,869
Total finance income and Hibah	**534,542**	338,022
Other operating income		
Fee and commission income:		
– Commissions	**1,149**	658
– Service charges and fees	**5,931**	3,462
– Other fee income	**1,133**	909
Net gains and losses on financial instruments:		
– Gross dividend income from financial investments available-for-sale	**4,302**	2,153
– Net gain arising from sale of financial investments available-for-sale	**26**	61
– Others	**21**	5
Other income	**73**	44
Total other operating income	**12,635**	7,292
	547,177	345,314
Of which:		
Financing income earned on impaired financing	**4,031**	2,423

55. Islamic Banking Business (Cont'd.)

(o) Income Derived from Investment of Depositors' Funds and Others (Cont'd.)

(ii) Income derived from investment of other deposits:

	Group 2011 RM'000	Group 2010 RM'000
Finance income and Hibah		
Financing and advances	**605,130**	679,074
Financial investments available-for-sale	**17,381**	17,542
Financial investments held-to-maturity	**94**	116
Balances with banks	**85,056**	99,281
	707,661	796,013
Financial assets held-for-trading	**6,429**	4,427
Total finance income and Hibah	**714,090**	800,440
Other operating income		
Fee and commission income:		
– Commissions	**1,535**	1,559
– Service charges and fees	**7,924**	8,197
– Other fee income	**1,513**	2,152
Net gains and losses on financial instruments:		
– Gross dividend income from financial investments available-for-sale	**5,746**	5,097
– Net gain arising from sale of financial investments available-for-sale	**34**	144
– Others	**30**	13
Other income	**97**	105
Total other operating income	**16,879**	17,267
	730,969	817,707
Of which:		
Financing income earned on impaired financing	**5,385**	5,738

55. Islamic Banking Business (Cont'd.)

(p) Income Derived from Investment of Islamic Banking Funds

	Group 2011 RM'000	Group 2010 RM'000
Finance income and Hibah		
Financing and advances	**81,232**	70,563
Financial investments available-for-sale	**2,333**	1,774
Financial investments held-to-maturity	**13**	12
Balances with banks	**11,418**	10,040
	94,996	82,389
Financial assets held-for-trading	**863**	448
Total finance income and Hibah	**95,859**	82,837
Other operating income		
Fee and commission income:		
– Commissions	**206**	158
– Service charges and fees	**1,064**	829
– Other fee income	**203**	217
Net gains and losses on financial instruments:		
– Gross dividend income from financial investments available-for-sale	**771**	516
– Net gain arising from sale of financial investments available-for-sale	**5**	15
– Others	**4**	–
Other income	**13**	11
Total other operating income	**2,266**	1,746
	98,125	84,583
Of which:		
Financing income earned on impaired financing	**723**	580

55. Islamic Banking Business (Cont'd.)

(q) Allowance for Impairment on Financing and Advances

	Group 2011 RM'000	2010 RM'000
Allowance for impaired financing:		
Collective assessment allowance (Note 55(g)(xi))	**113,354**	84,472
– Retail financing		
– house financing	**12,807**	11,390
– hire purchase	**64,124**	36,585
– other financing	**37,297**	32,600
– Corporate financing	**(874)**	3,897
Individual assessment allowance (Note 55(g)(xi))	**625**	721
– Retail financing		
– other financing	**625**	721
Impaired financing written off	**182**	157
Impaired financing recovered	**(11,239)**	(12,819)
	102,922	72,531

(r) Impairment on Other Assets

	Group 2011 RM'000	2010 RM'000
Foreclosed properties	**11**	18

55. Islamic Banking Business (Cont'd.)

(s) Income Attributable to the Depositors

	Group 2011 RM'000	Group 2010 RM'000
Deposits from customers		
– Mudharabah fund	**301,809**	169,722
– Non-Mudharabah fund	**56,313**	117,513
Deposits from banks		
– Mudharabah fund	**1,881**	1,293
– Non-Mudharabah fund	**181,362**	156,228
	541,365	444,756

(t) Personnel Expenses

	Group 2011 RM'000	Group 2010 RM'000
Salaries, allowances and bonuses	**14,251**	14,444
Pension costs	**1,182**	1,397
Others	**1,470**	1,335
	16,903	17,176

55. Islamic Banking Business (Cont'd.)

(u) Other Overheads and Expenditures

	Group 2011 RM'000	Group 2010 RM'000
Establishment costs		
– Depreciation	**357**	174
– Rental	**1,038**	744
– Insurance	**1,071**	721
– Water and electricity	**128**	116
– General repairs and maintenance	**177**	189
– Others	**246**	83
	3,017	2,027
Marketing expenses		
– Advertisement and publicity	**938**	1,096
– Others	**5,127**	6,593
	6,065	7,689
Administration and general expenses		
– Communication expenses	**2,076**	1,949
– Legal and professional fees	**3,796**	4,117
– Others	**1,891**	2,930
	7,763	8,996
Shared service cost charged by conventional business	**166,483**	160,351
Recovery of expenses	**(16,112)**	(11,461)
	167,216	167,602

Included in other overheads and expenditures of the Group is the Shariah Committee's remuneration of RM229,000 (2010 – RM87,000).

55. Islamic Banking Business (Cont'd.)

(v) Zakat and Taxation

	Group	
	2011	**2010**
	RM'000	**RM'000**
Zakat	**318**	256
Malaysian income tax		
– in respect of current year profit	**134,643**	141,000
– in respect of changes in tax treatment for collective assessment allowance	**(62,208)**	–
Deferred tax expense (Note 55(i))		
– in respect of changes in tax treatment for collective assessment allowance	**62,208**	–
– relating to origination and reversal of temporary differences arising from:	**8,167**	(11,876)
– allowance for impaired financing and advances	**–**	(6,993)
– Profit Equalisation Reserve	**8,359**	(5,390)
– excess of capital allowances over depreciation	**–**	73
– other temporary differences	**(192)**	434
– under/(over) provision in prior years	**74**	(2,679)
Tax expense	**142,884**	126,445
	143,202	126,701

(w) Commitments and Contingencies

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

55. Islamic Banking Business (Cont'd.)

(w) Commitments and Contingencies (Cont'd.)

The notional amounts of the commitments and contingencies of the Group's Islamic banking business are as follows:

	Group	
	2011 RM'000	2010 RM'000
Contingent liabilities		
Direct credit substitutes	**333,357**	–
Transaction-related contingent items	**1,609**	–
Short term self-liquidating trade-related contingencies	**679**	–
	335,645	–
Commitments		
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:		
– exceeding one year	**1,224,296**	960,986
– not exceeding one year	**350,218**	210,582
	1,574,514	1,171,568
	1,910,159	1,171,568

(x) Capital Adequacy

The capital adequacy ratios under the Islamic banking business of the Group as at 31 December are as follows:

	Group	
	2011	2010
Tier I capital ratio	**12.2%**	12.3%
Risk-weighted capital ratio	**13.7%**	13.9%

The capital adequacy ratios of the Islamic banking business of the Group are computed in accordance with the Capital Adequacy Framework for Islamic Banks (CAFIB). The Group's Islamic banking business has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

55. Islamic Banking Business (Cont'd.)

(x) Capital Adequacy (Cont'd.)

Components of Tier I and Tier II Capital:

	Group 2011 RM'000	Group 2010 RM'000
Tier I Capital		
Capital funds	**186,217**	178,217
Share premium	**1,421,500**	1,229,500
Other reserves	**207,546**	187,546
Retained profits	**282,034**	220,380
Less: Deferred tax assets, net	**–**	(70,322)
Total Tier I Capital	**2,097,297**	1,745,321
Tier II Capital		
Collective assessment allowance#	**259,650**	221,474
Capital base	**2,356,947**	1,966,795

Excludes collective assessment allowance on impaired loans restricted from Tier II capital of the Group of RM32,731,000 (2010 – RM27,358,000).

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

	Group 2011 RM'000	Group 2010 RM'000
Credit risk	**15,741,444**	12,906,044
Market risk	**60,152**	14,746
Operational risk	**1,435,916**	1,272,153
	17,237,512	14,192,943

55. Islamic Banking Business (Cont'd.)

(y) Allocation of Income

The method of allocation of income to the types of deposits is based on "The Framework on Rate of Return" issued by Bank Negara Malaysia. This Framework on Rate of Return which is based on the return on assets concept, calculates the income on assets. The return on assets after deducting incidental expenses and allowances for losses on financing and advances are distributed to the depositors using the weighted average method.

(z) Shariah Committee

The Shariah Committee is governed by Public Islamic Bank Berhad's Shariah Governance Framework. The Committee advises the Board of Directors on Shariah matters to ensure that the overall Islamic banking business operations is in line with Shariah requirements at all times. The Shariah Committee provides technical assistance in ensuring that the Islamic banking products and services offered and the relevant documentation are in compliance with Shariah principles. The Shariah Committee also provides written Shariah opinions on new Islamic banking products and in instances where the Group makes reference to Bank Negara Malaysia's Shariah Advisory Council for advice. The Shariah Committee performs an oversight role through the Shariah audit and Shariah review function to identify Shariah-related issues that require its attention and where appropriate, to propose corrective measures.

(aa) Zakat Obligations

This represents business zakat payable by the Group to comply with Shariah principles. Zakat provision is calculated based on 2.5% of the estimated Muslim individual shareholders using the profit and loss method.

56. Realised and Unrealised Profits

On 25 March 2010, Bursa Malaysia Securities Berhad ("Bursa Malaysia") issued a directive to all listed issuers pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting period, into realised and unrealised profits or losses.

On 20 December 2010, Bursa Malaysia further issued guidance on the disclosure and the format required.

The breakdown of retained profits of the Group and the Bank as at the reporting date, into realised and unrealised profits, pursuant to the directive, is as follows:

	Group	
	2011 RM'000	**2010 RM'000**
Total retained profits of Public Bank Berhad and its subsidiaries:		
– Realised	**7,363,413**	5,162,942
– Unrealised		
– in respect of deferred tax recognised in the income statement	**(14,409)**	513,414
– in respect of other items of income and expense	**52,059**	51,092
	7,401,063	5,727,448
Total share of retained profits from associated companies:		
– Realised	**6,433**	13,648
– Unrealised	**–**	–
	7,407,496	5,741,096
Less: Consolidation adjustments	**(989,952)**	(986,691)
Total Group retained profits as per consolidated accounts	**6,417,544**	4,754,405

56. Realised and Unrealised Profits (Cont'd.)

	Bank	
	2011 **RM'000**	**2010** **RM'000**
Total retained profits of Public Bank Berhad:		
– Realised	**6,051,910**	3,950,498
– Unrealised		
– in respect of deferred tax recognised in the income statement	**(57,500)**	418,699
– in respect of other items of income and expense	**10,548**	5,007
Total Bank retained profits as per accounts	**6,004,958**	4,374,204

The determination of realised and unrealised profits is based on the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants on 20 December 2010.

Accordingly, the unrealised retained profits of the Group and the Bank as disclosed above excludes translation gains and losses on monetary items denominated in a currency other than the functional currency and foreign exchange contracts, as these gains and losses are incurred in the ordinary course of business of the Group and the Bank, and are hence deemed as realised.

The disclosure of realised and unrealised profits above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for any other purposes.

BASEL II
PILLAR 3 DISCLOSURE
as at 31 December 2011

Overview

The Pillar 3 Disclosure for financial reporting beginning 1 January 2011 is required under the Bank Negara Malaysia ("BNM")'s Risk-Weighted Capital Adequacy Framework ("RWCAF"), which is the equivalent to Basel II issued by the Basel Committee on Banking Supervision and the Islamic Financial Services Board. Basel II consists of 3 Pillars as follows:

(a) Pillar 1 sets out the minimum amount of regulatory capital that banking institutions must hold against credit, market and operational risks they assume.

(b) Pillar 2 promotes the adoption of a more forward-looking approach to capital management and encourages banking institutions to develop and employ more rigorous risk management framework and techniques, including specific oversight by the board of directors and senior management on internal controls and corporate governance practices, to ensure that banking institutions maintain adequate capital levels consistent with their risk profile and business plan at all times.

(c) Pillar 3 aims to harness the power of market discipline through enhanced disclosure to supplement regulatory supervision of banking institutions through a consistent and comprehensive disclosure framework on risk management practices and capital adequacy of banking institutions that will enhance comparability amongst banking institutions.

The Public Bank Group ("the Group") adopted the Standardised Approach in determining the capital requirements for credit risk and market risk and applied the Basic Indicator Approach for operational risk of the Pillar 1 under BNM's RWCAF. Under the Standardised Approach, the Group applied the standard risk weights prescribed by BNM to assess the capital requirements for exposures in credit risk and market risk. The assessment of the capital required for operational risk under the Basic Indicator Approach however, is based on a percentage fixed by BNM over the Group's average gross income for a fixed number of quarterly periods.

The Group's Pillar 3 Disclosure is governed by the Group Disclosure Policy on Basel II Risk-Weighted Capital Adequacy Framework - Pillar 3 which sets out the minimum disclosure standards, the approach in determining the appropriateness of information disclosed and the internal controls over the disclosure process which cover the verification and review of the accuracy of information disclosed. The information provided herein has been reviewed and verified by the internal auditors and certified by Public Bank Berhad ("the Bank")'s Managing Director/Chief Executive Officer. Under the BNM's RWCAF, the information disclosed herein is not required to be audited by external auditors. The Pillar 3 Disclosure will be published in the Bank's website, www.publicbank.com.my

Overview (Cont'd.)

The Group's principal business activity is commercial banking which focuses mainly on retail banking and financing operations. The following tables present the minimum regulatory capital requirements to support the Group's and the Bank's risk-weighted assets.

	2011		2010	
	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Group				
Credit Risk	**148,664,399**	**11,893,152**	128,486,892	10,278,951
Market Risk	**1,670,798**	**133,664**	1,063,445	85,076
Operational Risk	**12,692,078**	**1,015,366**	11,546,113	923,689
Total	**163,027,275**	**13,042,182**	141,096,450	11,287,716
Bank				
Credit Risk	**123,065,342**	**9,845,227**	106,083,803	8,486,704
Market Risk	**2,774,099**	**221,928**	1,788,639	143,091
Operational Risk	**9,048,375**	**723,870**	8,446,853	675,748
Total	**134,887,816**	**10,791,025**	116,319,295	9,305,543

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

Pillar 3 Disclosure

1. Scope of Application

The Pillar 3 Disclosure is prepared on a consolidated basis and comprises information on Public Bank Berhad and its subsidiary and associated companies. The Public Bank Group offers Islamic banking financial services via the Bank's wholly-owned subsidiary company, Public Islamic Bank Berhad ("Public Islamic"). Information on subsidiary and associated companies of the Group is available in Notes 13 and 14 to the financial statements respectively.

The basis of consolidation for financial accounting purposes is described in Note 2(b) to the financial statements, and differs from that used for regulatory capital purposes. The investment in its banking associated company, which is equity-accounted in the financial accounting consolidation, is proportionately consolidated for regulatory capital purposes. The investment in the subsidiary company engaged in insurance activities is excluded from the regulatory consolidation and is deducted from the regulatory capital.

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

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

All information in the ensuing paragraphs is based on the Group's positions. Certain information on capital adequacy relating to the Bank is presented on a voluntary basis to provide additional information to users. The capital adequacy-related information of the Bank, which is presented on a global basis, includes its wholly-owned offshore banking subsidiary company, Public Bank (L) Ltd, as determined under the RWCAF.

2. Capital Management

The Group's capital management is guided by the Group Capital Management Framework which sets out the capital targets and outlines the Group's objective to diversify its sources of capital and to allocate capital efficiently. This objective is directed by the need to maintain a prudent relationship between available capital and risks in the underlying businesses to meet the expectations of key constituencies, including investors, regulators and rating agencies. Internal capital targets are set for Tier I capital ratio and risk-weighted capital ratio. The capital target for risk-weighted capital ratio is above the minimum regulatory capital requirements and has factored in the expected capital required under the current and future operating environment to support the credit, market and operational risks as well as the Group's business growth.

Annually, the Board of Directors of the Bank ("the Board") approves the Group's capital plan which defines the Group's required level of optimal capital and the optimal mix between the different components of capital for the next 3 years. The Group's policy is to hold capital in different forms and from diverse sources. The Bank oversees the capital raising exercise of its subsidiary companies to ensure that actions to manage and to raise capital are aligned to the overall objectives of the Group's capital plan. Similarly, at the subsidiary level, the management of its capital is all within the context of the Group's capital plan differentiated only by the local regulatory requirements. As part of the Group Capital Management Framework, capital generated in excess of planned requirements at the subsidiary level is returned to the Bank, normally by way of dividends.

The performance against internal capital levels is reviewed regularly by senior management. One of the key drivers in the Group's budgeting and planning process is the regulatory capital ratio and the Group's levels of internal capital ratio. The Board reviews the Group's capital plan semi-annually. Proposals to address any deviation from capital targets or the need for capital raising exercise must be approved by the Board prior to its implementation.

2. Capital Management (Cont'd.)

The group-wide stress testing process forecasts the Group's capital requirements under extreme, but plausible, stress events to assess the ability of the Group's capital to withstand market shocks. The results of the stress test are also to facilitate the formulation of action plans in advance if the stress test reveals that the Group's capital will be adversely affected under such events. The results of the stress test together with remedial actions, if any, are tabled to the Risk Management Committee ("RMC") and the Board for deliberations.

The following tables present the capital adequacy ratios and the capital structure of the Group and the Bank.

Capital Adequacy Ratios

	Group		Bank	
	2011	**2010**	**2011**	**2010**
Before deducting second interim dividends:				
Tier I capital ratio	**10.7%**	10.7%	**12.9%**	13.2%
Risk-weighted capital ratio	**15.9%**	14.4%	**15.9%**	14.1%
After deducting second interim dividends:				
Tier I capital ratio	**10.1%**	10.0%	**12.1%**	12.4%
Risk-weighted capital ratio	**15.3%**	13.7%	**15.2%**	13.3%

The capital adequacy ratios of the banking subsidiary companies of the Group are set out in Note 49(a) to the financial statements.

Capital Structure

	Group		Bank	
	2011 RM'000	**2010 RM'000**	**2011 RM'000**	**2010 RM'000**
Tier I capital				
Paid-up share capital	**3,531,926**	3,531,926	**3,531,926**	3,531,926
Share premium	**1,073,310**	1,073,310	**1,073,310**	1,073,310
Other reserves	**3,955,307**	3,787,881	**3,522,609**	3,508,238
Retained profits	**6,417,544**	4,754,405	**6,236,502**	4,641,801
Innovative Tier I capital securities	**1,833,303**	1,814,538	**1,833,303**	1,814,538
Non-innovative Tier I stapled securities	**2,082,388**	2,081,633	**2,082,388**	2,081,633
Treasury shares	**(215,572)**	(215,303)	**(215,572)**	(215,303)
Non-controlling interests	**697,484**	652,188	**–**	–
Less: Goodwill	**(1,938,994)**	(1,903,898)	**(695,393)**	(695,393)
Less: Deferred tax assets, net	**(46,093)**	(521,359)	**–**	(418,699)
	17,390,603	15,055,321	**17,369,073**	15,322,051

2. Capital Management (Cont'd.)

Capital Structure (Cont'd.)

	Group		Bank	
	2011 **RM'000**	**2010** **RM'000**	**2011** **RM'000**	**2010** **RM'000**
Tier II capital				
Collective assessment allowance #	**2,456,351**	2,164,761	**2,021,614**	1,819,307
Subordinated notes	**6,138,306**	3,102,012	**6,138,306**	3,102,012
	8,594,657	5,266,773	**8,159,920**	4,921,319
Total capital	**25,985,260**	20,322,094	**25,528,993**	20,243,370
Less: Investment in subsidiary companies and associated companies	**(960)**	(960)	**(3,987,284)**	(3,787,284)
Less: Holdings of other financial institutions' capital instruments	**(44,468)**	(47,439)	**(44,468)**	(47,439)
Capital base	**25,939,832**	20,273,695	**21,497,241**	16,408,647

Excludes collective assessment allowance on impaired loans restricted from Tier II capital by BNM of the Group and the Bank of RM188.2 million (2010: RM131.4 million) and RM155.5 million (2010: RM104.0 million) respectively.

2. Capital Management (Cont'd.)

The Bank has issued various capital instruments and debt instruments which qualify as components of regulatory capital, as summarised in the following table:

	Capital Instruments	Capital Component	Main Features
(a)	Non-Innovative Tier I stapled securities ("NIT-1")	Tier I Capital	• Subordinated to all liabilities, including depositors and Sub Notes. Rank pari passu with IT-1 • Unsecured • Perpetual, with optional redemption after 10 years. No step-up • Able to defer interest but will trigger an assignment event, resulting in unstapling of the NIT-1. Investors will end up holding the perpetual securities • Right of Bank not to pay distribution, upon which the only restriction is on payment of ordinary dividend to shareholders
(b)	Innovative Tier I capital securities ("IT-1")	Tier I Capital	• Subordinated to all liabilities, including depositors and Sub Notes. Rank pari passu with NIT-1 • Unsecured • Optional redemption with step-up after 10 years • Option to defer interest up to 50% of aggregate principal • Principal and interest stock settlement provision
(c)	Subordinated notes ("Sub Notes")	Tier II Capital	• Subordinated to all liabilities, including depositors, except to IT-1 and NIT-1 • Unsecured • Sub Notes issued prior to January 2011 are subject to optional redemption with step-up • Sub Notes issued subsequent to January 2011 do not contain step-up upon optional redemption date • No provisions for deferral of interest. Non-payment will result in default

The details of the capital and debt instruments are found in Note 22 to the financial statements.

3. Group Risk Management Framework

The management of risk within the Group is governed by the Group Risk Management Framework ("GRMF") which sets out the risk management governance and infrastructure, risk management processes and control responsibilities. In the Group, the most important aspect of an effective risk management is the inculcation of a risk awareness culture across all levels of staff through effective communication, training, clear policies, procedures and organisational structure, clearly defined roles and responsibilities as well as the commitment of all employees to the GRMF. The risk governance of the Group is as set out below:

ESTABLISH RISK APPETITE & POLICY	**Board of Directors**	**AUDIT COMMITTEE**
	Risk Management Committee	
ENSURE IMPLEMENTATION OF RISK POLICY AND COMPLIANCE	**Dedicated Committees**	
	Assets & Liabilities Management Committee Credit Risk Management Committee Operational Risk Management Committee Shariah Committee	
	Independent Risk Management and Control Units	
	Banking Operations and Compliance Credit Control, Administration & Supervision Risk Management Shariah Compliance	
IMPLEMENT AND COMPLY WITH RISK POLICY	**Business Units**	
	Corporate Lending Investment Banking Islamic Banking Retail Banking and Financing Operations Share Broking and Fund Management Treasury and Capital Market Operations	

The Board is ultimately responsible for the management of risk. The Board, through the RMC, maintains overall responsibility for risk oversight within the Group. The risk appetite statement which embodies the Group's stance towards the levels and types of risk in relation to the Group's strategic direction and business objectives forms an integral part of the annual business plans approved by the Board.

Assisting the RMC in management of market and liquidity risk, credit risk and operational risk are the Assets & Liabilities Management Committee ("ALCO"), the Credit Risk Management Committee ("CRMC") and the Operational Risk Management Committee ("ORMC") respectively. These committees are responsible for overseeing the development and assessing the effectiveness of risk management policies and for reviewing risk exposure and portfolio composition, and ensuring that infrastructure, resources and systems are put in place for effective risk management activities. The Shariah Committee advises the Board of Directors of Public Islamic on Shariah matters pertaining to the Islamic operations.

3. Group Risk Management Framework (Cont'd.)

The independent risk management and control units provide crucial support to the dedicated risk management committees and are responsible for ensuring the risk policies are implemented and complied with. They are also responsible for the identification, measurement and monitoring of risk.

The business units, being the first line of defense against risk, are responsible for identifying, mitigating and managing risk within their lines of business. These units ensure that their day-to-day business activities are carried out within the established risk policies, procedures and limits.

The Audit Committee, supported by the Internal Audit Division, provides an independent assessment of the adequacy and reliability of the risk management processes and system of internal controls, and compliance with risk policies and regulatory requirements.

The Group has established, within its enterprise-wide risk management framework, a structured approach to risk management which balances risks against returns, as well as integrated risk management processes across key risk areas. The risk management activities encompass four broad processes namely risk identification, risk assessment and measurement, risk control and mitigation and risk monitoring which lead to a balanced risk-return.

It is the Group's policy that all risk management policies and limits are subject to frequent reviews to ensure that they remain relevant and effective in managing the associated risks brought about by the changing operating and regulatory environments.

4. Credit Risk

Credit risk is the potential loss of revenue as a result of failure by the customers or counterparties to meet their contractual financial obligations. As the Group's primary business is in commercial banking, the Group's exposure to credit risk is primarily from its lending and financing to retail consumers, small- and medium-sized enterprises ("SMEs") and corporate customers. Trading and investing the surplus funds of the Group, such as trading or holding of debt securities, settlement of transactions, also expose the Group to credit risk and counterparty credit risk.

4. Credit Risk (Cont'd.)

The following tables present the minimum regulatory capital requirements on credit risk of the Group and the Bank.

Minimum Regulatory Capital Requirements for Credit Risk

Group 2011 Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
On-Balance Sheet Exposures				
Sovereigns/Central Banks	**37,523,662**	**28,233,329**	**112,930**	**9,034**
Public Sector Entities	**424,498**	**424,498**	**24,762**	**1,981**
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	**12,721,460**	**12,721,460**	**3,015,440**	**241,235**
Insurance Companies, Securities Firms and Fund Managers	**109,724**	**104,784**	**102,813**	**8,225**
Corporates	**43,974,265**	**42,348,014**	**37,923,462**	**3,033,877**
Regulatory Retail	**87,201,260**	**86,521,527**	**65,392,177**	**5,231,374**
Residential Mortgages	**45,825,233**	**45,768,814**	**19,859,501**	**1,588,760**
Higher Risk Assets	**144,825**	**144,740**	**217,110**	**17,369**
Other Assets	**4,480,250**	**4,480,250**	**2,660,468**	**212,838**
Equity Exposures	**4,940,117**	**4,940,117**	**4,915,359**	**393,229**
Defaulted Exposures	**1,516,051**	**1,502,443**	**2,114,628**	**169,170**
	238,861,345	**227,189,976**	**136,338,650**	**10,907,092**
Off-Balance Sheet Exposures				
Credit-related Exposures	**15,262,103**	**14,891,963**	**11,976,216**	**958,097**
Derivative Financial Instruments	**1,101,907**	**1,101,907**	**320,105**	**25,609**
Other Treasury-related Exposures	**39,362**	**39,362**	**5,837**	**467**
Defaulted Exposures	**15,800**	**15,800**	**23,591**	**1,887**
	16,419,172	**16,049,032**	**12,325,749**	**986,060**
Total Credit Exposures	**255,280,517**	**243,239,008**	**148,664,399**	**11,893,152**

4. Credit Risk (Cont'd.)

Minimum Regulatory Capital Requirements for Credit Risk (Cont'd.)

Group 2010 Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
On-Balance Sheet Exposures				
Sovereigns/Central Banks	44,104,464	44,104,464	90,747	7,260
Public Sector Entities	447,508	447,508	29,364	2,349
Banks, DFIs and MDBs	8,322,852	8,322,852	2,071,255	165,700
Insurance Companies, Securities Firms and Fund Managers	239,194	234,305	203,733	16,299
Corporates	42,392,177	40,587,301	36,398,140	2,911,851
Regulatory Retail	78,591,298	77,940,697	58,453,942	4,676,315
Residential Mortgages	34,676,113	34,623,953	14,172,646	1,133,812
Higher Risk Assets	121,392	121,297	181,945	14,556
Other Assets	3,952,394	3,952,394	2,874,080	229,926
Equity Exposures	4,795,823	4,795,823	4,771,065	381,685
Defaulted Exposures	1,818,833	1,811,878	2,542,324	203,386
	219,462,048	216,942,472	121,789,241	9,743,139
Off-Balance Sheet Exposures				
Credit-related Exposures	9,241,639	8,849,321	6,455,981	516,478
Derivative Financial Instruments	930,694	930,694	216,914	17,353
Other Treasury-related Exposures	7,305	7,305	1,461	117
Defaulted Exposures	15,545	15,545	23,295	1,864
	10,195,183	9,802,865	6,697,651	535,812
Total Credit Exposures	229,657,231	226,745,337	128,486,892	10,278,951

4. Credit Risk (Cont'd.)

Minimum Regulatory Capital Requirements for Credit Risk (Cont'd.)

Bank 2011 Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
On-Balance Sheet Exposures				
Sovereigns/Central Banks	25,546,701	17,108,012	112,930	9,034
Public Sector Entities	368	368	74	6
Banks, DFIs and MDBs	12,419,174	12,419,174	2,891,695	231,336
Insurance Companies, Securities Firms and Fund Managers	522	522	522	42
Corporates	39,320,750	38,088,511	33,694,867	2,695,589
Regulatory Retail	66,927,938	66,279,997	49,888,839	3,991,107
Residential Mortgages	38,993,648	38,948,143	17,081,506	1,366,521
Higher Risk Assets	113,395	113,341	170,011	13,601
Other Assets	3,398,840	3,398,840	1,884,823	150,786
Equity Exposures	4,401,888	4,401,888	4,377,130	350,170
Defaulted Exposures	1,226,746	1,213,230	1,689,691	135,175
	192,349,970	181,972,026	111,792,088	8,943,367
Off-Balance Sheet Exposures				
Credit-related Exposures	13,880,612	13,589,298	10,937,859	875,029
Derivative Financial Instruments	1,099,473	1,099,473	319,619	25,569
Other Treasury-related Exposures	10,175	10,175	–	–
Defaulted Exposures	10,590	10,590	15,776	1,262
	15,000,850	14,709,536	11,273,254	901,860
Total Credit Exposures	207,350,820	196,681,562	123,065,342	9,845,227

4. Credit Risk (Cont'd.)

Minimum Regulatory Capital Requirements for Credit Risk (Cont'd.)

Bank 2010 Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures after Credit Risk Mitigation RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
On-Balance Sheet Exposures				
Sovereigns/Central Banks	34,362,141	34,362,141	90,748	7,260
Public Sector Entities	371	371	74	6
Banks, DFIs and MDBs	6,840,815	6,840,815	1,848,666	147,893
Insurance Companies, Securities Firms and Fund Managers	36,516	36,516	36,516	2,921
Corporates	37,987,835	36,469,072	32,269,553	2,581,564
Regulatory Retail	60,615,667	60,000,880	44,999,079	3,599,926
Residential Mortgages	29,162,832	29,121,775	12,130,651	970,452
Higher Risk Assets	108,795	108,724	163,085	13,047
Other Assets	2,826,458	2,826,458	1,958,045	156,644
Equity Exposures	4,271,683	4,271,683	4,246,925	339,754
Defaulted Exposures	1,496,847	1,490,043	2,069,180	165,534
	177,709,960	175,528,478	99,812,522	7,985,001
Off-Balance Sheet Exposures				
Credit-related Exposures	8,576,289	8,298,203	6,037,732	483,019
Derivative Financial Instruments	924,236	924,236	215,618	17,249
Other Treasury-related Exposures	3,600	3,600	720	58
Defaulted Exposures	11,489	11,489	17,211	1,377
	9,515,614	9,237,528	6,271,281	501,703
Total Credit Exposures	187,225,574	184,766,006	106,083,803	8,486,704

4. Credit Risk (Cont'd.)

Risk Governance

The CRMC supports the RMC in credit risk management oversight. The CRMC reviews the Group's credit risk framework and policies, aligns credit risk management with business strategies and planning, reviews credit profile of the credit portfolios and recommends necessary actions to ensure that the credit risk remains within established risk tolerance level.

The Group's credit risk management includes the establishment of comprehensive credit risk policies, guidelines and procedures which document the Group's lending standards, discretionary power for loans approval, credit risk rating, acceptable collateral and valuation, and the review, rehabilitation and restructuring of problematic and delinquent loans. All credit approving authorities are guided by credit policies, guidelines and procedures which are periodically reviewed to ensure their continued relevance.

Within the Risk Management Division, the Credit Risk Management Department has functional responsibility for credit risk management which includes formulating and reviewing group-wide risk policies, guidelines and procedures. Other independent risk management and control units are responsible for managing the credit portfolios and ensuring the risk policies are implemented and complied with.

Risk Management Approach

The management of credit risk starts with experienced key personnel being appointed to the Credit Committee. The Credit Committee approves major credit decisions, guidelines and procedures to manage, control and monitor credit risk. All loan applications of significant amounts are approved at Head Office or by the Credit Committee while experienced senior credit officers at branches are given authority to approve loans with lower risk exposure. The Board of Directors of the respective entities has the authority to reject or modify the terms and conditions of loans which have been approved by the Credit Committee. The credit approving authorities are assigned discretionary powers based on their seniority and track record.

(a) Lending to Retail Consumers and SMEs

The credit granting to retail consumers and SMEs is individually underwritten, which amongst others, includes the assessment of the historical repayment track record and the current repayment capacity of the customer through the use of an internal credit risk rating scoresheet. The credit approving authorities have the responsibility to ensure that credit risk is properly assessed and all crucial credit information of the customer is included in the loan application.

(b) Lending to Corporate and Institutional Customers

The credit granting to corporate and institutional customers is individually underwritten and risk-rated. Credit officers identify and assess the credit risks of large corporate or institutional customers, or customer groups, taking into consideration their financial and business profiles, industry and economic factors, collateral, or other credit support such as standby letters of credit or bank guarantees.

4. Credit Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(c) Credit Risk from Trading and Investment Activities

The management of the credit risk arising from the Group's trading or investing its surplus funds is primarily via the setting of issuers' credit limits which are specifically approved by the relevant approving authorities. In addition, the Group's investment policy also stipulates the minimum investment grade for debt securities, types of permissible transactions and the maximum tenure. The investment policy is also subject to regular review. The holdings of collateralised debt obligations ("CDO") or collateralised loan obligations ("CLO") require the specific approval of the Board. As at reporting date, the Group does not have any direct or indirect exposure to asset-backed securities, CDO or CLO and does not participate in any securitisation deals.

(d) Counterparty Credit Risk on Derivative Financial Instruments

The management of the counterparty credit risk on derivative financial instruments is set out in item 4.2(b) of the Pillar 3 Disclosure.

Independent credit reviews are performed regularly to complement risk identification as well as to evaluate the quality of credit appraisals and the competency of credit personnel. Internal risk management reports are presented to both the CRMC and the RMC, containing information on economic trends across major portfolios, quality of credit portfolios, results of independent credit review, results of the credit profiling conducted, significant credit exposures to connected parties and credit concentration by economic sectors and by large single customers. Such information allows senior management, CRMC and RMC to identify adverse credit trends, take corrective actions and formulate business strategies.

4.1 Distribution of Credit Exposures

Tables (a)-(c) present the credit exposures of financial assets before the effect of credit risk mitigation of the Group, analysed by the following:

(a) Industrial analysis based on its industrial distribution

(b) Geographical analysis based on the geographical location where the credit risk resides

(c) Maturity analysis based on the residual contractual maturity

For on-balance sheet exposures, the maximum exposure to credit risk equals their carrying amounts. For financial guarantees, the maximum exposure to credit risk is the maximum amount that the Group would have to pay if the obligations for which the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit granted to customers.

4. Credit Risk (Cont'd.)

4.1 Distribution of Credit Exposures (Cont'd.)

(a) Industry Analysis

Group 2011	Government and Central Banks RM'000	Financial Services RM'000	Transport & Business Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
On-Balance Sheet Exposures									
Cash and balances with banks	10,153,521	8,480,262	-	-	-	-	-	-	18,633,783
Reverse repurchase agreements	9,287,255	-	-	-	-	-	-	-	9,287,255
Financial assets held-for-trading	973,724	9,531,842	50,621	59,896	40,742	-	-	-	10,656,825
Derivative financial assets	-	493,852	-	-	-	-	-	-	493,852
Financial investments available-for-sale	9,676,889	4,975,481	902,664	1,162,469	1,930	-	-	-	16,719,433
Financial investments held-to-maturity	2,775,545	4,675,898	103,268	34,579	39,943	-	-	-	7,629,233
Gross loans, advances and financing	23,386	8,366,389	9,614,971	27,012,019	20,564,038	53,919,242	32,057,664	26,136,308	177,694,017
Statutory deposits with Central Banks	5,597,801	-	-	-	-	-	-	-	5,597,801
	38,488,121	36,523,724	10,671,524	28,268,963	20,646,653	53,919,242	32,057,664	26,136,308	246,712,199
Commitments and Contingencies									
Contingent liabilities	851	58,424	896,507	1,151,018	801,768	-	-	14,847	2,923,415
Commitments	511,204	1,496,307	3,413,467	10,207,718	6,636,285	8,868,399	25,234	11,776,661	42,935,275
	512,055	1,554,731	4,309,974	11,358,736	7,438,053	8,868,399	25,234	11,791,508	45,858,690
Total Credit Exposures	39,000,176	38,078,455	14,981,498	39,627,699	28,084,706	62,787,641	32,082,898	37,927,816	292,570,889

4. Credit Risk (Cont'd.)

4.1 Distribution of Credit Exposures (Cont'd.)

(a) Industry Analysis (Cont'd.)

Group 2010	Government and Central Banks RM'000	Financial Services RM'000	Transport & Business Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction & Real Estate RM'000	Residential Mortgages RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
On-Balance Sheet Exposures									
Cash and balances with banks	28,397,686	6,292,753	–	–	–	–	–	–	34,690,439
Reverse repurchase agreements	365,877	–	–	–	–	–	–	–	365,877
Financial assets held-for-trading	651,499	5,642,714	868	–	65,539	–	–	–	6,360,620
Derivative financial assets	–	326,622	–	–	–	–	–	–	326,622
Financial investments available-for-sale	10,667,448	4,832,608	1,150,690	1,199,811	1,727	–	–	–	17,852,284
Financial investments held-to-maturity	3,003,234	2,086,961	69,109	5,068	65,245	–	–	–	5,229,617
Gross loans, advances and financing	25,278	6,419,683	6,665,296	25,280,310	19,390,071	46,393,379	29,617,814	22,752,241	156,544,072
Statutory deposits with Central Banks	1,612,575	–	–	–	–	–	–	–	1,612,575
	44,723,597	25,601,341	7,885,963	26,485,189	19,522,582	46,393,379	29,617,814	22,752,241	222,982,106
Commitments and Contingencies									
Contingent liabilities	625	246,745	655,102	1,106,575	884,005	–	–	18,867	2,911,919
Commitments	501,134	4,584,592	3,123,421	10,281,416	4,462,845	7,717,766	364	10,503,441	41,174,979
	501,759	4,831,337	3,778,523	11,387,991	5,346,850	7,717,766	364	10,522,308	44,086,898
Total Credit Exposures	45,225,356	30,432,678	11,664,486	37,873,180	24,869,432	54,111,145	29,618,178	33,274,549	267,069,004

4. Credit Risk (Cont'd.)

4.1 Distribution of Credit Exposures (Cont'd.)

(b) Geographical Analysis

Group 2011	Malaysia RM'000	Hong Kong & China PRC RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
On-Balance Sheet Exposures					
Cash and balances with banks	14,390,682	2,389,180	507,687	1,346,234	18,633,783
Reverse repurchase agreements	9,272,886	-	-	14,369	9,287,255
Financial assets held-for-trading	10,656,825	-	-	-	10,656,825
Derivative financial assets	353,826	2,563	-	137,463	493,852
Financial investments available-for-sale	16,708,799	2,780	79	7,775	16,719,433
Financial investments held-to-maturity	6,132,644	773,919	-	722,670	7,629,233
Gross loans, advances and financing	163,132,849	11,899,217	1,940,890	721,061	177,694,017
Statutory deposits with Central Banks	5,275,421	-	322,380	-	5,597,801
	225,923,932	15,067,659	2,771,036	2,949,572	246,712,199
Commitments and Contingencies					
Contingent liabilities	2,402,832	145,702	344,384	30,497	2,923,415
Commitments	41,153,641	1,430,707	315,983	34,944	42,935,275
	43,556,473	1,576,409	660,367	65,441	45,858,690
Total Credit Exposures	269,480,405	16,644,068	3,431,403	3,015,013	292,570,889

4. Credit Risk (Cont'd.)

4.1 Distribution of Credit Exposures (Cont'd.)

(b) Geographical Analysis (Cont'd.)

Group 2010	Malaysia RM'000	Hong Kong & China PRC RM'000	Cambodia RM'000	Other Countries RM'000	Total RM'000
On-Balance Sheet Exposures					
Cash and balances with banks	30,487,145	2,162,429	505,966	1,534,899	34,690,439
Reverse repurchase agreements	355,140	–	–	10,737	365,877
Financial assets held-for-trading	6,360,620	–	–	–	6,360,620
Derivative financial assets	62,311	11,366	–	252,945	326,622
Financial investments available-for-sale	17,846,737	2,694	15	2,838	17,852,284
Financial investments held-to-maturity	4,076,672	436,352	–	716,593	5,229,617
Gross loans, advances and financing	143,034,436	11,056,218	1,769,499	683,919	156,544,072
Statutory deposits with Central Banks	1,294,861	–	317,714	–	1,612,575
	203,517,922	13,669,059	2,593,194	3,201,931	222,982,106
Commitments and Contingencies					
Contingent liabilities	2,427,806	156,531	303,192	24,390	2,911,919
Commitments	38,472,535	2,302,920	303,265	96,259	41,174,979
	40,900,341	2,459,451	606,457	120,649	44,086,898
Total Credit Exposures	244,418,263	16,128,510	3,199,651	3,322,580	267,069,004

4. Credit Risk (Cont'd.)

4.1 Distribution of Credit Exposures (Cont'd.)

(c) Maturity Analysis

Group	Up to 1 Year RM'000	> 1 to 3 Years RM'000	> 3 to 5 Years RM'000	> 5 Years RM'000	Total RM'000
2011					
On-Balance Sheet Exposures					
Cash and balances with banks	**18,633,783**	**–**	**–**	**–**	**18,633,783**
Reverse repurchase agreements	**9,287,255**	**–**	**–**	**–**	**9,287,255**
Financial assets held-for-trading	**10,063,477**	**436,320**	**63,221**	**93,807**	**10,656,825**
Derivative financial assets	**130,168**	**44,675**	**135,693**	**183,316**	**493,852**
Financial investments available-for-sale	**14,041,708**	**1,787,515**	**781,827**	**108,383**	**16,719,433**
Financial investments held-to-maturity	**6,082,785**	**1,132,418**	**403,746**	**10,284**	**7,629,233**
Gross loans, advances and financing	**28,165,244**	**16,730,279**	**19,594,355**	**113,204,139**	**177,694,017**
Statutory deposits with Central Banks	**–**	**–**	**–**	**5,597,801**	**5,597,801**
Total On-Balance Sheet Exposures	**86,404,420**	**20,131,207**	**20,978,842**	**119,197,730**	**246,712,199**
2010					
On-Balance Sheet Exposures					
Cash and balances with banks	34,690,439	–	–	–	34,690,439
Reverse repurchase agreements	365,877	–	–	–	365,877
Financial assets held-for-trading	6,236,285	93,149	31,186	–	6,360,620
Derivative financial assets	93,786	95,776	24,897	112,163	326,622
Financial investments available-for-sale	15,316,987	343,581	2,075,772	115,944	17,852,284
Financial investments held-to-maturity	3,438,032	1,011,630	734,584	45,371	5,229,617
Gross loans, advances and financing	25,130,683	16,618,501	18,258,072	96,536,816	156,544,072
Statutory deposits with Central Banks	–	–	–	1,612,575	1,612,575
Total On-Balance Sheet Exposures	85,272,089	18,162,637	21,124,511	98,422,869	222,982,106

4. Credit Risk (Cont'd.)

4.1 Distribution of Credit Exposures (Cont'd.)

(c) Maturity Analysis (Cont'd.)

Approximately 35% (2010: 38%) of the Group's exposures to customers is short-term, having contractual maturity of one year or less. About 64% (2010: 62%) of the Group's gross loans, advances and financing have residual maturity of more than 5 years. The longer maturity is from the housing loans and hire purchase financing which made up 51% (2010: 51%) of the portfolio and are traditionally longer term in nature and well secured.

The residual contractual maturity for off-balance sheet exposures is not presented as the total off-balance sheet exposures do not represent future cash requirements since the Group expects many of these commitments (such as direct credit substitutes) to expire or be unconditionally cancelled without being called or drawn upon, whereas many of the contingent liabilities (such as letters of credit) are reimbursable by customers.

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk

(a) Off-Balance Sheet Exposures

Off-balance sheet exposures of the Group are mainly from the following:

- Financial guarantees and standby letters of credit, which represent undertakings that the Group will make payments in the event that a customer cannot meet its obligations to third parties. These exposures carry the same credit risk as loans even though they are contingent in nature
- Documentary and commercial letters of credit, which are undertakings by the Group on behalf of the customer. These exposures are usually collateralised by the underlying shipment of goods to which they relate
- Commitments to extend credit including the unutilised or undrawn portions of credit facilities
- Unutilised credit card lines
- Principal/notional amount of derivative financial instruments

The management of off-balance sheet exposures is in accordance to the credit risk management approach as set out in item 4 of the Pillar 3 Disclosure.

(b) Counterparty Credit Risk on Derivative Financial Instruments

Counterparty credit risk ("CCR") on derivative financial instruments is the risk that the Group's counterparty in a foreign exchange, interest rate, commodity, equity, option or credit derivative contract defaults prior to maturity date of the contract and that the Group, at the relevant time, has a claim on the counterparty. Derivative financial instruments are primarily entered into for hedging purposes. The Group may also take conservative trading derivative positions, within certain pre-set limits, with the expectation to make arbitrage gains from favourable movements in prices or rates.

4. Credit Risk (Cont'd.)

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Cont'd.)

(b) Counterparty Credit Risk on Derivative Financial Instruments (Cont'd.)

Unlike on-balance sheet financial instruments, the Group's financial loss is not the entire contracted notional principal value of the derivatives, but equivalent to the cost to replace the defaulted derivative financial instruments with another similar contract. The Group will only suffer losses if the contract carries a positive economic value at time of default.

(i) Risk Management Approach

The CCR arising from all derivative financial instruments is managed via the establishment of credit exposure limits and daily settlement limits for each counterparty. Over-the-counter ("OTC") derivative financial instruments, especially Interest Rate Swaps and Options are transacted under master agreements, International Swaps and Derivatives Association ("ISDA") and Credit Support Annex ("CSA") agreements. ISDA allows for the close-out netting in the event of default by a counterparty and CSA provides credit protection with the requirements to post collateral, usually in the form of cash or government securities upon any excess in threshold levels.

All outstanding financial derivative positions are marked-to-market on a daily basis. Treasury Control & Processing Department monitors counterparties' positions and promptly follows up with the requirements to post collateral upon any excess in threshold levels.

Where possible, the Group settles its OTC derivatives via the payment-versus-payment ("PVP") settlement method to further reduce settlement risk. For derivative financial instruments where the PVP settlement method is not possible, the Group establishes settlement limits through the Group's credit approval process.

(ii) Credit Ratings Downgrade

Some netting and collateral arrangements may contain rating triggers, although the threshold levels in the majority of the Group's agreements are identical in the event of a one-notch rating downgrade. As at 31 December 2011, the estimated additional collateral required to be posted for one notch downgrade was RM35.2 million (2010: RM34.1 million).

4. Credit Risk (Cont'd.)

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Cont'd.)

The following tables present the composition of off-balance sheet exposure of the Group and the Bank.

Composition of Off-Balance Sheet Exposures

Group 2011	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Contingent Liabilities				
Direct credit substitutes	1,482,009		1,482,009	1,050,606
Transaction-related contingent items	900,696		450,347	296,295
Short-term self-liquidating trade-related contingencies	515,710		103,142	90,580
Obligations under an on-going underwriting agreement	25,000		12,500	12,500
	2,923,415		2,047,998	1,449,981
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	19,490,137		8,548,749	6,734,106
– not exceeding one year	19,919,554		3,983,912	3,292,787
Unutilised credit card lines	3,486,222		697,244	522,933
Forward asset purchases	39,362		39,362	5,837
	42,935,275		13,269,267	10,555,663
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	11,013,882	106,472	226,354	93,611
– one year to less than five years	6,514	109	435	435
Interest rate related contracts:				
– less than one year	2,058,803	23,619	26,247	5,249
– one year to less than five years	6,560,830	169,014	339,371	111,780
– five years and above	5,183,242	183,317	486,144	97,228
Commodity related contracts:				
– less than one year	16,896	77	247	247
Equity related contracts:				
– one year to less than five years	148,325	11,244	23,109	11,555
	24,988,492	493,852	1,101,907	320,105
Total Off-Balance Sheet Exposures	**70,847,182**	**493,852**	**16,419,172**	**12,325,749**

4. Credit Risk (Cont'd.)

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Cont'd.)

Composition of Off-Balance Sheet Exposures (Cont'd.)

Group 2010	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Contingent Liabilities				
Direct credit substitutes	1,580,171		1,580,171	1,043,487
Transaction-related contingent items	772,945		386,473	237,180
Short-term self-liquidating trade-related contingencies	483,803		96,761	75,686
Obligations under an on-going underwriting agreement	75,000		37,500	37,500
	2,911,919		2,100,905	1,393,853
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	15,412,139		6,548,625	4,629,682
– not exceeding one year	22,717,264		–	–
Unutilised credit card lines	3,038,271		607,654	455,741
Forward asset purchases	7,305		7,305	1,461
	41,174,979		7,163,584	5,086,884
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	14,180,707	86,216	261,714	80,736
– one year to less than five years	6,271	–	416	416
Interest rate related contracts:				
– less than one year	710,853	7,672	8,441	1,694
– one year to less than five years	5,815,108	99,523	233,529	48,741
– five years and above	3,996,975	112,163	377,426	75,486
Commodity related contracts:				
– less than one year	929	–	9	9
Equity related contracts:				
– less than one year	227,140	–	13,628	2,726
– one year to less than five years	181,027	21,048	35,531	7,106
	25,119,010	326,622	930,694	216,914
Total Off-Balance Sheet Exposures	69,205,908	326,622	10,195,183	6,697,651

4. Credit Risk (Cont'd.)

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Cont'd.)

Composition of Off-Balance Sheet Exposures (Cont'd.)

Bank 2011	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Bank (excluding Public Bank (L) Ltd.)				
Contingent Liabilities				
Direct credit substitutes	1,120,615		1,120,615	914,111
Transaction-related contingent items	779,091		389,546	248,187
Short-term self-liquidating trade-related contingencies	221,038		44,207	37,543
Obligations under an on-going underwriting agreement	25,000		12,500	12,500
	2,145,744		1,566,868	1,212,341
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	18,177,027		7,937,651	6,243,252
– not exceeding one year	18,413,664		3,682,733	2,960,674
Unutilised credit card lines	3,330,591		666,118	499,589
Forward asset purchases	10,175		10,175	-
	39,931,457		12,296,677	9,703,515
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	10,643,581	105,156	223,920	93,124
– one year to less than five years	6,514	109	435	435
Interest rate related contracts:				
– less than one year	2,058,803	23,619	26,247	5,249
– one year to less than five years	6,227,481	169,014	330,482	109,193
– five years and above	5,088,000	183,317	479,477	95,896
Commodity related contracts:				
– less than one year	16,896	77	247	247
Equity related contracts:				
– one year to less than five years	148,325	11,244	23,109	11,555
	24,189,600	492,536	1,083,917	315,699
Total	66,266,801	492,536	14,947,462	11,231,555

4. Credit Risk (Cont'd.)

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Cont'd.)

Composition of Off-Balance Sheet Exposures (Cont'd.)

Bank 2011	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Public Bank (L) Ltd.				
Contingent Liabilities				
Direct credit substitutes	4,762		4,762	4,762
Commitments				
Other commitments such as formal standby facilities and credit lines, with an original maturity of:				
– not exceeding one year	165,348		33,070	33,017
Derivative Financial Instruments				
Interest rate related contracts:				
– one year to less than five years	333,349	–	8,889	2,587
– five years and above	95,242	–	6,667	1,333
	428,591	–	15,556	3,920
Total	598,701	–	53,388	41,699
Total Off-Balance Sheet Exposures of the Bank and Public Bank (L) Ltd.	66,865,502	492,536	15,000,850	11,273,254

4. Credit Risk (Cont'd.)

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Cont'd.)

Composition of Off-Balance Sheet Exposures (Cont'd.)

Bank 2010	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Bank (excluding Public Bank (L) Ltd.)				
Contingent Liabilities				
Direct credit substitutes	1,476,910		1,476,910	1,027,132
Transaction-related contingent items	676,528		338,264	206,138
Short-term self-liquidating trade-related contingencies	231,016		46,203	39,067
Obligations under an on-going underwriting agreement	75,000		37,500	37,500
	2,459,454		1,898,877	1,309,837
Commitments				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– exceeding one year	14,338,422		6,109,173	4,309,154
– not exceeding one year	20,522,993		–	–
Unutilised credit card lines	2,875,523		575,105	431,329
Forward asset purchases	3,600		3,600	720
	37,740,538		6,687,878	4,741,203
Derivative Financial Instruments				
Foreign exchange related contracts:				
– less than one year	13,951,365	82,199	255,349	79,463
– one year to less than five years	6,271	–	416	416
Interest rate related contracts:				
– less than one year	570,013	7,663	8,286	1,657
– one year to less than five years	5,491,445	99,523	221,662	46,366
– five years and above	3,904,500	112,163	370,028	74,005
Commodity related contracts:				
– less than one year	929	–	9	9
Equity related contracts:				
– less than one year	227,140	–	13,628	2,726
– one year to less than five years	181,027	21,048	35,531	7,106
	24,332,690	322,596	904,909	211,748
Total	64,532,682	322,596	9,491,664	6,262,788

4. Credit Risk (Cont'd.)

4.2 Off-Balance Sheet Exposures and Counterparty Credit Risk (Cont'd.)

Composition of Off-Balance Sheet Exposures (Cont'd.)

Bank 2010	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Public Bank (L) Ltd.				
Contingent Liabilities				
Direct credit substitutes	4,623		4,623	4,623
Commitments				
Other commitments such as formal standby facilities and credit lines, with an original maturity of:				
– not exceeding one year	130,941		–	–
Derivative Financial Instruments				
Interest rate related contracts:				
– less than one year	61,650	–	62	17
– one year to less than five years	323,663	–	11,867	2,373
– five years and above	92,475	–	7,398	1,480
	477,788	–	19,327	3,870
Total	613,352	–	23,950	8,493
Total Off-Balance Sheet Exposures of the Bank and Public Bank (L) Ltd.	65,146,034	322,596	9,515,614	6,271,281

4. Credit Risk (Cont'd.)

4.3 Credit Risk Mitigation

The Group's approach in granting credit facilities is based on the credit standing of the customer, source of repayment and debt servicing ability rather than placing primary reliance on credit risk mitigants ("CRM"). Depending on a customer's standing and the type of product, facilities may be provided unsecured. Nevertheless, mitigation of credit risk is a key aspect of effective risk management and takes many forms.

The main types of collateral obtained by the Group to mitigate credit risk are as follows:

(a) for residential mortgages – charges over residential properties
(b) for commercial property loans – charges over the properties being financed
(c) for motor vehicle financing – ownership claims over the vehicles financed
(d) for share margin financing – pledges over securities from listed exchange
(e) for other loans – charges over business assets such as premises, inventories, trade receivables or deposits

The reliance that can be placed on CRM is carefully assessed in light of issues such as legal enforceability, market value and CCR of the guarantor. Policies and procedures are in place to govern the protection of the Group's position from the onset of a customer relationship, for instance in requiring standard terms and conditions or specifically agreed upon documentation to ensure the legal enforceability of the CRM.

The valuation of CRM seeks to monitor and ensure that they will continue to provide the credit protection. Policy on the periodic valuation updates of CRM is in place to ensure this. The value of properties taken as collateral is generally updated from time to time during the review of the customers' facilities to reflect the current market value. The quality, liquidity and collateral type will determine the appropriate haircuts or discounts applied on the market value of the collateral.

Where there is a currency mismatch, haircuts are applied to protect against currency fluctuations, in addition to ongoing review and controls over maturity mismatch between collateral and exposures. Especially in mortgage financing, the collateral is required to be insured at all times against major risks, for instance, fire, with the respective banking entities as the loss payee under the insurance policy. In addition, customers are generally insured against major risks, such as, death and permanent disability.

The Group also accepts guarantees from individuals, corporate and institutional customers to mitigate credit risk, subject to internal guidelines on eligibility. Currently, the Group does not employ the use of derivative credit instruments such as credit default swaps, structured credit notes and securitisation structures to mitigate the Group's credit exposures. In addition, the Group enters into master netting arrangements with its derivative counterparties to reduce the credit risk where in the event of default, all amounts with the counterparty are settled on a net basis.

4. Credit Risk (Cont'd.)

4.3 Credit Risk Mitigation (Cont'd.)

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

Credit Risk Mitigation Analysis

Group 2011 Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures Covered by Guarantees RM'000	Total Exposures Covered by Eligible Financial Collateral RM'000	Total Exposures Covered by Other Eligible Collateral RM'000
On-Balance Sheet Exposures				
Sovereigns/Central Banks	37,523,662	–	9,290,333	–
Public Sector Entities	424,498	300,687	–	–
Banks, DFIs and MDBs	12,721,460	–	–	–
Insurance Companies, Securities Firms and Fund Managers	109,724	–	4,940	–
Corporates	43,974,265	1,387,064	1,626,251	–
Regulatory Retail	87,201,260	3,089	679,733	–
Residential Mortgages	45,825,233	–	56,419	–
Higher Risk Assets	144,825	–	85	–
Other Assets	4,480,250	–	–	–
Equity Exposures	4,940,117	–	–	–
Defaulted Exposures	1,516,051	–	13,608	–
	238,861,345	1,690,840	11,671,369	–
Off-Balance Sheet Exposures				
Credit-related Exposures	15,262,103	271,046	370,140	–
Derivative Financial Instruments	1,101,907	–	–	–
Other Treasury-related Exposures	39,362	–	–	–
Defaulted Exposures	15,800	–	–	–
	16,419,172	271,046	370,140	–
Total Credit Exposures	255,280,517	1,961,886	12,041,509	–

4. Credit Risk (Cont'd.)

4.3 Credit Risk Mitigation (Cont'd.)

Credit Risk Mitigation Analysis (Cont'd.)

Group 2010 Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures Covered by Guarantees RM'000	Total Exposures Covered by Eligible Financial Collateral RM'000	Total Exposures Covered by Other Eligible Collateral RM'000
On-Balance Sheet Exposures				
Sovereigns/Central Banks	44,104,464	–	–	–
Public Sector Entities	447,508	300,687	–	–
Banks, DFIs and MDBs	8,322,852	369,900	–	–
Insurance Companies, Securities Firms and Fund Managers	239,194	–	4,889	–
Corporates	42,392,177	1,293,160	1,804,876	–
Regulatory Retail	78,591,298	5,032	650,601	–
Residential Mortgages	34,676,113	–	52,160	–
Higher Risk Assets	121,392	–	95	–
Other Assets	3,952,394	–	–	–
Equity Exposures	4,795,823	–	–	–
Defaulted Exposures	1,818,833	–	6,955	–
	219,462,048	1,968,779	2,519,576	–
Off-Balance Sheet Exposures				
Credit-related Exposures	9,241,639	347,573	392,318	–
Derivative Financial Instruments	930,694	–	–	–
Other Treasury-related Exposures	7,305	–	–	–
Defaulted Exposures	15,545	–	–	–
	10,195,183	347,573	392,318	–
Total Credit Exposures	229,657,231	2,316,352	2,911,894	–

4. Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach

Under the Standardised Approach, the Group makes use of credit ratings assigned by credit rating agencies in its calculation of credit risk-weighted assets. The following are the rating agencies or Eligible Credit Assessment Institutions ("ECAI") ratings used by the Group and are recognised by BNM in the RWCAF:

(a) Standard & Poor's ("S&P")
(b) Moody's Investors Services ("Moody's")
(c) Fitch Ratings ("Fitch")
(d) Rating Agency Malaysia Berhad ("RAM")
(e) Malaysian Rating Corporation Berhad ("MARC")

The ECAI ratings accorded to the following counterparty exposure classes are used in the calculation of risk-weighted assets for capital adequacy purposes:

(a) Sovereigns and central banks
(b) Banking institutions
(c) Corporates

Unrated and Rated Counterparties
In general, the rating specific to the credit exposure is used, i.e. the issue rating. Where no specific rating exists, the credit rating assigned to the issuer or counterparty of that particular credit exposure is used. In cases where an exposure has neither an issue or issuer rating, it is deemed as unrated or the rating of another rated obligation of the same counterparty may be used if the exposure is ranked at least pari passu with the obligation that is rated, as stipulated in the RWCAF. Where a counterparty or an exposure is rated by more than one ECAI, the second highest rating is then used to determine the risk weight. In cases where the credit exposures are secured by guarantees issued by eligible or rated guarantors, the risk weights similar to that of the guarantor are assigned.

The following is a summary of the rules governing the assignment of risk weights under the Standardised Approach. Each exposure must be assigned to one of the six credit quality rating categories defined in the table below.

Rating Category	S & P	Moody's	Fitch	RAM	MARC
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBB1 to BBB3	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	BB1 to BB3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-	B1 to B3	B+ to B-
6	CCC+ and below	Caa1 and below	CCC+ and below	C1 and below	C+ and below

4. Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

The Group uses a system to automatically execute the selection of ratings and allocation of risk weights. The following table is a summarised risk weight mapping matrix for each credit quality rating category:

Rating Category	Risk Weights Based on Credit Rating of the Counterparty Exposure Class			
			Banking Institutions	
	Sovereigns and Central Banks	Corporates	For Exposure Greater than Six Months Original Maturity	For Exposure Less than Six Months Original Maturity
1	0%	20%	20%	20%
2	20%	50%	50%	20%
3	50%	100%	50%	20%
4	100%	100%	100%	50%
5	100%	150%	100%	50%
6	150%	150%	150%	150%

In addition to the above, credit exposures under the counterparty exposure class of Banking Institutions, with an original maturity of below three months and denominated in RM, are all risk-weighted at 20% regardless of credit rating.

4. Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

The following tables present the credit exposures of the Group before the effect of credit risk mitigation by credit quality rating categories.

Credit Exposures before the Effect of Credit Risk Mitigation by Credit Quality Rating Categories

Group 2011 Exposure Class	1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
	← Rating Categories →							
On-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Credit Exposures risk-weighted using ratings of Corporates								
- Corporates	3,331,167	1,345,601	1,377,128	20,381	-	-		6,074,277
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks #								
- Sovereigns and Central Banks	859,079	35,832,717	-	-	685,013	-		37,376,809
- Public Sector Entities	-	300,687	-	-	-	-		300,687
- Corporates	-	10,115	-	-	-	-		10,115
	859,079	36,143,519	-	-	685,013	-		37,687,611
(iii) Exposures risk-weighted using ratings of Banking Institutions								
- Banks, DFIs and MDBs	6,185,686	3,514,109	1,182,392	1,066	-	-		10,883,253
- Corporates	1,268,932	107,466	5,172	-	-	-		1,381,570
- Regulatory Retail	-	2,797	-	-	-	-		2,797
	7,454,618	3,624,372	1,187,564	1,066	-	-		12,267,620
Total Rated Exposures	11,644,864	41,113,492	2,564,692	21,447	685,013	-		56,029,508
(b) Total Unrated Exposures							182,831,837	182,831,837
	11,644,864	41,113,492	2,564,692	21,447	685,013	-	182,831,837	238,861,345

4. Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

Credit Exposures before the Effect of Credit Risk Mitigation by Credit Quality Rating Categories (Cont'd.)

Group 2011 Exposure Class	1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
	Rating Categories							
Off-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Credit Exposures risk-weighted using ratings of Corporates								
- Corporates	60,797	4,097	-	-	-	-		64,894
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks #								
- Sovereigns and Central Banks	-	10,175	-	-	-	-		10,175
(iii) Exposures risk-weighted using ratings of Banking Institutions								
- Banks, DFIs and MDBs	778,334	324,025	35,745	-	-	-		1,138,104
- Corporates	211,330	55,573	449	-	-	-		267,352
- Regulatory Retail	-	1,251	-	-	-	-		1,251
	989,664	380,849	36,194	-	-	-		1,406,707
Total Rated Exposures	1,050,461	395,121	36,194	-	-	-		1,481,776
(b) Total Unrated Exposures							14,937,396	14,937,396
	1,050,461	395,121	36,194	-	-	-	14,937,396	16,419,172
Total Credit Exposures before Credit Risk Mitigation	12,695,325	41,508,613	2,600,886	21,447	685,013	-	197,769,233	255,280,517

4. Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

Credit Exposures before the Effect of Credit Risk Mitigation by Credit Quality Rating Categories (Cont'd.)

Group 2010 Exposure Class	← Rating Categories → 1 RM'000	2 RM'000	3 RM'000	4 RM'000	5 RM'000	6 RM'000	Unrated RM'000	Total RM'000
On-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Credit Exposures risk-weighted using ratings of Corporates								
– Corporates	2,896,348	1,873,710	1,483,860	19,761	–	–		6,273,679
(ii) Exposures risk-weighted using ratings of Sovereigns and Central Banks #								
– Sovereigns and Central Banks	511,127	42,594,029	–	–	698,491	–		43,803,647
– Public Sector Entities	–	300,687	–	–	–	–		300,687
– Corporates	–	10,116	–	–	–	–		10,116
	511,127	42,904,832	–	–	698,491	–		44,114,450
(iii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	3,143,090	2,866,482	896,379	5,177	–	–		6,911,128
– Corporates	920,673	338,531	4,803	–	–	–		1,264,007
– Regulatory Retail	1,076	3,198	474	–	–	–		4,748
	4,064,839	3,208,211	901,656	5,177	–	–		8,179,883
Total Rated Exposures	7,472,314	47,986,753	2,385,516	24,938	698,491	–		58,568,012
(b) Total Unrated Exposures							160,894,036	160,894,036
	7,472,314	47,986,753	2,385,516	24,938	698,491	–	160,894,036	219,462,048

4. Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

Credit Exposures before the Effect of Credit Risk Mitigation by Credit Quality Rating Categories (Cont'd.)

	← Rating Categories →							
Group 2010 Exposure Class	**1 RM'000**	**2 RM'000**	**3 RM'000**	**4 RM'000**	**5 RM'000**	**6 RM'000**	**Unrated RM'000**	**Total RM'000**
Off-Balance Sheet Exposures								
(a) Rated Exposures								
(i) Credit Exposures risk-weighted using ratings of Corporates								
– Corporates	100	–	–	–	–	–		100
(ii) Exposures risk-weighted using ratings of Banking Institutions								
– Banks, DFIs and MDBs	750,451	27,036	38,258	–	–	–		815,745
– Corporates	324,667	20,000	–	–	–	–		344,667
– Regulatory Retail	–	1,162	–	–	–	–		1,162
	1,075,118	48,198	38,258	–	–	–		1,161,574
Total Rated Exposures	1,075,218	48,198	38,258	–	–	–		1,161,674
(b) Total Unrated Exposures							9,033,509	9,033,509
	1,075,218	48,198	38,258	–	–	–	9,033,509	10,195,183
Total Credit Exposures before Credit Risk Mitigation	8,547,532	48,034,951	2,423,774	24,938	698,491	–	169,927,545	229,657,231

Under the RWCAF, exposures to and/or guaranteed by the Federal Government of Malaysia, Bank Negara Malaysia, overseas federal governments and central banks of their respective jurisdictions are accorded a preferential sovereign risk weight of 0%.

4. Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

The following tables present the credit exposures of the Group and the Bank after the effect of credit risk mitigation by risk weights.

Credit Exposures after the Effect of Credit Risk Mitigation by Risk Weights

	Credit Exposures after the Effect of Credit Risk Mitigation											
Group 2011 Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
0%	28,230,585	300,688	-	-	25,214	-	-	-	1,727,933	-	30,284,420	-
20%	-	123,867	12,245,869	-	4,872,224	-	-	-	114,811	30,948	17,387,719	3,477,544
35%	-	-	-	-	-	-	30,342,394	-	-	-	30,342,394	10,619,838
50%	-	-	1,487,899	3,942	1,525,145	14,428	11,638,971	-	-	-	14,670,385	7,335,193
75%	-	-	-	-	-	92,894,073	3,248,853	-	-	-	96,142,926	72,107,195
100%	112,930	-	130,377	120,165	40,498,929	2,740,309	1,834,849	-	2,637,506	4,909,169	52,984,234	52,984,234
150%	-	-	-	2,011	196,889	1,052,413	15,109	160,508	-	-	1,426,930	2,140,395
Total	28,343,515	424,555	13,864,145	126,118	47,118,401	96,701,223	47,080,176	160,508	4,480,250	4,940,117	243,239,008	148,664,399
Risk-Weighted Assets by Exposures	112,930	24,773	3,323,500	125,153	42,531,280	73,996,698	20,733,476	240,762	2,660,468	4,915,359	148,664,399	
Average Risk Weights	0.4%	5.8%	24.0%	99.2%	90.3%	76.5%	44.0%	150.0%	59.4%	99.5%	61.1%	
Deduction from Capital Base			44,468							-	44,468	

4. Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

Credit Exposures after the Effect of Credit Risk Mitigation by Risk Weights (Cont'd.)

Group 2010 Risk Weights	← Credit Exposures after the Effect of Credit Risk Mitigation →											
	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
0%	44,013,720	300,687	-	-	25,210	-	-	-	945,789	-	45,285,406	-
20%	-	146,850	7,921,258	-	4,141,587	1,077	-	-	165,656	30,948	12,407,376	2,481,475
35%	-	-	-	-	-	-	21,409,463	-	-	-	21,409,463	7,493,312
50%	-	-	1,272,577	61,144	2,253,817	8,496	14,401,266	-	-	-	17,997,300	8,998,650
75%	-	-	-	-	-	83,771,709	-	-	-	-	83,771,709	62,828,782
100%	90,747	-	51,490	177,411	36,133,031	17,156	177,244	-	2,840,949	4,764,875	44,252,903	44,252,903
150%	-	-	-	2,010	327,569	1,144,563	7,606	139,432	-	-	1,621,180	2,431,770
Total	44,104,467	447,537	9,245,325	240,565	42,881,214	84,943,001	35,995,579	139,432	3,952,394	4,795,823	226,745,337	128,486,892
Risk-Weighted Assets by Exposures	90,747	29,370	2,272,030	210,998	38,579,610	64,567,246	14,882,598	209,148	2,874,080	4,771,065	128,486,892	
Average Risk Weights	0.2%	6.6%	24.6%	87.7%	90.0%	76.0%	41.3%	150.0%	72.7%	99.5%	56.7%	
Deduction from Capital Base			47,439							-	47,439	

4. Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

Credit Exposures after the Effect of Credit Risk Mitigation by Risk Weights (Cont'd.)

	Credit Exposures after the Effect of Credit Risk Mitigation											
Bank 2011 Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
0%	17,105,269	-	-	-	10,113	-	-	-	1,514,017	-	18,629,399	-
20%	-	423	12,121,649	-	4,623,031	-	-	-	-	30,948	16,776,051	3,355,210
35%	-	-	-	-	-	-	24,948,894	-	-	-	24,948,894	8,732,113
50%	-	-	1,374,339	-	1,573,158	14,427	10,729,406	-	-	-	13,691,330	6,845,665
75%	-	-	-	-	-	73,419,415	2,830,678	-	-	-	76,250,093	57,187,570
100%	112,930	-	129,615	19,845	35,708,009	1,395,383	1,646,273	-	1,884,823	4,370,940	45,267,818	45,267,818
150%	-	-	-	2,011	139,111	837,286	12,364	127,205	-	-	1,117,977	1,676,966
Total	17,218,199	423	13,625,603	21,856	42,053,422	75,666,511	40,167,615	127,205	3,398,840	4,401,888	196,681,562	123,065,342
Risk-Weighted Assets by Exposures	112,930	85	3,241,114	22,862	37,627,861	57,723,087	17,884,642	190,808	1,884,823	4,377,130	123,065,342	
Average Risk Weights	0.7%	20.0%	23.8%	104.6%	89.5%	76.3%	44.5%	150.0%	55.5%	99.4%	62.6%	
Deduction from Capital Base			44,468							-	44,468	

4. Credit Risk (Cont'd.)

4.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach (Cont'd.)

Credit Exposures after the Effect of Credit Risk Mitigation by Risk Weights (Cont'd.)

Bank 2010 Risk Weights	Credit Exposures after the Effect of Credit Risk Mitigation											
	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
0%	34,271,397	-	-	-	10,114	-	-	-	868,413	-	35,149,924	-
20%	-	401	6,182,969	-	4,136,564	1,076	-	-	-	30,948	10,351,958	2,070,392
35%	-	-	-	-	-	-	16,658,724	-	-	-	16,658,724	5,830,553
50%	-	-	1,518,689	-	2,312,765	8,496	13,585,652	-	-	-	17,425,602	8,712,801
75%	-	-	-	-	-	65,440,965	-	-	-	-	65,440,965	49,080,724
100%	90,747	-	51,472	40,767	31,879,432	17,156	159,478	-	1,958,045	4,240,735	38,437,832	38,437,832
150%	-	-	-	2,010	260,390	913,752	-	124,849	-	-	1,301,001	1,951,501
Total	34,362,144	401	7,753,130	42,777	38,599,265	66,381,445	30,403,854	124,849	2,826,458	4,271,683	184,766,006	106,083,803
Risk-Weighted Assets by Exposures	90,747	80	2,047,410	43,782	34,253,712	50,472,971	12,782,857	187,274	1,958,045	4,246,925	106,083,803	
Average Risk Weights	0.3%	20.0%	26.4%	102.3%	88.7%	76.0%	42.0%	150.0%	69.3%	99.4%	57.4%	
Deduction from Capital Base			47,439							-	47,439	

4. Credit Risk (Cont'd.)

4.5 Credit Quality of Gross Loans, Advances and Financing

The following tables present the gross loans, advances and financing of the Group analysed by credit quality.

Gross Loans, Advances and Financing by Credit Quality

Group	2011 RM'000	2010 RM'000
Neither past due nor impaired	**155,451,804**	134,883,902
Past due but not impaired	**20,712,556**	19,875,893
Impaired	**1,529,657**	1,784,277
	177,694,017	156,544,072
Gross impaired loans as a percentage of gross loans, advances and financing	**0.86%**	1.14%

(a) Neither Past Due Nor Impaired

The credit quality of gross loans, advances and financing which are neither past due nor impaired is set out in Note 44 to the financial statements.

(b) Past Due But Not Impaired

Past due but not impaired loans, advances and financing are loans where the customer has failed to make a principal or interest payment when contractually due, and includes loans which are due one or more days after the contractual due date but less than 3 months. 59% of the past due loans of the Group are past due for less than 1 month.

Table (i)-(iii) present analysis of the past due but not impaired loans, advances and financing of the Group by:

(i) Economic purpose
(ii) Geographical analysis
(iii) Aging analysis

4. Credit Risk (Cont'd.)

4.5 Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(b) Past Due But Not Impaired (Cont'd.)

(i) Past Due But Not Impaired Loans, Advances and Financing by Economic Purpose

Group	2011 RM'000	2010 RM'000
Purchase of securities	**1,371**	3,597
Purchase of transport vehicles	**9,466,747**	8,567,503
Purchase of landed properties	**9,073,125**	9,135,149
(Of which: – residential	**6,836,082**	6,667,962
– non-residential)	**2,237,043**	2,467,187
Purchase of fixed assets (excluding landed properties)	**15,590**	19,560
Personal use	**679,036**	731,672
Credit card	**236,932**	235,889
Purchase of consumer durables	**1,122**	1,328
Construction	**66,556**	28,930
Working capital	**1,099,923**	1,058,833
Other purpose	**72,154**	93,432
	20,712,556	19,875,893

(ii) Past Due But Not Impaired Loans, Advances and Financing by Geographical Analysis

Group	2011 RM'000	2010 RM'000
Malaysia	**20,205,091**	19,345,314
Hong Kong & China PRC	**167,775**	214,114
Cambodia	**251,862**	260,333
Other countries	**87,828**	56,132
	20,712,556	19,875,893

(iii) Past Due But Not Impaired Loans, Advances and Financing by Aging Analysis

Group	2011 RM'000	2010 RM'000
1 day to <1 month	**12,266,533**	11,901,504
1 month to <2 months	**6,484,299**	6,099,305
2 months to <3 months	**1,961,724**	1,875,084
	20,712,556	19,875,893

4. Credit Risk (Cont'd.)

4.5 Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(c) Impaired Loans, Advances and Financing

The Group assesses, at each reporting period, whether there is any objective evidence that an individually significant loan is impaired. "Objective evidence of impairment" exists when one or more events that have occurred after the initial recognition of the loan (an incurred 'loss event') and that the loss event has an impact on future estimated cash flows of the loan or group of loans that can be reliably estimated. The criteria that the Group uses to determine whether there is any objective evidence of impairment are set out in Note 44 to the financial statements.

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

Loans, advances and financing which are not individually significant are collectively assessed. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, the loan is included in a group of loans with similar credit risk characteristics for collective impairment assessment.

The Bank and its domestic banking subsidiaries' collective assessment allowance is maintained at 1.5% of total outstanding loans, advances and financing, net of individual assessment allowance, being the transitional arrangement as prescribed in the BNM's Guidelines on Classification and Impairment Provisions for Loans/ Financing ("the Guidelines").

In conjunction with the convergence of the Financial Reporting Standards in Malaysia with the International Financial Reporting Standards, the Guidelines were revised on 9 November 2011 to align the requirements on the determination of collective assessment allowance with that of the Malaysian Financial Reporting Standards 139: Financial Instruments: Recognition and Measurement ("MFRS 139"). Based on the revised Guidelines, the transitional arrangement is removed with effect from 1 January 2012.

Under MFRS 139, the future cash flows of each of the group of loans with similar credit risk characteristics are estimated on the basis of historical loss experience for such assets and discounted to present value. Collective assessment allowance is made on any shortfall in these discounted cash flows against the carrying value of the group of loans.

Impaired loans, advances and financing are loans whereby payments of principal or interest or both are past due for three (3) months or more, or loans which are past due for less than three (3) months which exhibit indications of credit weaknesses, or impaired loans which have been restructured/rescheduled, but where repayments based on the revised terms have yet to fulfill six (6) consecutive months of observation period.

Table (i)-(ii) present analysis of the impaired loans, advances and financing of the Group and the related impairment allowances of the Group by:

(i) Economic purpose
(ii) Geographical analysis

4. Credit Risk (Cont'd.)

4.5 Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(c) Impaired Loans, Advances and Financing (Cont'd.)

(i) Impaired Loans, Advances and Financing and the Related Impairment Allowances by Economic Purpose

Group 2011	Impaired Loans, Advances and Financing RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 December RM'000	Collective Assessment Allowance at 31 December RM'000	Total Impairment Allowances for Loans, Advances and Financing RM'000
Purchase of securities	5,892	1,529	276	(1,038)	767	27,417	28,184
Purchase of transport vehicles	267,817	40,399	5,311	(29,796)	15,914	559,042	574,956
Purchase of landed properties	660,005	31,919	(2,456)	(1,989)	27,474	1,417,009	1,444,483
(Of which: – residential	466,238	1,356	1,076	(520)	1,912	783,247	785,159
– non-residential)	193,767	30,563	(3,532)	(1,469)	25,562	633,762	659,324
Purchase of fixed assets (excluding landed properties)	6,187	515	(64)	-	451	3,884	4,335
Personal use	176,834	43,878	177,193	(178,461)	42,610	122,996	165,606
Credit card	22,284	-	-	-	-	22,717	22,717
Purchase of consumer durables	13	-	-	-	-	251	251
Construction	33,652	6,772	2,047	(925)	7,894	22,764	30,658
Mergers and acquisitions	-	-	-	-	-	3,124	3,124
Working capital	329,539	130,767	37,693	(27,084)	141,376	399,630	541,006
Other purpose	27,434	9,155	510	(955)	8,710	65,701	74,411
	1,529,657	264,934	220,510	(240,248)	245,196	2,644,535	2,889,731

4. Credit Risk (Cont'd.)

4.5 Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(c) Impaired Loans, Advances and Financing (Cont'd.)

(i) Impaired Loans, Advances and Financing and the Related Impairment Allowances by Economic Purpose (Cont'd.)

Group 2010	Impaired Loans, Advances and Financing RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 December RM'000	Collective Assessment Allowance at 31 December RM'000	Total Impairment Allowances for Loans, Advances and Financing RM'000
Purchase of securities	7,596	–	3,698	(2,169)	1,529	35,017	36,546
Purchase of transport vehicles	278,520	2,261	38,554	(416)	40,399	506,218	546,617
Purchase of landed properties	789,082	36,562	6,115	(10,758)	31,919	1,178,753	1,210,672
(Of which: – residential	500,289	905	11,181	(10,730)	1,356	675,217	676,573
– non-residential)	288,793	35,657	(5,066)	(28)	30,563	503,536	534,099
Purchase of fixed assets (excluding landed properties)	9,041	1,451	(936)	–	515	4,232	4,747
Personal use	172,963	29,432	192,938	(178,492)	43,878	116,369	160,247
Credit card	27,296	–	–	–	–	20,119	20,119
Purchase of consumer durables	104	–	–	–	–	246	246
Construction	14,677	6,553	21,229	(21,010)	6,772	16,768	23,540
Mergers and acquisitions	–	–	–	–	–	123	123
Working capital	442,712	172,076	52,297	(93,606)	130,767	326,105	456,872
Other purpose	42,286	9,130	25	–	9,155	92,208	101,363
	1,784,277	257,465	313,920	(306,451)	264,934	2,296,158	2,561,092

The movements in the collective assessment allowance for 2011 and 2010 are set out in Note 9 to the financial statements.

4. Credit Risk (Cont'd.)

4.5 Credit Quality of Gross Loans, Advances and Financing (Cont'd.)

(c) Impaired Loans, Advances and Financing (Cont'd.)

(ii) Impaired Loans, Advances and Financing and the Related Impairment Allowances by Geographical Analysis

Group	Impaired Loans, Advances and Financing RM'000	Individual Assessment Allowance at 1 January RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movements RM'000	Individual Assessment Allowance at 31 December RM'000	Collective Assessment Allowance at 31 December RM'000	Total Impairment Allowances for Loans, Advances and Financing RM'000
2011							
Malaysia	**1,320,603**	**168,245**	**2,877**	**(33,777)**	**137,345**	**2,508,105**	**2,645,450**
Hong Kong & China PRC	**118,278**	**68,090**	**189,795**	**(189,991)**	**67,894**	**89,310**	**157,204**
Cambodia	**58,911**	**22,157**	**28,714**	**(16,641)**	**34,230**	**36,428**	**70,658**
Other countries	**31,865**	**6,442**	**(876)**	**161**	**5,727**	**10,692**	**16,419**
	1,529,657	**264,934**	**220,510**	**(240,248)**	**245,196**	**2,644,535**	**2,889,731**
2010							
Malaysia	1,551,478	133,772	38,194	(3,721)	168,245	2,168,940	2,337,185
Hong Kong & China PRC	131,135	69,304	207,001	(208,215)	68,090	86,741	154,831
Cambodia	59,545	45,517	70,373	(93,733)	22,157	34,917	57,074
Other countries	42,119	8,872	(1,648)	(782)	6,442	5,560	12,002
	1,784,277	257,465	313,920	(306,451)	264,934	2,296,158	2,561,092

The movements in the collective assessment allowance for 2011 and 2010 are set out in Note 9 to the financial statements.

5. Market Risk

Market risk is the risk of loss arising from movements in market variables, such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates. In addition, the market risk of Islamic banking activities of the Group includes rate of return risk and displaced commercial risk.

The following tables present the minimum regulatory capital requirements on market risk of the Group and the Bank.

Minimum Regulatory Capital Requirements for Market Risk

	Long Position RM'000	Short Position RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Group				
2011				
Interest rate/rate of return risk	**22,849,408**	**(11,343,971)**	**802,907**	**64,233**
Foreign exchange risk	**754,363**	**(866,881)**	**866,881**	**69,350**
Equity risk	**808**	**–**	**1,010**	**81**
Total	**23,604,579**	**(12,210,852)**	**1,670,798**	**133,664**
Group				
2010				
Interest rate/rate of return risk	21,004,339	(14,263,287)	462,113	36,969
Foreign exchange risk	600,244	(375,715)	600,244	48,020
Equity risk	869	–	1,088	87
Total	21,605,452	(14,639,002)	1,063,445	85,076
Bank				
2011				
Interest rate risk	**21,796,868**	**(11,413,106)**	**721,598**	**57,728**
Foreign exchange risk	**1,180,297**	**(2,051,491)**	**2,051,491**	**164,119**
Equity risk	**808**	**–**	**1,010**	**81**
Total	**22,977,973**	**(13,464,597)**	**2,774,099**	**221,928**
Bank				
2010				
Interest rate risk	20,254,384	(14,456,570)	410,690	32,855
Foreign exchange risk	997,355	(1,376,577)	1,376,862	110,149
Equity risk	869	–	1,087	87
Total	21,252,608	(15,833,147)	1,788,639	143,091

5. Market Risk (Cont'd.)

Risk Governance

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

5.1 Traded Market Risk

Traded market risk, primarily the interest rate/rate of return risk and credit spread risk, exist in the Group's trading book positions held for the purpose of benefiting from short-term price movements, which are conducted primarily by the treasury operations.

Risk Management Approach

The Group's traded market risk framework comprises market risk policies and practices, delegation of authority, market risk limits and valuation methodologies. The Group's traded market risk for its interest rate/rate of return sensitive fixed income instruments is measured by the present value of 1 basis point change ("PV01") and is monitored independently by the Compliance Unit on a daily basis against approved market risk limits. In addition, the Compliance Unit is also responsible to monitor and report on limit excesses and the daily mark-to-market valuation of fixed income securities. The market risk limits are determined after taking into account the risk appetite and the risk-return relationship and are periodically reviewed by Risk Management Division. Changes to market risk limits must be approved by the Board. The trading book positions and limits are regularly reported to the ALCO. The Group maintains its policy of prohibiting exposures in trading financial derivative positions unless with the prior specific approval of the Board.

During the financial year, the Group's traded market risk exposures on fixed income securities as measured by PV01, averaged at RM209,000 (2010: RM173,000). The composition of the Group's trading portfolio is set out in Note 5 to the financial statements.

5.2 Non-Traded Market Risk

The Group's core non-traded market risks are interest rate/rate of return risk in the banking book, displaced commercial risk in the Group's Islamic banking business, foreign exchange risk and equity risk.

(a) Interest Rate/Rate of Return Risk in the Banking Book

Interest rate/rate of return risk in the banking book ("IRR/RoRBB") is the risk to the Group's earnings and economic value of equity ("EVE") arising from adverse movements in interest rate/rate of return. The sources of IRR/RoRBB are repricing risk, yield curve risk, basis risk and optionality risk.

5. Market Risk (Cont'd.)

5.2 Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

Risk Management Approach

The primary objective in managing the IRR/RoRBB is to manage the volatility in the Group's net interest/profit income ("NII/NPI") and EVE, whilst balancing the cost of such hedging activities on the current revenue streams. This is achieved in a variety of ways such as the offsetting of positions against each other for any matching assets and liabilities, the acquisition of new financial assets and liabilities to narrow the mismatch in interest rate/rate of return sensitive assets and liabilities and entering into derivative financial instruments which have the opposite effects. The use of derivative financial instruments to hedge interest rate risk is set out in Note 6 to the financial statements.

The Group uses various tools including repricing gap reports, sensitivity analysis and income scenario simulations to measure its IRR/RoRBB. The impact on NII/NPI and EVE is considered at all times in measuring the IRR/RoRBB. Limits and policies approved by the RMC are established and are regularly reviewed to ensure its relevance.

(i) The table in Note 44 to the financial statements sets out the Group's sensitivity to interest rate/rate of return by time band based on the earlier of contractual repricing date and maturity date. Actual repricing dates may differ from contractual repricing dates due to prepayment of loans, advances and financing or early withdrawal of deposits. As at 31 December 2011, the Group had an overall positive interest rate/rate of return gap of RM29,064.3 million (2010: RM27,748.2 million), being the net difference between interest rate/rate of return sensitive assets and liabilities.

(ii) Interest Rate/Rate of Return Risk Sensitivity Analysis

The following tables present the projected Group's sensitivity to a 100 basis point parallel rate movement across all maturities applied on the Group's interest rate/rate of return sensitivity gap as at the reporting date. Where the current interest rate/rate of return is lower than 1%, the downward rate shock applied is restricted to the prevailing interest rate/rate of return.

5. Market Risk (Cont'd.)

5.2 Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

Interest Rate/Rate of Return Risk Sensitivity Analysis

Group	2011		2010	
	-100 bps	+100 bps	-100 bps	+100 bps
	Increase/(Decrease)			
Impact on NII/NPI	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	**(106,612)**	**35,488**	(87,714)	44,026
United States Dollars	**5,209**	**(21,232)**	19,918	(12,601)
Hong Kong Dollars	**(3,016)**	**3,540**	10,658	(2,955)
Other Currencies	**(5,076)**	**3,760**	(3,577)	3,325
Total	**(109,495)**	**21,556**	(60,715)	31,795

Group	2011		2010	
	-100 bps	+100 bps	-100 bps	+100 bps
	Increase/(Decrease)			
Impact on EVE	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	**1,258,693**	**(1,257,898)**	1,192,978	(1,192,119)
United States Dollars	**5,547**	**(18,488)**	7,346	(7,346)
Hong Kong Dollars	**862**	**(2,874)**	2,108	(7,025)
Other Currencies	**(3,260)**	**3,275**	(4,681)	4,681
Total	**1,261,842**	**(1,275,985)**	1,197,751	(1,201,809)

The reported amounts do not take into account actions that would be taken by treasury operations or business units to mitigate the impact of this interest rate/rate of return risk. In reality, treasury operations seek to proactively change the interest rate/rate of return risk profile to minimise losses and maximise net revenue. The projection assumes that interest rate/rate of return of all maturities move by the same amount and, therefore, does not reflect the potential impact on the NII/NPI and EVE of some rates changing while others remain unchanged. The projection also assumes a constant statements of financial position and that all positions run to maturity.

The repricing profile of loans/financing that does not have maturity is based on the earliest possible repricing dates. Actual dates may differ from contractual dates owing to prepayments. Loan/financing prepayment is generally estimated based on past statistics and trends, where possible and material. The impact on the NII/NPI is measured on a monthly basis and the impact on the EVE is on a quarterly basis, both of which are reported to the ALCO and the RMC.

5. Market Risk (Cont'd.)

5.2 Non-Traded Market Risk (Cont'd.)

(a) Interest Rate/Rate of Return Risk in the Banking Book (Cont'd.)

(iii) Stress testing is conducted semi-annually to determine the adequacy of capital in meeting the impact of extreme interest rate/rate of return movements on the Group's statements of financial position. Stress testing is performed to provide early warnings of potential losses to facilitate the proactive management of interest rate/rate of return risk.

(b) Displaced Commercial Risk

Displaced commercial risk ("DCR") refers to the risk of Public Islamic bearing the credit and market risk losses as a result of paying a return that exceeds the actual return that was supposedly to be earned by the investment account holders ("IAH") based on the contractual profit sharing ratio. Public Islamic does not have profit sharing investment accounts ("PSIA") which are eligible for risk absorbent treatment.

Risk Management Approach

Public Islamic uses Profit Equalisation Reserve ("PER") to manage its DCR and is governed by the Profit Equalisation Reserve Framework. PER is created by setting aside an amount out of the total gross income before distribution to the IAH and to Public Islamic. The amount of PER set aside is shared by both the IAH and Public Islamic. PER may be released to smoothen the rate of return. In the event that there is no PER balance to be released, Public Islamic may employ the following techniques to ensure that the IAH receive market rate of return:

(i) to forgo part or all of Public Islamic's share of profit as mudharib to the IAH by way of varying the percentage of profit taken as the mudharib share in order to increase the share attributed to the IAH in any particular year; and/or

(ii) to transfer Public Islamic's current year profits or retained earnings to the IAH on the basis of hibah.

(c) Foreign Exchange Risk

Foreign exchange risk refers to the adverse impact arising from movements in exchange rates on foreign currency positions originating from treasury money market activities and from the Group's investments and retained earnings in its subsidiary companies, overseas branches and associated companies, whose functional currencies are not in Ringgit Malaysia. The main foreign currencies in which the Group's businesses are transacted in are United States Dollars and Hong Kong Dollars.

Risk Management Approach

The Group manages such risk through funding in the same functional currencies, where possible. In addition, net open position ("NOP") limit is set for overall NOP as well as NOP limits for individual currencies. The decision to hedge the Group's net investment in its overseas operations is based on its potential economic benefit and is periodically assessed by the ALCO.

The table in Note 44 to the financial statements sets out the Group's assets, liabilities and net open positions by currencies and the Group's structural foreign exchange positions. As at 31 December 2011, a net short position of RM132.4 million or 4% of the Group's structural position represents hedging of future earnings from overseas operations (2010: net long position of RM353.7 million).

5. Market Risk (Cont'd.)

5.2 Non-Traded Market Risk (Cont'd.)

(d) Equity Risk

Equity risk refers to the adverse impact arising from movements in equity prices on equity positions held by the Group for yield purposes.

Risk Management Approach

The Group manages such risk via pre-approved portfolio size and cut-loss limits. Decisions concerning such positions are made by the Share Investment Committee.

6. Equity Exposures in the Banking Book

The following tables present the minimum regulatory capital requirements for the equity exposures in the banking book of the Group.

Minimum Regulatory Capital Requirements for Equity Exposures in the Banking Book

Group	2011 Gross Credit Exposure RM'000	2011 Risk-Weighted Assets RM'000	2010 Gross Credit Exposure RM'000	2010 Risk-Weighted Assets RM'000
Publicly traded				
Investments in unit trust funds	**4,816,786**	**4,816,786**	4,672,166	4,672,166
Holdings of equity investments	**36,091**	**36,091**	36,218	36,218
	4,852,877	**4,852,877**	4,708,384	4,708,384
Privately held				
For socio-economic purposes	**87,240**	**62,482**	87,439	62,681
Not for socio-economic purposes	**38,196**	**57,294**	17,474	26,211
	125,436	**119,776**	104,913	88,892
Total	**4,978,313**	**4,972,653**	4,813,297	4,797,276

(i) Publicly Traded

The investment in unit trust funds, comprises of bond fund and money market funds, is held for yield purposes. Holdings of equity investments comprise mainly of shares listed in an exchange, are held for dividend yield purpose and to take advantage of favourable movements in equity prices. Decisions concerning investing in equity shares are made by Share Investment Committee. Equity positions are monitored against pre-determined cut-loss limits. All publicly traded equity exposures are stated at fair value.

(ii) Privately Held

The privately held equity investments are unquoted and stated at cost adjusted for impairment loss, if any.

6. Equity Exposures in the Banking Book (Cont'd.)

The following tables present the gains and losses on equity exposures in the banking book of the Group.

Gains and Losses on Equity Exposures in the Banking Book

Group	2011 RM'000	2010 RM'000
Realised gains recognised in the income statement		
– Publicly traded equity investments	**736**	3,477
Unrealised gains/(losses) recognised in revaluation reserve		
- Investments in unit trust funds	**31,814**	33,191
- Publicly traded equity investments	**(8,423)**	(4,479)
	23,391	28,712

7. Liquidity and Funding Risk

Liquidity risk is the risk that the Group is unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due or securing the funding requirements at excessive cost. Funding risk is the risk that the Group does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient.

Risk Governance

The ALCO is the primary party responsible for liquidity management based on guidelines approved by the RMC. Liquidity policies and frameworks are reviewed by the ALCO and approved by the RMC prior to implementation.

Risk Management Approach

The liquidity risk management of the Group is aligned with the New Liquidity Framework issued by BNM, and is measured and managed based on projected cash flows. In addition to ensuring the compliance with the New Liquidity Framework, the Group maintains a liquidity compliance buffer to meet any unexpected cash outflows.

The day-to-day funding management is undertaken by the treasury operations and this includes the maintenance of a portfolio of highly liquid assets that can be easily liquidated as protection against any unforeseen interruption to cash flows and the replenishment of funds as they matured or are borrowed by customers. As at 31 December 2011, the Group holds a sizeable balance of government securities amounting to RM13,362.3 million (2010: RM14,257.6 million) or 38% (2010: 48%) of its portfolio of securities.

7. Liquidity and Funding Risk (Cont'd.)

Risk Management Approach (Cont'd.)

The Group's liquidity and funding position is supported by the Group's significant retail deposit base, accompanied by funding from wholesale markets. The Group's retail deposit base comprises current and savings deposits which, although payable on demand, have traditionally in aggregate provided stable sources of funding. The Group's reputation, earnings generation capacity, strong credit rating, financial and capital strength including offering of competitive deposit rates are core attributes to preserve depositors' confidence and ensure liquidity. The Group accesses the wholesale markets through the issuance of certificate of deposits and the taking of money market deposits to meet short-term obligations and to maintain its presence in the local money markets.

The primary tools for monitoring liquidity are the maturity mismatch analysis, assessment on the concentration of fundings, the availability of unencumbered assets and the use of market-wide information to identify possible liquidity problems. Liquidity positions are reported to the ALCO on a monthly basis in Ringgit Malaysia and United States Dollars.

Contingency funding plans are in place to identify early warning signals of a liquidity problem. The contingency funding plans also set out the crisis escalation process as well as the various strategies to be employed to preserve liquidity including an orderly communication channel during a liquidity problem. A liquidity stress test programme is in place to ensure liquidity stress tests are systematically performed by the various entities under the Group to determine the cash flow mismatches under the "Specific Institution Liquidity Problem" and "Systemic Liquidity Problem" scenarios and the possible sources of funding to meet the shortfalls during a liquidity crisis.

Overseas subsidiary companies and overseas branches are required to comply with their respective local regulatory liquidity requirements and internal liquidity limits set by Head Office. Similar risk management processes as practiced by the Bank are adopted by its overseas subsidiary companies and overseas branches. It is the Group's policy that the overseas subsidiary companies and overseas branches strive to attain a self-funding position in funding their respective operations.

8. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is unavoidable for the Group as it is inherent in its business operations. The objective of the operational risk management of the Group is to manage its operational risk within an acceptable level.

The following tables present the minimum regulatory capital requirements on operational risk of the Group and the Bank, computed using the Basic Indicator Approach.

Minimum Regulatory Capital Requirements for Operational Risk

	2011		2010	
	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000	Risk-Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Group	**12,692,078**	**1,015,366**	11,546,113	923,689
Bank	**9,048,375**	**723,870**	8,446,853	675,748

Risk Governance

The Group's operational risk management is guided by the operational risk management framework designed to provide a sound and well-controlled operational environment within the Group. The framework sets out the Group's approach to identifying, assessing, monitoring and mitigating operational risk.

The ORMC assists the RMC in operational risk management oversight. The ORMC is responsible for overseeing the development and assessing the effectiveness of risk management policies in relation to operational risk. To ensure effective oversight and management of operational risk, dedicated independent risk management and control units are put in place for ensuring the operational risk policies are implemented and complied with.

The various business units are responsible for identifying, managing and mitigating operational risks within their lines of business and ensure that their business activities are carried out within the established operational risk policies, guidelines, procedures and limits.

Risk Management Approach

The day-to-day management of operational risk exposures is through a comprehensive system of internal controls to ensure that operational policies, guidelines and procedures are being adhered to at all levels throughout the Group. As events and business conditions evolve, the Group continues to strengthen and refine its operational risk management processes to ensure that the current and potential operational risk exposures are properly understood and managed.

8. Operational Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(a) Strategy and Processes

The Group has put in place a disciplined product evaluation process. The Group's product evaluation process is governed by the Group's Policy and Procedures on Risk Management Practices for New Products. Each new product or service introduced as well as variations to existing products or services are subject to a rigorous risk review and sign-off process where risks are identified and assessed by divisions independent of the risk taking unit that proposes the product or service. This is further augmented by the Group Framework on Product Transparency and Disclosure which emphasises the importance of safeguarding customers' confidentiality and promoting their awareness and understanding of the products and services, and informed decision making.

The Group continues to direct group-wide efforts to maintain its legal and regulatory compliance culture in all jurisdictions that the Group operates in. The Group seeks to meet the standards and expectations of regulatory authorities through a number of initiatives and activities to support compliance with regulations governing anti-money laundering and counter financing of terrorism.

To further enhance operational risk management in response to threat of external fraud, losses arising from frauds or control lapses are analysed in depth to identify the causes of such losses and to implement remedial actions to prevent recurrence. Analyses of impaired loans attributed to operational lapses are also conducted diligently and the findings are disseminated to all business units as learning points.

The Group manages its outsourcing activities through the Guidelines on Outsourcing Activities which stipulate the requirements and the operating procedures to be observed in managing activities that are outsourced to third party service providers. This is to ensure that the risks associated with outsourcing activities are managed effectively.

Disaster recovery and business continuity plans are put in place as an integral part of the Group's strategy to mitigate risk and manage the impact of loss events. Where appropriate, the Group mitigates risk of high impact loss events by relevant insurance coverage.

The Group protects and ensures information security through continuous assessment of the security features on all computer platforms and network infrastructure, and implementation of appropriate security controls to protect against the misuse or compromise of information assets. In addition, the Group continues to undertake initiatives to maintain 100% systems availability and robust system performance in the Group's computer systems, peripherals and network infrastructure to ensure uninterrupted transmission.

(b) Tools and Methods for Risk Mitigation

To manage and mitigate operational risk, the Group uses various tools including:

- Control self-assessment – to enhance management assessment of the state of the control environment
- Key risk indicators – to collect statistical data on an ongoing basis to facilitate early detection of operational control deficiencies
- Operational risk incident reporting and data collection – to facilitate an enhanced analysis and timely reporting of operational risk data which are useful in assessing the Group's operational risk exposure and in strengthening the internal control environment

8. Operational Risk (Cont'd.)

Risk Management Approach (Cont'd.)

(b) Tools and Methods for Risk Mitigation (Cont'd.)

The Group employs the following key methods to mitigate its operational risk:

- System of internal controls based on segregation of duties, independent checks, segmented system access control and multi-tier authorisation processes
- Documented operational risk management policies and procedural manuals to mitigate errors by users
- Processes to ensure compliance with internal policies, guidelines, controls and procedures and appropriate punitive actions are taken against errant staff
- Periodic review and enhancement of operational risk limits and control strategies
- Disaster recovery and business continuity plans put in place to mitigate risk and manage the impact of loss events
- Insurance coverage to mitigate risk of high impact loss events, where appropriate
- Review of outsourcing activities to ensure that service providers adhere to the terms and conditions in the service agreement and that their integrity and service quality are not compromised

(c) Reporting

Reporting forms an essential part of operational risk management. The Group's risk management processes are designed to ensure that operational issues are identified, escalated and managed on a timely manner.

Operational risk areas for the key business and control units are reported through monthly operational risk management reports, which provide analyses and action plans for each significant business operation. The operational risk areas considered include premises controls and safety, losses due to fraud or control lapses, system availability, disaster recovery and business continuity plan simulations, outsourcing activities and legal actions taken against the Group. The operational risk management reports are tabled to the ORMC and the RMC for deliberations.

9. Shariah Non-Compliance Risk and Governance

Shariah non-compliance risk arises from Public Islamic's failure to comply with the Shariah rules and principles as determined by the Shariah Committee of Public Islamic or the relevant body, such as the Shariah Advisory Council of Bank Negara Malaysia ("BNM").

This risk is managed through the Shariah Governance Framework ("the Framework") which was endorsed by the Shariah Committee and approved by the Board of Directors of Public Islamic ("the Board of Public Islamic"). The Framework is drawn up in accordance to the Shariah Governance Framework for Islamic Financial Institutions issued by BNM on 22 October 2010. The Framework, amongst others, sets out the roles and responsibilities of the Board of Public Islamic and the Shariah Committee, a systematic approach in reviewing Shariah compliance and the reporting process on Shariah matters. The Board of Public Islamic is ultimately responsible for Shariah compliance, performs diligence over the effective functioning of the Framework and ensures that policies relating to Shariah matters are implemented accordingly. The Shariah Committee is preceded by qualified members who deliberate and endorse all Shariah matters which are subsequently noted and/or approved by the Board of Public Islamic. On a periodic basis, the Shariah Committee members perform on-site inspections at branches to review the operations of the Public Islamic to ensure the operations are conducted in accordance to Shariah rules and principles. The Framework will further strengthen the Shariah governance of Public Islamic and supplements the existing policies and procedures relating to Shariah compliance of Public Islamic.

The Shariah Compliance Unit, which comprises Shariah review and Shariah research functions, is responsible for the continuous assessment on Shariah compliance for all activities and business operations of Public Islamic. Shariah review examines and evaluates Public Islamic's level of compliance to the Shariah through the end-to-end product development process and operational review including the review of financing application for possible use of financing for Shariah non-compliance activities. Shariah research is responsible for conducting research on Shariah issues and providing Shariah advisory support to branches and business units. In addition, internal audits are performed periodically to verify that the Islamic operations conducted by the branches or business units are in compliance with the decisions endorsed by the Shariah Committee. Any incidences of Shariah non-compliance are reported to both the Shariah Committee and the Audit Committee. Remedial actions, including but not limited to the immediate termination of the Shariah non-compliant products or services to address Shariah non-compliant income or activities are proposed for the endorsement of the Shariah Committee and the approval by the Board of Public Islamic.

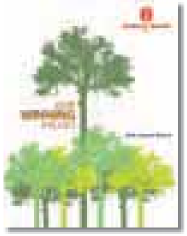
Rectification Process of Shariah Non-Compliant Income Detected During the Year

An ongoing review on Public Islamic's operational processes in financing transactions was conducted and a Shariah non-compliant transaction was detected during the financial year under review. As a result, an amount of RM48,263 (2010: Nil) was identified as Shariah non-compliant income, a portion of which has been identified and approved by the Shariah Committee and the Board of Public Islamic for channeling to the approved charitable bodies.

Past Award – Winning
ANNUAL REPORTS

2011 NACRA Award
- Most Outstanding Annual Report – Gold Award
- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia – Platinum Award

2010



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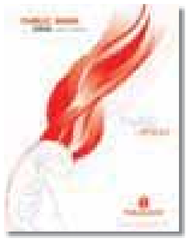

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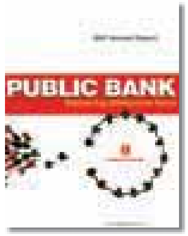

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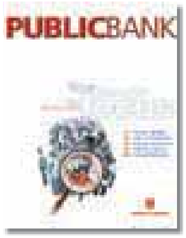

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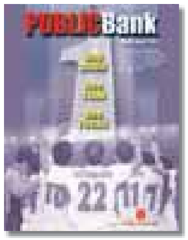

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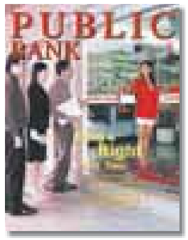

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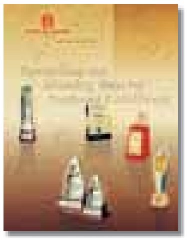

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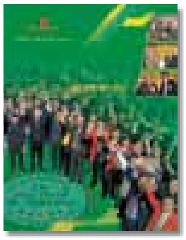

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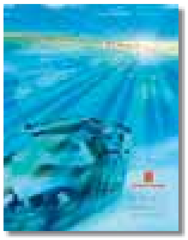

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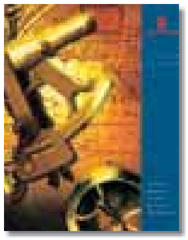

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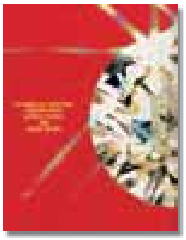

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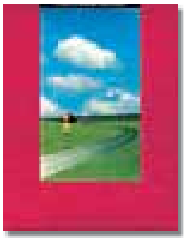

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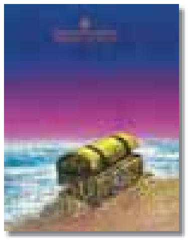

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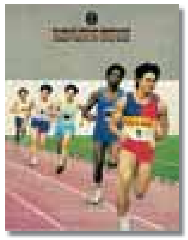

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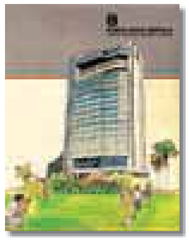

1986

2010 NACRA Award
- Most Outstanding Annual Report – Platinum Award
- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia – Gold Award

2009 NACRA Award
- Most Outstanding Annual Report – Platinum Award
- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia – Platinum Award

2008 NACRA Award
- Most Outstanding Annual Report – Platinum Award
- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia – Platinum Award

2007 NACRA Award
- Most Outstanding Annual Report – Platinum Award
- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia – Platinum Award
- Best Design Annual Report – Platinum Award

2006 NACRA Award
- Most Outstanding Annual Report – Gold Award
- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia – Platinum Award

2005 NACRA Award
- Most Outstanding Annual Report
- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia

2004 NACRA Award
- Most Outstanding Annual Report
- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia

2003 NACRA Award
- Most Outstanding Annual Report
- Industry Excellence Award – Finance Sector
- Best Annual Report in Bahasa Malaysia

CITRA Award
- Merit Award

2002 NACRA Award
- Most Outstanding Annual Report
- Industry Excellence Award – Finance Sector

CITRA Award
- Special Jury Award

2001 NACRA Award
- Most Outstanding Annual Report
- Industry Excellence Award – Finance Sector

CITRA Award
- Special Jury Award

2000 NACRA Award
- Industry Excellence Award – Finance Sector

CITRA Award
- Main Award

1999 NACRA Award
- Industry Excellence Award – Finance Sector

1998 NACRA Award
- Industry Excellence Award – Finance Sector

1997 NACRA Award
- Best Annual Report in Bahasa Malaysia
- Industry Excellence Award – Finance Sector

1996 NACRA Award
- Most Outstanding Annual Report
- Industry Excellence Award – Finance Sector

1995 NACRA Commendation Award
- Accounting Information
- Annual Report in Bahasa Malaysia

1994 NACRA Commendation Award
- Accounting Information
- Corporate Information
- Annual Report in Bahasa Malaysia

1991 NACRA Award
- Best Accounting Information – NACRA Commendation Award
- Corporate Information

1990 NACRA Award
- Best Accounting Information

1989 NACRA Award
- Most Outstanding Annual Report
- Best Annual Report – Finance Sector

NACRA Commendation Award
- Corporate Information
- Accounting Information
- Annual Report in Bahasa Malaysia

1988 MACRA Award
- Best Overall Annual Report
- Best Corporate Information – NARA Award
- Best Annual Report – Finance Sector

1987 MACRA Award
- Best Corporate Information – NARA Award
- Best Annual Report – Finance Sector

1986 MACRA Award
- Best Corporate Information