ALLIANCE BANK

Alliance Bank Malaysia Berhad (88103-W)

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2012

ALLIANCE BANK MALAYSIA BERHAD
(Incorporated in Malaysia)

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ALLIANCE BANK MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements of the Bank and of the Group for the financial year ended 31 March 2012.

PRINCIPAL ACTIVITIES

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

The principal activities of the subsidiaries are Islamic banking, investment banking including stockbroking services, nominees services, fund management, investment advisory services and related financial services.

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

RESULTS

	BANK RM'000	GROUP RM'000
Profit before taxation and zakat	518,997	648,437
Taxation and zakat	(131,246)	(164,107)
Net profit after taxation and zakat	387,751	484,330
Attributable to:		
Owner of the parent	387,751	483,846
Non-controlling interests	-	484
Net profit after taxation and zakat	387,751	484,330

RESERVES AND PROVISIONS

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

ORDINARY SHARES DIVIDENDS

The amount of ordinary shares dividends declared and paid by the Bank since 31 March 2011 were as follows:

		RM'000
(i)	A final dividend of 22.3 sen, less 25% taxation on 596,517,043 ordinary shares in respect of the financial year ended 31 March 2011, was paid on 26 July 2011	99,767
(ii)	An interim dividend of 18.9 sen, less 25% taxation on 596,517,043 ordinary shares in respect of the financial year ended 31 March 2012, was paid on 24 November 2011	84,556
		184,323

ORDINARY SHARES DIVIDENDS (CONTD.)

A final dividend of 28.7 sen, less 25% taxation on 596,517,043 ordinary shares amounting to approximately RM128,400,000 (gross dividend: RM171,200,000) in respect of current financial year will be proposed for shareholders' approval at the forthcoming Annual General Meeting. The accompanying financial statements do not reflect the proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 March 2013.

IRREDEEMABLE (NON-CUMULATIVE) CONVERTIBLE PREFERENCE SHARES ("ICPS") DIVIDENDS

The amount of ICPS dividends declared and paid by the Bank since 31 March 2011 was as follows:

	RM'000
A dividend of 5.0 sen per share, tax exempt under the single tier tax on 400,000,000 ICPS in respect of financial year ended 31 March 2012, was paid on 24 November 2011	20,000

ALLIANCE FINANCIAL GROUP BERHAD EMPLOYEES' SHARE SCHEME

The Bank's holding company, Alliance Financial Group Berhad has an Employee's Share Scheme.

The Alliance Financial Group Berhad Employees' Share Scheme ("AFG Bhd ESS") is governed by the Bye Laws approved by its shareholders at an Extraordinary General Meeting held on 28 August 2007. The AFG Bhd ESS which comprises the Share Option Plan, the Share Grant Plan and the Share Save Plan took effect on 3 December 2007 and is in force for a period of 10 years.

Alliance Financial Group Berhad, the holding company of the Bank had on 22 July 2011, offered/awarded the following share options and share grants to Directors and employees of the Alliance Financial Group Berhad and its subsidiaries who have met the criteria of eligibility for participation in the AFG Bhd ESS:

(i) 9,764,000 share options under the Share Option Plan at an option price of RM3.58 per share which will be vested subject to the achievement of performance conditions.

(ii) 2,127,600 share grants under the Share Grant Plan. The first 50% of the share grants are to be vested at the end of the second year and the remaining 50% of the share grants are to be vested at the end of the third year from the date on which an award is made.

There were no share options offered under the Share Save Plan during the financial year.

The salient features of the AFG Bhd ESS are disclosed in Note 27 to the financial statements.

Save for the Group Chief Executive Officer of the Bank, none of the other Directors of the Bank were offered/awarded any share options/share grants during the financial year.

Details of share options/share grants offered/awarded to Directors are disclosed in the Directors' Report of the holding company.

BUSINESS REVIEW FOR FINANCIAL YEAR ENDED ("FYE") 31 MARCH 2012

For the twelve months ended 31 March 2012, the Group's profit before tax grew 15.8%, from RM559.7 million in the previous financial year to RM648.4 million. After setting aside taxation, the Group's net profit rose by 16.6% to RM484.3.

Arising from this improvement in profits, the Group's return on equity rose to 14.0% (FY2011: 13.5%) and earnings per share to 81 sen (FY2011: 70 sen). The Bank declared a final net dividend of RM128.4 million for the financial year ended 31 March 2012.

Net interest income, including income from Islamic banking operations, however, grew by 2.8% to RM931.4 million in FY2012, despite the 11.3% growth in loans and financing. This was due to the further contraction in the net interest margin to 2.51% (FY2011: 2.70%) arising from the full year impact of the rise in the Overnight Policy Rate ("OPR") in 2010 and May 2011, as well as several increases in Statutory Reserve Requirement ("SRR") during the year.

The non-interest income registered a growth of 41.9% during the year, resulting in the non-interest income ratio improving further to 26.8% (FY2011: 20.7%) driven by trading in investment securities, treasury sales, transaction banking and wealth management.

The cost to income ratio dropped to 47.0% (FY2011: 47.8%) due to more effective cost management, as the Group continued to focus on streamlining of business operations to improve productivity and efficiency.

Allowances for loan impairment had increased to RM34.0 million in FY2012, due mainly to the collective provisions as the loans growth was significantly stronger at 11.3% (FY2011: 4.8%). The net write back of impairment provisions had also increased to RM21.6 million in FY2012, as compared with RM4.1 million in FY2011.

Reflecting the disciplined approach in credit risk management and collection processes, the Group's gross impaired loans ratio improved further to 2.4% (FY2011: 3.3%), and the overall asset quality remains better than the industry average. The net impaired loans ratio stood at 1.4% as at end-March 2012, compared with 1.9% a year ago.

The gross impaired loan loss coverage ratio has risen to 108.5% (FY2011: 90.1%), as the Group has set aside collective provisions under Bank Negara Malaysia's transitional provision for FRS139 adoption.

The Group's loans to deposits ratio remained healthy at 77.7% (FY2011: 77.0%), with total loans and deposits outstanding at RM25.0 billion and RM32.2 billion respectively as at end-March 2012.

The Group also remains well capitalized with a risk-weighted capital ratio ("RWCR") standing at 15.2%, well above the minimum requirement of 8%.

During the year, the Group continued with its investments to upgrade technology and infrastructure, as well as its human capital, to support the on-going business expansion, and further enhance the Group's competitiveness in the financial services industry.

ECONOMIC OUTLOOK AND PROSPECTS FOR FYE 31 MARCH 2013

Bank Negara Malaysia ("BNM") has projected a 4% to 5% growth in the real gross domestic product ("GDP") in 2012 amidst a more challenging external environment. This is based on expectations of the timely and full implementation of the Economic Transformation Program and other measures announced in the 2012 Budget. Further, BNM is also expected to maintain an accommodative monetary policy to facilitate economic growth, while responding to global developments and managing the risks of inflation.

BUSINESS OUTLOOK FOR FYE 31 MARCH 2013

Against this background of GDP growth of 4% to 5%, the Group expects demand for financing and non-interest income business activities to be sustained. The Group will continue to focus on existing business opportunities in Consumer Banking and Business Banking, while enhancing Treasury and Transaction Banking and developing the Wealth Management and Investment Banking business. The Group's priority will be on growing revenue, managing asset quality, enhancing its human capital, improving productivity, and building the balance sheet for sustainable growth.

The Group expects to deliver a satisfactory performance for the next financial year ending March 2013.

RATING BY EXTERNAL RATING AGENCY

The Bank is rated by Rating Agency Malaysia Berhad ("RAM"). Based on RAM's rating in November 2011, the Bank's short-term and long-term ratings are reaffirmed at P1 and A1 respectively. RAM has classified these rating categories as follows:

P1 - Financial institutions in this category have superior capacities for timely payments of obligations.

A1 - Financial institutions rated in this category are adjudged to offer adequate safety for timely payments of financial obligations. This level of rating indicates financial institutions with adequate credit profiles, but which possess one or more problem areas, giving rise to the possibility of future riskiness. Financial institutions rated in this category have generally performed at industry average and are considered to be more vulnerable to changes in economic conditions than those rated in the higher categories.

DIRECTORS

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

Dato' Thomas Mun Lung Lee (Chairman)	
Sng Seow Wah	
Megat Dziauddin bin Megat Mahmud	
Kung Beng Hong	
Tan Yuen Fah	
Zakaria bin Abd Hamid	
Ou Shian Waei	
Kuah Hun Liang	(appointed on 15 December 2011)
Lee Ah Boon	(appointed on 18 April 2012)
Tee Kim Chan	(resigned on 7 June 2011)
Chua Eng Kee	(retired on 28 January 2012)
Phoon Siew Heng	(resigned on 18 April 2012)

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangements to which the Bank is a party, whereby the Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate, other than those arising from the share options/share grants under the AFG Bhd ESS.

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 or related corporations as shown in Note 38(c) and Note 40 to the financial statements of the Bank or financial statements of related corporations) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

DIRECTORS' INTERESTS

Pursuant to Section 134(3) of the Companies Act, 1965, the beneficial interests of Megat Dziauddin bin Megat Mahmud, Dato' Thomas Mun Lung Lee and Sng Seow Wah are disclosed in the Directors' Report of the holding company, Alliance Financial Group Berhad.

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.

SHARE CAPITAL

There was no change in the issued and paid-up capital of the Bank during the financial year.

BAD AND DOUBTFUL DEBTS

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

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

CURRENT ASSETS

Before the financial statements of the Bank and of the Group were made out, the Directors took reasonable steps to ascertain that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business, had been written down to an amount which they might be expected so 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 Bank and of the Group misleading.

VALUATION METHOD

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

CONTINGENT AND OTHER LIABILITIES

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

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

(ii) any contingent liability in respect of the Bank or of the Group which has arisen since the end of the financial year other than in the ordinary course of banking business.

No contingent or other liability of the Bank or of the Group 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 affect the ability of the Bank or of the Group 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 Bank and of the Group, which would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

In the opinion of the Directors:

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

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

HOLDING COMPANY

The Directors regard Alliance Financial Group Berhad, a company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad, as the holding company of the Bank.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

The significant events during the year are disclosed in Note 51 to the financial statements.

SUBSEQUENT EVENTS

There were no material events subsequent to the end of the financial reporting period that require disclosure or adjustment 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 Guidelines on Financial Reporting for Financial Institutions and the Guidelines on Classification and Impairment Provisions for Loans/Financing.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 30 May 2012.

Dato' Thomas Mun Lung Lee

Sng Seow Wah

Kuala Lumpur, Malaysia

ALLIANCE BANK MALAYSIA BERHAD
(Incorporated in Malaysia)

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

We, Dato' Thomas Mun Lung Lee and Sng Seow Wah, being two of the Directors of Alliance Bank Malaysia Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 11 to 135 are drawn up in accordance with the provisions of the Companies Act, 1965 and the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and Bank Negara Malaysia Guidelines, so as to give a true and fair view of the state of affairs of the Bank and of the Group as at 31 March 2012 and of the results and the cash flows of the Bank and of the Group for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 30 May 2012.

Dato' Thomas Mun Lung Lee

Sng Seow Wah

Kuala Lumpur, Malaysia

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

I, Lee Eng Leong, being the officer primarily responsible for the financial management of Alliance Bank Malaysia Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 11 to 135 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed Lee Eng Leong
at Kuala Lumpur in the Federal Territory on
30 May 2012

Lee Eng Leong

Before me,

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
ALLIANCE BANK MALAYSIA BERHAD
(Incorporated in Malaysia)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Alliance Bank Malaysia Berhad on pages 11 to 135 which comprise the statements of financial position as at 31 March 2012 of the Bank and of the Group, and the statements of comprehensive income, changes in equity and cash flows of the Bank and of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on Notes 1 to 53.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation of financial statements that give a true and fair view in accordance with the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, the Companies Act, 1965 and Bank Negara Malaysia Guidelines, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of 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 MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, the Companies Act, 1965 and Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Bank and of the Group as at 31 March 2012 and of their financial performances and cash flows for the year then ended.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
ALLIANCE BANK MALAYSIA BERHAD (CONTD.)
(Incorporated in Malaysia)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

(b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the 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.

(c) Our audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

ONG CHING CHUAN
(No. 2907/11/13 (J))
Chartered Accountant

Kuala Lumpur, Malaysia
30 May 2012

ALLIANCE BANK MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION AS AT 31 MARCH 2012

		BANK		GROUP	
		2012	2011	2012	2011
	Note	RM'000	RM'000	RM'000	RM'000
ASSETS					
Cash and short-term funds	3	1,730,290	958,111	1,874,332	911,730
Deposits and placements with banks and other financial institutions	4	143,461	954,610	93,438	100,228
Balances due from clients and brokers	5	-	-	61,698	80,519
Financial assets held-for-trading	6	1,342,302	1,176,190	1,491,995	1,938,250
Financial investments available-for-sale	7	7,419,911	6,329,994	9,123,201	9,259,940
Financial investments held-to-maturity	8	228,622	633,521	795,256	940,726
Derivative financial assets	9	23,712	32,047	23,712	32,047
Loans, advances and financing	10	19,727,393	17,718,442	24,360,203	21,796,319
Other assets	11	79,901	103,509	77,799	87,008
Tax recoverable		14,022	-	15,019	2,442
Statutory deposits with Bank Negara Malaysia	12	901,250	225,300	1,162,983	291,008
Investments in subsidiaries	13	801,664	801,664	-	-
Investments in associates	14	30,230	30,230	27,035	29,038
Property, plant and equipment	15	87,696	100,847	89,778	104,553
Deferred tax assets	16	-	75,272	15,038	108,808
Intangible assets	17	238,588	241,141	354,902	357,682
		32,769,042	29,380,878	39,566,389	36,040,298
Non-current assets held for sale	53	3,814	-	3,814	-
TOTAL ASSETS		32,772,856	29,380,878	39,570,203	36,040,298
LIABILITIES AND EQUITY					
Deposits from customers	18	26,958,903	23,418,868	32,153,643	28,997,092
Deposits and placements of banks and other financial institutions	19	1,186,730	1,390,331	2,161,005	1,952,200
Balances due to clients and brokers	20	-	-	74,915	86,743
Bills and acceptances payable	21	131	111,140	178	111,159
Derivative financial liabilities	9	26,241	33,347	26,241	33,347
Amount due to Cagamas Berhad	22	22,044	125,776	22,044	125,776
Other liabilities	23	720,819	663,533	866,788	810,317
Provision for taxation		-	35,206	7,372	40,507
Deferred tax liabilities	16	12,191	-	23,012	6,792
Subordinated obligations	24	611,615	600,000	611,615	600,000
TOTAL LIABILITIES		29,538,674	26,378,201	35,946,813	32,763,933
Share capital	25	600,517	600,517	600,517	600,517
Reserves	26	2,633,665	2,402,160	3,017,968	2,671,360
CAPITAL AND RESERVES ATTRIBUTABLE TO OWNER OF THE PARENT		3,234,182	3,002,677	3,618,485	3,271,877
Non-controlling interests		-	-	4,905	4,488
TOTAL EQUITY		3,234,182	3,002,677	3,623,390	3,276,365
TOTAL LIABILITIES AND EQUITY		32,772,856	29,380,878	39,570,203	36,040,298
COMMITMENTS AND CONTINGENCIES	46	16,775,305	14,758,344	18,741,373	15,909,028

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

ALLIANCE BANK MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2012

		BANK		GROUP	
		2012	2011	2012	2011
	Note	RM'000	RM'000	RM'000	RM'000
Interest income	28	1,263,818	1,126,444	1,328,045	1,203,400
Interest expense	29	(618,607)	(490,539)	(652,989)	(530,003)
Net interest income		645,211	635,905	675,056	673,397
Net income from Islamic banking business	30	-	-	256,329	232,732
		645,211	635,905	931,385	906,129
Other operating income	31	316,554	213,041	320,276	225,701
Net income		961,765	848,946	1,251,661	1,131,830
Other operating expenses	32	(429,312)	(399,763)	(588,821)	(541,682)
Operating profit before allowance		532,453	449,183	662,840	590,148
Allowance for losses on loans, advances and financing and other losses	33	(28,643)	(19,405)	(34,043)	(33,008)
Write-back of impairment	34	15,187	4,070	21,643	4,076
Operating profit after allowance		518,997	433,848	650,440	561,216
Share of results of associates	14	-	-	(2,003)	(1,467)
Profit before taxation and zakat		518,997	433,848	648,437	559,749
Taxation and zakat	35	(131,246)	(112,438)	(164,107)	(144,381)
Net profit after taxation and zakat		387,751	321,410	484,330	415,368
Other comprehensive income:					
Revaluation reserve on financial investments available-for-sale					
- Net gain/(loss) from change in fair value		60,377	(7,054)	85,531	(7,925)
- Transfer (to)/from deferred tax		(15,094)	1,763	(21,382)	1,981
Other comprehensive income/(expense), net of tax		45,283	(5,291)	64,149	(5,944)
Total comprehensive income for the year		433,034	316,119	548,479	409,424
Profit attributable to:					
Owner of the parent		387,751	321,410	483,846	415,419
Non-controlling interests		-	-	484	(51)
Net profit after taxation and zakat		387,751	321,410	484,330	415,368
Total comprehensive income attributable to:					
Owner of the parent		433,034	316,119	547,995	409,475
Non-controlling interests		-	-	484	(51)
Total comprehensive income for the year		433,034	316,119	548,479	409,424
Earnings per share attributable to owner of the parent	36				
- Basic (sen)				81	70
- Diluted (sen)				61	52

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

ALLIANCE BANK MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2012

			Non-distributable reserves				Distributable reserves	
BANK	Ordinary shares RM'000	ICPS RM'000	Share premium RM'000	Statutory reserve RM'000	Revaluation reserves RM'000	Equity contribution from parent RM'000	Retained profits RM'000	Total equity RM'000
At 1 April 2010	596,517	4,000	597,517	601,561	48,342	10,334	941,332	2,799,603
Net profit after taxation and zakat	-	-	-	-	-	-	321,410	321,410
Other comprehensive expense	-	-	-	-	(5,291)	-	-	(5,291)
Total comprehensive (expense)/income	-	-	-	-	(5,291)	-	321,410	316,119
Share-based payment under ESS	-	-	-	-	-	4,852	-	4,852
Payment for ESS recharged from parent	-	-	-	-	-	(3,051)	-	(3,051)
Transfer of ESS recharged difference on shares vested	-	-	-	-	-	(332)	332	-
Dividends paid (Note 37)	-	-	-	-	-	-	(114,846)	(114,846)
At 31 March 2011	596,517	4,000	597,517	601,561	43,051	11,803	1,148,228	3,002,677
At 1 April 2011	596,517	4,000	597,517	601,561	43,051	11,803	1,148,228	3,002,677
Net profit after taxation and zakat	-	-	-	-	-	-	387,751	387,751
Other comprehensive income	-	-	-	-	45,283	-	-	45,283
Total comprehensive income	-	-	-	-	45,283	-	387,751	433,034
Share-based payment under ESS	-	-	-	-	-	5,955	-	5,955
Payment for ESS recharged from parent	-	-	-	-	-	(3,161)	-	(3,161)
Transfer of ESS recharged difference on shares vested	-	-	-	-	-	156	(156)	-
Transfer to retained profits on shares options lapsed	-	-	-	-	-	(2,479)	2,479	-
Dividends paid (Note 37)	-	-	-	-	-	-	(204,323)	(204,323)
At 31 March 2012	596,517	4,000	597,517	601,561	88,334	12,274	1,333,979	3,234,182

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

ALLIANCE BANK MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2012 (CONTD.)

	Attributable to Owner of the Parent											
GROUP	Ordinary shares RM'000	ICPS RM'000	Share premium RM'000	Statutory reserve RM'000	Other reserves RM'000	Revaluation reserves RM'000	Equity contribution from parent RM'000	Profit equalisation reserve ("PER") RM'000	Retained profits RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
At 1 April 2010	596,517	4,000	597,517	735,515	10,018	74,564	12,185	26,388	918,801	2,975,505	4,539	2,980,044
Net profit/(loss) after taxation and zakat	-	-	-	-	-	-	-	-	415,419	415,419	(51)	415,368
Other comprehensive expense	-	-	-	-	-	(5,944)	-	-	-	(5,944)	-	(5,944)
Total comprehensive (expense)/income	-	-	-	-	-	(5,944)	-	-	415,419	409,475	(51)	409,424
Share-based payment under ESS	-	-	-	-	-	-	5,228	-	-	5,228	-	5,228
Payment for ESS recharged from parent	-	-	-	-	-	-	(3,485)	-	-	(3,485)	-	(3,485)
Transfer of ESS recharged difference on shares vested	-	-	-	-	-	-	(384)	-	384	-	-	-
Transfer to statutory reserve	-	-	-	50,891	-	-	-	-	(50,891)	-	-	-
Transfer to PER	-	-	-	-	-	-	-	(25,355)	25,355	-	-	-
Dividends paid (Note 37)	-	-	-	-	-	-	-	-	(114,846)	(114,846)	-	(114,846)
At 31 March 2011	596,517	4,000	597,517	786,406	10,018	68,620	13,544	1,033	1,194,222	3,271,877	4,488	3,276,365
At 1 April 2011	596,517	4,000	597,517	786,406	10,018	68,620	13,544	1,033	1,194,222	3,271,877	4,488	3,276,365
Net profit/(loss) after taxation and zakat	-	-	-	-	-	-	-	-	483,846	483,846	484	484,330
Other comprehensive income	-	-	-	-	-	64,149	-	-	-	64,149	-	64,149
Total comprehensive income	-	-	-	-	-	64,149	-	-	483,846	547,995	484	548,479
Share-based payment under ESS	-	-	-	-	-	-	6,494	-	-	6,494	-	6,494
Payment for ESS recharged from parent	-	-	-	-	-	-	(3,558)	-	-	(3,558)	-	(3,558)
Transfer of ESS recharged difference on shares vested	-	-	-	-	-	-	172	-	(172)	-	-	-
Transfer to retained profits on shares options lapsed	-	-	-	-	-	-	(2,919)	-	2,919	-	-	-
Transfer to statutory reserve	-	-	-	55,761	-	-	-	-	(55,761)	-	-	-
Dividends paid (Note 37)	-	-	-	-	-	-	-	-	(204,323)	(204,323)	(67)	(204,390)
At 31 March 2012	596,517	4,000	597,517	842,167	10,018	132,769	13,733	1,033	1,420,731	3,618,485	4,905	3,623,390

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

ALLIANCE BANK MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2012

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation and zakat	518,997	433,848	648,437	559,749
Adjustments for:				
Accretion of discount less amortisation of premium of financial investments	(90,058)	(75,141)	(94,369)	(82,179)
Depreciation of property, plant and equipment	27,091	34,908	29,271	39,516
Amortisation of computer software	17,853	14,014	18,239	14,420
Dividends from financial investments available-for-sale	(9,544)	(2,886)	(10,229)	(3,705)
Dividends from subsidiaries	(34,732)	(17,263)	-	-
(Gain)/loss on disposal of property, plant and equipment	(306)	321	(309)	329
Property, plant and equipment written-off	2,019	3,261	2,046	3,399
Computer software written-off	841	1	841	1
Loss on disposal of foreclosed properties	-	38	20	38
Net gain from redemption of financial investments held-to-maturity	(16,831)	(3)	(16,831)	(3)
Net gain from sale of financial assets held-for-trading	(3,568)	(417)	(3,699)	(417)
Net gain from sale of financial investments available-for-sale	(43,050)	(1,872)	(47,408)	(3,509)
Unrealised loss/(gain) on revaluation of financial assets held-for-trading	149	(220)	185	(256)
Interest expense on subordinated obligations	34,513	36,540	34,513	36,540
Unrealised gain on revaluation of derivative instruments	(1,572)	(4,149)	(1,572)	(4,149)
Interest income from financial investments held-to-maturity	(17,063)	(24,187)	(22,751)	(30,682)
Interest income from financial investments available-for-sale	(208,528)	(146,531)	(253,237)	(206,340)
Interest income from financial assets held-for-trading	(3,798)	(1,044)	(3,862)	(1,044)
Allowance for loans, advances and financing (net of recoveries)	56,742	77,524	89,744	103,804
Allowance for other assets (net of recoveries)	5,436	6,353	5,596	4,974
Net write-back of financial investments available-for-sale	(16,303)	(579)	(22,759)	(585)
Operating profit before working capital changes carried forward	218,288	332,516	351,866	429,901

ALLIANCE BANK MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2012 (CONTD.)

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES (CONTD.)				
Operating profit before working capital changes brought forward	218,288	332,516	351,866	429,901
Net write-back of financial investments held-to-maturity	(344)	(3,491)	(344)	(3,491)
Allowance for impairment of property, plant and equipment	1,460	-	1,460	-
(Write-back of)/allowance for commitment and contingencies	(1,482)	(2,866)	(4,210)	59
Share options/grants under Employees' Share Scheme	5,955	4,852	6,494	5,228
Share of results of associates	-	-	2,003	1,467
Operating profit before working capital changes	223,877	331,011	357,269	433,164
Changes in working capital:				
Deposits from customers	3,540,035	2,913,422	3,156,551	4,646,392
Deposits and placements of banks and other financial institutions	(203,601)	(412,521)	208,805	(346,208)
Bills and acceptances payable	(111,009)	(420,229)	(110,981)	(427,191)
Other liabilities	71,282	(26,201)	73,194	3,953
Deposits and placements with banks and other financial institutions	811,149	48,844	6,790	71,354
Financial assets held-for-trading	(152,792)	(1,153,072)	460,685	(1,909,800)
Loans, advances and financing	(2,065,693)	(538,246)	(2,653,628)	(1,146,201)
Other assets	(1,873)	(21,747)	2,452	(22,445)
Balances due from clients and brokers	-	-	22,085	5,971
Amount due from/(to) subsidiaries	19,148	(9,003)	-	-
Amount due (to)/from holding company	(353)	218	(353)	218
Statutory deposits with Bank Negara Malaysia	(675,950)	(17,100)	(871,975)	(32,602)
Amount due (to)/from Cagamas Berhad	(103,732)	97,699	(103,732)	97,699
Payment for ESS recharged from parent	(3,161)	(3,051)	(3,558)	(3,485)
Cash generated from operations	1,347,327	790,024	543,604	1,370,819
Taxes and zakat paid	(99,456)	(86,382)	(121,198)	(119,269)
Net cash generated from operating activities	1,247,871	703,642	422,406	1,251,550

ALLIANCE BANK MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2012 (CONTD.)

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Dividends from financial investments available-for-sale	9,538	2,842	10,219	3,657
Dividends from subsidiaries	26,088	12,947	-	-
Interest income from financial investments held-to-maturity	17,063	24,187	22,751	30,682
Interest income from financial investments available-for-sale	208,528	146,531	253,237	206,340
Interest income from financial assets held-for-trading	3,798	1,044	3,862	1,044
Purchase of property, plant and equipment	(21,599)	(14,347)	(22,184)	(14,882)
Purchase of computer software	(16,141)	(10,222)	(16,300)	(10,400)
Proceeds from redemption and maturity of financial investments held-to-maturity (net of purchase)	474,065	37,735	218,950	6,640
Proceeds from redemption and maturity of financial investments available-for-sale (net of purchase)	(942,169)	(2,949,231)	319,507	(3,940,354)
Proceeds from disposal of property, plant and equipment	672	1,718	677	1,818
Proceeds from disposal of foreclosed properties	4,200	62	4,285	62
Proceeds from disposal of computer software	-	134	-	155
Acquisition of investment in an associate	-	(30,000)	-	(30,000)
Net cash (used in)/generated from investing activities	(235,957)	(2,776,600)	795,004	(3,745,238)
CASH FLOWS FROM FINANCING ACTIVITIES				
Interest expense on subordinated obligations	(32,778)	(36,540)	(32,778)	(36,540)
Dividends paid to holding company	(204,323)	(114,846)	(204,323)	(114,846)
Dividends paid to non-controlling interests	-	-	(67)	-
Proceeds from issuance of subordinated notes	597,366	-	597,366	-
Redemption of subordinated bonds	(600,000)	-	(600,000)	-
Net cash used in financing activities	(239,735)	(151,386)	(239,802)	(151,386)

ALLIANCE BANK MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2012 (CONTD.)

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Net change in cash and cash equivalents	772,179	(2,224,344)	977,608	(2,645,074)
Cash and cash equivalents at beginning of year	958,111	3,182,455	824,226	3,469,300
Cash and cash equivalents at end of year	1,730,290	958,111	1,801,834	824,226

Cash and cash equivalents comprise the following:

Cash and short-term funds	1,730,290	958,111	1,874,332	911,730
Less: Monies held in trust (Note 3)	-	-	(72,498)	(87,504)
	1,730,290	958,111	1,801,834	824,226

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

ALLIANCE BANK MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

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

The principal activities of the subsidiaries are Islamic banking, investment banking including stockbroking services, nominees services, fund management, investment advisory services and related financial services.

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

The Bank is a public limited liability company, incorporated and domiciled in Malaysia. The registered office is located at 3rd Floor, Menara Multi-Purpose, Capital Square, No 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.

The ultimate holding company is Alliance Financial Group Berhad, a company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 30 May 2012.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the Bank and the Group are consistent with those adopted in the annual audited financial statements for the previous financial year, unless otherwise stated.

Standards, amendments to published standards and interpretations that are effective

The new accounting standards, amendments and improvements to published standards and interpretations that are effective for the Bank and the Group's financial year beginning on or after 1 April 2011 are as follows:

- Revised FRS 1 "First-time Adoption of Financial Reporting Standards"
- Revised FRS 3 "Business Combinations"
- Revised FRS 127 "Consolidated and Separate Financial Statements"
- Amendment to FRS 2 "Share-based Payment: Group Cash-settled Share-based Payment Transactions"
- Amendment to FRS 7 "Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments"
- Amendment to FRS 1 "First-time Adoption of Financial Reporting Standards"
- Amendment to FRS 132 "Financial Instruments: Presentation - Classification of Rights Issue"
- Amendments to IC Interpretation 9 “Reassessment of Embedded Derivatives”
- IC Interpretation 4 "Determining whether an Arrangement contains a Lease"
- IC Interpretation 12 "Service Concession Arrangements"
- IC Interpretation 16 "Hedges of A Net Investment In A Foreign Operation"
- IC Interpretation 17 "Distributions of Non-cash Assets to Owners"
- IC Interpretation 18 "Transfer of Assets From Customers"
- Improvements to FRSs (2010)

Other than the adoption of Amendment to FRS 7 ''Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments'' which will impact the disclosure requirement of fair value measurement by level of a fair value measurement hierarchy, the adoption of the other revised accounting standards, amendments and improvements to published standards and interpretations are not expected to have a material impact on the financial statements of the Bank and the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank and the Group but not yet effective

The Group will apply the new standards, amendments to standards and interpretations in the following period:

<u>Financial year beginning on/after 1 April 2012</u>

In the next financial year, the Bank and the Group will be adopting the new IFRS-compliant framework, Malaysian Financial Reporting Standards ("MFRS"). MFRS 1 "First-time adoption of MFRS" provides for certain optional exemptions and certain mandatory exceptions for first-time MFRS adopters.

(i) MFRS 139 "Financial instruments: Recognition and Measurement" - Bank Negara Malaysia has removed the transitional provision for banking institutions on loan impairment assessment and provisioning to comply with the FRS 139 requirements. The application of this standard will have impact on the basis used in assessing loan impairment on collective basis and the impact on the financial statement are currently still being assessed by the Group.

(ii) The revised MFRS 124 "Related Party Disclosures" (effective from 1 January 2012) removes the exemption to disclose transactions between government-related entities and the government, and all other government-related entities. The following new disclosures are now required for government related entities:

- The name of the government and the nature of their relationship;
- The nature and amount of each individually significant transactions; and
- The extent of any collectively significant transactions, qualitatively or quantitatively.

The application of this standard is not expected to have a material impact to the financial statements of the Bank and of the Group.

(iii) Amendment to MFRS 112 "Income taxes" (effective from 1 January 2012) introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. MFRS 112 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in MFRS 140 "Investment property". As a result of the amendments, IC Interpretation 121 "Income taxes - recovery of revalued non-depreciable assets" will no longer apply to investment properties carried at fair value. The amendments also incorporate into MFRS 112 the remaining guidance previously contained in IC Interpretation 121 which is withdrawn. The application of this standard is not expected to have a material impact on the financial statements of the Bank and the Group.

(iv) IC Interpretation 19 "Extinguishing financial liabilities with equity instruments" (effective from 1 July 2011) provides clarification when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. A gain or loss, being the difference between the carrying value of the financial liability and the fair value of the equity instruments issued, shall be recognised in profit or loss. Entities are no longer permitted to reclassify the carrying value of the existing financial liability into equity with no gain or loss recognised in profit or loss. The application of this standard is not expected to have a material impact on the financial statements of the Bank and the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

Financial year beginning on/after 1 April 2012 (contd.)

(v) Amendment to MFRS 1 “First time adoption on fixed dates and hyperinflation” (effective from 1 July 2011) includes two changes to MFRS 1. The first replaces references to a fixed date of 1 January 2004 with ‘the date of transition to MFRSs’, thus eliminating the need for entities adopting MFRSs for the first time to restate de-recognition transactions that occurred before the date of transition to MFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with MFRSs after a period when the entity was unable to comply with MFRSs because its functional currency was subject to severe hyperinflation.

(vi) Amendment to MFRS 7 “Financial instruments: Disclosures on transfers of financial assets” (effective from 1 July 2011) promotes transparency in the reporting of transfer transactions and improve users’ understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position, particularly those involving securitisation of financial assets.

Financial year beginning on/after 1 April 2013

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) MFRS 9 “Financial instruments - classification and measurement of financial assets and financial liabilities” (effective from 1 January 2015) replaces the multiple classification and measurement models in MFRS 139 with a single model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

The accounting and presentation for financial liabilities and for de-recognising financial instruments has been relocated from MFRS 139, without change, except for financial liabilities that are designated at fair value through profit or loss (“FVTPL”). Entities with financial liabilities designated at FVTPL recognise changes in the fair value due to changes in the liability’s credit risk directly in other comprehensive income ("OCI"). There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity.

The guidance in MFRS 139 on impairment of financial assets and hedge accounting continues to apply.

MFRS 7 requires disclosures on transition for MFRS 139 to MFRS 9.

(ii) MFRS 10 “Consolidated financial statements” (effective from 1 January 2013) changes the definition of control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. It establishes control as the basis for determining which entities are consolidated in the consolidated financial statements and sets out the accounting requirements for the preparation of consolidated financial statements. It replaces all the guidance on control and consolidation in MFRS 127 “Consolidated and separate financial statements” and IC Interpretation 112 “Consolidation – special purpose entities”. The application of this standard is not expected to have a material impact on the financial statements of the Bank and the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

Financial year beginning on/after 1 April 2013 (contd.)

(iii) MFRS 12 "Disclosures of interests in other entities" (effective from 1 January 2013) sets out the required disclosures for entities reporting under the two new standards, MFRS 10 and MFRS 11, and replaces the disclosure requirements currently found in MFRS 128 "Investments in associates". It requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

(iv) MFRS 11 "Joint arrangements" (effective from 1 January 2013) requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement, rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

(v) MFRS 13 "Fair value measurement" (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7 "Financial instruments: Disclosures", but apply to all assets and liabilities measured at fair value, not just financial ones.

(vi) The revised MFRS 127 "Separate financial statements" (effective from 1 January 2013) includes the provisions on separate financial statements that are left after the control provisions of MFRS 127 have been included in the new MFRS 10.

(vii) The revised MFRS 128 "Investments in associates and joint ventures" (effective from 1 January 2013) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of MFRS 11.

(viii) Amendment to MFRS 101 "Presentation of items of other comprehensive income" (effective from 1 July 2012) requires entities to separate items presented in 'other comprehensive income' ("OCI") in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in OCI.

(ix) Amendment to MFRS 119 "Employee benefits" (effective from 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Actuarial gains and losses will no longer be deferred using the corridor approach. MFRS 119 shall be withdrawn on application of this amendment.

(x) Amendment to MFRS 132 "Financial instruments: Presentation" (effective from 1 January 2014) does not change the current offsetting model in MFRS 132. It clarifies the meaning of 'currently has a legally enforceable right of set-off' that the right of set-off must be available today (not contingent on a future event) and legally enforceable for all counterparties in the normal course of business. It clarifies that some gross settlement mechanisms with features that are effectively equivalent to net settlement will satisfy the MFRS 132 offsetting criteria.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

Financial year beginning on/after 1 April 2013 (contd.)

(xi) Amendment to MFRS 7 “Financial instruments: Disclosures” (effective from 1 January 2013) requires more extensive disclosures focusing on quantitative information about recognised financial instruments that are offset in the statement of financial position and those that are subject to master netting or similar arrangements irrespective of whether they are offset.

(a) Basis of Preparation

The financial statements have been prepared in accordance with the provisions of the Companies Act, 1965, Financial Reporting Standards, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and Bank Negara Malaysia ("BNM") Guidelines.

The financial statements of the Bank and the Group have been prepared under the historical cost convention, except as disclosed in this summary of significant accounting policies.

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

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

The preparation of the financial statements in conformity with Financial Reporting Standards and BNM Guidelines requires the use of certain critical accounting estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgement in the process of applying the Bank and the Group's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are described in the following notes:

(i) Annual testing for impairment of goodwill (Note 17) - the measurement of the recoverable amount of cash-generating units are determined based on the value-in-use method, which requires the use of estimates for cash flow projections approved by management covering a 5-year period, estimated growth rates for cash flows beyond the fifth year are extrapolated in perpetuity and discount rates are applied to the cash flow projections.

(ii) Allowance for losses on loans, advances and financing and other losses (Note 33) - the Bank and the Group make allowance for losses on loans, advances and financing based on assessment of recoverability. Whilst management is guided by the relevant BNM guidelines and accounting standards, management makes judgement on the future and other key factors in respect of the estimation of the amount and timing of the cash flows in assessing allowance for impairment of loans, advances and financing. Among the factors considered are the Group’s aggregate exposure to the borrowers, the net realisable value of the underlying collateral value, the viability of the customer’s business model, the capacity to generate sufficient cash flows to service debt obligations and the aggregate amount and ranking of all other creditor claims.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(b) Economic Entities in the Group

(i) Subsidiaries

Subsidiaries are all those entities (including special purpose entities) over which the Group has power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. The cost of acquisition is measured as fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Upon the adoption of the revised FRS 3 and FRS 127, acquisition-related costs are expensed as incurred. Prior to adoption of the revised FRS 3 and FRS 127, acquisition-related costs were included as part of the cost of business combination.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired at the date of acquisition is reflected as goodwill. If the cost of acquisition is less that the fair value of the identifiable net assets of the subsidiary acquired, the gain is recognised directly in the statement of comprehensive income.

Non-controlling interest represents the portion of profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since that date. At the end of the reporting period, non-controlling interest consists of amount calculated on the date of business combination to the Group and its share of changes in the subsidiaries' equity since the date of business combination.

Upon adoption of the revised FRS 3 and FRS 127, all earnings and losses of the subsidiaries are attributed to the parent and the non-controlling interest, even if the attribution of losses to the non-controlling interests results in a debit balance in the shareholders' equity. Profit or loss attribution to non-controlling interest for prior years is not restated. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

When a business combination involves more than one exchange transaction, any adjustment to the fair values of the subsidiary's identifiable assets, liabilities and contingent liabilities relating to previously held interests of the Group is accounted for as a revaluation.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(b) Economic Entities in the Group (contd.)

(i) Subsidiaries (contd.)

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. This may indicate an impairment of the asset transferred. Accounting policy of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The gain or loss on disposal of a subsidiary is the difference between 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 subsidiary is recognised in the statement of comprehensive income attributable to the parent.

(ii) Associates

Associates are those corporations, partnerships or other entities in which the Group exercises significant influence, but which it does not control, generally accompanying a shareholding of between 20% and 50% of voting rights. Significant influence is the power to participate in financial and operating policy decisions of associates but not power to exercise control over those policies.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment.

The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and it share of post-acquisition movements in reserves is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. If the Group's share of losses of an associate equals or exceeds its interest in the associate, the Group discontinues recognising its share of future losses. The interest in an associate is the carrying of the investment in the associate under the equity method together with any long term interests that, in substance, form part of the Group's net investment in the associate. After the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, unrealised losses are also eliminated unless the transaction provides evidence on impairment of the asset transferred. Where necessary, in applying the equity method, adjustments are made to the financial statements of associates to ensure consistency of accounting policies with those of the Group.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(b) Economic Entities in the Group (contd.)

(iii) Changes in ownership interests

Upon adoption of the revised FRS 127, when the Group ceases to have control, joint control or significant influence, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in profit or loss. This fair value is its fair value on initial recognition as a financial asset in accordance with FRS 139. Any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

(c) Investments in Subsidiaries and Associates

In the Bank's separate financial statements, investments in subsidiaries and associates are carried at cost less accumulated impairment. The policy for the recognition and measurement of impairment is in accordance with Note 2(i)(v). On disposal of investments in subsidiaries and associates, the difference between disposal proceeds and the carrying amounts of the investments are recognised in the statement of comprehensive income.

(d) Intangible Assets

(i) Goodwill

Goodwill represents the excess of the cost of acquisition of subsidiaries, over the fair value of the Group's share of the identifiable net assets at the date of acquisition.

Goodwill is measured at cost less accumulated impairment, if any. Goodwill is no longer amortised. Instead it is allocated to cash-generating units which are expected to benefit from the synergies of the business combination. Each cash-generating unit represents the lowest level at which the goodwill is monitored and is not larger than a reportable business segment. The carrying amount of goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. The policy for the recognition and measurement of impairment is in accordance with Note 2(i)(iv).

(ii) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring the specific software to use. The costs are amortised over their useful lives of five years and are stated at cost less accumulated amortisation and accumulated impairment, if any. Computer software is assessed for impairment whenever there is an indication that it may be impaired. The amortisation period and amortisation method are reviewed at least at the end of each reporting period.

The policy for the recognition and measurement of impairment is in accordance with Note 2(i)(v).

Costs associated with maintaining computer software programmes are recognised as expenses as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. These costs include software development employee costs and appropriate portion of relevant overheads.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(d) Intangible Assets (Contd.)

(iii) Other non-financial 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. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is also reviewed annually to determine whether the useful assessment continues to be supportable.

(e) Financial Assets

The Group allocates financial assets to the following categories: loans, advances and financing; financial assets held-for-trading; financial investments available-for-sale; and financial investments held-to-maturity. Management determines the classification of its financial instruments at initial recognition. The policy of the recognition and measurement of impairment is in accordance with Note2(i).

(i) Loans, advances and financing

Loans, advances and financing are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market.

Loans, advances and financing are initially recognised at fair value which is the cash consideration to originate or purchase the loan including any transaction costs and measured subsequently at amortised cost using the effective interest rate method, less impairment allowance.

An uncollectible loan, advance and financing or portion of a loan, advance and financing classified as bad is written-off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

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

Financial assets classified in this category consist of financial assets held-for-trading. Financial asset is classified as held-for-trading if it is acquired principally for the purpose of selling or repurchasing in the near term or it is part of a portion of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial assets held-for-trading are stated at fair value and any gain or loss arising from a change in their fair values and the derecognition of financial assets held-for-trading are recognised in the statement of comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(e) Financial Assets (contd.)

(iii) Financial investments held-to-maturity

Financial investments held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank and the Group have the positive intent and ability to hold to maturity.

Financial investments held-to-maturity are measured at amortised cost based on the effective yield method. Amortisation of premium, accretion of discount and impairment as well as gain or loss arising from derecognition of financial investments held-to-maturity are recognised in the statement of comprehensive income.

Any sale or reclassification of more than an insignificant amount of financial investments held-to-maturity not close to their maturity would result in the reclassification of all financial investments held-to-maturity to financial investments available-for-sale, and prevents the Group from classifying the similar class of financial instruments as financial investments held-to-maturity for the current and following two (2) financial years.

(iv) Financial investments available-for-sale

Financial investments available-for-sale are non-derivative financial assets that are not classified as held-for-trading or held-to-maturity. Financial investments available-for-sale are measured at fair value. The return and cost of the financial investments available-for-sale are credited and charged to the statement of comprehensive income using accreted/amortised cost based on effective yield method. Any gain or loss arising from a change in fair value after applying the accreted/amortised cost method are recognised directly in other comprehensive income or in equity through the statement of changes in equity. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income or in equity will be transferred to the statement of comprehensive income.

(v) Reclassification of financial assets

The Bank and the Group 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 Bank and the Group 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 Bank and the Group 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 statement of comprehensive income is not reversed.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(f) 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 Bank and the Group 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.

Interest payables are now classified into the respective class of financial liabilities.

(g) Repurchase Agreements

Financial instruments purchased under resale agreements are instruments which the Bank and the Group have purchased with a commitment to resell at future dates. The commitment to resell the instruments are reflected as an asset in the statement of financial position.

Conversely, obligations on financial instruments sold under repurchase agreements are instruments which the Bank and the Group have sold from their portfolio, with a commitment to repurchase at future dates. Such financing transactions and the obligations to repurchase the instruments are reflected as a liability in the statement of financial position.

(h) Property, Plant and Equipment and Depreciation

Property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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 the replaced part is derecognised. All other repairs and maintenance are recognised as expenses in the statement of comprehensive income during the financial period in which they are incurred.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(h) Property, Plant and Equipment and Depreciation (Contd.)

Freehold land has an unlimited useful life and therefore is not depreciated. Other property, plant and equipment are depreciated on the straight-line basis to write-off the cost of each asset to its residual value over the estimated useful life, summarised as follows:

Buildings	2%
Office furniture and fixtures	10%
Motor vehicles	10% - 16.6%
Office equipment	20%
Renovations	20%
Computer equipment	33.3%

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

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

(i) Impairment of Assets

The carrying amounts of the Group's assets except for deferred tax assets, are reviewed at the end of each reporting period to determine whether there are any indications of impairment. If any such indications exist, the asset's recoverable amount is estimated to determine the amount of impairment to be recognised. The policies on impairment of assets are summarised as follows:

(i) Loans, advances and financing

Loans, advances and financing of the Bank and the Group are classified as impaired when they fulfill either 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. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(i) Impairment of Assets (contd.)

(i) Loans, advances and financing (contd.)

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

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

(a) significant financial difficulty of the issuer or obligor;

(b) a breach of contract, such as a default or delinquency in interest or principal payments;

(c) it becomes probable that the borrower will enter bankruptcy or winding up petition is served on the borrower, significant shareholder or significant guarantor;

(d) adverse Center Credit Reference Information System ("CCRIS") findings or unfavorable industry developments for that borrower; and

(e) observable data indicating that there is a measurable decrease in the estimated future cash flows including adverse changes in the repayment behavior of the borrower or downgrade of the borrower's credit ratings.

The Group first assesses individually whether objective evidence of impairment exists for all loans deemed to be individually significant, and individually or collectively for loans, advances and financing that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed loan whether significant or not, the loan is then collectively assessed for impairment. If there is objective evidence that an impairment has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purposes of measuring the impairment. The interest is recognised as interest income.

For loans which are collectively assessed, the Group's collective assessment impairment allowance is maintained at 1.5% of total outstanding loans, net of individual assessment impairment allowance.

For margin balances of the stockbroking business, the accounts are classified as impaired when the closing market value of the counter(s) so financed has fallen below 130% of the outstanding balance, and 100% impairment allowance is made on the impaired accounts, net of collateral held, if any.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(i) Impairment of Assets (contd.)

(ii) Financial investments held-to-maturity

For financial investments held-to-maturity in which there are objective evidence of impairment, impairment is measured as the difference between the financial instrument's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The amount of the impairment is recognised in the statement of comprehensive income.

Subsequent reversals in the impairment is recognised when the decrease can be objectively related to an event occurring after the impairment was recognised, to the extent that the financial instrument's carrying amount does not exceed its amortised cost if no impairment had been recognised. The reversal is recognised in the statement of comprehensive income.

(iii) Financial investments available-for-sale

For financial investments available-for-sale in which there are objective evidence of impairment, the cumulative unrealised losses that had been recognised directly in equity shall be transferred from equity to the statement of comprehensive income, even though the securities have not been derecognised. The cumulative impairment is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment previously recognised in the statement of comprehensive income.

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 statement of comprehensive income.

Impairment recognised on equity instruments classified as available-for-sale is not reversed subsequent to its recognition. Reversals of impairment on debt instruments classified as available-for-sale are recognised in the statement of comprehensive income if the increase in fair value can be objectively related to an event occurring after the recognition of the impairment in the statement of comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(i) Impairment of Assets (contd.)

(iv) Goodwill/Intangible assets

Goodwill and intangible assets that have an indefinite useful life are tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill from business combinations or intangible assets are allocated to cash-generating units ("CGU") which are expected to benefit from the synergies of the business combination or the intangible asset.

The recoverable amount is determined for each CGU based on its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment is recognised in the statements of comprehensive income when the carrying amount of the CGU, including the goodwill or intangible asset, exceeds the recoverable amount of the CGU. The total impairment is allocated, first, to reduce the carrying amount of goodwill or intangible assets allocated to the CGU and then to the other assets of the CGU on a pro-rata basis.

An impairment on goodwill is not reversed in subsequent periods. An impairment for other intangible assets is reversed if, and only if, there has been a change in the estimates used to determine the intangible asset's recoverable amount since the last impairment was recognised and such reversal is through the statement of comprehensive income to the extent that the intangible asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortisation, if no impairment had been recognised.

(v) Other Assets

Other assets such as property, plant and equipment, computer software, foreclosed properties and investments in subsidiaries and associates are reviewed for objective indications of impairment at the end of each reporting period or whenever there is any indication that these assets may be impaired. Where such indications exist, impairment is determined as the excess of the asset's carrying value over its recoverable amount (greater of value in use or fair value less costs to sell) and is recognised in the statement of comprehensive income. An impairment for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment was recognised.

The carrying amount is increased to its revised recoverable amount, provided that the amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment been recognised for the asset in prior years. A reversal of impairment for an asset is recognised in the statement of comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(j) Leases

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership. All leases that do not transfer substantially all the risks and rewards are classified as operating leases.

(i) Finance Leases

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

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

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2(h). The policy for the recognition and measurement of impairment is in accordance with Note 2(i)(v).

(ii) Operating Leases

Operating lease payments are recognised in the statement of comprehensive income on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expenses over the lease term on a straight-line basis.

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. Leasehold land that normally has an indefinite economic life and where title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted for as prepaid lease payments at the end of the reporting period. In the case of a lease of land and buildings, the prepaid lease payments or the upfront payments made are allocated, whenever necessary, between the land and buildings elements in proportion to the relative fair values for leasehold interest in the land element and buildings element of the lease at the inception of the lease. The prepaid lease payments are amortised over the lease term in accordance with the pattern of benefits provided.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(k) Bills and Acceptances Payable

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

(l) Equity Instruments

Ordinary shares and irredeemable convertible preference shares ("ICPS") are classified as equity. Dividends on ordinary shares and ICPS are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

(m) Subordinated Bonds

The interest-bearing instruments are recognised as liability and are recorded at face value. Interest expense are accrued based on the effective interest rate method.

(n) Other Assets

Other receivables are carried at anticipated realisable values. Bad debts are written-off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the end of the reporting period.

(o) Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- a reliable estimate of the amount can be made.

Where the Group expects a provision to be reimbursed (for example, under an insurance contract), the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(p) Balances Due From Clients and Brokers

In line with FRS 139, Bursa Malaysia Securities Berhad (the "Bursa") has amended the Rules of Bursa Securities issued on 4 November 2010. In accordance with the Rules of Bursa Securities, clients' accounts are classified as impaired accounts (previously referred to as non-performing) under the following circumstances:

	Criteria for classification as impaired	
Types	Doubtful	Bad
Contra losses	When account remains outstanding for 16 to 30 calendar days from the date of contra transaction.	When the account remains outstanding for more than 30 calendar days from the date of contra transaction.
Overdue purchase contracts	When the account remains outstanding from T+5 market days to 30 calendar days.	When the account remains outstanding for more than 30 calendar days.

Bad debts are written-off when identified. Impairment allowances are made for balances due from clients and brokers which are considered doubtful or which have been classified as impaired, after taking into consideration collateral held by the Group and deposits of and amounts due to dealer representative in accordance with the Rules of Bursa Securities. Collective assessment allowance is made based on a certain percentage of balances due from clients and brokers (excluding outstanding purchase contracts which are not due for payment) net of individual assessment allowances already made.

(q) Recognition of Interest and Financing Income

Interest income is recognised using effective interest rates, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the loans or, where appropriate, a shorter period to the net carrying amount of the loan. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the loans but does not consider future credit losses. The calculation includes significant fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income is recognised in the statement of comprehensive income for all interest-bearing assets on an accrual basis. Interest income includes the amortisation of premium or accretion of discount. Income from the Islamic banking business is recognised on an accrual basis in accordance with the Shariah principles.

(r) Recognition of Interest and Financing Expenses

Interest expense and attributable profit (on activities relating to Islamic banking business) on deposits and borrowings of the Bank and of the Group are recognised on an accrual basis.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(s) Recognition of Fees and Other Income

Loan arrangement fees and commissions, management and participation fees and underwriting commissions are recognised as income when all conditions precedent are fulfilled.

Commitment, guarantee and portfolio management fees which are material are recognised as income based on time apportionment basis.

Corporate advisory fees are recognised as income on the completion of each stage of the assignment.

Dividends are recognised when the right to receive payment is established.

Brokerage charged to clients is recognised on the day when the contracts are executed.

(t) Derivatives Financial Instruments and Hedging Activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and the nature of the item being hedged. The Group designate derivatives that qualify for hedge accounting as either:

(i) Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);

(ii) Hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or

(iii) Hedges of a net investment in a foreign operation (net investment hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in statement of comprehensive income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(t) Derivatives Financial Instruments and Hedging Activities (contd.)

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in statement of comprehensive income.

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

(iii) Net investment hedge

Hedges of net investments in foreign operations 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 in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in statement of comprehensive income.

Gains and losses accumulated in other comprehensive income are included in statement of comprehensive income when the foreign operation is partially disposed of or sold.

(iv) Derivatives that do not qualify for hedge accounting

Certain derivatives instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the statement of comprehensive income.

(u) Foreign Currency Translations

Transactions in foreign currencies are initially recorded in Ringgit Malaysia at rates of exchange ruling at the date of the transaction. At the end of each reporting period, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date.

All exchange rate differences are taken to the statement of comprehensive income.

The financial statements are presented in Ringgit Malaysia, which is also the Bank's and the Group's primary functional currency.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(v) Income Tax

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

Deferred tax is provided for, using the liability method, on temporary differences at the end of the reporting date 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, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of the reporting period. Deferred tax is recognised as income or an expense in the statement of comprehensive income for the period, except when it arises from a transaction which is recognised directly in other comprehensive income or directly in equity, in which case the deferred tax is also charged or credited to other comprehensive income or to equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill.

(w) Foreclosed Properties

Foreclosed properties are stated at the lower of carrying amount and fair value less costs to sell.

(x) Cash and Cash Equivalents

Cash and cash equivalents as stated in the statements of cash flows comprise cash and bank balances and short-term deposits maturity within one month that are readily convertible into cash with insignificant risk of changes in value.

(y) Zakat

This represent Islamic business zakat. It is an obligatory amount payable by an Islamic banking subsidiary to comply with the Shariah principles.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(z) Employee Benefits

(i) Short-term Benefits

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

(ii) Defined Contribution Plans

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

(iii) Equity Compensation Benefits

The Alliance Financial Group Berhad Employees' Share Scheme ("AFG Bhd ESS"), comprises the Share Option Plan, the Share Grant Plan and Share Save Plan. The AFG Bhd ESS are equity-settled, share-based compensation plans, in which the Group's Directors and employees are granted or are allowed to acquire ordinary shares of Alliance Financial Group Berhad.

The total fair value of the share options/grants offered/awarded to the eligible Directors and employees are recognised as an employee cost with a corresponding increase in the share scheme reserve within equity over the vesting period and taking into account the probability that the scheme will vest. The fair value of the share options/grants are measured at grant date, taking into account, if any, the market vesting conditions upon which the share options/grants were offered/awarded but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of share options/share grants that are expected to become exercisable/to vest.

At the end of each reporting period, the Bank and the Group revises its estimates of the number of share options/grants that are expected to become exercisable/to vest. It recognises the impact of the revision of original estimates, if any, in the statement of comprehensive income, and a corresponding adjustment to equity over the remaining vesting period. The equity amount is recognised in the share scheme reserve until the share options/grants are exercised/vested.

The equity amount in the share scheme reserve can either remain or be transferred within equity to another distributable component or settled by way of payment to the holding company.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(aa) Contingent Liabilities and Contingent Assets

The Bank and the Group do not recognise a contingent liability but disclose its existence in the financial statements. A contingent liability is a possible obligation 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 Bank or the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

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 Bank and the Group do not recognise contingent assets but disclose its existence where inflows of economic benefits are probable, but not virtually certain.

(ab) Financial Guarantee Contract

Financial guarantee contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial instituitions and other bodies on behalf of customers to secure loans, overdraft and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Bank and the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with FRS 137 "Provision, Contingent Liabilities and Contingent Assets", and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the profit or loss.

(ac) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

(ad) Non-current Assets Held for Sale

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

3. CASH AND SHORT-TERM FUNDS

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	436,694	417,838	488,970	501,613
Money at call and deposit placements maturing within one month	1,293,596	540,273	1,385,362	410,117
	1,730,290	958,111	1,874,332	911,730

Included in the cash and short-term funds of the Group are monies held in trust of RM72,498,000 (2011: RM87,504,000).

4. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Licensed banks	93,269	50,029	93,438	50,193
Licensed investment banks	50,192	150,125	-	50,035
Licensed Islamic banks	-	754,456	-	-
	143,461	954,610	93,438	100,228

5. BALANCES DUE FROM CLIENTS AND BROKERS

	GROUP	
	2012	2011
	RM'000	RM'000
Due from clients	58,060	96,318
Due from brokers	4,900	-
	62,960	96,318
Less:		
Allowance for other losses	(1,262)	(15,799)
	61,698	80,519

5. BALANCES DUE FROM CLIENTS AND BROKERS (CONTD.)

These represent amounts receivable by Alliance Investment Bank Berhad ("AIBB") from non-margin clients and outstanding contracts entered into on behalf of clients where settlement via the Bursa Malaysia Securities Clearing Sdn. Bhd. has yet to be made.

AIBB's normal trade credit terms for non-margin clients is three (3) market days in accordance with the Bursa Malaysia Securities Berhad's ("Bursa") Fixed Delivery and Settlement System ("FDSS") trading rules.

Included in the balances due from clients and brokers are impaired accounts, as follows:

	GROUP	
	2012 RM'000	2011 RM'000
Classified as doubtful	165	976
Classified as bad	1,420	15,856
	1,585	16,832

The movements in allowance for other losses are as follows:

At beginning of year	15,799	16,482
Allowance made during the year	1,536	2,214
Reversal of allowance	(1,623)	(2,897)
Amount written-off	(14,450)	-
At end of year	1,262	15,799

6. FINANCIAL ASSETS HELD-FOR-TRADING

	BANK		GROUP	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
At fair value				
Money market instruments:				
Bank Negara Malaysia bills	1,222,003	1,096,239	1,371,696	1,848,299
Malaysian Government securities	20,053	-	20,053	-
Malaysian Government investment certificates	100,246	59,951	100,246	59,951
Malaysian Government treasury bills	-	20,000	-	30,000
	1,342,302	1,176,190	1,491,995	1,938,250

7. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
At fair value				
Money market instruments:				
Malaysian Government securities	1,894,220	2,659,093	2,316,772	3,244,713
Malaysian Government investment certificates	1,132,121	162,420	1,833,967	764,371
Negotiable instruments of deposits	1,344,854	1,042,371	884,535	1,741,201
Bankers' acceptances	1,532,859	956,814	1,944,074	1,388,637
Cagamas bonds	20,137	20,213	35,254	35,396
Quoted securities in Malaysia:				
Shares	13	11	4,212	3,875
Debt securities	4,768	7,818	4,768	7,818
Unquoted securities:				
Shares	94,895	82,607	135,888	117,587
Debt securities and medium term notes	1,396,044	1,398,647	1,963,731	1,956,342
	7,419,911	6,329,994	9,123,201	9,259,940

8. FINANCIAL INVESTMENTS HELD-TO-MATURITY

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
At amortised cost				
Money market instruments:				
Malaysian Government securities	227,177	629,057	328,639	804,820
Malaysian Government investment certificates	-	-	439,463	105,624
At cost				
Quoted securities in Malaysia:				
Debt securities	-	-	-	4,902
Unquoted securities:				
Debt securities	18,858	61,177	74,283	116,711
	246,035	690,234	842,385	1,032,057
Accumulated impairment	(17,413)	(56,713)	(47,129)	(91,331)
	228,622	633,521	795,256	940,726

8. FINANCIAL INVESTMENTS HELD-TO-MATURITY (CONTD.)

The table below shows the movements in accumulated impairment during the financial year for the Bank and the Group:

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
At beginning of year	56,713	60,204	91,331	94,822
Reclassified to financial investments available-for-sale due to conversion of bond into equity instrument	-	-	(4,902)	-
Write-back during the year	(39,300)	(3,491)	(39,300)	(3,491)
At end of year	17,413	56,713	47,129	91,331

9. DERIVATIVE FINANCIAL ASSETS/(LIABILITIES)

Derivative financial instruments are financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, interest rates and security prices) of the underlying instruments. These instruments allow the Bank and the Group and the banking customers to transfer, modify or reduce their foreign exchange and interest rate risk via hedge relationships. The Group also transacts in these instruments for proprietary trading purposes. 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 42.

The table below shows the Bank's and the Group's derivative financial instruments as at the end of the reporting period. The contractual or underlying notional amounts of these derivative financial instruments and their corresponding gross positive (derivative financial asset) and gross negative (derivative financial liability) fair values as at the end of the reporting period are analysed below.

	2012			2011		
	Contract/ Notional Amount	Fair Value		Contract/ Notional Amount	Fair Value	
		Assets	Liabilities		Assets	Liabilities
BANK/GROUP	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Trading Derivatives						
Foreign exchange and commodity contracts:						
- Currency forwards	859,253	4,792	(6,243)	442,706	1,217	(7,713)
- Currency swaps	1,690,284	9,774	(8,784)	1,819,102	18,692	(18,042)
- Currency spots	258,209	185	(150)	76,047	70	(37)
- Currency options	122,204	467	(324)	24,473	90	(57)
- Gold options	217,538	2,512	(1,102)	482,299	2,499	(2,499)
Interest rate related contracts:						
- Interest rate swaps	2,106,781	5,982	(9,215)	2,112,000	9,479	(4,999)
Hedging Derivatives						
Interest rate related contracts:						
- Interest rate swaps	14,115	-	(423)	-	-	-
Total derivative assets/(liabilities)	5,268,384	23,712	(26,241)	4,956,627	32,047	(33,347)

The Bank and the Group use fair value hedges to protect against the changes in fair value of financial assets and financial liabilities due to movements in market interest rates.

During the financial year, the Bank and the Group use interest rate swaps to hedge against interest rate risk of structured deposits. There was no ineffectiveness to be recorded from their fair value hedge.

10. LOANS, ADVANCES AND FINANCING

	BANK 2012 RM'000	BANK 2011 RM'000	GROUP 2012 RM'000	GROUP 2011 RM'000
Overdrafts	1,688,688	1,603,198	1,853,950	1,753,908
Term loans/financing				
- Housing loans/financing	7,759,852	7,351,039	9,259,885	8,325,550
- Syndicated term loans/financing	464,662	267,440	472,949	287,171
- Hire purchase receivables	310,473	385,945	654,336	784,046
- Other term loans/financing	5,698,114	4,311,669	7,715,570	6,310,426
Bills receivables	308,446	178,851	308,763	179,607
Trust receipts	184,050	157,722	207,515	176,527
Claims on customers under acceptance credits	1,947,273	1,846,053	2,337,986	2,202,863
Staff loans [included loans to Directors of a subsidiary of RM92,000 (2011 : RM121,000)]	28,602	32,821	54,567	60,938
Credit/charge card receivables	623,563	663,059	623,563	663,059
Revolving credits	843,909	1,156,101	1,043,680	1,347,748
Other loans	357,647	270,341	451,282	347,518
Gross loans, advances and financing	20,215,279	18,224,239	24,984,046	22,439,361
Add: Sales commissions and handling fees	38,007	37,722	28,523	24,969
Less: Allowance for impaired loans, advances and financing				
- Individual assessment allowance	(225,092)	(273,141)	(266,349)	(328,375)
- Collective assessment allowance	(300,801)	(270,378)	(386,017)	(339,636)
Total net loans, advances and financing	19,727,393	17,718,442	24,360,203	21,796,319

(i) By maturity structure:

	BANK 2012 RM'000	BANK 2011 RM'000	GROUP 2012 RM'000	GROUP 2011 RM'000
Within one year	6,073,222	5,994,251	7,023,573	6,868,094
One year to three years	548,778	433,016	822,931	771,372
Three years to five years	725,846	1,032,189	1,253,470	1,389,244
Over five years	12,867,433	10,764,783	15,884,072	13,410,651
Gross loans, advances and financing	20,215,279	18,224,239	24,984,046	22,439,361

(ii) By type of customer:

	BANK 2012 RM'000	BANK 2011 RM'000	GROUP 2012 RM'000	GROUP 2011 RM'000
Domestic non-bank financial institutions				
- Stockbroking companies	-	20,002	-	20,002
- Others	136,426	156,186	207,162	187,410
Domestic business enterprises				
- Small and medium enterprises	4,681,284	4,096,619	5,472,374	4,784,192
- Others	4,197,590	3,789,961	4,961,344	4,531,660
Government and statutory bodies	12,477	15,973	12,618	18,224
Individuals	10,382,595	9,633,266	13,457,860	12,349,218
Other domestic entities	247,403	14,311	247,679	14,671
Foreign entities	557,504	497,921	625,009	533,984
Gross loans, advances and financing	20,215,279	18,224,239	24,984,046	22,439,361

10. LOANS, ADVANCES AND FINANCING (CONTD.)

	BANK 2012 RM'000	BANK 2011 RM'000	GROUP 2012 RM'000	GROUP 2011 RM'000
(iii) By interest/profit rate sensitivity:				
Fixed rate				
- Housing loans/financing	20,472	24,800	90,812	107,669
- Hire purchase receivables	310,474	385,945	654,337	784,046
- Other fixed rate loans/financing	679,660	732,674	1,997,225	2,207,047
Variable rate				
- Base lending rate plus	14,429,451	13,374,171	16,737,766	14,989,061
- Cost plus	4,493,616	3,553,060	5,200,601	4,120,772
- Other variable rates	281,606	153,589	303,305	230,766
Gross loans, advances and financing	20,215,279	18,224,239	24,984,046	22,439,361
(iv) By economic purposes:				
Purchase of securities	362,374	276,517	456,010	354,975
Purchase of transport vehicles	212,046	296,030	561,763	703,969
Purchase of landed property	11,181,060	10,133,099	13,100,915	11,514,820
of which: - Residential	*8,317,105*	*7,730,398*	*9,750,258*	*8,671,706*
- Non-residential	*2,863,955*	*2,402,701*	*3,350,657*	*2,843,114*
Purchase of fixed assets excluding land and buildings	115,605	96,745	117,110	99,836
Personal use	865,242	728,463	2,146,045	2,093,967
Credit card	623,563	663,059	623,563	663,059
Construction	236,718	238,415	249,709	253,621
Mergers and acquisition	207,265	-	207,265	-
Working capital	5,499,729	5,331,170	6,327,613	6,116,583
Others	911,677	460,741	1,194,053	638,531
Gross loans, advances and financing	20,215,279	18,224,239	24,984,046	22,439,361
(v) By geographical distribution:				
Northern region	1,643,285	1,573,741	1,911,286	1,882,761
Central region	15,045,510	13,149,993	18,825,748	16,442,221
Southern region	1,692,052	1,670,614	2,100,061	2,014,167
East Malaysia region	1,834,432	1,829,891	2,146,951	2,100,212
Gross loans, advances and financing	20,215,279	18,224,239	24,984,046	22,439,361

10. LOANS, ADVANCES AND FINANCING (CONTD.)

		BANK		GROUP	
		2012	2011	2012	2011
		RM'000	RM'000	RM'000	RM'000
(vi)	Movements in impaired loans, advances and financing ("impaired loans") are as follows:				
	At beginning of year	592,458	676,315	741,324	843,866
	Impaired during the year	344,894	467,756	441,439	564,613
	Reclassified as performing during the year	(268,690)	(290,824)	(361,159)	(328,118)
	Recoveries	(75,220)	(143,048)	(106,986)	(190,022)
	Amount written-off	(81,457)	(117,741)	(113,483)	(149,015)
	At end of year	511,985	592,458	601,135	741,324
	Gross impaired loans as % of gross loans, advances and financing	2.5%	3.3%	2.4%	3.3%
(vii)	Movements in the allowance for impaired loans are as follows:				
	Individual assessment allowance				
	At beginning of year	273,141	321,364	328,375	389,578
	Allowance made during the year (net)	26,319	69,518	43,363	87,812
	Amount written-off	(74,368)	(117,741)	(105,389)	(149,015)
	At end of year	225,092	273,141	266,349	328,375
	Collective assessment allowance				
	At beginning of year	270,378	262,372	339,636	323,644
	Allowance made during the year (net)	30,423	8,006	46,381	15,992
	At end of year	300,801	270,378	386,017	339,636
	As % of gross loans, advances and financing less individual assessment allowance	1.5%	1.5%	1.6%	1.5%

10. LOANS, ADVANCES AND FINANCING (CONTD.)

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
(viii) Impaired loans analysed by economic purposes are as follows:				
Purchase of securities	4,081	4,586	5,432	10,268
Purchase of transport vehicles	2,692	2,536	5,652	8,959
Purchase of landed property	221,820	265,205	251,134	283,410
of which: - Residential	*162,967*	*198,490*	*180,614*	*209,057*
- Non-residential	*58,853*	*66,715*	*70,520*	*74,353*
Purchase of fixed assets excluding land and buildings	190	182	190	182
Personal use	19,111	27,032	29,955	37,151
Credit card	9,908	12,694	9,908	12,694
Construction	11,868	12,777	11,869	12,777
Working capital	206,438	229,497	245,777	315,987
Others	35,877	37,949	41,218	59,896
Gross impaired loans	511,985	592,458	601,135	741,324

(ix) Impaired loans by geographical distribution:

	BANK 2012 RM'000	BANK 2011 RM'000	GROUP 2012 RM'000	GROUP 2011 RM'000
Northern region	109,955	84,733	135,319	104,487
Central region	299,618	375,912	358,099	500,546
Southern region	46,629	65,280	50,698	68,965
East Malaysia region	55,783	66,533	57,019	67,326
Gross impaired loans	511,985	592,458	601,135	741,324

11. OTHER ASSETS

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Other receivables, deposits and prepayment [Note (a)]	89,703	87,634	95,756	99,506
Trade receivables	-	-	2,475	2,149
Amount due from subsidiaries	2,891	22,039	-	-
Amount due to holding company	358	5	358	5
Foreclosed properties	-	4,200	-	4,200
	92,952	113,878	98,589	105,860
Less:				
Allowance for other losses [Note (b)]	(13,051)	(10,369)	(20,790)	(18,852)
	79,901	103,509	77,799	87,008

Note:

(a) Included in other receivables, deposits and prepayment is an amount of RM22,044,000 (2011: RM25,134,000) being the principal balance of housing loans and hire purchase loans acquired by the Bank from a state owned entity and which have been sold to Cagamas Berhad, with recourse obligations.

(b) Movement in allowance for other losses of the Bank and the Group:

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
At beginning of year	10,369	8,515	18,852	19,134
Allowance net of write-back	2,682	1,854	1,938	(282)
At end of year	13,051	10,369	20,790	18,852

12. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009, the amounts of which are determined as a set percentage of total eligible liabilities.

13. INVESTMENTS IN SUBSIDIARIES

	BANK 2012 RM'000	BANK 2011 RM'000
Unquoted shares, at cost		
At beginning/end of year	801,664	801,664

The Bank's subsidiaries, all of which incorporated in Malaysia, are:

Name	Principal activities	Effective equity interest 2012 %	Effective equity interest 2011 %
Alliance Direct Marketing Sdn. Bhd.	Dealing in sales and distribution of consumer and commercial banking products	100	100
AllianceGroup Nominees (Asing) Sdn. Bhd.	Nominee services	100	100
AllianceGroup Nominees (Tempatan) Sdn. Bhd.	Nominee services	100	100
Alliance Investment Management Berhad	Management of unit trusts funds, provision of fund management and investment advisory services	70	70
Alliance Investment Bank Berhad	Investment banking business including Islamic banking, provision of stockbroking services and related financial services	100	100
Alliance Islamic Bank Berhad	Islamic banking and the provision of related financial services	100	100
AllianceGroup Properties Sdn. Bhd.	Liquidated	-	100
Subsidiaries of Alliance Investment Bank Berhad			
AIBB Nominees (Tempatan) Sdn. Bhd.	Nominee services	100	100
AIBB Nominees (Asing) Sdn. Bhd.	Nominee services	100	100
Alliance Investment Futures Sdn. Bhd.	Dormant	100	100
Alliance Research Sdn. Bhd.	Investment advisory	100	100

13. INVESTMENTS IN SUBSIDIARIES (CONTD.)

The Bank's subsidiaries, all of which incorporated in Malaysia, are (contd.):

Name	Principal activities	Effective equity interest 2012 %	2011 %
Subsidiaries of Alliance Investment Bank Berhad (contd.)			
KLCS Sdn. Bhd.	Dormant	100	100
Rothputra Nominees (Tempatan) Sdn. Bhd. (under members' voluntary winding up)	Dormant	100	100
KLCS Asset Management Sdn. Bhd.	Liquidated	-	100
KLCity Unit Trust Berhad	Liquidated	-	94.94
KLCity Ventures Sdn. Bhd.	Liquidated	-	100

14. INVESTMENTS IN ASSOCIATES

	BANK 2012 RM'000	BANK 2011 RM'000	GROUP 2012 RM'000	GROUP 2011 RM'000
Unquoted shares				
At beginning of year				
At cost	30,230	30,230	30,460	30,460
Share of post acquisition profits	-	-	(3,425)	(1,422)
	30,230	30,230	27,035	29,038
Represented by:				
Share of net tangible assets			27,035	29,038

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

Name	Principal activities	Effective equity interest 2012	2011
Alliance Trustee Berhad	Trustee to unit trusts, funds and other corporate trusts	40%	40%
AIA AFG Takaful Berhad	Offering and providing of Takaful products and services	30%	30%

14. INVESTMENTS IN ASSOCIATES (CONTD.)

The summarised financial information of the associates are as follows:

	2012 RM'000	2011 RM'000
Assets and Liabilities		
Current assets	13,099	1,399
Non-current assets	78,882	99,753
Total assets	91,981	101,152
Current liabilities	2,260	4,685
Total liabilities	2,260	4,685
Results		
Revenue	9,827	1,234
Loss for the year	(6,655)	(4,892)

15. PROPERTY, PLANT AND EQUIPMENT

BANK 2012	Freehold land RM'000	Leasehold land: 50 years or more RM'000	Leasehold land: Less than 50 years RM'000	Buildings RM'000	Renovations RM'000	Office equipment and furniture RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
COST									
At beginning of year	2,962	12,567	1,850	49,384	102,516	58,875	118,459	1,873	348,486
Additions	-	-	-	-	8,447	6,718	5,976	458	21,599
Disposals	-	-	-	-	(51)	(381)	(24)	(585)	(1,041)
Written-off	-	-	-	-	(2,527)	(542)	(13,999)	(5)	(17,073)
Transfer	-	(530)	530	-	-	-	-	-	-
Reclassified to non-current assets held for sale (Note 53)	(1,009)	-	(530)	(7,143)	-	-	-	-	(8,682)
At end of year	1,953	12,037	1,850	42,241	108,385	64,670	110,412	1,741	343,289
ACCUMULATED DEPRECIATION									
At beginning of year	-	2,621	814	14,832	70,784	43,114	110,984	534	243,683
Charge for the year	-	110	27	846	14,528	6,618	4,787	175	27,091
Disposals	-	-	-	-	(38)	(350)	(23)	(264)	(675)
Written-off	-	-	-	-	(636)	(426)	(13,987)	(5)	(15,054)
Transfer	-	(171)	171	-	-	-	-	-	-
Reclassified to non-current assets held for sale (Note 53)	-	-	(178)	(4,542)	-	-	-	-	(4,720)
At end of year	-	2,560	834	11,136	84,638	48,956	101,761	440	250,325
ACCUMULATED IMPAIRMENT									
At beginning of year	-	-	-	3,956	-	-	-	-	3,956
Charge for the year (Note 34)	-	-	-	1,460	-	-	-	-	1,460
Reclassified to non-current assets held for sale (Note 53)	-	-	-	(148)	-	-	-	-	(148)
At end of year	-	-	-	5,268	-	-	-	-	5,268
NET CARRYING AMOUNT	1,953	9,477	1,016	25,837	23,747	15,714	8,651	1,301	87,696

15. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

GROUP	Freehold land RM'000	Leasehold land: 50 years or more RM'000	Leasehold land: Less than 50 years RM'000	Buildings RM'000	Renovations RM'000	Office equipment and furniture RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
2012									
COST									
At beginning of year	2,962	12,567	1,850	50,343	112,613	65,170	137,454	2,412	385,371
Additions	-	-	-	-	8,820	6,886	6,020	458	22,184
Disposals	-	-	-	-	(51)	(409)	(97)	(585)	(1,142)
Written-off	-	-	-	-	(6,004)	(3,042)	(15,186)	(5)	(24,237)
Transfer	-	(530)	530	-	-	-	-	-	-
Reclassified to non-current assets held for sale (Note 53)	(1,009)	-	(530)	(7,143)	-	-	-	-	(8,682)
At end of year	1,953	12,037	1,850	43,200	115,378	68,605	128,191	2,280	373,494
ACCUMULATED DEPRECIATION									
At beginning of year	-	2,621	814	15,792	79,469	48,858	128,546	762	276,862
Charge for the year	-	110	27	846	15,096	6,773	6,211	208	29,271
Disposals	-	-	-	-	(38)	(376)	(96)	(264)	(774)
Written-off	-	-	-	-	(4,089)	(2,922)	(15,175)	(5)	(22,191)
Transfer	-	(171)	171	-	-	-	-	-	-
Reclassified to non-current assets held for sale (Note 53)	-	-	(178)	(4,542)	-	-	-	-	(4,720)
At end of year	-	2,560	834	12,096	90,438	52,333	119,486	701	278,448
ACCUMULATED IMPAIRMENT									
At beginning of year	-	-	-	3,956	-	-	-	-	3,956
Charge for the year (Note 34)	-	-	-	1,460	-	-	-	-	1,460
Reclassified to non-current assets held for sale (Note 53)	-	-	-	(148)	-	-	-	-	(148)
At end of year	-	-	-	5,268	-	-	-	-	5,268
NET CARRYING AMOUNT	1,953	9,477	1,016	25,836	24,940	16,272	8,705	1,579	89,778

15. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

BANK	Freehold land RM'000	Leasehold land 50 years or more RM'000	Leasehold land Less than 50 years RM'000	Buildings RM'000	Renovations RM'000	Office equipment and furniture RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
2011									
COST									
At beginning of year	2,962	11,767	2,650	49,384	105,170	65,532	111,853	1,895	351,213
Additions	-	-	-	-	4,041	2,631	7,021	654	14,347
Disposals	-	-	-	-	(1,407)	(3,687)	(177)	(671)	(5,942)
Written-off	-	-	-	-	(5,288)	(5,601)	(238)	(5)	(11,132)
Transfer	-	800	(800)	-	-	-	-	-	-
At end of year	2,962	12,567	1,850	49,384	102,516	58,875	118,459	1,873	348,486
ACCUMULATED DEPRECIATION									
At beginning of year	-	2,781	517	13,845	58,767	39,246	104,691	702	220,549
Charge for the year	-	117	20	987	16,033	10,921	6,648	182	34,908
Disposals	-	-	-	-	(71)	(3,370)	(117)	(345)	(3,903)
Written-off	-	-	-	-	(3,945)	(3,683)	(238)	(5)	(7,871)
Transfer	-	(277)	277	-	-	-	-	-	-
At end of year	-	2,621	814	14,832	70,784	43,114	110,984	534	243,683
ACCUMULATED IMPAIRMENT									
At beginning/end of year	-	-	-	3,956	-	-	-	-	3,956
NET CARRYING AMOUNT	2,962	9,946	1,036	30,596	31,732	15,761	7,475	1,339	100,847

15. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

GROUP	Freehold land RM'000	Leasehold land 50 years or more RM'000	Leasehold land Less than 50 years RM'000	Buildings RM'000	Renovations RM'000	Office equipment and furniture RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
2011									
COST									
At beginning of year	2,962	11,767	2,650	50,343	115,311	72,099	130,762	2,718	388,612
Additions	-	-	-	-	4,287	2,676	7,265	654	14,882
Disposals	-	-	-	-	(1,477)	(3,983)	(193)	(955)	(6,608)
Written-off	-	-	-	-	(5,508)	(5,622)	(380)	(5)	(11,515)
Transfer	-	800	(800)	-	-	-	-	-	-
At end of year	2,962	12,567	1,850	50,343	112,613	65,170	137,454	2,412	385,371
ACCUMULATED DEPRECIATION									
At beginning of year	-	2,781	517	14,805	66,744	44,519	119,526	1,031	249,923
Charge for the year	-	117	20	987	16,869	11,707	9,533	283	39,516
Disposals	-	-	-	-	(116)	(3,665)	(133)	(547)	(4,461)
Written-off	-	-	-	-	(4,028)	(3,703)	(380)	(5)	(8,116)
Transfer	-	(277)	277	-	-	-	-	-	-
At end of year	-	2,621	814	15,792	79,469	48,858	128,546	762	276,862
ACCUMULATED IMPAIRMENT									
At beginning/end of year	-	-	-	3,956	-	-	-	-	3,956
NET CARRYING AMOUNT	2,962	9,946	1,036	30,595	33,144	16,312	8,908	1,650	104,553

16. DEFERRED TAX

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 taxes relate to the same tax authority. The net deferred tax assets and liabilities shown in the statement of financial position after appropriate offsetting are as follows:

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Deferred tax assets, net	-	75,272	15,038	108,808
Deferred tax liabilities, net	(12,191)	-	(23,012)	(6,792)
	(12,191)	75,272	(7,974)	102,016
At beginning of year	75,272	41,857	102,016	68,239
Recognised in statement of comprehensive income	(72,369)	31,652	(88,608)	31,796
Recognised in equity	(15,094)	1,763	(21,382)	1,981
At end of year	(12,191)	75,272	(7,974)	102,016
Deferred tax assets				
- to be recovered more than 12 month	-	39,724	14,098	68,291
- to be recovered within 12 months	-	35,548	940	40,517
	-	75,272	15,038	108,808
Deferred tax liabilities				
- to be recovered more than 12 month	1,818	-	2,182	212
- to be recovered within 12 months	(14,009)	-	(25,194)	(7,004)
	(12,191)	-	(23,012)	(6,792)

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

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Deferred tax assets	31,208	105,243	50,769	141,402
Deferred tax liabilities	(43,399)	(29,971)	(58,743)	(39,386)
	(12,191)	75,272	(7,974)	102,016

16. DEFERRED TAX (CONTD.)

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

BANK	Allowance for losses on loans, advances and financing RM'000	Other temporary differences RM'000	Total RM'000
Deferred tax assets			
At 1 April 2010	56,242	19,967	76,209
Recognised in statement of comprehensive income	12,083	16,951	29,034
At 31 March 2011	68,325	36,918	105,243
Recognised in statement of comprehensive income	(59,989)	(14,046)	(74,035)
At 31 March 2012	8,336	22,872	31,208

	Financial investments available-for-sale RM'000	Property, plant and equipment RM'000	Total RM'000
Deferred tax liabilities			
At 1 April 2010	16,114	18,238	34,352
Recognised in statement of comprehensive income	-	(2,618)	(2,618)
Recognised in equity	(1,763)	-	(1,763)
At 31 March 2011	14,351	15,620	29,971
Recognised in statement of comprehensive income	-	(1,666)	(1,666)
Recognised in equity	15,094	-	15,094
At 31 March 2012	29,445	13,954	43,399

16. DEFERRED TAX (CONTD.)

GROUP	Allowance for losses on loans, advances and financing RM'000	Unabsorbed tax losses and capital allowance RM'000	Other temporary differences RM'000	Total RM'000
Deferred tax assets				
At 1 April 2010	74,016	4,493	34,533	113,042
Recognised in statement of comprehensive income	11,622	(260)	16,998	28,360
At 31 March 2011	85,638	4,233	51,531	141,402
Recognised in statement of comprehensive income	(73,312)	(1,045)	(16,276)	(90,633)
At 31 March 2012	12,326	3,188	35,255	50,769

	Financial investments available-for-sale RM'000	Property, plant and equipment RM'000	Total RM'000
Deferred tax liabilities			
At 1 April 2010	24,855	19,948	44,803
Recognised in statement of comprehensive income	-	(3,436)	(3,436)
Recognised in equity	(1,981)	-	(1,981)
At 31 March 2011	22,874	16,512	39,386
Recognised in statement of comprehensive income	-	(2,025)	(2,025)
Recognised in equity	21,382	-	21,382
At 31 March 2012	44,256	14,487	58,743

	GROUP 2012 RM'000	GROUP 2011 RM'000
Deferred tax assets of the Group have not been recognised in respect of:		
Unabsorbed tax losses	-	5,775

17. INTANGIBLE ASSETS

	BANK 2012 RM'000	BANK 2011 RM'000	GROUP 2012 RM'000	GROUP 2011 RM'000
Goodwill				
Cost:				
At beginning/end of year	186,317	186,317	304,149	304,149
Impairment:				
At beginning/end of year	(45)	(45)	(2,084)	(2,084)
Net carrying amount	186,272	186,272	302,065	302,065
Computer software				
Cost:				
At beginning of year	177,805	167,816	182,980	172,922
Additions	16,141	10,222	16,300	10,400
Disposal	-	(177)	-	(286)
Written-off	(1,045)	(56)	(1,201)	(56)
At end of year	192,901	177,805	198,079	182,980
Accumulated amortisation:				
At beginning of year	(122,936)	(109,020)	(127,363)	(113,129)
Charge for the year	(17,853)	(14,014)	(18,239)	(14,420)
Disposal	-	43	-	131
Written-off	204	55	360	55
At end of year	(140,585)	(122,936)	(145,242)	(127,363)
Net carrying amount	52,316	54,869	52,837	55,617
Total carrying amount of goodwill and computer software	238,588	241,141	354,902	357,682

17. INTANGIBLE ASSETS (CONTD.)

(a) Impairment Test on Goodwill

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. Goodwill has been allocated to the Group's cash-generating units ("CGU") that are expected to benefit from the synergies of the acquisitions, identified according to the business segments as follows:

	BANK		GROUP	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Corporate banking	25,368	25,368	44,758	44,758
Commercial banking	13,459	13,459	13,459	13,459
Small and medium enterprise banking	42,621	42,621	42,621	42,621
Consumer banking	67,513	67,513	101,565	101,565
Financial markets	36,960	36,960	83,284	83,284
Corporate finance and equity capital market	40	40	1,838	1,838
Stock-broking business	266	266	12,433	12,433
Asset management	45	45	2,107	2,107
	186,272	186,272	302,065	302,065

For annual impairment testing purposes, the recoverable amount of the CGUs, which are reportable business segments, are determined based on their value-in-use. The value-in-use calculations apply a discounted cash flow model using cash flow projections based on financial budget and projections approved by management. The key assumptions for the computation of value-in-use include the discount rates, cash flow projection and growth rates applied are as follows:

(i) Discount rate

The discount rate of 10.15% - 23.30% (2011: 11.25% - 32.00%) are based on the pre-tax weighted average cost of capital plus an appropriate risk premium, that reflect specific risks relating to the Bank. The pre-tax weighted average cost of capital is generally derived from an appropriate capital asset pricing model, which itself depends on inputs reflecting a number of financial and economic variables including the risk-free rate in the country.

(ii) Cash flow projections and growth rate

Cash flow projections are based on five-year financial budget and projections approved by management. Cash flows beyond the fifth year are extrapolated in perpetuity using a nominal growth rate of 4.7% (2011: 6.5%) based on respective industry's average growth rate forecasted. Cash flows are extrapolated in perpetuity due to the long term perspective of these businesses within the Group.

Impairment is recognised in the statement of comprehensive income when the carrying amount of a CGU exceeds its recoverable amount. This annual impairment test review reveals that there was no evidence of impairment for the financial year.

(b) Sensitivity to Changes in Assumptions

Any reasonable possible change in the key assumptions would not cause the carrying amount of the goodwill to exceed the recoverable amount of the CGU, which would warrant any impairment to be recognised.

18. DEPOSITS FROM CUSTOMERS

	BANK 2012 RM'000	BANK 2011 RM'000	GROUP 2012 RM'000	GROUP 2011 RM'000
Demand deposits	7,581,985	6,611,320	9,141,235	8,010,441
Savings deposits	1,378,296	1,326,520	1,700,686	1,633,845
Fixed/investment deposits	13,773,745	12,516,010	15,617,675	15,230,479
Money market deposits	2,922,394	2,377,219	4,091,751	3,043,464
Negotiable instruments of deposits	1,107,512	501,988	1,407,325	993,052
Structured deposits [Note]	194,971	85,811	194,971	85,811
	26,958,903	23,418,868	32,153,643	28,997,092

(i) The maturity structure of fixed/ investment deposits, money market deposits and negotiable instruments of deposits are as follows:

	BANK 2012 RM'000	BANK 2011 RM'000	GROUP 2012 RM'000	GROUP 2011 RM'000
Due within six months	13,985,773	11,251,070	16,489,925	14,494,558
Six months to one year	3,726,121	3,857,753	4,532,514	4,502,541
One year to three years	71,826	273,713	72,776	256,649
Three years to five years	19,931	12,681	21,536	13,247
	17,803,651	15,395,217	21,116,751	19,266,995

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

	BANK 2012 RM'000	BANK 2011 RM'000	GROUP 2012 RM'000	GROUP 2011 RM'000
Domestic financial institutions	1,111,825	507,011	2,151,287	998,676
Government and statutory bodies	951,889	518,610	1,396,323	1,069,088
Business enterprises	9,349,112	8,471,286	11,868,424	10,762,527
Individuals	14,240,778	13,254,543	15,707,697	15,227,162
Others	1,305,299	667,418	1,029,912	939,639
	26,958,903	23,418,868	32,153,643	28,997,092

Note:

(a) Structured deposits represent foreign currency time deposits with embedded foreign exchange, gold commodity linked options and interest rate index link placements.

(b) The Bank and the Group has undertaken a fair value hedge on the interest rate risk of the structured deposits amounting to RM14,115,000 (2011: RM Nil) using interest rate swaps.

	BANK 2012 RM'000	BANK 2011 RM'000	GROUP 2012 RM'000	GROUP 2011 RM'000
Structured deposits	14,115	-	14,115	-
Fair value changes arising from fair value hedges	(423)	-	(423)	-
	13,692	-	13,692	-

The fair value loss of the interest rate swap in this hedge transaction as at financial year ended 31 March 2012 is RM423,000 (2011: RM Nil).

19. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Licensed banks	495,393	384,194	976,450	744,993
Licensed investment banks	-	150,228	180,036	280,380
Licensed Islamic banks	-	-	245,468	6,000
Bank Negara Malaysia	691,337	855,909	759,051	920,827
	1,186,730	1,390,331	2,161,005	1,952,200

20. BALANCES DUE TO CLIENTS AND BROKERS

	GROUP	
	2012	2011
	RM'000	RM'000
Due to clients	74,915	80,460
Due to brokers	-	6,283
	74,915	86,743

These mainly relate to amounts payable to non-margin clients and outstanding contracts entered into on behalf of clients where settlement via the Bursa Malaysia Securities Clearing Sdn. Bhd. has yet to be made.

The Group's normal trade credit terms for non-margin clients is three (3) market days according to the Bursa's FDSS trading rules.

21. BILLS AND ACCEPTANCES PAYABLE

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

22. AMOUNT DUE TO CAGAMAS BERHAD

This relates to proceeds received from conventional housing loans and hire purchase loans sold directly to Cagamas Berhad with recourse to the Bank. Under the 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 pre-determined and agreed upon prudential criteria set by Cagamas Berhad.

23. OTHER LIABILITIES

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Other payables and accruals	704,243	663,533	845,558	785,944
Remisiers' accounts	-	-	21,230	24,373
Amount due to immediate holding company	16,576	-	-	-
	720,819	663,533	866,788	810,317

24. SUBORDINATED OBLIGATIONS

		BANK/GROUP 2012 RM'000	BANK/GROUP 2011 RM'000
Tier - 2 Subordinated bonds	(a)	-	600,000
Tier - 2 Subordinated Medium Term Notes	(b)	611,615	-
		611,615	600,000

(a) Tier - 2 Subordinated bonds

The main features of the subordinated bonds are as follows:

(i)	Issue date:	26 May 2006
(ii)	Tenor of the facility/issue:	10-year from the issue date on a non-callable 5 year basis
(iii)	Anniversary date:	26 May
(iv)	Maturity date:	26 May 2016
(v)	Interest coupon:	6.09% per annum, subject to revision of rate in year six
(vi)	Revision of interest:	The bonds, unless redeemed at the end of five (5) years from the settlement date, shall bear interest of 7.59% per annum from the sixth year onwards until the final redemption
(vii)	Optional redemption:	The issuer may, at its option, redeem the subordinated bonds in part or in whole, at any anniversary date on or after five (5) years from the issue date
(viii)	Final redemption:	At par on maturity date

The Bank has fully redeemed the subordinated bonds on 26 May 2011 upon obtaining approval from Bank Negara Malaysia.

24. SUBORDINATED OBLIGATIONS (CONTD.)

(b) Tier - 2 Subordinated Medium Term Notes

	BANK/GROUP 2012 RM'000
At cost	600,000
Accumulated unamortised discount	(2,171)
Interest accrued	13,786
	611,615

On 8 April 2011, the Bank completed the issuance of RM600 million Subordinated Medium Term Notes ("Subordinated Notes") under the RM1.5 billion Subordinated Medium Term Notes Programme ("Subordinated MTN Programme").

The Subordinated MTN Programme was earlier approved by Bank Negara Malaysia and the Securities Commission on 30 December 2010 and 25 February 2011 respectively. The Subordinated Notes are eligible for inclusion as Tier-2 capital of the Bank under BNM's capital adequacy regulations.

The Subordinated Notes have been assigned a long term rating of A2 by RAM Rating Services Berhad with tenure of 10 years, callable five (5) years after issue date and on every coupon payment date thereafter, subject to BNM's approval.

The coupon rate for the Subordinated Notes is fixed at 4.82% per annum, payable semi-annually throughout the entire tenure and was issued at a discount. The proceeds have been used to redeem the RM600 million Subordinated Bonds of the Bank on 26 May 2011.

The main features of the Subordinated notes are as follows:

(i)	Issue date:	8 April 2011
(ii)	Tenor of the facility/issue:	10 years from the issue date and callable five (5) years after the issue date
(iii)	Maturity date:	8 April 2021
(iv)	Interest rate/coupon:	4.82% per annum, payable semi-annually in arrears
(v)	Redemption option:	The issuer may, at its option, redeem the subordinated notes at any coupon payment date on or after five (5) years from the issue date

(vi) The Subordinated Notes will constitute direct and unsecured obligations of the issuer, subordinated in right and priority of payment, to the extent and in the manner provided in the Subordinated Notes, ranking pari passu among themselves.

(vii) In the event of winding up or liquidation of the issuer, be subordinated in right of payment to all deposit liabilities and other liabilities of the issuer, except in each case to those liabilities which by their terms rank equally in right of payment or which are subordinated to the Subordinated Notes.

25. SHARE CAPITAL

	BANK/GROUP	
	2012 RM'000	2011 RM'000
Authorised:		
4,995,000,000 ordinary shares of RM1 each	4,995,000	4,995,000
500,000,000 irredeemable (non-cumulative) convertible preference shares ("ICPS") of RM0.01 each	5,000	5,000
	5,000,000	5,000,000
Issued and fully paid:		
Ordinary shares:		
At 1 April/31 March		
596,517,043 ordinary shares of RM1 each	596,517	596,517
ICPS:		
At 1 April/31 March		
400,000,000 ICPS of RM0.01 each	4,000	4,000
	600,517	600,517

The salient terms of the ICPS are as follows:

(a) The Bank shall be entitled at its option at any time from the issue date to convert all or any of the ICPS on the basis of Two (2) ICPS for One (1) ordinary share at Ringgit Malaysia Two (RM2.00) only per share at any time and the ordinary shares resulting from such conversion shall rank pari passu in all respects with the remaining ordinary shares;

(b) The holders of ICPS shall be entitled to receive notice of and attend all General Meetings and be heard but have no right to vote except on resolutions for winding-up of the Bank, for any reduction in capital of the Bank or for any amendment of the Memorandum of Articles of Association of the Bank affecting the rights of the holders;

(c) Upon any winding-up of the Bank, the holder of the ICPS shall be entitled to the repayment of capital of RM0.01 in priority to the ordinary shares but shall not be entitled to any participation in surplus assets and profits;

(d) The holders of the ICPS shall rank pari passu amongst themselves and shall rank after all secured and unsecured obligations but will rank ahead of the ordinary shares of the Bank; and

(e) The holders of the ICPS shall have a right to receive a non-cumulative preferential dividend of five (5) sen per annum per share, provided that there are profits available for distribution.

26. RESERVES

	Note	BANK 2012 RM'000	BANK 2011 RM'000	GROUP 2012 RM'000	GROUP 2011 RM'000
Non-distributable:					
Statutory reserve	(a)	601,561	601,561	842,167	786,406
Capital reserve	(b)	-	-	10,018	10,018
Revaluation reserves	(c)	88,334	43,051	132,769	68,620
Equity contribution from parent	(d)	12,274	11,803	13,733	13,544
Share premium	(e)	597,517	597,517	597,517	597,517
Profit equalisation reserve	(f)	-	-	1,033	1,033
		1,299,686	1,253,932	1,597,237	1,477,138
Distributable:					
Retained profits	(g)	1,333,979	1,148,228	1,420,731	1,194,222
		2,633,665	2,402,160	3,017,968	2,671,360

(a) The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and Section 15 of the Islamic Banking Act, 1983 and is not distributable as dividends.

(b) Capital reserve is in respect of retained profits capitalised for a bonus issue by a subsidiary company.

(c) The revaluation reserves are in respect of unrealised fair value gains and losses on financial investments available-for-sale.

(d) The equity contribution from parent relates to the equity-settled share options/share grants to Directors and employees. This reserve is made up of the estimated fair value of the share options/share grants based on the cumulative services received from Directors and employees over the vesting period.

(e) Share premium relates to:

	BANK 2012 RM'000	BANK 2011 RM'000	GROUP 2012 RM'000	GROUP 2011 RM'000
- ordinary shares	201,517	201,517	201,517	201,517
- ICPS	396,000	396,000	396,000	396,000
	597,517	597,517	597,517	597,517

(f) Profit equalisation reserve which is derived in accordance with the "Framework of Rate of Return" (BNM/GP2-i).

26. RESERVES (CONTD.)

(g) Prior to 1 January 2008, Malaysian companies adopted the full imputation system. In accordance with the Finance Act, 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard their accumulated tax credit under Section 108 of the Income Tax Act, 1967 and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the Section 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act, 2007.

The Bank did not elect for the irrevocable option to disregard the Section 108 balance. Accordingly, during the transitional period, the Bank may utilise the credit in the Section 108 balance as at 31 March 2011 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act, 2007. As at 31 March 2012, the Bank has sufficient credits in the Section 108 balance to pay franked dividends of RM927,980,000 (2011: RM1,112,304,000) and sufficient tax exempt account balances of RM1,189,000 (2011: RM21,031,000) to pay tax exempt dividends.

27. ALLIANCE FINANCIAL GROUP BERHAD EMPLOYEES' SHARE SCHEME

The Alliance Financial Group Berhad Employees' Share Scheme ("AFG Bhd ESS") is governed by the Bye-Laws approved by the shareholders at an Extraordinary General Meeting held on 28 August 2007. The AFG Bhd ESS which comprises the Share Option Plan, the Share Grant Plan and the Share Save Plan took effect on 3 December 2007 and is in force for a period of 10 years.

There were no share options offered under the Share Save Plan during the financial year.

The salient features of the AFG Bhd ESS are as follows:

(i) The ESS is implemented and administered by the Employees' Share Participating Scheme Committee ("ESPS Committee") in accordance with the Bye-Laws.

(ii) The total number of shares which may be available under the AFG Bhd ESS shall not exceed in aggregate 10% of the total issued and paid-up share capital of AFG Bhd at any one time during the existence of the AFG Bhd ESS and out of which not more than 50% of the shares available under the AFG Bhd ESS shall be allocated, in aggregate, to Directors and senior management. In addition, not more than 10% of the shares available under the AFG Bhd ESS shall be allocated to any individual Director or employee who, either singly or collectively through his/her associates, holds 20% or more in the issued and paid-up capital of AFG Bhd.

(iii) The subscription price for each share under the Share Option Plan, Share Grant Plan and Share Save Plan may be at a discount (as determined by the ESPS Committee or such other pricing mechanism as may from time to time be permitted by Bursa Malaysia Securities Berhad or such other relevant regulatory authorities), provided that the discount shall not be more than 10% from the 5-day weighted average market price of AFG Bhd's shares transacted on Bursa Malaysia Securities Berhad immediately preceding the date on which an offer is made or at par value of the shares, whichever is higher.

27. ALLIANCE FINANCIAL GROUP BERHAD EMPLOYEES' SHARE SCHEME (CONTD.)

(iv) The ESPS Committee may at its discretion offer to any Director or employee of a corporation in the Group to participate in the AFG Bhd ESS if the Director or employee:

(a) has attained the age of 18 years;
(b) in the case of a Director, is on the board of directors of a corporation in the Group;
(c) in the case of an employee, is employed by a corporation in the Group; and
(d) is not a participant of any other employee share option scheme implemented by any other corporation within the Group which is in force for the time being

provided that the non-executive directors of the Group who are not employed by a corporation in the Group shall not be eligible to participate in the Share Save Plan.

(v) Under the Share Option Plan and Share Grant Plan, the ESPS Committee may stipulate the performance targets, performance period, value and/or other conditions deemed appropriate.

(vi) Under the Share Save Plan, the ESPS Committee may at its discretion offer Share Save Option(s) to any employees of the Group to subscribe for AFG Bhd's shares and the employee shall authorise deductions to be made from his/her salary.

(vii) AFG Bhd may decide to satisfy the exercise of options / awards of shares under the AFG Bhd ESS through the issue of new shares, transfer of existing shares or a combination of both new and existing shares.

(viii) AFG Bhd may appoint or authorise the trustee of the AFG Bhd ESS to acquire its shares from the open market to give effect to the AFG Bhd ESS.

Save for the Group Chief Executive Officer of the Bank, none of the other Directors of the Bank were offered/awarded any share options/share grants during the financial year.

27. ALLIANCE FINANCIAL GROUP BERHAD EMPLOYEES' SHARE SCHEME (CONTD.)

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options/grants during the financial year:

BANK

2012	Share Options				Share Grants				
	Number of Share Options				Number of Share Grants				
	At beginning of year '000	Offered/ awarded '000	Lapsed '000	At end of year '000	At beginning of year '000	Offered/ awarded '000	Vested/ exercised '000	Lapsed '000	At end of year '000
2008 Share Scheme	3,447	-	(3,447)	-	-	-	-	-	-
2009 Share Scheme	4,392	-	(1,041)	3,351	608	-	(550)	(58)	-
2010 Share Scheme	5,191	-	(1,219)	3,972	1,538	-	(701)	(226)	611
2011 Share Scheme	5,812	-	(1,199)	4,613	1,574	-	-	(327)	1,247
2012 Share Scheme	-	8,720	(698)	8,022	-	1,923	-	(178)	1,745
	18,842	8,720	(7,604)	19,958	3,720	1,923	(1,251)	(789)	3,603
WAEP	2.82	3.58	2.97	3.09					

2011	Share Options				Share Grants				
	Number of Share Options				Number of Share Grants				
	At beginning of year '000	Offered/ awarded '000	Lapsed '000	At end of year '000	At beginning of year '000	Offered/ awarded '000	Vested/ exercised '000	Lapsed '000	At end of year '000
2008 Share Scheme	4,731	-	(1,284)	3,447	593	-	(511)	(82)	-
2009 Share Scheme	6,067	-	(1,675)	4,392	1,565	-	(735)	(222)	608
2010 Share Scheme	6,781	-	(1,590)	5,191	1,968	-	-	(430)	1,538
2011 Share Scheme	-	7,130	(1,318)	5,812	-	1,962	-	(388)	1,574
	17,579	7,130	(5,867)	18,842	4,126	1,962	(1,246)	(1,122)	3,720
WAEP	2.68	3.15	2.79	2.82					

GROUP

2012	Share Options				Share Grants				
	Number of Share Options				Number of Share Grants				
	At beginning of year '000	Offered/ awarded '000	Lapsed '000	At end of year '000	At beginning of year '000	Offered/ awarded '000	Vested/ exercised '000	Lapsed '000	At end of year '000
2008 Share Scheme	4,130	-	(4,130)	-	-	-	-	-	-
2009 Share Scheme	5,137	-	(1,218)	3,919	702	-	(634)	(68)	-
2010 Share Scheme	5,923	-	(1,554)	4,369	1,729	-	(773)	(288)	668
2011 Share Scheme	6,533	-	(1,452)	5,081	1,753	-	-	(382)	1,371
2012 Share Scheme	-	9,545	(765)	8,780	-	2,089	-	(191)	1,898
	21,723	9,545	(9,119)	22,149	4,184	2,089	(1,407)	(929)	3,937
WAEP	2.82	3.58	2.96	3.09					

2011	Share Options				Share Grants				
	Number of Share Options				Number of Share Grants				
	At beginning of year '000	Offered/ awarded '000	Lapsed '000	At end of year '000	At beginning of year '000	Offered/ awarded '000	Vested/ exercised '000	Lapsed '000	At end of year '000
2008 Share Scheme	5,707	-	(1,577)	4,130	704	-	(595)	(109)	-
2009 Share Scheme	7,190	-	(2,053)	5,137	1,828	-	(829)	(297)	702
2010 Share Scheme	7,992	-	(2,069)	5,923	2,255	-	-	(526)	1,729
2011 Share Scheme	-	7,867	(1,334)	6,533	-	2,147	-	(394)	1,753
	20,889	7,867	(7,033)	21,723	4,787	2,147	(1,424)	(1,326)	4,184
WAEP	2.68	3.15	2.77	2.82					

27. ALLIANCE FINANCIAL GROUP BERHAD EMPLOYEES' SHARE SCHEME (CONTD.)

(a) Details of share options/grants at the end of financial year:

	WAEP RM	Exercise Period
2008 Share Options	3.07	12.12.2010 - 11.12.2014
2009 Share Options	2.70	02.09.2011 - 01.09.2015
2010 Share Options	2.38	25.08.2012 - 24.08.2016
2011 Share Options	3.15	23.09.2013 - 22.09.2017
2012 Share Options	3.58	22.07.2014 - 21.07.2017

		Vesting Dates
2008 Share Grants	- First 50% of the share grants	12.12.2009
	- Second 50% of the share grants	12.12.2010
2009 Share Grants	- First 50% of the share grants	02.09.2010
	- Second 50% of the share grants	02.09.2011
2010 Share Grants	- First 50% of the share grants	25.08.2011
	- Second 50% of the share grants	25.08.2012
2011 Share Grants	- First 50% of the share grants	23.09.2012
	- Second 50% of the share grants	23.09.2013
2012 Share Grants	- First 50% of the share grants	22.07.2013
	- Second 50% of the share grants	22.07.2014

Note:

(i) 2008 Share Options had since lapsed and all shares were forfeited due to performance measures were not meet during the extended grace period.

(ii) 2008 and 2009 Share Grants were fully vested in accordance with the stipulated terms.

(b) Allocation of shares options/grants to Executive Directors and senior management of the Group:

(i) The aggregate maximum allocation of shares options/grants to Executive Directors and senior management of the Group during the financial year and since commencement of the ESS is 50% of shares available under the ESS.

(ii) The actual percentage granted to Executive Directors and senior management of the total number of shares options/grants offered are as follows:

	Percentage
Since commencement of the ESS	
2008 Share Scheme	46.2%
2009 Share Scheme	48.7%
2010 Share Scheme	48.5%
2011 Share Scheme	43.5%
During the financial year	
2012 Share Scheme	48.8%

27. ALLIANCE FINANCIAL GROUP BERHAD EMPLOYEES' SHARE SCHEME (CONTD.)

(c) Fair value of share options/grants offered/awarded:

The fair value of share options/grants under the Share Option Plan and the Share Grant Plan during the financial year was estimated by an external valuer using a binomial model, taking into account the terms and conditions upon which the share options/share grants were offered/awarded. The fair value of share options and share grants measured at offer/award date and the assumptions are as follows:

	Share Options				
	2008	**2009**	**2010**	**2011**	**2012**
Fair value of the shares as at grant date,					
- 12 December 2007 (RM)	0.8072	-	-	-	-
- 2 September 2008 (RM)	-	0.7040	-	-	-
- 25 August 2009 (RM)	-	-	0.7489	-	-
- 23 September 2010 (RM)	-	-	-	0.8980	-
- 22 July 2011 (RM)	-	-	-	-	0.8790
Weighted average share price (RM)	3.1000	2.6600	2.4000	3.1300	3.7200
Weighted average exercise price (RM)	3.0696	2.6989	2.3784	3.1480	3.5800
Expected volatility (%)	0.2617	0.2709	0.3403	0.3115	0.2977
Expected life (years)	7	7	7	7	6
Risk free rate (%)	3.57 to 4.57	3.79 to 5.22	2.04 to 4.61	2.92 to 4.04	2.93 to 4.18
Expected dividend yield (%)	1.78	1.78	1.78	1.78	3.08

	Share Grants				
	2008	**2009**	**2010**	**2011**	**2012**
Fair value of the shares as at grant date,					
- 12 December 2007 (RM)	2.9639	-	-	-	-
- 2 September 2008 (RM)	-	2.5432	-	-	-
- 25 August 2009 (RM)	-	-	2.2941	-	-
- 23 September 2010 (RM)	-	-	-	2.9930	-
- 22 July 2011 (RM)	-	-	-	-	3.4405
Weighted average share price (RM)	3.1000	2.6600	2.4000	3.1300	3.7200
Expected volatility (%)	0.2617	0.2709	0.3403	0.3115	0.2977
Risk free rate (%)	3.57 to 4.57	3.79 to 5.22	2.04 to 4.61	2.92 to 4.04	2.93 to 4.18
Expected dividend yield (%)	1.78	1.78	1.78	1.78	3.08

The expected life of the share options is based on the exerciable period of the option and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of the share option/share grant were incorporated into the measurement of fair value.

The risk-free rate is employed using a range of risk-free rates for Malaysian Government Securities ("MGS") tenure from 1-year to 20-year MGS.

28. INTEREST INCOME

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Loans, advances and financing	873,386	803,854	908,692	841,945
Money at call and deposit placements with financial institutions	67,610	71,294	41,759	36,817
Financial assets held-for-trading	3,798	1,044	3,862	1,044
Financial investments available-for-sale	208,528	146,531	253,237	206,340
Financial investments held-to-maturity	17,063	24,187	22,751	30,682
Others	3,375	4,393	3,375	4,393
	1,173,760	1,051,303	1,233,676	1,121,221
Accretion of discount less amortisation of premium	90,058	75,141	94,369	82,179
	1,263,818	1,126,444	1,328,045	1,203,400

29. INTEREST EXPENSE

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Deposits and placements of banks and other financial institutions	27,905	35,674	33,640	55,345
Deposits from customers	549,554	409,910	578,114	429,538
Loans sold to Cagamas	2,908	642	2,908	642
Subordinated obligations	34,513	36,540	34,513	36,540
Others	3,727	7,773	3,814	7,938
	618,607	490,539	652,989	530,003

30. NET INCOME FROM ISLAMIC BANKING BUSINESS

	GROUP	
	2012	2011
	RM'000	RM'000
Income derived from investment of depositors' funds and others	335,853	292,564
Income derived from investment of Islamic Banking funds	32,097	27,988
Income attributable to the depositors and financial institutions	(139,025)	(112,805)
	228,925	207,747
Add: Income due to head office eliminated at Group level	27,404	24,985
	256,329	232,732

Note:

Net income from Islamic banking business comprises income generated from both Alliance Islamic Bank Berhad ("AIS"), and Islamic banking business currently residing in Alliance Investment Bank Berhad ("AIBB"). Both AIS and AIBB are wholly-owned subsidiaries of the Bank.

31. OTHER OPERATING INCOME

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
(a) Fee income:				
Commissions	55,148	44,478	55,160	35,031
Service charges and fees	29,090	31,568	30,546	34,529
Portfolio management fees	-	-	6,994	6,628
Corporate advisory fees	-	-	6,073	3,064
Underwriting commissions	-	-	990	949
Brokerage fees	-	-	14,499	17,837
Guarantee fees	8,502	8,405	8,764	8,603
Processing fees	8,910	8,458	10,817	11,779
Commitment fees	14,376	14,042	14,376	14,042
Other fee income	27,612	13,909	28,518	14,617
	143,638	120,860	176,737	147,079
(b) Investment income:				
Gain arising from sale/ redemption of:				
- Financial assets held-for-trading	3,568	417	3,699	417
- Financial investments held-to-maturity	16,831	3	16,831	3
- Financial investments available-for-sale	43,050	1,872	47,408	3,509
Unrealised (loss)/gain from revaluation of:				
- Financial assets held-for-trading	(149)	220	(185)	256
- Derivative instruments	1,572	4,149	1,572	4,149
Realised gain on derivative instruments	37,444	43,925	37,444	43,925
Gross dividend income from:				
- Financial investments available-for-sale	9,544	2,886	10,229	3,705
- Subsidiaries	34,732	17,263	-	-
	146,592	70,735	116,998	55,964
(c) Other income:				
Foreign exchange gain	7,745	7,170	7,977	7,415
Rental income	313	289	-	-
Gain/(loss) on disposal of property, plant and equipment	306	(321)	309	(329)
Loss on disposal of foreclosed properties	-	(38)	(20)	(38)
Others	17,960	14,346	18,275	15,610
	26,324	21,446	26,541	22,658
Total other operating income	316,554	213,041	320,276	225,701

32. OTHER OPERATING EXPENSES

	BANK 2012 RM'000	BANK 2011 RM'000	GROUP 2012 RM'000	GROUP 2011 RM'000
Personnel costs				
- Salaries, allowances and bonuses	207,960	181,437	288,670	253,153
- Contribution to EPF	34,519	30,714	47,543	42,247
- Share options/grants under ESS	5,955	4,852	6,494	5,228
- Others	22,338	23,974	32,898	32,043
	270,772	240,977	375,605	332,671
Establishment costs				
- Depreciation of property, plant and equipment	27,091	34,908	29,271	39,516
- Amortisation of computer software	17,853	14,014	18,239	14,420
- Rental of premises	20,279	19,255	27,352	26,157
- Water and electricity	5,324	4,901	6,126	5,459
- Repairs and maintenance	6,795	7,689	9,611	10,123
- Information technology expenses	24,485	22,488	33,251	29,338
- Others	6,011	(942)	20,007	13,406
	107,838	102,313	143,857	138,419
Marketing expenses				
- Promotion and advertisement	8,148	6,096	11,178	8,912
- Branding and publicity	4,739	4,807	4,756	4,861
- Others	3,573	3,717	4,690	4,801
	16,460	14,620	20,624	18,574
Administration and general expenses				
- Communication expenses	9,677	8,516	13,124	11,677
- Printing and stationery	2,521	3,452	3,753	4,616
- Insurance	5,765	9,522	5,926	10,500
- Professional fees	9,986	13,279	13,588	13,510
- Others	6,293	7,084	12,344	11,715
	34,242	41,853	48,735	52,018
Total other operating expenses	429,312	399,763	588,821	541,682

Included in the other operating expenses are the following:

	BANK 2012 RM'000	BANK 2011 RM'000	GROUP 2012 RM'000	GROUP 2011 RM'000
Auditors' remuneration				
- statutory audit fees	542	469	832	722
- audit related fees	276	469	452	725
- tax compliance fees	40	418	106	575
- tax related services	-	355	13	355
- other services	-	679	-	689
Hire of equipment	3,954	3,611	3,958	3,616
Property, plant and equipment written-off	2,019	3,261	2,046	3,399
Computer software written-off	841	1	841	1

33. ALLOWANCE FOR LOSSES ON LOANS, ADVANCES AND FINANCING AND OTHER LOSSES

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Allowance for/(write-back of) bad and doubtful debts and financing:				
(a) Individual assessment allowance				
- Made during the year (net)	26,319	69,518	43,363	87,812
(b) Collective assessment allowance				
- Made during the year (net)	30,423	8,006	46,381	15,992
(c) Bad debts on loans and financing				
- Recovered	(39,384)	(62,442)	(65,590)	(80,844)
- Written-off	7,331	836	8,416	3,988
	24,689	15,918	32,570	26,948
(Write-back of)/allowance for commitment and contingencies	(1,482)	(2,866)	(4,210)	59
Allowance for other assets	5,436	6,353	5,683	6,001
	28,643	19,405	34,043	33,008

34. WRITE-BACK OF IMPAIRMENT

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Write-back of impairment on securities:				
- Financial investments available-for-sale	(16,303)	(579)	(22,759)	(585)
- Financial investments held-to-maturity	(344)	(3,491)	(344)	(3,491)
Allowance for impairment on property, plant and equipment	1,460	-	1,460	-
	(15,187)	(4,070)	(21,643)	(4,076)

35. TAXATION AND ZAKAT

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Income tax provision for current year	140,052	121,704	173,762	153,881
Deferred tax	(8,113)	(8,536)	(9,473)	(9,887)
	131,939	113,168	164,289	143,994
(Over)/under provision in prior years	(693)	(730)	(295)	25
	131,246	112,438	163,994	144,019
Zakat	-	-	113	362
	131,246	112,438	164,107	144,381

Income tax is calculated at the Malaysian statutory tax rate of 25% (2011: 25%) of the estimated assessable profit for the year.

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

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Profit before taxation	518,997	433,848	648,437	559,749
Taxation at Malaysian statutory tax rate of 25% (2011: 25%)	129,749	108,462	162,109	139,938
Effect of income not subject to tax	(2,618)	(2,078)	(2,752)	(2,423)
Effect of expenses not deductible for tax purposes	4,808	6,784	6,058	8,116
Unabsorbed tax losses which deferred tax recognised during the year	-	-	(1,126)	(1,637)
(Over)/under provision in prior years	(693)	(730)	(295)	25
Tax expense for the year	131,246	112,438	163,994	144,019

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Tax savings during the year arising from:				
- utilisation of tax losses brought forward from previous year	-	-	2,173	1,145

36. EARNINGS PER SHARE

(a) Basic

Basic earnings per share amounts are calculated by dividing profit for the year attributable to owner of the parent by the weighted average number of ordinary shares in issue during the financial year.

	GROUP	
	2012	2011
	RM'000	RM'000
Profit for the year attributable to owner of the parent	483,846	415,419
	2012	2011
	'000	'000
Weighted average numbers of ordinary shares in issue	596,517	596,517
	2012	2011
	sen	sen
Basic earnings per share	81	70

(b) Diluted

For the purpose of calculating diluted earnings per share, the profit for the year attributable to owner of the parent and the weighted average number of ordinary shares in issue during the financial year have been adjusted for the dilutive effects of all potential ordinary shares, i.e. Irredeemable (non-cumulative) Convertible Preference Shares ("ICPS").

	GROUP	
	2012	2011
	RM'000	RM'000
Profit for the year attributable to owner of the parent	483,846	415,419
	2012	2011
	'000	'000
Weighted average numbers of ordinary shares in issue	596,517	596,517
Effect of dilution:		
ICPS	200,000	200,000
	796,517	796,517
	2012	2011
	sen	sen
Diluted earnings per share	61	52

37. DIVIDENDS

(a) Dividends on Ordinary Shares:

	Recognised during the year	
	2012	2011
	RM'000	RM'000
Final		
12.0 sen less 25% taxation on 596,517,043 ordinary shares, declared in financial year ended 31 March 2010, and paid on 28 July 2010	-	53,686
Interim		
9.2 sen less 25% taxation on 596,517,043 ordinary shares, declared in financial year ended 31 March 2011, and paid on 29 November 2010	-	41,160
Final		
22.3 sen less 25% taxation on 596,517,043 ordinary shares, declared in financial year ended 31 March 2011, and paid on 26 July 2011	99,767	-
Interim		
18.9 sen less 25% taxation on 596,517,043 ordinary shares, declared in financial year ended 31 March 2012, and paid on 24 November 2011	84,556	-
	184,323	94,846

A final dividend of 28.7 sen, less 25% taxation on 596,517,043 ordinary shares amounting to approximately RM128,400,000 (gross dividend: RM171,200,000) in respect of current financial year will be proposed for shareholders' approval at the forthcoming Annual General Meeting. The accompanying financial statements do not reflect the proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 March 2013.

The following is the analysis of dividends per share in respect of the financial year when the dividends were declared or proposed:

	Net dividends per Ordinary Share	
	2012	2011
	Sen	Sen
Proposed:		
Final dividend of 28.7 sen less 25% tax	21.52	-
Final dividend of 22.3 sen less 25% tax	-	16.72
Paid:		
Interim dividend of 18.9 sen less 25% tax	14.17	-
Interim dividend of 9.2 sen less 25% tax	-	6.90
	35.69	23.62

37. DIVIDENDS (CONTD.)

(b) Dividends on Preference Shares:

	Recognised during the year		Net dividends per Preference Share	
	2012	2011	2012	2011
	RM'000	RM'000	Sen	Sen
Final				
5 sen per share, tax exempt dividend under the single tier tax on 400,000,000 preference shares, declared in financial year ended 31 March 2011, and paid on 29 November 2010	-	20,000	-	5.00
Final				
5 sen per share, tax exempt dividend under the single tier tax on 400,000,000 preference shares, declared in financial year ended 31 March 2012, and paid on 24 November 2011	20,000	-	5.00	-

38. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are the Bank's and the Group's other significant related party transactions and balances:

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
(a) Transactions				
Interest income				
- subsidiaries	(36,052)	(32,863)	-	-
- key management personnel	(33)	(6)	(98)	(6)
Dividend income				
- subsidiaries	(34,732)	(17,263)	-	-
Management fees				
- holding company	(348)	(348)	(348)	(348)
- subsidiaries	(5,945)	(6,772)	-	-
Rental income				
- subsidiaries	(468)	(438)	-	-
Other operating expenses recharged				
- subsidiaries	(97,564)	(89,938)	-	-
Other income				
- subsidiaries	(633)	(837)	-	-

38. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTD.)

	BANK 2012 RM'000	BANK 2011 RM'000	GROUP 2012 RM'000	GROUP 2011 RM'000
(a) Transactions (contd.)				
Commission paid				
- subsidiaries	(36,153)	(26,510)	-	-
Interest expenses				
- holding company	10,554	16,560	12,869	18,176
- subsidiaries	53	1,201	-	-
- an associate	36	33	39	33
- key management personnel	193	139	1,079	1,034
Management fees paid				
- a substantial shareholder of holding company	-	-	903	363
Other operating expenses				
- holding company	1,763	1,420	2,335	1,959
- subsidiary	824	3,318	-	-
- an associate	-	2	-	2
- related companies	-	-	-	2
Dividend paid				
- holding company	204,323	114,846	204,323	114,846
(b) Balances				
Amount due to				
Deposits from customers				
- holding company	(334)	(606,215)	(21,541)	(650,738)
- subsidiaries	(90,017)	(122,119)	-	-
- related companies	(12)	(12)	(12)	(12)
- an associate	(1,129)	(1,184)	(2,750)	(1,184)
- key management personnel	(9,117)	(8,152)	(14,498)	(40,825)
Financial investments available-for-sale				
- subsidiaries	739,649	-	-	-
Loans, advances and financing				
- key management personnel	3,679	14	4,434	322
Overdraft				
- key management personnel	-	-	3,168	89
Money at call and deposit placements with financial institutions				
- subsidiaries	124,454	1,084,956	-	-
Other assets				
- holding company	358	5	358	5
- subsidiaries	2,891	22,040	-	-
Other liabilities				
- subsidiaries	16,576	-	-	-

38. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTD.)

Related companies refer to member companies of Alliance Financial Group Berhad, the holding company of the Bank.

Key management personnel refer to those persons having authority and responsibility for planning, directing and controlling the activities of the Bank and the Group, directly or indirectly, including Executive Directors and Non-Executive Directors of the Bank and the Group (including close members of their families). Other members of key management personnel of the Bank and the Group are the Group Chief Executive Officer, Group Chief Operating Officer, Group Chief Financial Officer, Group Chief Risk Officer and Group Chief Credit Officer.

The Group also had certain transactions during the year with Directors of the Bank, relating to deposit and placements, motor vehicle financing and house financing to Directors. The interest rates applied for eligible balances were in accordance with the staff scheme accorded to employees of the Bank.

(c) Compensation of key management personnel

Remuneration of Directors and other members of key management for the year is as follows:

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Short-term employee benefits				
- Fees	597	671	1,458	1,351
- Salary and other remuneration, including meeting allowances	6,136	4,910	8,571	6,159
- Contribution to EPF	811	570	1,121	714
- Share options/grants under ESS	1,033	471	1,230	705
Benefits-in-kind	77	46	87	55
	8,654	6,668	12,467	8,984

Included in the total key management personnel are:

Directors' remuneration (Note 40)	4,568	3,722	8,381	6,038

38. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTD.)

Executive Directors of the Bank and the Group and other members of key management have been offered/awarded the following number of share options/share grants under the AFG Bhd ESS:

	Share Options		Share Grants	
	2012	2011	2012	2011
<u>BANK</u>	'000	'000	'000	'000
At beginning of year	1,914	519	257	70
Directors/key management personnel appointed during the year	-	183	-	24
Offered/awarded	2,048	1,212	279	194
Vested	-	-	(40)	(31)
Lapsed	(857)	-	(68)	-
At end of year	3,105	1,914	428	257

	Share Options		Share Grants	
	2012	2011	2012	2011
<u>GROUP</u>	'000	'000	'000	'000
At beginning of year	2,774	2,068	351	280
Directors/key management personnel appointed during the year	68	183	7	24
Offered/awarded	2,398	1,429	327	229
Vested	-	-	(61)	(57)
Lapsed	(1,394)	(906)	(120)	(125)
At end of year	3,846	2,774	504	351

The above share options/grants were offered/awarded on the same terms and conditions as those offered to other employees of AFG Berhad Group (Note 27).

39. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	BANK	
	2012 RM'000	2011 RM'000
Outstanding credit exposures with connected parties	163,733	160,950
of which: Total credit exposure which is impaired or in default	25	112
Total credit exposures	30,725,154	27,034,162
Percentage of outstanding credit exposures to connected parties		
- as a proportion of total credit exposures	0.53%	0.60%
- which is impaired or in default	0.00%	0.00%

The disclosure on Credit Transactions and Exposures with Connected Parties above is presented in accordance with paragraph 9.1 of Bank Negara Malaysia's received Guidelines on Credit Transactions and Exposures with Connected Parties, which became effective on 1 January 2008.

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

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

(ii) Controlling shareholder and 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.

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.

40. CEOs AND DIRECTORS' REMUNERATION

Remuneration in aggregate for all Chief Executive Officers ("CEO")/Directors charged to the statement of comprehensive income for the year is as follows:

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Chief Executive Officers:				
- Salary and other remuneration	1,528	984	3,047	1,765
- Bonuses	787	672	1,414	831
- Contribution to EPF	331	234	641	378
- Share options/grants under ESS	733	183	930	417
- Benefits-in-kind	46	46	56	55
	3,425	2,119	6,088	3,446
Non-executive Directors:				
- Fees	597	671	1,458	1,351
- Allowances	522	932	811	1,241
- Benefits-in-kind	24	-	24	-
	1,143	1,603	2,293	2,592
	4,568	3,722	8,381	6,038
Past Directors:				
- Salary and other remuneration, including meeting allowance	93	-	182	151
- Fees	73	-	108	30
- Contribution to EPF	-	-	10	20
- Benefits-in-kind	-	-	-	2
	166	-	300	203
	4,734	3,722	8,681	6,241
Total Directors' remuneration excluding benefits-in-kind	4,664	3,676	8,601	6,184

40. CEOs AND DIRECTORS' REMUNERATION (CONTD.)

	2012		2011	
	Executive Directors/ CEO	Non-Executive Directors	Executive Directors/ CEO	Non-Executive Directors
<u>Directors of the Bank</u>				
Below RM50,000	-	1	-	1
RM50,001 - RM100,000	-	-	-	-
RM100,001 - RM150,000	-	4	-	3
RM150,001 - RM200,000	-	1	-	2
RM200,001 - RM250,000	-	2	-	1
RM250,001 - RM300,000	-	-	-	1
RM300,001 - RM350,000	-	-	-	1
RM350,001 - RM400,000	-	-	-	-
RM400,001 - RM450,000	-	-	-	-
Above RM450,000	1	-	1	-

	2012		2011	
	Executive Directors/ CEO	Non-Executive Directors	Executive Directors/ CEO	Non-Executive Directors
<u>Directors of the Group</u>				
Below RM50,000	-	-	-	3
RM50,001 - RM100,000	-	-	-	-
RM100,001 - RM150,000	-	6	-	3
RM150,001 - RM200,000	-	-	-	-
RM200,001 - RM250,000	-	1	-	1
RM250,001 - RM300,000	-	1	-	-
RM300,001 - RM350,000	1	1	-	1
RM350,001 - RM400,000	-	1	-	1
RM400,001 - RM450,000	-	1	-	3
Above RM450,000	3	-	3	-

41. MATERIAL LITIGATIONS

(a) A corporate borrower had issued a Writ of Summons in 2005 against an agent bank for a syndicate of lenders comprising three banks of which our Bank is one of them, claiming for general, special and exemplary damages alleging a breach of duty and contract. The credit facilities consist of a bridging loan of RM58.5 million and a revolving credit facility of RM4.0 million which were granted by the syndicate lenders of which the Bank's participation was RM18.5 million. In 2002, the credit facilities were restructured to a loan of RM30.0 million, of which the Bank's participation was RM8.31 million, payable over seven years. The syndicated lenders had also filed a suit against the corporate borrower for the recovery of the abovementioned loan.

The two suits were then consolidated and heard together. On 6 May 2009, judgment was delivered against the agent bank for special damages amounting to RM115.5 million together with interest at the rate of 6% per annum from date of disbursement to date of realisation with general damages to be assessed by the Court. The agent bank's solicitors has filed an appeal against the said decision. The High Court on 24 June 2009 granted the agent bank a stay of execution of the judgment pending disposal of its appeal at the Court of Appeal. The Court of Appeal has fixed the hearing of the appeal for 19 June 2012.

The advice from the agent bank's solicitors is that there is a better than even chance of succeeding in the said appeal.

(b) The Bank had in 1999 filed a suit against a corporate borrower and the guarantor (collectively referred to as "the Defendants") for the outstanding amount due to a default in banking facility amounting to RM2.36 million. The Defendants filed a counter-claim against the Bank for special damages amounting to RM15.5 million and general damages to be assessed by the Court for negligence and/or wrongful termination of the banking facilities, statutory interest on judgment sum, costs and such other and/or further relief deemed fit by the Court.

On 4 May 2009, the High Court in Kota Kinabalu dismissed the Bank's claim and allowed Defendants claim for general damages to be assessed by the Deputy Registrar. The Bank filed an appeal to the Court of Appeal against the High Court judgment and applied to the High Court for a stay of execution against the said judgment. On 3 August 2009, the High Court dismissed the Bank's application for stay of execution of the judgment. The Bank then filed an appeal to the Court of Appeal against the said decision. On 16 November 2009, the Court of Appeal dismissed the Bank's appeal for stay of execution with no order as to costs and directed that an early hearing date would be scheduled for the Bank's appeal proper.

On 18 January 2011, the Court of Appeal allowed the Bank's appeal by dismissing the counter-claim against the Bank and allowing the Bank's claim against the Defendants. The Defendants filed an application for leave to appeal at the Federal Court against the said decision. On 23 November 2011, the Federal Court dismissed the Defendants application for leave to appeal to the Federal Court with costs of RM10,000.00.

Pursuant to the decision by the Federal Court, the High Court had on 10 February 2012 struck out the matter with costs to follow as per Court of Appeal order. This essentially concludes the matter thus bringing the counter-claim against the Bank to an end.

41. MATERIAL LITIGATIONS (CONTD.)

(c) The Bank commenced a civil suit against an individual borrower in March 2007 for recovery of an overdraft facility secured by shares from the individual borrower and shares from a third party. The individual borrower counter-claimed against the Bank for various declarations amongst others that the Bank had acted wrongfully or in bad faith in demanding repayment of the facility and that there was in existence a collateral contract between the individual borrower, the Bank and the third party. In addition, the individual borrower is also claiming for general damages to be assessed by the courts.

Arising from the above-mentioned suit, the third party in September 2008 filed a separate suit against the Bank for force selling the shares pledged by the third party. The third party's claim is for damages for loss of the benefit of the shares pledged to the Bank, damages for conversion, damages for misrepresentation and for breach of contract.

The two cases were consolidated into one suit. The consolidated suits were heard from 20 till 24 February 2012. On 20 March 2012, the High Court allowed the Bank's claim against the individual borrower and dismissed the individual borrower's counter claim against the Bank with costs of RM150,000.00. The individual borrower has since filed an appeal to the Court of Appeal against the said decision. The Bank is contesting the appeal.

On 20 March 2012, the High Court also dismissed the third party's suit against the Bank with costs of RM150,000.00. The third party has since appealed against the said decision to the Court of Appeal. The Bank is contesting the appeal.

42. FINANCIAL RISK MANAGEMENT POLICIES

The Group manages risk within clearly defined guidelines that are approved by the Directors. In addition, the Board of Directors of the Group provides independent oversight to ensure that risk management policies are complied with, through a framework of established controls and reporting processes.

The guidelines and policies adopted by the Group to manage the main risks that arise in the conduct of its business activities are as follows:

(a) Credit Risk

Credit risk is the potential loss of revenue and/or principal arising from defaults by borrowers or counterparties through business activities in lending, trading, investing and hedging. Exposure to credit risk may be categorised as primary or secondary.

Primary exposure to credit risk arises from loans, advances and financing. The amount of credit exposure is represented by the carrying amount of loans, advances and financing in the statements of financial position. The lending/financing activities in the Group are guided by the Group's Credit Policies and Guidelines, in line with Best Practices in the Management of Credit Risk, issued by Bank Negara Malaysia. These credit policies and guidelines also include an Internal Grading model adopted by the Group to grade its loans, advances and financing accounts according to their respective risk profiles.

On the other hand, secondary credit exposure arise from financial transactions with counterparties (including interbank market activities, derivative instruments used for hedging and debt instruments), of which the amount of credit exposure in respect of these instruments is equal to the carrying amount of these assets in the statements of financial position. This exposure is monitored on an on-going basis against predetermined counterparty limits.

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(i) Maximum exposure to credit risk (contd.)

The credit exposure arising from off-balance sheet activities, i.e. commitments and contingencies is set out in Note 46 to the financial statements.

Credit risk arising from Treasury activities are managed by appropriate policies, counterparty limits and supported by the Group's Risk Management Framework.

(i) Maximum exposure to credit risk

The following table presents the Bank and the Group's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, before taking into account of any collateral held or other credit enhancements and after allowance for impairment where appropriate.

For on-balance sheet financial assets, the maximum exposure to credit risk equals their carrying amount. For financial guarantees and similar contracts granted, the maximum exposure to credit risk is the maximum amount that would have to pay if the guarantees were to be called upon. For credit related commitments and contingencies that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

	BANK		GROUP	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Credit risk exposure of on-balance sheet:				
Cash and short-term funds (exclude cash in hand)	1,539,052	779,323	1,683,092	701,862
Deposits and placements with banks and other financial institutions	143,461	954,610	93,438	100,228
Balances due from clients and brokers	-	-	61,698	80,519
Financial assets held-for-trading	1,342,302	1,176,190	1,491,995	1,938,250
Financial investments available-for-sale (exclude equity securities)	7,325,003	6,247,376	8,983,101	9,138,478
Financial investments held-to-maturity	228,622	633,521	795,256	940,726
Derivative financial assets	23,712	32,047	23,712	32,047
Loans, advances and financing	19,990,187	17,951,098	24,717,697	22,110,986
Total on-balance sheet	30,592,339	27,774,165	37,849,989	35,043,096
Credit risk exposure of off-balance sheet:				
Financial guarantees	394,908	393,864	463,962	453,370
Credit related commitments and contingencies	11,112,013	9,407,853	13,009,027	10,499,031
Total off-balance sheet	11,506,921	9,801,717	13,472,989	10,952,401
Total maximum exposure	42,099,260	37,575,882	51,322,978	45,995,497

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(ii) Credit risk concentrations

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. The analyses of credit risk concentration presented below relates only to financial assets subject to credit risk and are based on the industry in which the counterparty is engaged.

BANK 2012	Government and Central Bank RM'000	Financial, Insurance and Business Services RM'000	Transport, Storage and Communication Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction RM'000	Residential Mortgage RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
Cash and short-term funds	903,812	635,240	-	-	-	-	-	-	1,539,052
Deposits and placements with banks and other financial institutions	-	143,461	-	-	-	-	-	-	143,461
Financial assets held-for-trading	1,342,302	-	-	-	-	-	-	-	1,342,302
Financial investments available-for-sale	3,077,911	3,874,479	84,766	266,737	21,110	-	-	-	7,325,003
Financial investments held-to-maturity	227,177	1,445	-	-	-	-	-	-	228,622
Derivative financial assets	-	23,712	-	-	-	-	-	-	23,712
Loans, advances and financing	-	2,239,321	100,562	6,145,387	214,618	8,172,207	142,593	2,975,499	19,990,187
Total on-balance sheet	5,551,202	6,917,658	185,328	6,412,124	235,728	8,172,207	142,593	2,975,499	30,592,339
Financial guarantees	-	34,503	19,817	274,277	29,205	300	-	36,806	394,908
Credit related commitments and contingencies	-	1,156,018	66,185	2,545,111	1,197,481	2,787,615	5	3,359,598	11,112,013
Total off-balance sheet	-	1,190,521	86,002	2,819,388	1,226,686	2,787,915	5	3,396,404	11,506,921
Total credit risk	5,551,202	8,108,179	271,330	9,231,512	1,462,414	10,960,122	142,598	6,371,903	42,099,260

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(ii) Credit risk concentrations (contd.)

GROUP 2012	Government and Central Bank RM'000	Financial, Insurance and Business Services RM'000	Transport, Storage and Communication Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction RM'000	Residential Mortgage RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
Cash and short-term funds	1,067,241	615,851	-	-	-	-	-	-	1,683,092
Deposits and placements with banks and other financial institutions	-	93,438	-	-	-	-	-	-	93,438
Balances due from clients and brokers	-	-	-	-	-	-	-	61,698	61,698
Financial assets held-for-trading	1,491,995	-	-	-	-	-	-	-	1,491,995
Financial investments available-for-sale	4,202,309	4,237,686	137,155	374,422	31,529	-	-	-	8,983,101
Financial investments held-to-maturity	768,101	21,949	5,206	-	-	-	-	-	795,256
Derivative financial assets	-	23,712	-	-	-	-	-	-	23,712
Loans, advances and financing	-	2,595,624	130,015	7,240,115	290,869	9,597,766	439,620	4,423,688	24,717,697
Total on-balance sheet	7,529,646	7,588,260	272,376	7,614,537	322,398	9,597,766	439,620	4,485,386	37,849,989
Financial guarantees	-	37,712	19,908	338,361	30,596	300	-	37,085	463,962
Credit related commitments and contingencies	-	1,339,215	66,964	3,126,409	1,225,981	3,404,765	230	3,845,463	13,009,027
Total off-balance sheet	-	1,376,927	86,872	3,464,770	1,256,577	3,405,065	230	3,882,548	13,472,989
Total credit risk	7,529,646	8,965,187	359,248	11,079,307	1,578,975	13,002,831	439,850	8,367,934	51,322,978

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(ii) Credit risk concentrations (contd.)

BANK 2011	Government and Central Bank RM'000	Financial, Insurance and Business Services RM'000	Transport, Storage and Communication Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction RM'000	Residential Mortgage RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
Cash and short-term funds	475,797	303,526	-	-	-	-	-	-	779,323
Deposits and placements with banks and other financial institutions	-	954,610	-	-	-	-	-	-	954,610
Financial assets held-for-trading	1,176,190	-	-	-	-	-	-	-	1,176,190
Financial investments available-for-sale	2,872,338	3,060,617	94,805	198,478	21,138	-	-	-	6,247,376
Financial investments held-to-maturity	629,057	4,464	-	-	-	-	-	-	633,521
Derivative financial assets	-	30,657	-	-	-	-	-	1,390	32,047
Loans, advances and financing	-	1,735,053	118,112	5,606,218	338,973	7,565,729	210,351	2,376,662	17,951,098
Total on-balance sheet	5,153,382	6,088,927	212,917	5,804,696	360,111	7,565,729	210,351	2,378,052	27,774,165
Financial guarantees	-	26,634	20,441	294,532	15,544	-	-	36,713	393,864
Credit related commitments and contingencies	-	663,928	70,045	2,106,726	1,248,880	947,023	5	4,371,246	9,407,853
Total off-balance sheet	-	690,562	90,486	2,401,258	1,264,424	947,023	5	4,407,959	9,801,717
Total credit risk	5,153,382	6,779,489	303,403	8,205,954	1,624,535	8,512,752	210,356	6,786,011	37,575,882

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(ii) Credit risk concentrations (contd.)

GROUP 2011	Government and Central Bank RM'000	Financial, Insurance and Business Services RM'000	Transport, Storage and Communication Services RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction RM'000	Residential Mortgage RM'000	Motor Vehicle Financing RM'000	Other Consumer Loans RM'000	Total RM'000
Cash and short-term funds	524,670	177,192	-	-	-	-	-	-	701,862
Deposits and placements with banks and other financial institutions	-	100,228	-	-	-	-	-	-	100,228
Balances due from clients and brokers	-	-	-	-	-	-	-	80,519	80,519
Financial assets held-for-trading	1,938,250	-	-	-	-	-	-	-	1,938,250
Financial investments available-for-sale	4,059,908	4,584,626	162,118	300,215	31,611	-	-	-	9,138,478
Financial investments held-to-maturity	910,444	24,951	5,236	-	95	-	-	-	940,726
Derivative financial assets	-	30,657	-	-	-	-	-	1,390	32,047
Loans, advances and financing	-	2,029,108	156,460	6,559,284	421,713	8,498,859	557,262	3,888,300	22,110,986
Total on-balance sheet	7,433,272	6,946,762	323,814	6,859,499	453,419	8,498,859	557,262	3,970,209	35,043,096
Financial guarantees	-	28,423	22,630	341,328	23,932	-	-	37,057	453,370
Credit related commitments and contingencies	-	804,322	75,937	2,442,788	1,304,866	1,276,176	1,101	4,593,841	10,499,031
Total off-balance sheet	-	832,745	98,567	2,784,116	1,328,798	1,276,176	1,101	4,630,898	10,952,401
Total credit risk	7,433,272	7,779,507	422,381	9,643,615	1,782,217	9,775,035	558,363	8,601,107	45,995,497

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(iii) Collaterals

The main types of collateral obtained by the Group are as follows:
- For personal housing loans/financing, mortgages over residential properties;
- For commercial property loans/financing, charges over the properties being financed;
- For hire purchase, charges over the vehicles or plant and machineries financed; and
- For other loans/financing, charges over business assets such as premises, inventories, trade receivables or deposits.

(iv) Credit quality - Loans, advances and financing

All loans, advances and financing are categorised as either:
- neither past due nor impaired;
- past due but not impaired; or
- impaired.

Past due loans/financing, advances and financing refer to loans that are overdue by one day or more. Impaired loans/financing are loans/financing with month-in-arrears more than 90 days or with impaired allowances.

Distribution of loans, advances and financing by credit quality

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Neither past due nor impaired	18,958,531	16,986,242	23,255,955	20,710,623
Past due but not impaired	744,763	645,539	1,126,956	987,414
Impaired	511,985	592,458	601,135	741,324
Gross loans, advances and financing	20,215,279	18,224,239	24,984,046	22,439,361
Sales commissions and handling fees	38,007	37,722	28,523	24,969
Less: Allowance for impairment				
- Individual assessment	(225,092)	(273,141)	(266,349)	(328,375)
- Collective assessment	(300,801)	(270,378)	(386,017)	(339,636)
Net loans, advances and financing	19,727,393	17,718,442	24,360,203	21,796,319
Financial effect of collateral held for loans, advances and financing	74.4%	65.1%	70.9%	60.9%

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(iv) Credit quality - Loans, advances and financing (contd.)

Credit quality of loans, advances and financing neither past due nor impaired

Analysis of loans, advances and financing that are neither past due nor impaired analysed based on the Group's internal credit grading system is as follows:

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Grading classification				
- Good	18,342,604	15,735,368	22,379,010	19,168,648
- Fair	615,927	1,250,874	876,945	1,541,975
	18,958,531	16,986,242	23,255,955	20,710,623

The definition of the grading classification can be summarised as follows:

Good: refers to loans, advances and financing which have never been past due in the last 6 months and have never undergone any restructuring or rescheduling exercise previously.

Fair: refers to loans, advances and financing which have been past due at some point within the last 6 months, or have undergone restructuring or rescheduling exercise previously.

Loans, advances and financing that are past due but not impaired

An aging analysis of loans, advances and financing that are past due but not impaired is set out below.

For the purpose of this analysis an asset is considered past due and included below when any payment due under strict contractual terms is received late or missed. The amount included is the entire financial assets, not just the payment of principal or interest or both overdue.

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Past due up to 1 month	602,109	506,042	909,157	773,027
Past due > 1 - 2 months	127,224	125,603	187,351	186,858
Past due > 2 - 3 months	15,430	13,894	30,448	27,529
	744,763	645,539	1,126,956	987,414

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(iv) Credit quality - Loans, advances and financing (contd.)

<u>Loans, advances and financing assessed as impaired</u>

An analysis of loans/financing assessed as impaired is as follows:

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Gross impaired loans/ financing	511,985	592,458	601,135	741,324
Less: Allowance for impairment				
Individual assessment	(225,092)	(273,141)	(266,349)	(328,375)
Impaired loans/financing	286,893	319,317	334,786	412,949

(v) Repossessed collateral

During the year, the Group obtained assets by taking possession of collateral held as security as follows:

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Nature of assets				
Industrial factory	-	5,300	-	5,300
Residential property	-	-	-	105
	-	5,300	-	5,405

Repossessed or foreclosed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the consolidated statements of financial position within other assets.

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(vi) Credit quality - financial instruments

The table below presents an analysis of the credit quality of cash and short term funds, deposits and placements with other financial instituitions, debt securities and derivative financial assets. Cash and short term fund herein excluding the cash in hand. Debt securities included financial assets held-for-trading, financial investments available-for-sale and financial investment held-to-maturity. Financial assets held-for-trading and financial investments available-for-sale are measured on a fair value basis. The fair value will reflect the credit risk of the issuer.

Most listed and some unlisted securities are rated by external rating agencies. The Bank and the Group uses external credit ratings provided by RAM, MARC, Fitch, Moody's and S&P. The table below presents an analysis of debt securities by rating agency:

BANK	Cash and short-term funds RM'000	Deposits and placement with financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Derivative financial assets RM'000	Total RM'000
2012							
By rating agencies							
RAM							
AAA	163,948	-	-	520,514	-	11,321	695,783
AA1	230,178	-	-	92,822	-	2,020	325,020
AA2	-	-	-	20,330	-	2,620	22,950
AA3	-	-	-	9,013	-	25	9,038
AA-	-	-	-	-	-	855	855
A1	213,096	-	-	-	-	30	213,126
MARC							
AAA	-	-	-	247,585	-	-	247,585
AA-	-	-	-	21,110	-	-	21,110
Fitch							
AA+	-	-	-	-	-	111	111
A1	5,303	-	-	-	-	-	5,303
Moody's							
AA1	5,146	-	-	-	-	-	5,146
AA3	12,726	-	-	-	-	-	12,726
AA-	-	-	-	-	-	9	9
A1	551	-	-	-	-	-	551
A2	2,032	31,914	-	-	-	-	33,946
A3	230	-	-	-	-	-	230
BAA1	314	-	-	-	-	-	314
C	1,463	-	-	-	-	-	1,463
S&P							
AA	53	-	-	-	-	-	53
AA-	2,469	-	-	-	-	-	2,469
A+	61,336	-	-	-	-	-	61,336
A	2,026	61,355	-	-	-	-	63,381
A-	31,863	-	-	-	-	-	31,863
Government back	690,716	-	1,342,302	3,531,147	227,177	1,467	5,792,809
Unrated [Note]	115,602	50,192	-	2,882,482	1,445	5,254	3,054,975
	1,539,052	143,461	1,342,302	7,325,003	228,622	23,712	10,602,152

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(vi) Credit quality - financial instruments (contd.)

GROUP	Cash and short-term funds RM'000	Deposits and placement with financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Derivative financial assets RM'000	Total RM'000
2012							
By rating agencies							
RAM							
AAA	169,439	-	-	680,975	-	11,321	861,735
AA1	230,178	-	-	128,976	-	2,020	361,174
AA2	175	-	-	35,578	-	2,620	38,373
AA3	1	-	-	16,342	-	25	16,368
AA-	-	-	-	-	-	855	855
A1	259,661	-	-	-	-	30	259,691
C3	-	-	-	-	-	-	-
MARC							
AAA	-	-	-	324,242	-	-	324,242
AA-	-	-	-	31,529	-	-	31,529
Fitch							
AA+	-	-	-	-	-	111	111
A1	5,303	-	-	-	-	-	5,303
Moody's							
AA1	5,146	-	-	-	-	-	5,146
AA3	12,726	-	-	-	-	-	12,726
AA-	-	-	-	-	-	9	9
A1	551	-	-	-	-	-	551
A2	2,032	31,914	-	-	-	-	33,946
A3	230	-	-	-	-	-	230
BAA1	314	-	-	-	-	-	314
C	1,463	-	-	-	-	-	1,463
S&P							
AA	53	-	-	-	-	-	53
AA-	2,469	-	-	-	-	-	2,469
A+	61,336	-	-	-	-	-	61,336
A	2,026	61,355	-	-	-	-	63,381
A-	31,863	-	-	-	-	-	31,863
Government back	854,144	-	1,491,995	4,932,081	768,102	1,467	8,047,789
Unrated [Note]	43,982	169	-	2,833,378	27,154	5,254	2,909,937
	1,683,092	93,438	1,491,995	8,983,101	795,256	23,712	13,070,594

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(vi) Credit quality - financial instruments (contd.)

BANK	Cash and short-term funds	Deposits and placement with financial institutions	Financial assets held-for-trading	Financial investments available-for-sale	Financial investments held-to-maturity	Derivative financial assets	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2011							
By rating agencies							
RAM							
AAA	49,737	-	-	672,281	-	23,265	745,283
AA1	-	-	-	235,500	-	60	235,560
AA2	-	-	-	20,430	-	3,556	23,986
AA3	-	-	-	14,259	-	6	14,265
A1	-	50,029	-	-	-	1,032	51,061
C3	-	-	-	4,599	-	-	4,599
MARC							
AAA	-	-	-	173,889	-	-	173,889
AA-	-	-	-	21,137	-	2,338	23,475
Fitch							
AA-	597	-	-	-	-	-	597
A+	-	-	-	-	-	5	5
A1	6,294	-	-	-	-	-	6,294
Moody's							
AA1	3,357	-	-	-	-	-	3,357
AA3	5,747	-	-	-	-	-	5,747
A1	563	-	-	-	-	-	563
A2	2,068	-	-	-	-	-	2,068
A3	402	-	-	-	-	-	402
BAA1	795	-	-	-	-	-	795
C	699	-	-	-	-	-	699
S&P							
AA	170	-	-	-	-	-	170
AA-	978	-	-	-	-	-	978
A	1,516	-	-	-	-	-	1,516
Government back	475,797	-	1,176,190	3,093,210	629,057	-	5,374,254
Unrated [Note]	230,603	904,581	-	2,012,071	4,464	1,785	3,153,504
	779,323	954,610	1,176,190	6,247,376	633,521	32,047	9,823,067

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(vi) Credit quality - financial instruments (contd.)

GROUP	Cash and short-term funds RM'000	Deposits and placement with financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Derivative financial assets RM'000	Total RM'000
2011							
By rating agencies							
RAM							
AAA	84,163	-	-	831,253	-	23,265	938,681
AA1	1	-	-	337,646	-	60	337,707
AA2	211	-	-	51,098	-	3,556	54,865
AA3	-	-	-	32,193	-	6	32,199
A1	33,499	50,029	-	-	-	1,032	84,560
C3	-	-	-	7,003	-	-	7,003
MARC							
AAA	-	-	-	240,381	-	-	240,381
AA-	-	-	-	31,610	-	2,338	33,948
Fitch							
AA-	597	-	-	-	-	-	597
A+	-	-	-	-	-	5	5
A1	6,294	-	-	-	-	-	6,294
Moody's							
AA1	3,357	-	-	-	-	-	3,357
AA3	5,747	-	-	-	-	-	5,747
A1	563	-	-	-	-	-	563
A2	2,068	-	-	-	-	-	2,068
A3	402	-	-	-	-	-	402
BAA1	795	-	-	-	-	-	795
C	699	-	-	-	-	-	699
S&P							
AA	170	-	-	-	-	-	170
AA-	978	-	-	-	-	-	978
A	1,516	-	-	-	-	-	1,516
Government back	524,797	-	1,938,250	4,464,571	910,444	-	7,838,062
Unrated [Note]	36,005	50,199	-	3,142,723	30,282	1,785	3,260,994
	701,862	100,228	1,938,250	9,138,478	940,726	32,047	12,851,591

Note: Unrated financial instruments comprise placement with financial institutions where credit rating is not available and also investment in bankers' acceptances, negotiable instruments of deposits and debt securities that are not rated.

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk

Market risk refers to the risk that fair value or future cash flow of a financial instrument will fluctuate because of the movement in the market rates or prices; the main components being interest rate risk/rate of return and foreign exchange risk.

The Group has established a framework of approved risk policies, measurement methodologies and risk limits as approved by the Group Risk Management Committee for overall management of market risk. Market risk arising from the trading activities is controlled via position limits, sensitivity limits and regular revaluation of positions versus current market quotations.

The Group is also susceptible to exposure to market risk arising from changes in prices of the shares quoted on Bursa Malaysia, which will impact on the Group's balances due from clients and brokers. The risk is controlled by application of credit approvals, limits and monitoring procedures.

(i) Interest/profit rate risk

As a subset of market risk, interest rate/profit rate risk refers to the volatility in net interest/profit income as a result of changes in interest rate levels/rate of return and shifts in the composition of the assets and liabilities. Interest rate/rate of return risk is managed through interest rate sensitivity analysis. The potential reduction in net interest/profit income from an unfavourable interest/profit rate movement is monitored and reported to Management. In addition to pre-scheduled meetings, Group Assets and Liabilities Committee ("ALCO") members will also deliberate on revising the Bank's lending/financing and deposit rates in response to changes in the benchmark rates set by the central bank.

The effects of changes in the levels of interest rates/rates of return on the market value of securities are monitored closely and mark-to-market valuations are regularly reported to Management.

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest/profit rates on its financial position and cash flows. The effects of changes in the levels of interest rates/rates of return on the market value of securities are monitored regularly and the outcome of mark-to-market valuations are escalated to Management regularly. The table below summarises the effective interest/profit rates at the end of the reporting period and the periods in which the financial instruments will re-price or mature, whichever is the earlier.

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

(i) Interest/profit rate risk (contd.)

BANK 2012	Non-trading book Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-5 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 short-term funds	1,292,323	-	-	-	-	-	437,967	-	1,730,290	3.01
Deposits and placements with banks										
and other financial institutions	-	143,138	-	-	-	-	323	-	143,461	2.49
Financial assets held-for-trading	-	-	-	-	-	-	-	1,342,302	1,342,302	3.00
Financial investments available-for-sale	633,474	1,522,660	86,863	38,602	2,390,021	2,599,499	148,792	-	7,419,911	3.47
Financial investments held-to-maturity	-	50,081	75,943	28	-	101,293	1,277	-	228,622	3.59
Derivative financial assets										
- Trading derivatives	-	-	-	-	-	-	-	23,712	23,712	-
Loans, advances and financing	16,192,162	848,676	280,215	559,845	906,070	954,333	(13,908)*	-	19,727,393	5.20
Other non-interest sensitive balances	-	-	-	-	-	-	2,157,165	-	2,157,165	-
Total assets	18,117,959	2,564,555	443,021	598,475	3,296,091	3,655,125	2,731,616	1,366,014	32,772,856	
Liabilities										
Deposits from customers	12,355,332	3,180,174	2,126,444	4,403,520	91,742	40,278	4,761,413	-	26,958,903	2.30
Deposits and placements of banks										
and other financial institutions	154,255	171,662	226,140	61,340	564,482	-	8,851	-	1,186,730	1.36
Bills and acceptances payable	2	18	111	-	-	-	-	-	131	3.24
Derivative financial liabilities										
- Trading derivatives	-	-	-	-	-		-	25,818	25,818	-
- Hedging derivatives	-	-	-	-	-	423	-		423	n/a
Amount due to Cagamas Berhad	-	-	1,634	9,566	10,844	-	-	-	22,044	4.54
Subordinated obligations	-	-	-	-	597,829	-	13,786	-	611,615	4.92
Other non-interest sensitive balances	-	-	-	-	-	-	733,010	-	733,010	-
Total liabilities	12,509,589	3,351,854	2,354,329	4,474,426	1,264,897	40,701	5,517,060	25,818	29,538,674	
Equity	-	-	-	-	-	-	3,234,182	-	3,234,182	-
Total liabilities and equity	12,509,589	3,351,854	2,354,329	4,474,426	1,264,897	40,701	8,751,242	25,818	32,772,856	
On-balance sheet interest sensitivity gap	5,608,370	(787,299)	(1,911,308)	(3,875,951)	2,031,194	3,614,424	(6,019,626)	1,340,196	-	

* Impaired loans, individual assessment allowance and collective assessment allowance of the Bank and the Group are classified under the non-interest sensitive column.

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

(i) Interest/profit rate risk (contd.)

	←			Non-trading book			→			Effective
							Non-interest/			interest/
GROUP	Up to 1 month	>1-3 months	>3-6 months	>6-12 months	>1-5 years	Over 5 years	profit sensitive	Trading book	Total	profit rate
2012	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Assets										
Cash and short-term funds	1,384,073	-	-	-	-	-	490,259	-	1,874,332	3.04
Deposits and placements with banks and other financial institutions	-	93,138	165	-	-	-	135	-	93,438	2.42
Balances due from clients and brokers	1,631	-	-	-	-	-	60,067	-	61,698	12.00
Financial assets held-for-trading	-	-	-	-	-	-	-	1,491,995	1,491,995	3.00
Financial investments available-for-sale	953,177	1,910,031	150,485	88,717	2,493,255	3,314,235	213,301	-	9,123,201	3.79
Financial investments held-to-maturity	-	50,081	134,359	11,992	357,154	233,114	8,556	-	795,256	3.55
Derivative financial assets										
- Trading derivatives	-	-	-	-	-	-	-	23,712	23,712	-
Loans, advances and financing	18,988,098	1,013,570	338,603	608,585	1,485,718	1,976,860	(51,231)*	-	24,360,203	5.46
Other non-interest/profit sensitive balances	-	-	-	-	-	-	1,746,368	-	1,746,368	-
Total assets	21,326,979	3,066,820	623,612	709,294	4,336,127	5,524,209	2,467,455	1,515,707	39,570,203	
Liabilities										
Deposits from customers	15,949,024	3,716,695	2,369,875	5,203,955	87,647	40,278	4,786,169	-	32,153,643	2.32
Deposits and placements of banks and other financial institutions	771,753	462,662	226,140	61,329	628,462	-	10,659	-	2,161,005	2.02
Balances due to clients and brokers	38,858	-	-	-	-	-	36,057	-	74,915	2.90
Bills and acceptances payable	14	40	124	-	-	-	-	-	178	3.36
Derivative financial liabilities										
- Trading derivatives	-	-	-	-	-		-	25,818	25,818	-
- Hedging derivatives	-	-	-	-	-	423	-		423	n/a
Amount due to Cagamas Berhad	-	-	1,634	9,566	10,844	-	-	-	22,044	4.54
Subordinated obligations	-	-	-	-	597,829	-	13,786	-	611,615	4.92
Other non-interest/profit sensitive balances	-	-	-	-	-	-	897,172	-	897,172	-
Total liabilities	16,759,649	4,179,397	2,597,773	5,274,850	1,324,782	40,701	5,743,843	25,818	35,946,813	
Equity	-	-	-	-	-	-	3,618,485	-	3,618,485	-
Non-controlling interests	-	-	-	-	-	-	4,905	-	4,905	-
Total liabilities and equity	16,759,649	4,179,397	2,597,773	5,274,850	1,324,782	40,701	9,367,233	25,818	39,570,203	
On-balance sheet interest sensitivity gap	4,567,330	(1,112,577)	(1,974,161)	(4,565,556)	3,011,345	5,483,508	(6,899,778)	1,489,889	-	

* Impaired loans, individual assessment allowance and collective assessment allowance of the Bank and the Group are classified under the non-interest/profit sensitive column.

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

(i) Interest/profit rate risk (contd.)

	← Non-trading book						→			
BANK 2011	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-5 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 short-term funds	540,200	-	-	-	-	-	417,911	-	958,111	2.83
Deposits and placements with banks and other financial institutions	733,000	100,000	100,000	-	-	-	21,610	-	954,610	3.03
Financial assets held-for-trading	-	-	-	-	-	-	-	1,176,190	1,176,190	2.83
Financial investments available-for-sale	1,045,769	1,056,437	306,911	90,639	1,829,011	1,873,038	128,189	-	6,329,994	3.52
Financial investments held-to-maturity	-	-	503,022	-	126,354	-	4,145	-	633,521	2.62
Derivative financial assets										
- Trading derivatives	-	-	-	-	-	-	-	32,047	32,047	
Loans, advances and financing	14,987,178	1,181,704	269,745	192,847	866,373	171,656	48,939*	-	17,718,442	5.68
Other non-interest sensitive balances	-	-	-	-	-	-	1,577,963	-	1,577,963	-
Total assets	17,306,147	2,338,141	1,179,678	283,486	2,821,738	2,044,694	2,198,757	1,208,237	29,380,878	
Liabilities										
Deposits from customers	10,026,566	2,605,938	2,068,051	3,889,586	286,377	-	4,542,350	-	23,418,868	2.08
Deposits and placements of banks and other financial institutions	532,458	1,196	8,443	22,447	819,735	-	6,052	-	1,390,331	1.90
Bills and acceptances payable	86,155	24,942	43	-	-	-	-	-	111,140	3.04
Derivative financial liabilities										
- Trading derivatives	-	-	-	-	-	-	-	33,347	33,347	-
Amount due to Cagamas Berhad	-	-	-	100,000	25,134	-	642	-	125,776	3.77
Subordinated obligations	-	600,000	-	-	-	-	-	-	600,000	6.09
Other non-interest sensitive balances	-	-	-	-	-	-	698,739	-	698,739	-
Total liabilities	10,645,179	3,232,076	2,076,537	4,012,033	1,131,246	-	5,247,783	33,347	26,378,201	
Equity	-	-	-	-	-	-	3,002,677	-	3,002,677	-
Total liabilities and equity	10,645,179	3,232,076	2,076,537	4,012,033	1,131,246	-	8,250,460	33,347	29,380,878	
On-balance sheet interest sensitivity gap	6,660,968	(893,935)	(896,859)	(3,728,547)	1,690,492	2,044,694	(6,051,703)	1,174,890	-	

* Non-performing loans, advances and financing, specific allowance and general allowance of the Bank and the Group are classified as non-interest sensitive column.

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

(i) Interest/profit rate risk (contd.)

	← Non-trading book →									
GROUP	Up to 1 month	>1-3 months	>3-6 months	>6-12 months	>1-5 years	Over 5 years	Non-interest/ profit sensitive	Trading book	Total	Effective interest/ profit rate
2011	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Assets										
Cash and short-term funds	409,701	-	-	-	-	-	502,029	-	911,730	2.91
Deposits and placements with banks and other financial institutions	-	100,000	160	-	-	-	68	-	100,228	3.05
Balances due from clients and brokers	1,070	-	-	-	-	-	79,449	-	80,519	12.00
Financial assets held-for-trading	-	-	-	-	-	-	-	1,938,250	1,938,250	2.82
Financial investments available-for-sale	1,246,175	2,147,162	593,503	140,837	2,761,012	2,187,048	184,203	-	9,259,940	3.50
Financial investments held-to-maturity	10,009	-	633,480	-	292,381	-	4,856	-	940,726	2.75
Derivative financial assets										
- Trading derivatives	-	-	-	-	-	-	-	32,047	32,047	-
Loans, advances and financing	16,882,804	1,413,040	336,274	222,518	1,458,636	1,409,734	73,313*	-	21,796,319	5.67
Other non-interest/profit sensitive balances	-	-	-	-	-	-	980,539	-	980,539	-
Total assets	18,549,759	3,660,202	1,563,417	363,355	4,512,029	3,596,782	1,824,457	1,970,297	36,040,298	
Liabilities										
Deposits from customers	13,938,005	3,177,373	2,484,735	4,530,563	291,335	-	4,575,081	-	28,997,092	2.13
Deposits and placements of banks and other financial institutions	968,458	61,196	8,952	23,447	882,911	-	7,236	-	1,952,200	2.13
Balances due to clients and brokers	34,516	-	-	-	-	-	52,227	-	86,743	2.55
Bills and acceptances payable	86,161	24,948	50	-	-	-	-	-	111,159	3.04
Derivative financial liabilities										
- Trading derivatives	-	-	-	-	-	-	-	33,347	33,347	-
Amount due to Cagamas Berhad	-	-	-	100,000	25,134	-	642	-	125,776	3.77
Subordinated obligations	-	600,000	-	-	-	-	-	-	600,000	6.09
Other non-interest/profit sensitive balances	-	-	-	-	-	-	857,616	-	857,616	-
Total liabilities	15,027,140	3,863,517	2,493,737	4,654,010	1,199,380	-	5,492,802	33,347	32,763,933	
Equity	-	-	-	-	-	-	3,271,877	-	3,271,877	-
Non-controlling interests	-	-	-	-	-	-	4,488	-	4,488	-
Total liabilities and equity	15,027,140	3,863,517	2,493,737	4,654,010	1,199,380	-	8,769,167	33,347	36,040,298	
On-balance sheet interest sensitivity gap	3,522,619	(203,315)	(930,320)	(4,290,655)	3,312,649	3,596,782	(6,944,710)	1,936,950	-	

* Non-performing loans, advances and financing, specific allowance and general allowance of the Bank and the Group are classified as non-interest/profit sensitive column.

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

(ii) Foreign currency exchange risk

Foreign currency exchange risk refers to the risk that fair value or future cash flows of a financial instruments will fluctuate because of the movements in the exchange rates for foreign exchange positions taken by the Group from time to time. For the Group, foreign exchange risk is concentrated in its commercial banking. Foreign currency exchange risk is managed via approved risk limits and open positions are regularly revalued against current exchange rates and reported to Management.

The following table summarises the assets, liabilities and net open position by currency as at the end of the financial reporting date, which are mainly in US, Singapore, Euro and Australian Dollars. Other foreign exchange exposures include exposure to Japanese Yen, Pound Sterling and New Zealand Dollars.

BANK/GROUP	US Dollars	Singapore Dollars	Euro Dollars	Australian Dollars	Others	Total
2012	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets						
Cash and short-term funds	18,243	531	2,101	1,733	9,751	32,359
Deposits and placements with banks and other financial institutions	123,304	-	-	128,288	-	251,592
Loans, advances and financing	277,991	-	817	1,047	3,025	282,880
Other financial assets	1,998	-	-	2	9	2,009
Total financial assets	421,536	531	2,918	131,070	12,785	568,840
Liabilities						
Deposits from customers	140,435	13,944	11,489	76,066	41,668	283,602
Deposits and placements of banks and other financial institutions	456,778	3,351	816	31,854	17	492,816
Other financial liabilities	429	1	-	-	11	441
Total financial liabilities	597,642	17,296	12,305	107,920	41,696	776,859
On-balance sheet open position	(176,106)	(16,765)	(9,387)	23,150	(28,911)	(208,019)
Off-balance sheet open position	175,430	24,034	12,081	(24,927)	39,632	226,250
Net open position	(676)	7,269	2,694	(1,777)	10,721	18,231

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

(ii) Foreign currency exchange risk (contd.)

BANK/GROUP 2011	US Dollars RM'000	Singapore Dollars RM'000	Euro Dollars RM'000	Australian Dollars RM'000	Others RM'000	Total RM'000
Assets						
Cash and short-term funds	12,389	2,339	-	-	58,245	72,973
Loans, advances and financing	163,961	-	1,583	-	3,425	168,969
Other financial assets	7,384	-	-	38	4	7,426
Total financial assets	183,734	2,339	1,583	38	61,674	249,368
Liabilities						
Deposits from customers	163,167	1,680	11,069	34,882	20,718	231,516
Deposits and placements of banks and other financial institutions	30,258	-	-	-	159	30,417
Other financial liabilities	578	12	11	106	8	715
Total financial liabilities	194,003	1,692	11,080	34,988	20,885	262,648
On-balance sheet open position	(10,269)	647	(9,497)	(34,950)	40,789	(13,280)
Off-balance sheet open position	8,285	5,882	6,575	(2,603)	6,005	24,144
Net open position	(1,984)	6,529	(2,922)	(37,553)	46,794	10,864

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (Contd.)

(iii) Value at risk ("VaR")

Value-at-risk ("VaR") reflects the maximum potential loss of value of a portfolio resulting from market movements within a specified probability of occurrence (level of confidence); for a specific period of time (holding period). For the Group, VaR is computed based on the historical simulation approach with parameters in accordance with BNM and Basel requirements. Backtesting is performed daily to validate and reassess the accuracy of the VaR model. This involves the comparison of the daily VaR values against the actual profit and loss over the corresponding period.

The table below sets out a summary of the Bank and the Group's VaR profile by financial instrument types for the Trading Portfolio:

BANK 2012	Balance RM'000	Average for the year RM'000	Minimum RM'000	Maximum RM'000
Instruments:				
FX swap	(549)	(885)	(18)	(44,087)
Government securities	(8,954)	(10,039)	(4,743)	(35,341)
Private debt securities	(1,035)	(3,132)	(580)	(6,014)
GROUP 2012				
FX swap	(549)	(885)	(18)	(44,087)
Government securities	(12,291)	(14,765)	(6,452)	(41,399)
Private debt securities	(1,707)	(4,477)	(1,045)	(7,999)
BANK 2011				
Instruments:				
FX swap	(770)	(525)	(272)	(989)
Government securities	(8,522)	(5,184)	(2,206)	(8,529)
Private debt securities	(3,615)	(2,738)	(1,124)	(5,441)
GROUP 2011				
FX swap	(770)	(525)	(272)	(989)
Government securities	(11,487)	(7,650)	(4,256)	(12,201)
Private debt securities	(5,144)	(3,641)	(1,870)	(6,456)

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

(iv) Interest rate risk/rate of return risk in the banking book

The following tables present the Bank and the Group's projected sensitivity to a 100 basis point parallel shock to interest rates across all maturities applied on the Bank and the Group's interest sensitivity gap as at reporting date.

	2012 BANK		**2012 GROUP**	
	- 100 bps	**+ 100 bps**	**- 100 bps**	**+ 100 bps**
	Increase/(Decrease)		**Increase/(Decrease)**	
	RM'000	RM'000	RM'000	RM'000
Impact on net interest income				
Ringgit Malaysia	(57,392)	57,392	(53,366)	53,366
As percentage of net interest income	(8.9%)	8.9%	(5.7%)	5.7%

	2011 BANK		**2011 GROUP**	
	- 100 bps	**+ 100 bps**	**- 100 bps**	**+ 100 bps**
	Increase/(Decrease)		**Increase/(Decrease)**	
	RM'000	RM'000	RM'000	RM'000
Impact on net interest income				
Ringgit Malaysia	(58,054)	58,054	(44,616)	44,616
As percentage of net interest income	(9.1%)	9.1%	(4.9%)	4.9%

Note:
The foreign currency impact on net interest income is considered insignificant as the exposure is less than 5% of Banking Book assets/liabilities.

Other risk measures

(v) Stress test

Stress testing is normally used by banks to gauge their potential vulnerability to exceptional but plausible events. The Group performs stress testing regularly to measure and alert management on the effects of potential political, economic or other disruptive events on our exposures. The Group's stress testing process is governed by the Stress Testing Framework as approved by the Board. Stress testing are conducted on a bank-wide basis as well as on specific portfolios. The Group's bank-wide stress testing exercise uses a variety of broad macroeconomic indicators that are then translated into stress impacts on the various business units. The results are then consolidated to provide an overall impact on the Group's financial results and capital requirements. Stress testing results are reported to Management to provide them with an assessment of the financial impact of such events would have on the Group's profitability and capital levels.

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

Other risk measures (contd.)

(vi) Sensitivity analysis

Sensitivity analysis is used to measure the impact of changes in individual stress factors such as interest/profit rates or foreign exchange rates. It is normally designed to isolate and quantify exposure to the underlying risk. The Group performs sensitivity analysis such as parallel shifts of interest/profit rates (in increment of 25 basis points) on its exposures, primarily on the banking and trading book positions.

(vii) Displaced Commercial Risk

Displaced commercial risk arises from the Group's Islamic financial services offered under the Alliance Islamic Bank Berhad. It refers to the risk of losses which the Islamic Bank absorbs to make sure that Investment Account Holders are paid in rate of return equivalent to a competitive market rate of return. This risk arises when the actual rate of return is lower than returns expected by Investment Account Holders.

(c) Liquidity Risk

Liquidity risk relates to the Group’s ability to maintain adequate liquid assets so as to punctually meet its financial obligations and commitments when due. Market liquidity risk refers to the potential risk that the Bank is unable to liquidate its assets/securities at or near the previous market price due to inadequate market depth or disruptions to the market place.

The Bank's liquidity risk profile is managed using Bank Negara Malaysia's New Liquidity Framework, other internal policies and ALCO benchmarks. A contingency funding plan is also established by the Group as a forward-looking measure to ensure that liquidity risk can be addressed according to the degrees of key risk indicators, and which incorporates alternative funding strategies which are ready to be implemented on a timely basis to mitigate the impact of unforeseen adverse changes in liquidity in the market place.

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

(i) Liquidity risk for assets and liabilities based on remaining contractual maturities

The maturities of on-balance sheet assets and liabilities as well as other off-balance sheet assets and liabilities, commitments and counter-guarantees are important factors in assessing the liquidity of the Group. The table below provides analysis of assets and liabilities into relevant maturity terms based on remaining contractual maturities:

BANK **2012**	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1 year RM'000	Total RM'000
Assets						
Cash and short-term funds	1,730,290	-	-	-	-	1,730,290
Deposits and placements with banks and other financial institutions	-	143,461	-	-	-	143,461
Financial investments	649,224	2,430,032	572,018	37,165	5,302,396	8,990,835
Loans, advances and financing	4,329,030	1,273,642	804,274	394,744	12,925,703	19,727,393
Other asset balances	34,096	14,212	7,184	7,763	2,117,622	2,180,877
Total assets	6,742,640	3,861,347	1,383,476	439,672	20,345,721	32,772,856
Liabilities						
Deposits from customers	17,057,098	3,199,919	2,145,214	4,424,636	132,036	26,958,903
Deposits and placements of banks and other financial institutions	159,539	175,093	226,276	61,340	564,482	1,186,730
Bills and acceptances payable	2	18	111	-	-	131
Amount due to Cagamas Berhad	-	-	1,634	9,566	10,844	22,044
Subordinated obligations	13,786	-	-	-	597,829	611,615
Other liability balances	491,631	35,487	23,347	44,488	164,298	759,251
Total liabilities	17,722,056	3,410,517	2,396,582	4,540,030	1,469,489	29,538,674
Equity	-	-	-	-	3,234,182	3,234,182
Total liabilities and equity	17,722,056	3,410,517	2,396,582	4,540,030	4,703,671	32,772,856
Net maturity mismatch	(10,979,416)	450,830	(1,013,106)	(4,100,358)	15,642,050	-

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

(i) Liquidity risk for assets and liabilities based on remaining contractual maturities (contd.)

GROUP **2012**	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1 year RM'000	Total RM'000
Assets						
Cash and short-term funds	1,874,332	-	-	-	-	1,874,332
Deposits and placements with banks and other financial institutions	-	93,270	168	-	-	93,438
Balances due from clients and brokers	42,207	-	-	-	19,491	61,698
Financial investments	1,031,877	2,922,378	697,092	97,906	6,661,199	11,410,452
Loans, advances and financing	4,969,403	1,549,577	987,148	598,935	16,255,140	24,360,203
Other asset balances	36,590	14,213	7,186	7,767	1,704,324	1,770,080
Total assets	7,954,409	4,579,438	1,691,594	704,608	24,640,154	39,570,203
Liabilities						
Deposits from customers	20,661,407	3,736,550	2,393,086	5,228,010	134,590	32,153,643
Deposits and placements of banks and other financial institutions	770,600	471,339	226,276	64,329	628,461	2,161,005
Balances due to clients and brokers	73,802	-	-	-	1,113	74,915
Bills and acceptances payable	14	40	124	-	-	178
Amount due to Cagamas Berhad	-	-	1,634	9,566	10,844	22,044
Subordinated obligations	13,786	-	-	-	597,829	611,615
Other liability balances	575,293	37,538	23,573	44,941	242,068	923,413
Total liabilities	22,094,902	4,245,467	2,644,693	5,346,846	1,614,905	35,946,813
Equity	-	-	-	-	3,618,485	3,618,485
Non-controlling interest	-	-	-	-	4,905	4,905
Total liabilities and equity	22,094,902	4,245,467	2,644,693	5,346,846	5,238,295	39,570,203
Net maturity mismatch	(14,140,493)	333,971	(953,099)	(4,642,238)	19,401,859	-

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

(i) Liquidity risk for assets and liabilities based on remaining contractual maturities (contd.)

BANK **2011**	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1 year RM'000	Total RM'000
Assets						
Cash and short-term funds	958,111	-	-	-	-	958,111
Deposits and placements with banks and other financial institutions	21,456	100,065	100,089	-	733,000	954,610
Financial investments	1,446,532	1,794,212	395,558	803,688	3,699,715	8,139,705
Loans, advances and financing	4,328,948	1,158,824	758,896	363,815	11,107,959	17,718,442
Other asset balances	40,544	7,741	9,201	2,699	1,549,825	1,610,010
Total assets	6,795,591	3,060,842	1,263,744	1,170,202	17,090,499	29,380,878
Liabilities						
Deposits from customers	14,513,668	2,631,387	2,085,494	3,901,925	286,394	23,418,868
Deposits and placements of banks and other financial institutions	534,798	1,020	12,331	22,447	819,735	1,390,331
Bills and acceptances payable	86,155	24,942	43	-	-	111,140
Amount due to Cagamas Berhad	514	294	766	101,562	22,640	125,776
Subordinated obligations	-	600,000	-	-	-	600,000
Other liability balances	451,294	38,840	24,098	48,196	169,658	732,086
Total liabilities	15,586,429	3,296,483	2,122,732	4,074,130	1,298,427	26,378,201
Equity	-	-	-	-	3,002,677	3,002,677
Total liabilities and equity	15,586,429	3,296,483	2,122,732	4,074,130	4,301,104	29,380,878
Net maturity mismatch	(8,790,838)	(235,641)	(858,988)	(2,903,928)	12,789,395	-

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

(i) Liquidity risk for assets and liabilities based on remaining contractual maturities (contd.)

GROUP **2011**	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1 year RM'000	Total RM'000
Assets						
Cash and short-term funds	911,730	-	-	-	-	911,730
Deposits and placements with banks and other financial institutions	-	100,065	163	-	-	100,228
Balances due from clients and brokers	61,441	-	-	-	19,078	80,519
Financial investments	2,122,429	3,187,345	809,576	932,379	5,087,187	12,138,916
Loans, advances and financing	4,790,087	1,471,389	945,286	557,078	14,032,479	21,796,319
Other asset balances	26,142	7,741	9,201	2,699	966,803	1,012,586
Total assets	7,911,829	4,766,540	1,764,226	1,492,156	20,105,547	36,040,298
Liabilities						
Deposits from customers	18,441,268	3,206,337	2,511,423	4,546,712	291,352	28,997,092
Deposits and placements of banks and other financial institutions	971,566	61,203	13,074	23,447	882,910	1,952,200
Balances due to clients and brokers	85,200	-	-	-	1,543	86,743
Bills and acceptances payable	86,161	24,948	50	-	-	111,159
Amount due to Cagamas Berhad	514	294	766	101,562	22,640	125,776
Subordinated obligations	-	600,000	-	-	-	600,000
Other liability balances	539,470	39,671	24,365	48,729	238,728	890,963
Total liabilities	20,124,179	3,932,453	2,549,678	4,720,450	1,437,173	32,763,933
Equity	-	-	-	-	3,271,877	3,271,877
Non-controlling interest	-	-	-	-	4,488	4,488
Total liabilities and equity	20,124,179	3,932,453	2,549,678	4,720,450	4,713,538	36,040,298
Net maturity mismatch	(12,212,350)	834,087	(785,452)	(3,228,294)	15,392,009	-

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

(ii) Contractual maturity of financial liabilities on an undiscounted basis

The table below presents the cash flows payable by the Bank and the Group under financial liabilities by remaining contractual maturities at the end of the reporting period. The amount disclosed in the table are the contractual undiscounted cash flows of all financial liabilities (i.e. nominal values), which the Bank and the Group manages the inherent liquidity risk based on discounted expected cash inflows.

BANK 2012	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Non derivative financial liabilities							
Deposits from customers	17,329,006	3,229,583	2,180,425	4,510,146	102,824	45,994	27,397,978
Deposits and placements of banks and other financial institutions	159,561	178,023	226,942	66,034	578,404	-	1,208,964
Bills and acceptances payable	2	18	111	-	-	-	131
Amount due to Cagamas Berhad	666	379	2,511	9,697	10,466	-	23,719
Subordinated obligations	14,460	-	-	14,460	701,220	-	730,140
Other financial liabilities	489,572	24,098	21,525	43,049	154,766	-	733,010
	17,993,267	3,432,101	2,431,514	4,643,386	1,547,680	45,994	30,093,942
Items not recognised in the statements of financial position							
Financial guarantees	63,114	83,433	79,264	87,805	81,225	67	394,908
Credit related commitments and contingencies	6,941,994	50,975	52,753	90,614	328,016	3,647,661	11,112,013
	7,005,108	134,408	132,017	178,419	409,241	3,647,728	11,506,921
Derivatives financial liabilities							
Derivatives settled on a net basis							
Interest rate derivatives	(57)	(752)	(624)	(1,214)	(2,801)	(424)	(5,872)
Hedging derivatives	-	34	35	69	548	102	788
	(57)	(718)	(589)	(1,145)	(2,253)	(322)	(5,084)
Derivatives settled on a gross basis							
Outflow	(544,827)	(597,400)	(251,471)	(58,264)	-	-	(1,451,962)
Inflow	542,768	586,117	249,632	56,806	-	-	1,435,323
	(2,059)	(11,283)	(1,839)	(1,458)	-	-	(16,639)

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

(ii) Contractual maturity of financial liabilities on an undiscounted basis (contd.)

GROUP 2012	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Non derivative financial liabilities							
Deposits from customers	20,992,644	3,794,351	2,431,063	5,326,817	105,595	45,994	32,696,464
Deposits and placements of banks and other financial institutions	771,036	475,051	226,942	69,525	644,646	-	2,187,200
Balances due to clients and brokers	73,802	-	-	-	1,113	-	74,915
Bills and acceptances payable	14	40	124	-	-	-	178
Amount due to Cagamas Berhad	666	379	2,511	9,697	10,466	-	23,719
Subordinated obligations	14,460	-	-	14,460	701,220	-	730,140
Other financial liabilities	573,234	26,149	21,751	43,502	232,536	-	897,172
	22,425,856	4,295,970	2,682,391	5,464,001	1,695,576	45,994	36,609,788
Items not recognised in the statements of financial position							
Financial guarantees	76,173	96,467	91,971	113,733	85,551	67	463,962
Credit related commitments and contingencies	8,071,144	124,021	56,918	96,849	337,410	4,322,685	13,009,027
	8,147,317	220,488	148,889	210,582	422,961	4,322,752	13,472,989
Derivatives financial liabilities							
Derivatives settled on a net basis							
Interest rate derivatives	(57)	(752)	(624)	(1,214)	(2,801)	(424)	(5,872)
Hedging derivatives	-	34	35	69	548	102	788
	(57)	(718)	(589)	(1,145)	(2,253)	(322)	(5,084)
Derivatives settled on a gross basis							
Outflow	(544,827)	(597,400)	(251,471)	(58,264)	-	-	(1,451,962)
Inflow	542,768	586,117	249,632	56,806	-	-	1,435,323
	(2,059)	(11,283)	(1,839)	(1,458)	-	-	(16,639)

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

(ii) Contractual maturity of financial liabilities on an undiscounted basis (contd.)

BANK 2011	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Non derivative financial liabilities							
Deposits from customers	14,553,709	2,724,846	2,117,725	3,971,660	297,583	-	23,665,523
Deposits and placements of banks and other financial institutions	535,108	1,229	8,758	28,452	846,158	-	1,419,705
Bills and acceptances payable	86,155	24,942	43	-	-	-	111,140
Amount due to Cagamas Berhad	665	379	1,045	105,643	23,716	-	131,448
Subordinated obligations	-	618,270	-	-	-	-	618,270
Other financial liabilities	451,294	38,840	24,098	48,196	169,658	-	732,086
	15,626,931	3,408,506	2,151,669	4,153,951	1,337,115	-	26,678,172
Items not recognised in the statements of financial position							
Financial guarantees	75,896	69,852	84,622	102,640	60,854	-	393,864
Credit related commitments and contingencies	7,569,798	55,561	40,042	85,718	236,186	1,420,548	9,407,853
	7,645,694	125,413	124,664	188,358	297,040	1,420,548	9,801,717
Derivatives financial liabilities							
Derivatives settled on a net basis							
Interest rate derivatives	-	(292)	(91)	82	1,802	1,381	2,882
Derivatives settled on a gross basis							
Outflow	(87,071)	(380,016)	(308,146)	(441,839)	-	-	(1,217,072)
Inflow	86,428	367,712	299,925	434,659	-	-	1,188,724
	(643)	(12,304)	(8,221)	(7,180)	-	-	(28,348)

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

(ii) Contractual maturity of financial liabilities on an undiscounted basis (contd.)

GROUP 2011	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Non derivative financial liabilities							
Deposits from customers	18,541,604	3,305,970	2,551,908	4,631,065	302,719	-	29,333,266
Deposits and placements of banks and other financial institutions	972,010	61,576	9,267	29,934	911,890	-	1,984,677
Balances due to clients and brokers	85,200	-	-	-	1,543	-	86,743
Bills and acceptances payable	86,161	24,948	50	-	-	-	111,159
Amount due to Cagamas Berhad	665	379	1,045	105,643	23,716	-	131,448
Subordinated obligations	-	618,270	-	-	-	-	618,270
Other financial liabilities	539,470	39,671	24,365	48,729	238,728	-	890,963
	20,225,110	4,050,814	2,586,635	4,815,371	1,478,596	-	33,156,526
Items not recognised in the statements of financial position							
Financial guarantees	83,560	79,896	92,500	124,509	72,905	-	453,370
Credit related commitments and contingencies	8,283,090	55,910	42,868	89,113	249,215	1,778,835	10,499,031
	8,366,650	135,806	135,368	213,622	322,120	1,778,835	10,952,401
Derivatives financial liabilities							
Derivatives settled on a net basis							
Interest rate derivatives	-	(292)	(91)	82	1,802	1,381	2,882
Derivatives settled on a gross basis							
Outflow	(87,071)	(380,016)	(308,146)	(441,839)	-	-	(1,217,072)
Inflow	86,428	367,712	299,925	434,659	-	-	1,188,724
	(643)	(12,304)	(8,221)	(7,180)	-	-	(28,348)

42. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(d) Operational and Shariah Compliance Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. The Shariah Compliance Risk arises from the Bank's failure to comply with the Shariah rules and principles determined by the relevant Shariah regulatory councils.

Operational and Shariah Compliance risk management is a continual cyclic process which includes risk identification, assessment, control, mitigation and monitoring. This includes analysing the risk profile of the Group, determines any causes of failure, assesses potential loss and enhances controls to reduce/avoid risks.

Every line of business and support departments are responsible for the management of their day-to-day operational and Shariah Compliance risks while support, monitoring and reporting is facilitated by Operational Risk Management Department, Group Internal Audit and Shariah Review Team play the role of providing independent compliance assurance to Management and the Board.

The main activities undertaken by the Group in managing operational and Shariah Compliance risks includes the pre-identification of risks control and self assessments; key risk indicators, reviews of documentation of the Bank's processes and procedures; conducting operational and Shariah Compliance risk awareness internal training and managing potential crisis events via the mitigation resource of business continuity management.

The Group has implemented regulatory and Basel II requirements for capital charge for operational risk under the Basic Indicator Approach. Ongoing monitoring and periodic policy/process changes are carried out to reduce the Group's exposure to unexpected losses, improve control and management of operational risk, to cultivate an organizational culture that places a high priority on effective operational risk management and adherence to sound operating controls and best practices.

43. CAPITAL COMMITMENTS

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Capital expenditure:				
Authorised and contracted for	57,405	23,060	58,075	23,338
Authorised but not contracted for	56	6,020	56	6,020
	57,461	29,080	58,131	29,358

44. LEASE COMMITMENTS

The Bank and the Group have lease commitments in respect of equipment on hire and premises, all of which are classified as operating leases. A summary of the non-cancellable long term commitments is as follows:

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Within one year	25,563	19,898	26,731	20,977
Between one and five years	31,988	12,084	33,018	13,373
	57,551	31,982	59,749	34,350

The operating leases for the Bank and the Group's other premises typically cover for a initial period of three years with options for renewal. These leases are cancellable but are usually renewed upon expiry or replaced by leases on other properties. Future minimum lease commitments are anticipated to be not less than the rental expense for 2012.

45. HOLDING AND RELATED COMPANIES

The Directors regard Alliance Financial Group Berhad, a company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad, as the holding company of the Bank.

Related companies in these financial statements refer to member companies in the Alliance Financial Group Berhad Group.

46. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank and the Group makes various commitments and incur certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions.

The off-balance sheet exposures and their related counterparty credit risk of the Bank and the Group are as follows:

BANK 2012	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Credit-related exposures				
Direct credit substitutes	354,758	-	354,758	354,758
Transaction-related contingent items	515,510	-	257,755	257,755
Short-term self-liquidating trade-related contingencies	126,778	-	25,356	25,356
Irrevocable commitments to extent credit:				
- maturity exceeding one year	3,645,632	-	1,822,816	1,518,664
- maturity not exceeding one year	4,675,582	-	935,116	858,102
Unutilised credit card lines	2,188,661	-	437,732	340,525
	11,506,921	-	3,833,533	3,355,160
Derivative financial instruments				
Foreign exchange related contracts:				
- less than one year	3,147,488	17,730	64,522	38,478
Interest rate related contracts:				
- one year or less	587,000	130	912	182
- over one year to three years	1,110,000	2,592	14,192	2,838
- over three years	423,896	3,260	20,055	6,467
	5,268,384	23,712	99,681	47,965
	16,775,305	23,712	3,933,214	3,403,125

GROUP 2012	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Credit-related exposures				
Direct credit substitutes	397,029	-	397,029	397,029
Transaction-related contingent items	549,766	-	274,883	274,883
Short-term self-liquidating trade-related contingencies	153,561	-	30,712	30,712
Obligation under on-going underwritting agreement	70,122	-	35,061	35,061
Irrevocable commitments to extent credit:				
- maturity exceeding one year	4,320,657	-	2,160,328	1,786,192
- maturity not exceeding one year	5,793,193	-	1,158,639	1,004,648
Unutilised credit card lines	2,188,661	-	437,732	340,525
	13,472,989	-	4,494,384	3,869,050
Derivative financial instruments				
Foreign exchange related contracts:				
- less than one year	3,147,488	17,730	64,522	38,478
Interest rate related contracts:				
- one year or less	587,000	130	912	182
- over one year to three years	1,110,000	2,592	14,192	2,838
- over three years	423,896	3,260	20,055	6,467
	5,268,384	23,712	99,681	47,965
	18,741,373	23,712	4,594,065	3,917,015

46. COMMITMENTS AND CONTINGENCIES (CONTD.)

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
BANK				
2011				
Credit-related exposures				
Direct credit substitutes	388,733	-	388,733	388,733
Transaction-related contingent items	484,479	-	242,239	242,239
Short-term self-liquidating trade-related contingencies	118,582	-	23,716	23,716
Irrevocable commitments to extent credit:				
- maturity exceeding one year	1,356,908	-	678,454	582,106
- maturity not exceeding one year	4,027,184	-	805,437	737,330
Unutilised credit card lines	3,425,831	-	685,166	528,386
	9,801,717	-	2,823,745	2,502,510
Derivative financial instruments				
Foreign exchange related contracts:				
- less than one year	2,844,627	22,568	77,079	40,842
Interest rate related contracts:				
- one year or less	380,000	257	637	127
- over one year to three years	1,447,000	6,465	29,535	5,907
- over three years	285,000	2,757	15,957	3,192
	4,956,627	32,047	123,208	50,068
	14,758,344	32,047	2,946,953	2,552,578
GROUP				
2011				
Credit-related exposures				
Direct credit substitutes	423,539	-	423,539	423,539
Transaction-related contingent items	515,311	-	257,655	257,655
Short-term self-liquidating trade-related contingencies	143,281	-	28,656	28,656
Irrevocable commitments to extent credit:				
- maturity exceeding one year	1,715,131	-	857,565	727,272
- maturity not exceeding one year	4,729,308	-	945,862	852,441
Unutilised credit card lines	3,425,831	-	685,166	528,386
	10,952,401	-	3,198,443	2,817,949
Derivative financial instruments				
Foreign exchange related contracts:				
- less than one year	2,844,627	22,568	77,079	40,842
Interest rate related contracts:				
- one year or less	380,000	257	637	127
- over one year to three years	1,447,000	6,465	29,535	5,907
- over three years	285,000	2,757	15,957	3,192
	4,956,627	32,047	123,208	50,068
	15,909,028	32,047	3,321,651	2,868,017

47. CAPITAL ADEQUACY

The capital adequacy ratios of the Bank and the Group are computed in accordance with BNM's revised Risk-Weighted Capital Adequacy Framework (RWCAF-Basel II). The Bank and the Group 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% (2011: 8.0%) for the risk-weighted capital ratio.

(a) The capital adequacy ratios of the Bank and the Group are as follows:

	BANK		GROUP	
	2012	2011	2012	2011
Before deducting proposed dividends				
Core capital ratio	13.93%	14.63%	12.00%	12.40%
Risk-weighted capital ratio	14.37%	14.98%	15.71%	16.54%
After deducting proposed dividends				
Core capital ratio	13.32%	14.09%	11.52%	11.95%
Risk-weighted capital ratio	13.76%	14.44%	15.22%	16.09%

Components of Tier I and Tier II capital are as follows:

	BANK		GROUP	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Tier I Capital (Core Capital)				
Paid-up share capital	596,517	596,517	596,517	596,517
ICPS	4,000	4,000	4,000	4,000
Share premium	597,517	597,517	597,517	597,517
Retained profits	1,333,979	1,148,228	1,420,731	1,194,222
Statutory reserves	601,561	601,561	842,167	786,406
Other reserves	-	-	10,018	10,018
Non-controlling interests	-	-	4,905	4,488
	3,133,574	2,947,823	3,475,855	3,193,168
Less: Purchased goodwill/goodwill on consolidation	(186,272)	(186,272)	(302,065)	(302,065)
Deferred tax assets	-	(75,272)	(15,038)	(108,808)
Total Tier I Capital	2,947,302	2,686,279	3,158,752	2,782,295
Tier II Capital				
Subordinated obligations	597,829	600,000	597,829	600,000
Collective assessment allowance	296,498	265,588	381,019	333,466
Total Tier II Capital	894,327	865,588	978,848	933,466
Total Capital	3,841,629	3,551,867	4,137,600	3,715,761
Less: Investment in subsidiaries	(801,664)	(801,664)	(3,620)	(3,620)
Total Capital Base	3,039,965	2,750,203	4,133,980	3,712,141

47. CAPITAL ADEQUACY (CONTD.)

(b) The breakdown of risk-weighted assets ("RWA") by exposures in each major risk category are as follows:

	BANK		GROUP	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Credit risk	19,074,667	16,437,247	23,601,495	20,149,305
Market risk	157,119	54,919	265,432	71,884
Operational risk	1,925,797	1,863,398	2,445,524	2,222,953
Total RWA and capital requirements	21,157,583	18,355,564	26,312,451	22,444,142

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 Bank's Pillar 3 Report.

(c) The capital adequacy ratios of the banking subsidiaries are as follows:

	Alliance Islamic Bank Berhad	Alliance Investment Bank Berhad
31 March 2012		
Before deducting proposed dividends		
Core capital ratio	12.35%	57.91%
Risk-weighted capital ratio	14.19%	58.39%
After deducting proposed dividends		
Core capital ratio	11.52%	56.65%
Risk-weighted capital ratio	13.36%	57.13%
31 March 2011		
Before deducting proposed dividends		
Core capital ratio		
Risk-weighted capital ratio	11.65%	57.17%
	13.37%	57.33%
After deducting proposed dividends		
Core capital ratio	11.65%	55.51%
Risk-weighted capital ratio	13.37%	55.67%

Note:

(i) The capital adequacy ratios of Alliance Islamic Bank Berhad are computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks (CAFIB). The Bank has adopted the Standardised Approach for credit risk and market risk, and Basic Indicator Approach for operational risk. The minimum regulatory capital adequacy requirement is 8.0% (2011: 8.0%) for the risk-weighted capital ratio.

(ii) The capital adequacy ratios of AIBB are computed in accordance with BNM's revised Risk-weighted Capital Adequacy Framework (RWCAF-Basel II). The Bank and the Group 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% (2011: 8.0%) for the risk-weighted capital ratio.

48. CAPITAL

In managing its capital, the Group's objectives are:

- to maintain sufficient capital resources to meet the regulatory capital requirements as set forth by Bank Negara Malaysia,

- to maintain sufficient capital resources to support the Group's risk appetite and to enable future business growth, and

- to meet the expectations of key stakeholders, including shareholders, investors, regulators and rating agencies.

In line with this, the Group aims to maintain capital adequacy ratios that are comfortably above the regulatory requirement, while balancing shareholders' desire for sustainable returns and high standards of prudence.

The Group carries out stress testing to estimate the potential impact of extreme, but plausible, events on the Group's earnings, balance sheet and capital. The results of the stress test are to facilitate the formation of action plan(s) in advance if the stress test reveals that the Group's capital will be adversely affected. The results of the stress test are tabled to the Group Risk Management Committee for deliberation.

The Group's and the Bank's regulatory capital are determined under Bank Negara Malaysia's revised Risk-weighted Capital Adequacy Framework and their capital ratios comply with the prescribed capital adequacy ratios.

49. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(a) Comparison of carrying amount and fair value

The following table summarizes the carrying amounts of financial assets and liabilities on the Bank and the Group's statement of financial position, and their fair value differentiating between financial assets and liabilities subsequently measured at fair value and these subsequently measured at amortised cost.

	2012		2011	
BANK	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Financial assets				
Cash and short-term funds	1,730,290	1,730,290	958,111	958,111
Deposits and placements with banks and other financial institutions	143,461	143,461	954,610	954,610
Financial assets held-for-trading	1,342,302	1,342,302	1,176,190	1,176,190
Financial investments available-for-sale	7,419,911	7,419,911	6,329,994	6,329,994
Financial investments held-to-maturity	228,622	238,949	633,521	643,271
Derivative financial assets	23,712	23,712	32,047	32,047
Loans, advances and financing	19,727,393	20,032,055	17,718,442	17,986,174
Financial liabilities				
Deposits from customers	26,958,903	26,959,041	23,418,868	23,418,902
Deposits and placements of banks and other financial institutions	1,186,730	1,158,378	1,390,331	1,353,765
Bills and acceptances payable	131	131	111,140	111,140
Derivative financial liabilities	26,241	26,241	33,347	33,347
Amount due to Cagamas Berhad	22,044	20,471	125,776	125,822
Subordinated obligations	611,615	611,820	600,000	615,025

	2012		2011	
GROUP	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Financial assets				
Cash and short term funds	1,874,332	1,874,332	911,730	911,730
Deposits and placements with banks and other financial institutions	93,438	93,438	100,228	100,228
Balances due from clients and brokers	61,698	61,698	80,519	80,519
Financial assets held-for-trading	1,491,995	1,491,995	1,938,250	1,938,250
Financial investments available-for-sale	9,123,201	9,123,201	9,259,940	9,259,940
Financial investments held-to-maturity	795,256	809,381	940,726	955,844
Derivative financial assets	23,712	23,712	32,047	32,047
Loans, advances and financing	24,360,203	24,755,886	21,796,319	22,137,588

49. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTD.)

(a) Comparison of carrying amount and fair value (contd.)

	2012		2011	
GROUP	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Financial liabilities				
Deposits from customers	32,153,643	32,152,128	28,997,092	28,996,460
Deposits and placements of banks and other financial institutions	2,161,005	2,128,981	1,952,200	1,912,490
Balances due to clients and brokers	74,915	74,915	86,743	86,743
Bills and acceptances payable	178	178	111,159	111,159
Derivative financial liabilities	26,241	26,241	33,347	33,347
Amount due to Cagamas Berhad	22,044	20,471	125,776	125,822
Subordinated obligations	611,615	611,820	600,000	615,025

Note: The fair value of the other assets and other liabilities, which are considered short-term in nature, are estimated to be approximately their carrying values.

The methods and assumptions used in estimating the fair values of financial instruments are as follows:

(i) Cash and short-term funds

The carrying amounts approximate fair values due to the relatively short maturity of the financial instruments.

(ii) Deposits and placements with banks and other financial institutions

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. For those financial instruments with maturity of more than one year, the fair values are estimated based on discounted cash flows using applicable prevailing market rates for placements of similar credit risk and similar remaining maturity as at the end of the reporting period.

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

The fair values are estimated based on quoted or observable market prices at the end of the reporting period. Where such quoted or observable market prices are not available, the fair values are estimated using pricing models or discounted cash flow techniques. Where discounted cash flow technique is used, the expected future cash flows are discounted using prevailing market rates for a similar instrument at the end of the reporting period.

(iv) Derivative financial instruments

The fair values of derivative financial instruments are obtained from quoted market rates in active market, including recent market transactions and valuation techniques, such as discounted cash flow models, as appropriate.

49. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTD.)

(a) Comparison of carrying amount and fair value (contd.)

(v) Loans, advances and financing

The fair values of fixed rate loans with remaining maturity of less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate loans and Islamic financing with remaining maturity of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at applicable prevailing rates at end of the reporting period offered to new borrowers with similar credit profiles. In respect of impaired loans, the fair values are deemed to approximate the carrying values, net of individual allowance for losses on loans, advances and financing.

(vi) Deposits from customers

The fair values of deposit liabilities payable on demand (demand and savings deposits), or deposits with maturity of less than one year are estimated to approximate their carrying amounts. The fair values of fixed deposits with remaining maturities of more than one year are estimated based on expected future cash flows discounted at applicable prevailing rates offered for deposits of similar remaining maturities. For negotiable instruments of deposits, the fair values are estimated based on quoted or observable market prices as at the end of the reporting period. Where such quoted or observable market prices are not available, the fair values of negotiable instruments of deposits are estimated using the discounted cash flow technique.

(vii) Deposits and placements of banks and other financial institutions and bills and acceptances payable

The carrying 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.

(viii) Amount due to Cagamas Berhad

The fair values of amount due to Cagamas are determined based on the discounted cash flows of future instalment payments at applicable prevailing Cagamas rates as at the end of the reporting period.

(ix) Subordinated obligations

The fair value of the subordinated bonds/notes is estimated based on the discounted cash flows techniques using the current yield curve appropriate for the remaining term to maturity.

(x) Balances due from/(to) clients and brokers

The carrying amounts are reasonable estimates of the fair values because of their short tenor.

49. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTD.)

(b) Financial instruments measured at fair value (contd.)

Determination of fair value and fair value hierarchy

FRS 7 Financial Instruments: Disclosure require disclosure of financial instruments measured at fair value according to a hierarchy of valuation techniques, whether the inputs used are observable or unobservable. The following level of hierarchy are used for determining and disclosing the fair value of the financial instruments:

(i) Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

(iii) Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following tables show the Group's financial instruments which are measured at fair value at the reporting date analyzed by the various levels within the fair value hierarchy:

BANK 2012	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Assets				
Financial assets held-for-trading	-	1,342,302	-	1,342,302
Financial investments available-for-sale	-	7,320,235	99,676	7,419,911
Derivative financial assets	-	23,712	-	23,712
Liabilities				
Derivative financial liabilities	-	26,241	-	26,241

GROUP 2012	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Assets				
Financial assets held-for-trading	-	1,491,995	-	1,491,995
Financial investments available-for-sale	4,199	8,978,333	140,669	9,123,201
Derivative financial assets	-	23,712	-	23,712
Liabilities				
Derivative financial liabilities	-	26,241	-	26,241

49. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTD.)

(b) Financial instruments measured at fair value (contd.)

Determination of fair value and fair value hierarchy (contd.)

BANK 2011	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Assets				
Financial assets held-for-trading	-	1,176,190	-	1,176,190
Financial investments available-for-sale	-	6,239,558	90,436	6,329,994
Derivative financial assets	-	32,047	-	32,047
Liabilities				
Derivative financial liabilities	-	33,347	-	33,347

GROUP 2011	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Assets				
Financial assets held-for-trading	-	1,938,250	-	1,938,250
Financial investments available-for-sale	3,864	9,130,660	125,416	9,259,940
Derivative financial assets	-	32,047	-	32,047
Liabilities				
Derivative financial liabilities	-	33,347	-	33,347

Financial instruments that are valued using quoted prices in active market are classified as Level 1 of the valuation hierarchy. This includes listed equities and corporate debt securities which are actively traded.

Where fair value is determined using quoted prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Group then determine fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high. These would include government securities, corporate private debt securities, corporate notes, repurchase agreements and most of the Group's derivatives.

The Group classifies financial instruments as Level 3 when there is reliance on unobservable inputs to the valuation model attributing to a significant contribution to the instrument value. Valuation reserves or pricing adjustments where applicable will be used to converge to fair value.

The valuation techniques and inputs used generally depend on the contractual terms and the risks inherent in the instrument as well as the availability of pricing information in the market. Principal techniques used include discounted cash flows, and other appropriate valuation models.

49. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTD.)

(b) Financial instruments measured at fair value (contd.)

Determination of fair value and fair value hierarchy (contd.)

Reconciliation of movements in level 3 financial instruments:

	BANK 2012 RM'000	GROUP 2012 RM'000
At beginning of year	90,436	125,416
Total gains/(losses) recognised in:		
- Statement of comprehensive income	(300)	(300)
- Other comprehensive income	10,690	17,704
Purchases	563	563
Disposal/redemption	(1,713)	(2,714)
At end of year	99,676	140,669

50. 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. The operating segments results are prepared based on the Group's internal management reporting reflective of the organisation's management reporting structure.

The Group is organised into the following key operating segments:

(i) Consumer banking
Consumer Banking provides a wide range of personal banking solutions covering mortgages, term loans, personal loans, hire purchase facilities, credit cards, wealth management (cash management, investment services, share trading, bancassurance and will writing). Consumer banking customers are serviced via branch network, call centre, electronic/internet banking channels, and direct sales channels.

(ii) Business banking
Business Banking segment covers Small and Medium Enterprise ("SME") and Wholesale Banking. SME Banking customers comprise self-employed, small and medium scale enterprises. Wholesale Banking serves public-listed and large corporate business customers including family-owned businesses. Business Banking provides a wide range of products and services including loans, trade finance, cash management, treasury and structured solutions.

(iii) Financial Markets
Financial Markets provide foreign exchange, money market, hedging, wealth management and investment (capital market instruments) solutions for banking customers. It also manages the assets and liabilities, liquidity and statutory reserve requirements of the banking entities in the Group.

(iv) Investment banking
Investment Banking covers stockbroking activities and corporate advisory which includes initial public offering, equity fund raising, debt fund raising, mergers and acquisitions and corporate restructuring.

(v) Others
Others refer to mainly other business operations such as unit trust, asset management, alternative distribution channels, trustee services and head office.

50. Segment information (contd.)

Group **As at 31 March 2012**	Consumer Banking RM'000	Business Banking RM'000	Financial Markets RM'000	Investment Banking RM'000	Others RM'000	Total Operations RM'000	Inter-segment Elimination RM'000	Total RM'000
Net interest income								
- External income	141,180	307,025	223,192	5,193	(14,295)	662,295	12,761	675,056
- inter-segment	95,661	(10,390)	(81,474)	(3,797)	-	-	-	-
	236,841	296,635	141,718	1,396	(14,295)	662,295	12,761	675,056
Net income from Islamic banking business	121,624	66,846	40,454	-	-	228,924	27,405	256,329
Other operating income	94,087	137,829	90,422	24,606	47,474	394,418	(74,142)	320,276
Net income	452,552	501,310	272,594	26,002	33,179	1,285,637	(33,976)	1,251,661
Other operating expenses	(251,931)	(200,699)	(39,164)	(31,373)	(22,258)	(545,425)	4,114	(541,311)
Depreciation and amortisation	(23,025)	(16,256)	(6,086)	(2,078)	(65)	(47,510)	-	(47,510)
Operating profit	177,596	284,355	227,344	(7,449)	10,856	692,702	(29,862)	662,840
Allowance for impairment on loans, advances and financing and other losses	(24,267)	(8,528)	(1,053)	(195)	-	(34,043)	-	(34,043)
Write-back of impairment	-	-	21,643	-	-	21,643	-	21,643
Segment result	153,329	275,827	247,934	(7,644)	10,856	680,302	(29,862)	650,440
Share of results in an associate								(2,003)
Taxation and zakat								(164,107)
Net profit after taxation and zakat								484,330
Segment assets	13,155,522	11,284,537	16,260,377	236,579	52,149	40,989,164	(1,920,733)	39,068,431
Reconciliation of segment assets to consolidated assets:								
Investments in associates								27,035
Property, plant and equipment								89,778
Unallocated assets								30,057
Intangible assets								354,902
Total assets								39,570,203
Segment Liabilities	15,980,443	11,087,887	9,802,809	105,221	22,797	36,999,157	(1,082,728)	35,916,429
Unallocated liabilities								30,384
Total liabilities								35,946,813

50. Segment information (contd.)

Group **As at 31 March 2011**	Consumer Banking RM'000	Business Banking RM'000	Financial Markets RM'000	Investment Banking RM'000	Others RM'000	Total Operations RM'000	Inter-segment Elimination RM'000	Total RM'000
Net interest income								
- External income	222,475	245,160	198,381	4,574	475	671,065	2,332	673,397
- inter-segment	41,922	47,967	(87,173)	(2,716)	-	-	-	-
	264,397	293,127	111,208	1,858	475	671,065	2,332	673,397
Net income from Islamic banking business	116,889	55,832	35,027	-	-	207,748	24,984	232,732
Other operating income	73,499	102,130	39,638	29,615	22,935	267,817	(42,116)	225,701
Net income	454,785	451,089	185,873	31,473	23,410	1,146,630	(14,800)	1,131,830
Other operating expenses	(236,522)	(168,128)	(35,240)	(30,102)	(20,173)	(490,165)	2,419	(487,746)
Depreciation and amortisation	(27,180)	(15,164)	(7,445)	(3,960)	(187)	(53,936)	-	(53,936)
Operating profit	191,083	267,797	143,188	(2,589)	3,050	602,529	(12,381)	590,148
(Allowance for)/write-back of impairment on loans, advances and financing and other losses	(37,035)	2,972	412	644	(1)	(33,008)	-	(33,008)
Write-back of impairment	-	1,139	2,937	-	-	4,076	-	4,076
Segment result	154,048	271,908	146,537	(1,945)	3,049	573,597	(12,381)	561,216
Share of results in an associate								(1,467)
Taxation and zakat								(144,381)
Net profit after taxation and zakat								415,368
Segment assets	12,730,209	9,134,341	15,449,464	248,641	41,801	37,604,456	(2,166,681)	35,437,775
Reconciliation of segment assets to consolidated assets:								
Investments in associates								29,038
Property, plant and equipment								104,553
Unallocated assets								111,250
Intangible assets								357,682
Total assets								36,040,298
Segment Liabilities	15,677,949	9,272,735	8,953,812	116,286	19,288	34,040,070	(1,323,436)	32,716,634
Unallocated liabilities								47,299
Total liabilities								32,763,933

51. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Liquidation of subsidiaries

The following subsidiaries of the Bank have been liquidated pursuant to Section 272(5) of the Companies Act, 1965:

(i) KLCS Asset Management Sdn. Bhd. - liquidated with effect from 28 April 2011
(ii) AllianceGroup Properties Sdn. Bhd. - liquidated with effect from 11 November 2011
(iii) KLCity Ventures Sdn. Bhd. - liquidated with effect from 11 November 2011
(iv) KLCity Unit Trust Berhad - liquidated with effect from 28 December 2011

52. SUBSEQUENT EVENTS

There were no material events subsequent to the end of the financial reporting period that require disclosure or adjustment to the financial statements.

53. NON-CURRENT ASSETS HELD FOR SALE

	BANK/GROUP	
	2012	2011
	RM'000	RM'000
Freehold land	1,009	-
Leasehold land	352	-
Buildings	2,453	-
	3,814	-

Property, plant and equipment where deposits have been received from buyers of the properties and where a definitive buyer have been identified will classified as non-current assets held for sale. The disposals are expected to be completed in next financial year.