Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

Financial Statements
31 December 2011

BOARD OF DIRECTORS

Mr Yi Huiman, *Non-Independent Non-Executive Director and Chairman*

Mr Tian Fenglin, *Non-Independent Executive Director*

YBhg Dato' Leong Khee Seong, *Independent Non-Executive Director*

Mr Ong Ah Tin @ Ong Chee Kwee, *Independent Non-Executive Director*

Ms Lan Li, *Non-Independent Non-Executive Director*
(appointed on 16 January 2012)

Mr Hong Guilu, *Non-Independent Non-Executive Director*
(appointed on 16 January 2012)

Mr Zhao Guicai, *Non-Independent Non-Executive Director*
(resigned on 16 January 2012)

Mr Tang Wei, *Non-Independent Non-Executive Director*
(resigned on 16 January 2012)

PROFILE OF DIRECTORS

Mr Yi Huiman

Age 47. Chinese. Non-Independent Non-Executive Director and Chairman of the Board of Directors. Appointed to the Board on 3 June 2010. Attended all the six Board meetings held in the financial year. Holds a PhD in Economics from Nanjing University, China. Has been with Industrial and Commercial Bank of China Limited Group ("ICBC Group") for the last 27 years holding various positions, such as President of Beijing branch, President of Jiangsu branch, Vice President of Zhejiang branch and President of Hangzhou branch. Currently holds the position of Executive Vice President of ICBC Group.

Mr Yi Huiman has no conflict of interest with the Bank and has no family relationship with any other Director.

Mr Tian Fenglin

Age 44. Chinese. Non-Independent Executive Director. Appointed to the Board on 28 January 2010. Attended all the six Board meetings held in the financial year. Holds a Masters degree from Macau University of Science and Technology. Corporate roles with ICBC Group include Senior Economist and Qualified Senior Credit Approval Official at head office, Manager at Nanjing branch (1992-1996), Head of International Department, Nanjing branch (1997-1999), President of Nanjing Xinjiekou sub-branch (2000-2002), Vice President of Nanjing Regional office (2002-2006) and Deputy General Manager of Singapore branch (2007-2009).

Mr Tian Fenglin has no conflict of interest with the Bank and has no family relationship with any other Director. He also sits in the Bank's Nominating Committee.

YBhg Dato' Leong Khee Seong

Age 73. Malaysian. Independent Non-Executive Director. Appointed to the Board on 3 June 2010. Attended all the six Board meetings held in the financial year. Engineer by profession with B.E. (Chemical Engineering) from the University of New South Wales, Australia. Served the Malaysian Government as the Minister of Primary Industries (1976-1986) and was a member of Parliament (1974-1990). YBhg Dato' Leong Khee Seong was also the Chairman of the Group of 14 ASEAN Economic Cooperation and Integration (1986-1987), Chairman of General Trade Agreement on Tariffs and Trade's Negotiating Committee on Tropical Products (1986-1990), acted as Independent Non-Executive Director of Sin Chew Media Corporation (2004-2007) and Non-Independent Executive Director cum Executive Chairman of Nanyang Press Holdings Berhad (2007-2009). YBhg Dato' Leong Khee Seong also sits on the Board as Independent Non-Executive Director of AirAsia Berhad (2004-current), and as Independent Non-Executive Director in TSH Resources Berhad (2005-current).

YBhg Dato' Leong Khee Seong has no conflict of interest with the Bank and has no family relationship with any other Director. He is also the chairman of the Audit Committee and Nominating Committee and a member of the Risk Management Committee and Remuneration Committee of the Bank.

PROFILE OF DIRECTORS *(continued)*

Mr Ong Ah Tin @ Ong Chee Kwee

Age 61. Malaysian. Independent Non-Executive Director. Appointed to the Board on 3 June 2010. Attended all the six Board meetings held in the financial year. Holds a Bachelor of Arts in Economics from the University of Malaya and Diploma in Banking from Institute of Bankers, London.

Mr Ong Ah Tin started his banking career with Citibank (then known as First National City Bank) Malaysia as a Management Trainee in 1973, and held various positions in Operations, Credits and Marketing until August 1988 when he left as the Vice President of Credit Risks Management Department. In 1988, he joined Malaysian French Bank as an Assistant General Manager until 1994, thereafter he joined OUB Finance Berhad as Director/General Manager. After the merger of OUB Finance Berhad with its parent bank, Overseas Union Bank (M) Berhad in 1997, he was assigned to Overseas Union Bank (M) Berhad as Head of Enterprise Banking until 2002. Following that, he joined Alliance Finance Berhad as Acting CEO to manage the finance company's operations and to undertake the merger of Alliance Finance Berhad with its parent bank, Alliance Bank Berhad. Upon the successful completion of the merger in 2004, he was assigned as a Senior General Manager and Head of Consumers Banking of Alliance Bank Berhad until August 2005, when he retired from the banking industry. Mr Ong Ah Tin served as an Independent Non-Executive Director of Hock Sin Leong Group Berhad from April 2006 to December 2006.

Mr Ong Ah Tin has no conflict of interest with the Bank and has no family relationship with any other Director. He is also the chairman for the Risk Management Committee and Remuneration Committee, as well as being a member of the Audit Committee and Nominating Committee of the Bank.

Ms Lan Li

Age 48. Chinese. Non-Independent Non-Executive Director. Appointed to the Board on 16 January 2012. Holds a PhD in Economics and Bachelor of Finance from Tianjin University of Finance Economics, China and Master of Finance from Nankai University, China. Served various roles with ICBC Group as Manager, Accounting and Settlement Department, ICBC's Frankfurt Office (July 1999 - August 2002), General Manager, International Banking Department and President of Ronghui Branch, Tianjin Regional Headquarters (August 2002 - October 2004), Vice Head of Internal Audit (October 2004 - May 2005), Deputy Head, Tianjin Regional Headquarters (June 2005 - December 2010), Vice Head of Internal Auditing (December 2010 - July 2011) and Director, Administration Office of Directors and Supervisors to Subsidiaries (July 2011 - current).

Ms Lan Li has no conflict of interest with the Bank and has no family relationship with any other Director. She is a member of the Audit Committee, Nominating Committee and Remuneration Committee of the Bank.

Mr Hong Guilu

Age 45. Chinese. Non-Independent Non-Executive Director. Appointed to the Board on 16 January 2012. Holds a Bachelor of Engineering and Master of Economics (Industrial Economics) from Harbin Institute of Technology, China and People's University of China, respectively, and Master of Accounting from George Washington University, United States. Prior to joining ICBC Group, Mr Hong Guilu was appointed Manager, State Property Administration Bureau, Ministry of Finance (July 1993 - June 2000) and Deputy Director, Board of Supervisors, Agricultural Bank of China (July 2000 - June 2003). He was appointed Director, Board of Supervisors, ICBC Group in July 2003 prior to his appointment as Director, Administration Office of Directors and Supervisors in December 2005 until current.

Mr Hong Guilu has no conflict of interest with the Bank and has no family relationship with any other Director. He is a member of the Risk Management Committee, Nominating Committee and Remuneration Committee of the Bank.

FINANCIAL PERFORMANCE DURING THE FINANCIAL YEAR

Despite the global economy challenges, the Malaysian economy has continued to achieve growth at 5.1% for the full year 2011 while maintaining relatively low inflation and high employment. The economy has continued to sustain its strong fundamentals, amidst continued support from the accommodative fiscal and monetary policy pursued by the Government. The local banking system remained well capitalised with high core equity capital, strong profitability, strong asset quality, strong loan and deposit growth, as well as a liquid balance sheet.

In 2011, the Bank managed to solidify its presence in the local market and broadened its customer base in both the deposit and financing segments. All the businesses maintained a good momentum of development. This is the first complete financial year for the Bank and it has delivered a strong performance with a profit before taxation of RM15.9mil. The main sources of revenue were from interest income and trading income from treasury business. The higher operating expenses as compared to previous period comprised mainly personnel expenses, in line with the increase in headcount in establishing and growing the Bank's business.

OUTLOOK FOR 2012

The global economy will be more challenging, with the anticipated escalation of the Eurozone sovereign debt crisis, the continuation of sub-par growth in the West and the anticipated slower expansion in the economies of emerging countries. Specifically in Asia, the sustained domestic growth will be moderated amid the weaker external environment, supported by favourable labour supply, market conditions, continued access to financing, rising income and high commodity prices.

Looking into the year 2012, the Malaysian economy is expected to continue to expand, underpinned by sustained private consumption and investment via the Economic Transformation Programme (ETP) and further reinforced by public sector spending. The credit risk outlook of the banking system is anticipated to remain stable against the backdrop of solid economic fundamentals, institutional soundness and resilience. Monetary policy will remain accommodative with no major unforeseen shock to consumer and investor confidence.

Moving forward in 2012, the Bank aims to grow stronger so as to lay a solid foundation in the local market and secure larger customer base, while enhancing contribution to ICBC Group’s globalisation vision. The Bank is committed to expand its geographical footprint and reach out to more customers by setting up new branches throughout the country to better serve the customers' banking needs. The Bank also aims to continuously rely on innovation to seize opportunities and explore new breakthroughs.

The new strategic business segments to be launched throughout 2012 will include E-banking business, wealth management, debit cards, credit cards and ATM services. The introduction of the comprehensive range of financial products and services will enable the Bank to offer innovative, unique and tailor-made banking packages to respective corporate and retail customers.

With the growing bilateral and economic trade relations with China, the Bank aims to expand its market share in providing cross border services to customers with business relationship with China counterparts. By tapping on ICBC Group’s highly efficient global Renminbi (RMB) interbank clearing network opportunity, the unique RMB financial products and services create a competitive advantage for the Bank.

While aiming to grow the Bank's deposit and asset base, as well as to achieve sustainable profitability, the Bank will continue to reinforce liquidity management, maintain healthy asset quality and constantly improve the foresight of risk management measures. Keeping in mind the customers’ increasingly diversified financial needs, the Bank will continue to understand and address this by introducing new financial products and services while improving customer service experience. This will greatly reinforce the Bank’s vision of becoming the most preferred banking choice in the local market.

CORPORATE GOVERNANCE STATEMENT

The Board of Industrial and Commercial Bank of China (Malaysia) Berhad ("the Bank") fully appreciates the importance of adopting high standards of corporate governance within the Bank in order to safeguard stakeholders' interests as well as enhancing shareholders' value. The Board views corporate governance to be synonymous with four key concepts; namely transparency, accountability, integrity and corporate responsibilities.

The Board of the Bank believes in inculcating a culture that seeks to balance conformance requirements with the need to deliver long-term strategic success through performance, predicated on entrepreneurship, control and ownership, without compromising personal or corporate ethics and integrity.

A. Directors

The Board

The Board plays a pivotal role in the stewardship of the Bank's direction and operations, including enhancing long-term shareholders' value. In order to fulfill this role, the Board is explicitly responsible for reviewing and adopting a strategic plan for business performance; overseeing the proper conduct of the Bank's business; identifying principal risks and ensuring the implementation of systems to manage risks; succession planning; and reviewing the adequacy and integrity of the Bank's internal control systems and management information systems.

The role and function of the Board, which includes the complementing roles of Executive Director and Non-Executive Directors as well as the schedule of matters reserved for the Board, are clearly delineated in the Terms of Reference of the Board of Directors.

Composition of the Board

The Board currently comprises of six (6) members, one (1) Non-Independent Executive Director, two (2) Independent Non-Executive Directors and three (3) Non-Independent Non-Executive Directors. A brief profile of each Director is presented on pages 2 and 3 of these financial statements.

The Directors, with their differing backgrounds and specialisations, collectively bring with them a wide range of experience and expertise in areas such as finance, corporate affairs, marketing and operations. The Executive Director, in particular, is responsible for implementing the policies and decisions of the Board, overseeing the operations as well as co-ordinating the development and implementation of business and corporate strategies.

The Independent Non-Executive Directors contribute significantly and bring forth independent judgement in areas relating to policy and strategy, business performance, resources allocation as well as improving governance and controls. Together with the Executive Director who has intimate knowledge of the business, the Board is constituted of individuals who are committed to business integrity and professionalism in all its activities.

The distinct and separate duties and responsibilities of the Chairman and Chief Executive Officer ("CEO") of the Bank ensure the balance of power and authority towards the establishment of a fully effective Board. The Chairman is responsible for ensuring the integrity and effectiveness of the governance process of the Board and acts as a facilitator at Board meetings. The CEO, supported by the management team, is responsible for the day-to-day management of the Bank as well as the effective implementation of the strategic plan and policies established by the Board. Currently, the Board is led by Mr Yi Huiman as the Non-Independent Non-Executive Director cum Chairman, while the executive management of the Bank is helmed by Mr Tian Fenglin, CEO of the Bank.

CORPORATE GOVERNANCE STATEMENT *(continued)*

Board Meetings and Access to Information

The Board ordinarily meets at least six (6) times a year with additional meetings convened when urgent and important decisions need to be taken between the scheduled meetings. Due notice is given for scheduled meetings and matters to be dealt with. All Board meeting proceedings are minuted, including the issues discussed and the conclusions made in discharging its duties and responsibilities.

The agenda for each Board meeting and papers relating to the agenda items are disseminated to all Directors well before the meeting, in order to provide sufficient time for the Directors to review the Board papers and seek clarifications, from the Management, if required. Where urgency prevails and if appropriate, decisions are also taken by way of a Directors' Circular Resolution in accordance with the Bank's Articles of Association.

The Board is able to seek clarifications and advice as well as request for information on matters pertaining to the Bank from the Senior Management and the Company Secretary. Should the need arises, the Directors may also seek independent professional advices, at the Bank's expense, when deemed necessary for the proper discharge of their duties.

The Board convened six (6) meetings in the financial year ended 31 December 2011. The attendance of each Director at the Board meetings held during the financial year is as follows:-

Meetings attended (out of 6)

Directors	**Independent / Non-Independent**	**Attendance at meetings**
Yi Huiman	Chairman/Non-Independent Non-Executive Director	6/6 (100%)
Tian Fenglin	Non-Independent Executive Director	6/6 (100%)
Dato' Leong Khee Seong	Independent Non-Executive Director	6/6 (100%)
Ong Ah Tin @ Ong Chee Kwee	Independent Non-Executive Director	6/6 (100%)
Zhao Guicai *(resigned on 16 January 2012)*	Non-Independent Non-Executive Director	3/6 (50%)
Tang Wei *(resigned on 16 January 2012)*	Non-Independent Non-Executive Director	5/6 (83%)
Lan Li *(appointed on 16 January 2012)*	Non-Independent Non-Executive Director	N/A
Hong Guilu *(appointed on 16 January 2012)*	Non-Independent Non-Executive Director	N/A

Appointments and Re-election to the Board

The Bank is governed by Bank Negara Malaysia's ("BNM") guidelines on the appointment of new Directors and the re-appointment of its existing Directors upon the expiry of their respective tenures of office as approved by BNM. The Nominating Committee reviews and assesses the appointment/re-appointment of Directors. The recommendation thereof will be presented to the Board. Upon approval by the Board, the application for the appointment/re-appointment of Directors will be submitted to BNM for approval.

Article 73 of the Bank's Articles of Association provides that at least one-third (1/3) of the Board is subject to retirement by rotation at each Annual General Meeting. Retiring Directors can offer themselves for re-election. Directors who are appointed during the financial year are subject to re-election by shareholders at the next Annual General Meeting held following their appointments.

CORPORATE GOVERNANCE STATEMENT *(continued)*

Board Performance Evaluation

During the financial year, the Board had undertaken a Board Performance Evaluation exercise on the Board and Board Committees with the objective of assessing the effectiveness of the Board and Board Committees as a whole, as well as the individual directors. The evaluation is based on a combination of self and peer assessment methodologies performed via a customised questionnaire. The results of the evaluation exercise were presented to the Nominating Committee and Board for consideration.

Board Committees

The Board has delegated certain responsibilities to the following Board Committees, which operate within a clearly defined terms of reference:

(i) Audit Committee;
(ii) Risk Management Committee;
(iii) Nominating Committee; and
(iv) Remuneration Committee.

The minutes of meetings of the above Board Committees are also tabled to the Board for notation.

Audit Committee

The Bank's Audit Committee ("AC") comprises of non-executive directors, of which the majority are independent directors. The composition of the AC and the attendance of the members thereof together with the terms of reference and activities of the AC during the financial year are set out in pages 10 to 12 of the Audit Committee Report.

Risk Management Committee

The Risk Management Committee ("RMC") comprises of two (2) Independent Non-Executive Directors of whom one (1) is the Chairman and a Non-Independent Non-Executive Director. During the financial year, a total of eight (8) meetings were held and the details of the attendance of each member are as follows:-

Members of RMC	**Independent / Non-Independent**	**Attendance at meetings**
Ong Ah Tin @ Ong Chee Kwee	Chairman/Independent Non-Executive Director	8/8 (100%)
Dato' Leong Khee Seong	Independent Non-Executive Director	8/8 (100%)
Zhao Guicai *(resigned on 16 January 2012)*	Non-Independent Non-Executive Director	5/8 (63%)
Hong Guilu *(appointed on 16 January 2012)*	Non-Independent Non-Executive Director	N/A

The salient terms of reference of the Committee are as follows:-

- to review and recommend risk management strategies, policies and risk tolerance for Board's approval;
- to review and assess the adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively;
- to ensure infrastructure, resources and systems are in place for risk management, including ensuring that staff responsible for implementing risk management systems perform their duties independent of the Bank's risk taking activities;
- to review Management's periodic reports on risk exposure, risk portfolio composition and risk management activities; and
- to evaluate and provide input on such strategies and/or policies to suit local conditions and make appropriate recommendations thereof to the Board where risk strategies and policies are driven by the parent bank.

CORPORATE GOVERNANCE STATEMENT *(continued)*

Nominating Committee

The Nominating Committee ("NC") comprises of two (2) Independent Non-Executive Directors of whom one (1) is the Chairman, two (2) Non-Independent Non-Executive Directors and a Non-Independent Executive Director. During the financial year, a total of three (3) meetings were held and the details of the attendance of each member are as follows:-

Members of NC	**Independent / Non-Independent**	**Attendance at meetings**
Dato' Leong Khee Seong	Chairman/Independent Non-Executive Director	3/3 (100%)
Ong Ah Tin @ Ong Chee Kwee	Independent Non-Executive Director	3/3 (100%)
Tian Fenglin	Non-Independent Executive Director	3/3 (100%)
Tang Wei *(resigned on 16 January 2012)*	Non-Independent Non-Executive Director	3/3 (100%)
Zhao Guicai *(resigned on 16 January 2012)*	Non-Independent Non-Executive Director	1/3 (33%)
Lan Li *(appointed on 16 January 2012)*	Non-Independent Non-Executive Director	N/A
Hong Guilu *(appointed on 16 January 2012)*	Non-Independent Non-Executive Director	N/A

The salient terms of reference of the Committee are as follows:-

- to establish minimum requirements for the Board with the required mix of skills, experience, qualification and other core competencies required of a director. The Committee is also responsible for establishing minimum requirements for the CEO. The requirements and criteria should be approved by the full Board;

- to recommend and assess the nominees for directorship, Board committee members as well as nominees for the CEO. This includes assessing directors for reappointment, before an application for approval is submitted to BNM. The final decision on the nomination and appointment of Board and Committee rests with the Board;

- to oversee the overall composition of the Board, in terms of the appropriate size and skills, and the balance between executive directors, non-executive directors and independent directors, through annual review;

- to recommend to the Board the removal of a director or CEO from the Board or management if the director or CEO is ineffective, errant and negligent in discharging his responsibilities; and

- to establish a mechanism for the formal assessment on the effectiveness of the Board as a whole and the contribution of each director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the CEO and other key senior management officers. Annual assessment should be conducted based on an objective performance criteria. Such performance criteria should be approved by the full Board.

CORPORATE GOVERNANCE STATEMENT *(continued)*

Board Committees *(continued)*

Remuneration Committee

The Remuneration Committee ("RC") comprises of two (2) Independent Non-Executive Directors of whom one (1) is the Chairman and two (2) Non-Independent Non-Executive Directors. During the financial year, a total of two (2) meetings were held and the details of the attendance of each member are as follows:-

Members of RC	**Independent / Non-Independent**	**Attendance at meetings**
Ong Ah Tin @ Ong Chee Kwee	Chairman/Independent Non-Executive Director	2/2 (100%)
Dato' Leong Khee Seong	Independent Non-Executive Director	2/2 (100%)
Tang Wei *(resigned on 16 January 2012)*	Non-Independent Non-Executive Director	1/2 (50%)
Lan Li *(appointed on 16 January 2012)*	Non-Independent Non-Executive Director	N/A
Hong Guilu *(appointed on 16 January 2012)*	Non-Independent Non-Executive Director	N/A

The salient terms of reference of the Committee are as follows:-

- to recommend a framework of remuneration for directors, CEO and key senior management officers for the full Board's approval. The remuneration framework should support the Bank's culture, objectives and strategy and should reflect the responsibility and commitment, which goes with Board membership and responsibilities of the CEO and senior management officers. There should be a balance in determining the remuneration package, which should be sufficient to attract and retain directors of calibre, and yet not excessive to the extent the Bank's funds are used to subsidise the excessive remuneration packages. The framework should cover all aspects of remuneration including director's fees, salaries, allowances, bonuses, share options and benefits-in-kind; and

- to recommend specific remuneration packages for executive directors and the CEO. The remuneration package should be structured such that it is competitive and consistent with the Bank's culture, objectives and strategy. Salary scales drawn up should be within the scope of the general business policy and not be based on short-term performance to avoid incentives for excessive risk-taking. As for non-executive directors and independent directors, the level of remuneration should be linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board. In addition, the remuneration of each Board member may differ based on their level of expertise, knowledge and experience.

The details of the nature and amount of each major element of the remuneration of the Executive Director and the Independent Non-Executive Directors of the Bank for the financial year ended 31 December 2011 are disclosed in Note 22 (b) to the financial statements.

B. Accountability and audit

Financial reporting

It is the Board's commitment to present a balanced and meaningful assessment of the Bank's financial performance and prospects at the end of the financial year, primarily through the annual financial statements to BNM. The Board is assisted by the Audit Committee to oversee the Bank's financial reporting process and the quality of its financial reporting.

CORPORATE GOVERNANCE STATEMENT *(continued)*

B. Accountability and audit *(continued)*

Directors' responsibility statement in respect of the preparation of the audited financial statements

The Board is responsible for ensuring that the financial statements give a true and fair view of the state of affairs of the Bank as at the end of the accounting period and of its operations results and cash flows for the year then ended. In preparing the financial statements, the Directors have ensured the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards in Malaysia in all respects and other legal requirements.

Relationship with the Auditor

Key features underlying the relationship of the Audit Committee with the external auditors are included in the Audit Committee's terms of reference.

AUDIT COMMITTEE REPORT

Activities of the Audit Committee and the internal audit function during the financial year ended 31 December 2011

The Audit Committee ("AC") comprises of two (2) Independent Non-Executive Directors of whom one (1) is the Chairman and a Non-Independent Non-Executive Director. A total of eight (8) meetings were held during the financial year and the details of the attendance of each member are as follows:-

Members of AC	Independent / Non-Independent	Attendance at meetings
Dato' Leong Khee Seong	Chairman/Independent Non-Executive Director	8/8 (100%)
Ong Ah Tin @ Ong Chee Kwee	Independent Non-Executive Director	8/8 (100%)
Tang Wei *(resigned on 16 January 2012)*	Non-Independent Non-Executive Director	7/8 (88%)
Lan Li *(appointed on 16 January 2012)*	Non-Independent Non-Executive Director	N/A

The main activities undertaken by the Committee during the financial year are summarised as below:-

- Reviewed the quarterly unaudited financial results and the annual audited financial statements of the Bank before recommending the same for approval by the Board;

- Reviewed the audit plan of the external auditors for the year, and discussed the nature and scope of the audit, significant changes in accounting and auditing issues and any pertinent issues which had significant impact on the results of the Bank. The Committee also had two (2) separate sessions with the external auditors without the presence of the management to discuss issues of concern to the external auditors arising from the annual statutory audit;

- Reviewed the status of completion of the internal audit plan, the internal audit reports, audit recommendations made and the Management's response to such recommendations as well as action taken to improve the system of internal controls and procedures;

- Reviewed the related party transactions entered into by the Bank and its holding company; and also noted the credit transactions and exposure with connected parties for the financial year; and

- Tabled the minutes of each Committee meeting to the Board for notation, and for further direction by the Board, if any.

AUDIT COMMITTEE REPORT *(continued)*

Terms of reference of the Audit Committee

Objectives

The AC assists the Board in providing independent oversight of the Bank's financial reporting and internal control system and ensuring checks and balances within the Bank.

Composition

The AC shall comprise non-executive directors with at least three (3) members, of which the majority should be independent directors. The Committee should be chaired by an independent director.

Duties and responsibilities

- The Committee reports to the full Board. It is entitled to the full assistance of the Bank's management and internal and external auditors in the discharge of its responsibilities and may communicate directly with any of them.
- To review/discuss with the external auditors and management on the fairness of presentation and reporting of the financial statements/reports and prompt publication of the financial accounts.
- In reliance on review and discussions with management and external auditors, the Committee will ensure that the Bank's financials are fairly presented in conformity with Financial Reporting Standards in Malaysia in all respects and other legal requirements.
- To oversee the functions of the Internal Audit Department and ensuring compliance with BNM/GP10 requirement.
- To review and approve the annual audit plan including its audit objectives, scope and resources allocation.
- To review internal audit findings/reports, management's response and follow-up on internal auditors' recommendations.
- To appoint, set compensation, evaluate performance and decide on the transfer and dismissal of the Chief Internal Auditor.
- To review with the internal and external auditors, their findings on their evaluation of the system of internal controls with particular attention to material internal controls, including financial, operational and compliance controls and risk management.
- To select external auditors for appointment by Board annually, the audit fee and any questions of resignation or dismissal.
- To review the independence and objectivity of the external auditors, including the requisite disclosures from the external auditors evidencing their independence. In reviewing the independence of external auditors, the Committee is to consider the financial, business and professional relationship between the external auditors and the Bank.
- To review the external auditor's management letter and response.
- To review and approve the provision of non-audit service by external auditor so as to ensure that provision of non-audit services does not interfere with the exercise of independent judgement of auditors.
- To review the audit findings and ensuring that issues are being managed and rectified appropriately and in a timely manner.
- To discuss with external auditors without presence of management annually.

AUDIT COMMITTEE REPORT *(continued)*

Terms of reference of the Audit Committee *(continued)*

- To review all related party transactions and keep the Board informed of such transactions.
- To review generally the administrative and control aspects of the operations of the Bank, however, is not concerned with the exercise of business judgements.
- To make such recommendations to the Board on any audit or financial reporting matters as they may think fit.

Procedures and Meetings

The AC shall meet as frequently as may be necessary, but at least four (4) times a year and in any case upon requisition of any member of the AC to transact such matters as are set out in its terms of reference. The quorum shall be two (2) members present in person with a majority being independent non-executive director. A majority of vote shall be required to pass or defeat any resolution. In the event of an equality of votes, the Chairman shall have a second or casting vote.

The AC may invite other directors, CEO and other senior management staff to its meetings to assist in the discharge of its responsibilities. At least one (1) week notice is required for any meeting but may be shortened by agreement of all members present who are sufficient to form a quorum.

Internal Audit and Internal Control Activities

The fundamental framework for the Internal Audit Department is based on the Committee of Sponsoring Organisations of the Treadway Commission ("COSO") framework, a well-recognised risk and control framework for the evaluation of the design and operating effectiveness of internal control. The use of the COSO framework is fully integrated into the work of the Internal Audit Department, including audit planning, the development of audit programs, and audit reporting.

In addition, the AC has active oversight on the internal audit's independence, scope of work and resources. It regularly reviews the actions taken on internal control issues identified in reports prepared by the Internal Audit Department and evaluates the effectiveness and adequacy of the Bank's internal control system.

During the financial year, ongoing reviews of the Bank's internal control system were carried out by the Internal Audit Department to examine and evaluate the adequacy, effectiveness and efficiency of financial and operating controls and highlight significant risks and non-compliance impacting the Bank. The Bank's internal audit function is also supervised by the Group Audit Department of the parent bank.

The scope of the reviews is focused on areas of priority as identified by risk analysis and in accordance with the annual internal audit plan approved by the Board Audit Committee. The Internal Audit Department has defined procedures to report control deficiencies or breaches noted which includes obtaining management action plans for correction. Follow-up and escalation procedures are in place for tracking all deficiencies or breaches to full resolution.

Nonetheless, the system is designed to manage the Bank's risks within an acceptable risk profile and the Board Audit Committee acknowledges that the system, by its nature, can only provide reasonable assurance and not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

DIRECTORS' REPORT
For the year ended 31 December 2011

The Directors have pleasure in submitting their report and the audited financial statements of the Bank for the financial year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in the provision of banking and other related financial services.

RESULTS

	RM'000
Profit before taxation	15,920
Tax expense	(4,303)
Net profit for the year	11,617

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

DIVIDENDS

No dividend was paid during the financial year and the Directors do not recommend any dividend to be paid for the financial year.

DIRECTORS OF THE BANK

Directors who held office during the year since the date of the last report are:

Mr Yi Huiman	
Mr Tian Fenglin	
YBhg Dato' Leong Khee Seong	
Mr Ong Ah Tin @ Ong Chee Kwee	
Ms Lan Li	(appointed on 16 January 2012)
Mr Hong Guilu	(appointed on 16 January 2012)
Mr Zhao Guicai	(resigned on 16 January 2012)
Mr Tang Wei	(resigned on 16 January 2012)

Pursuant to Section 129 of the Companies Act 1965, YBhg Dato' Leong Khee Seong retires at the forthcoming Annual General Meeting of the Company and being eligible, offers himself for re-election.

In accordance with Article 73 of the Bank’s Articles of Association, Mr Ong Ah Tin @ Ong Chee Kwee retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Article 79 of the Bank's Articles of Association, Ms Lan Li and Mr Hong Guilu retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' INTEREST

None of the Directors holding office as at 31 December 2011 had any interest in the ordinary shares and options over shares of the Bank and of its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial period, no Director of the Bank has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the Bank or of related corporations as shown in Note 22 (b) to the financial statements) by reason of a contract made by the Bank 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.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

ISSUE OF SHARES AND DEBENTURES

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

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Bank during the financial year.

BANK RATINGS

The Bank has not been rated by any external agencies.

HOLDING COMPANY

The Directors regard Industrial and Commercial Bank of China Limited, a company incorporated in China, as the holding company of the Bank.

OTHER STATUTORY INFORMATION

Before the statement of comprehensive income and statement of financial position of the Bank were made out, the Directors took reasonable steps to ascertain that:

i) adequate provision has been made for doubtful debts; and

ii) any current assets which were unlikely to be realised in the ordinary course of business have 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:

i) that would render the amount of the provision for doubtful debts in the Bank inadequate to any substantial extent, or

ii) that would render the value attributed to the current assets in the Bank financial statements misleading, or

iii) which has arisen which render adherence to the existing method of valuation of assets and liabilities of the Bank misleading or inappropriate, or

iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Bank misleading.

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

i) any charge on the assets of the Bank that has arisen since the end of the financial year and which secures the liabilities of any other person, or

ii) any contingent liability in respect of the Bank that has arisen since the end of the financial year.

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

In the opinion of the Directors, the results of the operations of the Bank for the financial year ended 31 December 2011 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

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

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

....

Tian Fenglin

....

Dato' Leong Khee Seong

Kuala Lumpur, Malaysia
Date: 26 March 2012

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

We, Tian Fenglin and Dato' Leong Khee Seong being two of the directors of Industrial and Commercial Bank of China (Malaysia) Berhad, do hereby state on behalf of the directors that, in our opinion, the financial statements set out on pages 21 to 56 are drawn up in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia's guidelines so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2011 and of its financial performance and cash flows of the Bank for the year then ended on that date.

Tian Fenglin

....

Tian Fenglin

....

Dato' Leong Khee Seong

Kuala Lumpur, Malaysia
Date: 26 March 2012

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

I, Tian Fenglin, being the Director primarily responsible for the financial management of Industrial and Commercial Bank of China (Malaysia) Berhad, do solemnly and sincerely declare that, to the best of my knowledge and belief, the financial statements set out on pages 21 to 56 are correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur, Malaysia on 26 March 2012.

TIAN FENGLIN

....

Tian Fenglin

BEFORE ME:

COMMISSIONER FOR OATHS
W 378
K NERMALA
MALAYSIA

....

No. 50-10-1, Tingkat 10,
Wisma UOA Damansara
No 50, Jalan Dungun
Bukit Damansara
50490 Kuala Lumpur

KPMG (Firm No. AF 0758)
Chartered Accountants
Level 10, KPMG Tower
8, First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan, Malaysia

Telephone +60 (3) 7721 3388
Fax +60 (3) 7721 3399
Internet www.kpmg.com.my

Independent Auditors' Report to the Member Of Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Industrial and Commercial Bank of China (Malaysia) Berhad, which comprise the statement of financial position as at 31 December 2011 of the Bank, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 21 to 56.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines, and for such internal control as the Directors determine 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 judgement, 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.

(Company No. 839839 M)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Bank as of 31 December 2011 and of its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions 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.

KPMG
Firm Number: AF 0758
Chartered Accountants

Foong Mun Kong
Partner
Approval Number: 2613/12/12(J)

Petaling Jaya, Malaysia

Date: 26 March 2012

Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	2011 RM'000	2010 RM'000
ASSETS			
Cash and short-term funds	4	846,191	321,307
Deposits and placements with banks and other financial institutions	5	499,729	568,236
Loans, advances and financing	6	355,933	118,817
Other assets	7	6,176	6,774
Deferred tax assets	8	2,235	766
Plant and equipment	9	2,550	1,001
TOTAL ASSETS		1,712,814	1,016,901
LIABILITIES			
Deposits from customers	10	386,572	32,030
Deposits and placements of banks and other financial institutions	11	962,658	645,430
Other liabilities	12	18,762	4,639
Provision for taxation		86	1,683
TOTAL LIABILITIES		1,368,078	683,782
EQUITY			
Share capital	13	331,000	331,000
Reserves	14	13,736	2,119
EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE BANK		344,736	333,119
TOTAL LIABILITIES AND EQUITY		1,712,814	1,016,901

The notes set out on pages 25 to 56 form an integral part of these financial statements.

Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 RM'000	28.1.2010 to 31.12.2010 RM'000
Interest income	15	40,960	12,942
Interest expense	15	(19,156)	(3,505)
Net interest income	15	21,804	9,437
Fee income	16	1,240	29
Net trading income	17	17,332	3,748
Net operating income		40,376	13,214
Other operating expenses	18	(20,845)	(8,369)
Operating profit		19,531	4,845
Allowance for impairment on loans, advances and financing	19	(3,611)	(1,809)
Profit before taxation		15,920	3,036
Tax expense	20	(4,303)	(917)
Profit after taxation		11,617	2,119
Other comprehensive income for the year/period, net of tax		-	-
Total comprehensive income for the year/period		11,617	2,119
Basic earnings per ordinary share (sen):	21	3.51	0.78

The notes set out on pages 25 to 56 form an integral part of these financial statements.

Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

	Non-distributable		Distributable	
	Share Capital RM'000	Statutory Reserve RM'000	Retained Earnings RM'000	Total RM'000
At 28 January 2010 (date of incorporation)	-	-	-	-
Issuance of shares	331,000	-	-	331,000
Total comprehensive income for the period	-	-	2,119	2,119
Transfer to statutory reserve	-	1,060	(1,060)	-
At 31 December 2010	331,000	1,060	1,059	333,119
At 1 January 2011	331,000	1,060	1,059	333,119
Total comprehensive income for the year	-	-	11,617	11,617
Transfer to statutory reserve	-	5,809	(5,809)	-
At 31 December 2011	331,000	6,869	6,867	344,736
		Note 14.1	Note 14.2	

The notes set out on pages 25 to 56 form an integral part of these financial statements.

Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 RM'000	28.1.2010 to 31.12.2010 RM'000
Cash flows from operating activities			
Profit before taxation		15,920	3,036
Adjustments for:			
Depreciation of plant and equipment		822	139
Allowance for impairment on loans, advances and financing		3,611	1,809
Operating profit before working capital changes		20,353	4,984
Decrease/(increase) in operating assets			
Deposits and placements with banks and other financial institutions		68,507	(568,236)
Loans, advances and financing		(240,727)	(120,626)
Other assets		598	(6,774)
Increase in operating liabilities			
Deposits from customers		354,542	32,030
Deposits and placements of banks and other financial institutions		317,228	645,430
Other liabilities		14,123	4,639
Cash generated from/(used in) operations		534,624	(8,553)
Income taxes paid		(7,369)	-
Net cash generated from/(used in) operating activities		527,255	(8,553)
Cash flows from investing activity			
Purchase of plant and equipment		(2,371)	(1,140)
Net cash used in investing activity		(2,371)	(1,140)
Cash flows from financing activity			
Issuance of shares		-	331,000
Net cash generated from financing activity		-	331,000
Net increase in cash and cash equivalents		524,884	321,307
Cash and cash equivalents at beginning of the financial year /at date of incorporation		321,307	*
Cash and cash equivalents at end of the financial year/period		846,191	321,307

***** *represents RM2*

Cash and cash equivalents comprise:

	Note	2011 RM'000	28.1.2010 to 31.12.2010 RM'000
Cash and short-term funds	4	846,191	321,307
		846,191	321,307

The notes set out on pages 25 to 56 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. General information

Industrial and Commercial Bank of China (Malaysia) Berhad is a public limited liability company incorporated and domiciled in Malaysia. The Bank is principally engaged in the provision of banking and other related financial services. The addresses of its registered office and principal place of business are as follows:

Registered office	**Principal place of business**
Level 34C, Menara Maxis	Level 35, Menara Maxis
Kuala Lumpur City Centre	Kuala Lumpur City Centre
50088 Kuala Lumpur.	50088 Kuala Lumpur.

The financial statements were authorised for issue by the Board of Directors on 26 March 2012.

2. Basis of preparation

(a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with the Companies Act, 1965, generally accepted accounting principles and Financial Reporting Standards ("FRS") issued by the Malaysian Accounting Standards Board ("MASB") as modified by Bank Negara Malaysia ("BNM") Guidelines.

The Bank has not applied the following accounting standards, amendments and interpretations that have been issued by the MASB but are not yet effective for the Bank:

FRSs/ Interpretations	**Effective date**
IC Interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*	1 July 2011
Amendments to IC Interpretations 14, *Prepayments of a Minimum Funding Requirement*	1 July 2011
FRS 124, *Related Party Disclosures (revised)*	1 January 2012
Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*	1 January 2012
Amendments to FRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets*	1 January 2012
Amendments to FRS 112, *Income Taxes - Deferred Tax: Recovery of Underlying Assets*	1 January 2012
Amendments to FRS 101, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income*	1 July 2012
FRS 10, *Consolidated Financial Statements*	1 January 2013
FRS 11, *Joint Agreements*	1 January 2013
FRS 12, *Disclosure of Interests in Other Entities*	1 January 2013
FRS 13, *Fair Value Measurement*	1 January 2013
FRS 119, *Employee Benefits (2011)*	1 January 2013
FRS 127, *Separate Financial Statements (2011)*	1 January 2013
FRS 128, *Investments in Associates and Joint Ventures (2011)*	1 January 2013
IC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*	1 January 2013
Amendments to FRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*	1 January 2013
Amendments to FRS 7, *Financial Instruments: Disclosures – Mandatory Date of FRS 9 and Transition Disclosures*	1 January 2013
Amendments to FRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*	1 January 2014
FRS 9, *Financial Instruments (2009)*	1 January 2015
FRS 9, *Financial Instruments (2010)*	1 January 2015

2. Basis of preparation *(continued)*

(a) Statement of compliance *(continued)*

The Bank's financial statements for the annual period beginning on 1 January 2012 will be prepared in accordance with the Malaysian Financial Reporting Standards ("MFRSs") issued by the MASB and the International Financial Reporting Standards ("IFRSs"). As a result, the Bank will not be adopting the above FRSs, interpretations and amendments.

(b) Basis of measurement

The financial statements of the Bank have been prepared on the historical cost basis, except for the derivative financial instruments as disclosed in the notes to the financial statements.

(c) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia (RM), which is the Bank’s functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial information and financial statements in conformity with FRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect are disclosed in the financial statements (if any).

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amount recognised in the financial statements other than those disclosed in Note 31.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, unless otherwise stated.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Bank at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of reporting date except for those that are measured at fair value which are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss.

(b) Interest recognition

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest expense on deposits and borrowings of the Bank are recognised on an accrual basis.

(c) Fees recognition

Loan arrangement fees which are material are recognised as income when all conditions precedent are fulfilled. Guarantee fees and commitment fees which are material are recognised as income based on time apportionment.

Other fee income on services and facilities extended to customers are recognised as the related services are performed.

Other fee expense relates mainly to transaction and service fees, which are expensed as the services are received.

(d) Operating lease payments

Leases, where the Bank does not assume substantially all the risks and rewards of ownership are classified as operating leases and the leased assets are not recognised in the statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred. Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

3. Significant accounting policies *(continued)*

(e) Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(f) Cash and cash equivalents

Cash and cash equivalents consist of notes and coins on hand, unrestricted balances held with BNM and highly liquid financial assets maturing within one month, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are stated at placement value in the statement of financial position.

(g) Derivative financial instruments

Derivatives are recognised at fair value in the statement of financial position. Gains and losses (realised and unrealised) arising from changes in the fair value are recognised in profit or loss.

(i) Forward Foreign Exchange Contracts

Forward contracts are valued at the prevailing forward rates of exchange at the reporting date. The resultant unrealised gains and losses are recognised in profit or loss.

(ii) Currency Swaps

The Bank acts as an intermediary for counterparties who wish to swap their foreign currency obligations. The resultant realised and unrealised gains and losses are recognised in profit or loss.

3. Significant accounting policies *(continued)*

(h) Loans, advances and financing

Loans, advances and financing are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Bank does not intend to sell immediately or in the near term.

The loans, advances and financing are carried at their outstanding unpaid principal and interest balances, net of individual and collective assessment impairment allowances. The carrying amount of the Bank's loans, advances and financing are reviewed at each reporting date to determine whether there is objective evidence of impairment. If such evidence exists, the recoverable amount of the loans, advances and financing is estimated.

(i) Allowance for impairment on loans, advances and financing

The Bank's allowance for impairment on loans/financing is in conformity with BNM's guideline on Classification and Impairment Provisions for Loans/Financing requirement. Accounts are classified as impaired when interest or principal is in arrears for more than ninety (90) days.

Individual impairment allowances are made for loans/financing which have been individually reviewed and specifically identified as impaired. Individual assessment allowances are provided if the recoverable amount (present value of estimated future cash flows discounted at original effective interest rate) is lower than the carrying value of the loans/financing (outstanding amount of loans and financing, net of individual assessment allowance). The expected cash flows are based on projections of liquidation proceeds, realisation of assets or estimates of future operating cash flows.

A collective impairment allowance based on a percentage of the loans, advances and financing portfolio is also made to cover possible losses which are not specifically identified. The percentage made is in compliance with the minimum requirement of 1.5% set by BNM.

Impaired loans, advances and financing are measured at their estimated recoverable amount based on the discounted cash flow methodology. Loans, advances and financing (and related allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, advances and financing, when the proceeds from the realisation of security have been received.

(j) Plant and equipment

Recognition and measurement

All purchases above RM1,000 are capitalised. Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

The gain or loss on disposal of an item of plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of plant and equipment, and are recognised net within "other income" or "other expense" respectively in profit or loss.

3. Significant accounting policies *(continued)*

(j) Plant and equipment *(continued)*

Subsequent costs
The cost of replacing a part of an item of plant or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised to profit or loss. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

Depreciation
Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The plant and equipment are depreciated in the subsequent month of addition, and depreciation is accounted for in the month of disposal.

The depreciation rates for the plant and equipment categories are as follows:

	Depreciation rate per annum (%)
Electronic equipment	33.33
Office equipment, fixtures and fittings	20
Computer software	33.33
Improvement on leased assets	Over the leasehold period

Depreciation methods, rates, useful lives and residual values are reassessed at each financial year-end and adjusted as appropriate.

Disposal and write-off
On disposal of a plant or equipment, the difference between the net disposal proceeds and its carrying amount is taken to profit or loss. Disposal proceeds may also apply to fully depreciated assets. Where the plant or equipment is no longer used, they will be written off.

(k) Impairment

The carrying amounts of the Bank's non-financial assets (except for deferred tax asset) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets (known as cash-generating unit).

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

3. Significant accounting policies *(continued)*

(k) Impairment *(continued)*

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit or the group of cash-generating units and then to reduce the carrying amount of the other assets in the cash-generating unit (or a group of cash-generating units) on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

(l) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating leases are not provided for.

(m) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Defined contribution plan

The Bank's contributions to statutory pension funds are charged to profit or loss in the year to which they relate. Once the contributions have been paid, the Bank has no further payment obligations.

(n) Other receivables

Other receivables are initially recognised at their costs when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, other receivables are measured at amortised cost using the effective interest method.

3. Significant accounting policies *(continued)*

(o) Liabilities

Deposits from customers, deposits and placements of banks and other financial institutions are stated at placement values.

Other liabilities are measured initially and subsequently at cost. Other liabilities are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

4. Cash and short-term funds

	2011 RM'000	2010 RM'000
Cash and balances with banks and other financial institutions	287,004	14,551
Money at call and deposit placements maturing within one month	559,187	306,756
	846,191	321,307

5. Deposits and placements with banks and other financial institutions

	2011 RM'000	2010 RM'000
Licensed Malaysian banks	29,402	65,200
Foreign banks	470,327	503,036
	499,729	568,236

6. Loans, advances and financing

At amortised cost

(i) By type

	2011 RM'000	2010 RM'000
Term loans	285,228	63,212
Bankers' acceptances	36,093	397
Bills receivable	13,876	57,017
Overdrafts	6,149	-
Revolving credit	20,007	-
Gross loans, advances and financing	361,353	120,626
Less: Allowance for impairment		
- Collective allowance for impairment	(5,420)	(1,809)
Net loans, advances and financing	355,933	118,817

(ii) By type of customer

	2011 RM'000	2010 RM'000
Domestic business enterprises		
- Small medium enterprises	4,018	-
- Others	105,085	57,414
Foreign entities	252,250	63,212
	361,353	120,626

(iii) By interest rate sensitivity

	2011 RM'000	2010 RM'000
Fixed rate loans	12,839	57,414
Variable rate		
- Base Lending Rate plus	4,306	-
- Cost plus	331,714	-
- Other variable rates	12,494	63,212
	361,353	120,626

6. Loans, advances and financing *(continued)*

(iv) By sector

	2011 RM'000	2010 RM'000
Agriculture	-	56,970
Manufacturing	39,592	47
Construction	59,354	-
Real estate	556	-
Wholesale & retail trade and restaurants & hotels	175,584	63,609
Finance, insurance and business services	86,267	-
	361,353	120,626

(v) By purpose

	2011 RM'000	2010 RM'000
Purchase of landed property		
- Non residential	10,652	-
Working capital	323,370	120,626
Other purpose	27,331	-
	361,353	120,626

(vi) By geographical distribution

	2011 RM'000	2010 RM'000
Within Malaysia	109,103	57,414
Outside Malaysia	252,250	63,212
	361,353	120,626

Concentration by location for loans, advances and financing is based on the location of the borrower.

(vii) By residual contractual maturity

	2011 RM'000	2010 RM'000
Maturity within one year	239,199	95,958
More than one year to three years	115,476	24,668
More than three years to five years	2,805	-
More than five years	3,873	-
	361,353	120,626

(viii) Movements in collective allowance for impairment on loans, advances and financing

	2011 RM'000	2010 RM'000
At beginning of the financial year/period	1,809	-
Allowance made during the financial year/period	5,047	1,809
Allowance written back	(1,436)	-
At end of the financial year/period	5,420	1,809
As % of gross loans, advances and financing (net of individual allowance for impairment)	1.5%	1.5%

7. Other assets

	2011 RM'000	2010 RM'000
Derivative financial assets (Note 28)	824	228
Interest receivable	4,164	4,804
Deposits	793	314
Other receivables and prepayments	395	1,428
	6,176	6,774

8. Deferred tax assets

	2011 RM'000	2010 RM'000
At beginning of the financial year/period	766	-
Recognised in profit or loss (Note 20)	1,469	766
At end of the financial year/period	2,235	766

All movements in deferred tax assets and liabilities have been recognised in profit or loss. The components and movements of deferred tax assets and liabilities during the financial year/period are as follows:

	Plant and equipment RM'000	Collective impairment allowance RM'000	Others RM'000	Total RM'000
Deferred tax (assets)/ liabilities				
At 1 January 2011	198	(451)	(513)	(766)
Recognised in profit or loss (Note 20)	1	(904)	(566)	(1,469)
At 31 December 2011	199	(1,355)	(1,079)	(2,235)

	Plant and equipment RM'000	Collective impairment allowance RM'000	Others RM'000	Total RM'000
Deferred tax (assets)/ liabilities				
At 28 January 2010 (date of incorporation)	-	-	-	-
Recognised in profit or loss (Note 20)	198	(451)	(513)	(766)
At 31 December 2010	198	(451)	(513)	(766)

9. Plant and equipment

	Electronic equipment RM'000	Office equipment, fixtures and fittings RM'000	Computer software RM'000	Improvement on leased assets RM'000	Total RM'000
Cost					
At 1 January 2011	773	90	167	110	1,140
Additions	161	653	51	1,506	2,371
At 31 December 2011	934	743	218	1,616	3,511
Accumulated depreciation					
At 1 January 2011	116	4	8	11	139
Charge during the year	282	118	19	403	822
At 31 December 2011	398	122	27	414	961
Net carrying amount					
At 1 January 2011	657	86	159	99	1,001
At 31 December 2011	536	621	191	1,202	2,550

	Electronic equipment RM'000	Office equipment, fixtures and fittings RM'000	Computer software RM'000	Improvement on leased assets RM'000	Total RM'000
Cost					
At 28 January 2010 (date of incorporation)	-	-	-	-	-
Additions	773	90	167	110	1,140
At 31 December 2010	773	90	167	110	1,140
Accumulated depreciation					
At 28 January 2010 (date of incorporation)	-	-	-	-	-
Charge during the period	116	4	8	11	139
At 31 December 2010	116	4	8	11	139
Net carrying amount					
At 28 January 2010 (date of incorporation)	-	-	-	-	-
At 31 December 2010	657	86	159	99	1,001

10. Deposits from customers

(i) By type of deposits

	2011 RM'000	2010 RM'000
Demand deposits	36,378	3,500
Savings deposits	2,951	1,112
Fixed deposits	347,243	27,418
	386,572	32,030

(ii) By type of customer

	2011 RM'000	2010 RM'000
Business enterprises	96,919	16,577
Individuals	26,755	14,392
Others	262,898	1,061
	386,572	32,030

(iii) By maturity structure of term deposits

	2011 RM'000	2010 RM'000
Due within six months	371,492	31,525
Six months to one year	15,080	505
	386,572	32,030

11. Deposits and placements of banks and other financial institutions

	2011 RM'000	2010 RM'000
Licensed Malaysian banks	803,237	562,136
Licensed investment banks	25	-
Foreign banks	159,396	83,294
	962,658	645,430

12. Other liabilities

	2011 RM'000	2010 RM'000
Interest payable	5,630	2,307
Other payables and accruals	13,130	2,332
Derivative financial liabilities (Note 28)	2	-
	18,762	4,639

13. Share capital

	Amount 2011 RM'000	Number of shares 2011 '000	Amount 2010 RM'000	Number of shares 2010 '000
Authorised				
Ordinary shares of RM1 each	380,000	380,000	380,000	380,000
Issued and fully paid				
Ordinary shares of RM1 each				
At 1 January 2011/28 January 2010 (date of incorporation)	331,000	331,000	*	*
Issued during the financial year/period	-	-	331,000	331,000
At 31 December	331,000	331,000	331,000	331,000

* At date of incorporation, two ordinary shares were issued at RM1 each.

14. Reserves

14.1 Statutory reserve

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

14.2 Retained earnings

In accordance with the Finance Act 2007 which was gazetted on 28 December 2008, 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"). Hence, the Bank will be able to distribute dividends out of its entire retained earnings under the single tier system.

15. Interest income

	2011 RM'000	From 28.1.2010 to 31.12.2010 RM'000
Loans, advances and financing:		
- Interest income other than from impaired loans	5,677	269
Money at call and deposit placements with financial institutions	35,283	12,673
	40,960	12,942
Interest expense		
Deposits and placements of banks and other financial institutions	(16,334)	(3,409)
Deposits from customers	(2,808)	(96)
Others	(14)	-
	(19,156)	(3,505)
Net interest income	21,804	9,437

All items of interest income and expense were recognised from assets and liabilities that were not at fair value through profit or loss.

16. Fee income

	2011 RM'000	From 28.1.2010 to 31.12.2010 RM'000
Fee income:		
- Service charges and fees	325	28
- Loan processing fees	48	-
- Guarantee fees	376	1
- Commitment fees	33	-
- Other fee income	458	-
	1,240	29

17. Net trading income

	2011 RM'000	From 28.1.2010 to 31.12.2010 RM'000
Net gains from dealing in foreign exchange	17,150	688
Net losses arising from derivative trading	(50)	-
Unrealised revaluation (losses)/gains in foreign exchange	(363)	2,832
Net unrealised gains arising from derivative trading	595	228
	17,332	3,748

18. Other operating expenses

	2011 RM'000	From 28.1.2010 to 31.12.2010 RM'000
Personnel costs:		
- Salaries, allowance and bonuses (excluding Directors' remuneration)	10,163	4,187
- Directors' remuneration (Note 22 (b))	1,008	426
- Pension fund contributions	699	111
- Other staff costs	653	185
Promotion and marketing related expenses:		
- Advertising and promotion	411	47
- Others	671	199
Establishment costs:		
- Depreciation of plant and equipment	822	139
- Rental	2,399	882
- Others	681	485
Administrative expenses:		
- Audit fees	120	100
- Non-audit fees	107	-
- Professional fees	523	264
- Licence fee	111	103
- Membership fee	31	23
- Others	2,446	1,218
	20,845	8,369

19. Allowance for impairment on loans, advances and financing

	2011 RM'000	From 28.1.2010 to 31.12.2010 RM'000
Collective allowance for impairment		
- made during the financial year/period	5,047	1,809
- written back during the financial year	(1,436)	-
	3,611	1,809

20. Tax expense

	2011 RM'000	From 28.1.2010 to 31.12.2010 RM'000
Malaysian income tax		
- Current financial year/period	6,935	1,683
- In respect of changes in tax treatment for collective allowance for impairment	(451)	-
- Over provision in prior period	(712)	-
Total current tax recognised in profit or loss	5,772	1,683
Deferred taxation (Note 8)		
Origination and reversal of temporary differences		
- Current financial year/period	(1,898)	(766)
- In respect of changes in tax treatment for collective allowance for impairment	451	-
- Over provision in prior period	(22)	-
Total deferred tax recognised in profit or loss	(1,469)	(766)
Total tax expense	4,303	917

20. Tax expense *(continued)*

Reconciliation of tax expense

	2011 RM'000	From 28.1.2010 to 31.12.2010 RM'000
Profit before taxation	15,920	3,036
Income tax using Malaysian tax rate @ 25%	3,980	759
Non-deductible expenses	1,057	158
Over provision of deferred tax in prior period	(22)	-
Over provision of income tax expense in prior period	(712)	-
Tax expense	4,303	917

21. Basic earnings per ordinary share

The basic earnings per ordinary share has been calculated based on the profit attributable to equity holder and 331,000,000 (2010: 270,818,182) weighted average number of ordinary shares of RM1 each in issue during the financial year.

22. Significant related party transactions and balances

(a) The significant transactions and outstanding balances of the Bank with its holding company and other related entities are as follow:-

	2011		2010	
	RM'000 Holding company	RM'000 Related companies	RM'000 Holding company	RM'000 Related companies
Income				
Interest income				
- Deposits and placements with banks and other financial institutions	112	23,119	14	5,738
Expenses				
Interest expense				
- Deposits and placements of banks and other financial institutions	-	1,490	170	49
Other operating expenses				
- Other charges	2	2	22	186
Amount due from				
- Cash and short-term funds	36,747	439,532	5,810	3,114
- Deposits and placements with banks and other financial institutions	-	470,327	-	517,792
- Other assets	-	3,319	1,185	3,881
Amount due to				
- Deposits and placements of banks and other financial institutions	6,132	153,263	12,347	72,654
- Other liabilities	-	682	-	60

22. Significant related party transactions and balances *(continued)*

All transactions of the Bank with its related parties are made in the ordinary course of business and on substantially the same terms, including interest rates with third party.

There is no amount outstanding from key management personnel as at year end.

(b) Key management personnel compensation

The remuneration of key management personnel, being the members of the Board of Directors of the Bank, during the financial year are shown below.

Aggregate remuneration of all Directors during the year/period are as follows:

	2011 RM'000	**From 28.1.2010 to 31.12.2010 RM'000**
Executive Director and CEO		
Mr. Tian Fenglin		
- salaries	439	306
- bonuses	369	-
- benefits-in-kind *	-	38
	808	344
Non-Executive Directors' fees		
YBhg Dato' Leong Khee Seong	100	41
Mr. Ong Ah Tin @ Ong Chee Kwee	100	41
	200	82
	1,008	426
	Note 18	Note 18

**Benefits-in-kind include relocation expenses.*

23. Credit exposure to connected parties

The credit exposures of the Bank to connected parties, as defined by BNM's "Guidelines on Credit Transactions and Exposures with Connected Parties" are as follows:-

	2011 RM'000	**From 28.1.2010 to 31.12.2010 RM'000**
Aggregate value of outstanding credit exposures to connected parties	588	-
As a percentage of total credit exposures	0.04%	0%
Percentage of outstanding credit exposures to connected parties which is non-performing or in default	0%	0%

24. Commitments and contingencies

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

The commitments and contingencies constitute the following:

2011	Principal amount RM'000	Positive value of derivative contracts ^ RM'000	Credit equivalent amount * RM'000	Risk weighted assets * RM'000
Credit-related exposures				
Transaction-related contingent items	235,255	-	117,628	68,851
Short term self-liquidating trade-related contingencies	1,894	-	379	379
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- exceeding one year	9,341	-	4,670	4,670
- not exceeding one year	117,430	-	23,486	18,969
Derivative financial contracts				
Foreign exchange related contracts:				
- less than one year	222,573	824	2,429	962
Total	586,493	824	148,592	93,831
		Note 7, 28		

2010	Principal amount RM'000	Positive value of derivative contracts ^ RM'000	Credit equivalent amount * RM'000	Risk weighted assets * RM'000
Credit-related exposures				
Transaction-related contingent items	430,919	-	215,460	107,730
Derivative financial contracts				
Foreign exchange related contracts:				
- less than one year	11,400	228	427	384
Total	442,319	228	215,887	108,114
		Note 7, 28		

^ The foreign exchange related contracts are off-balance sheet derivative financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates) of the underlying instruments. The tables above show the Bank's derivative financial instruments as at the respective reporting dates. The underlying principal amount of these derivative financial instruments and their corresponding gross positive (derivative financial asset) fair values as at respective reporting dates are as shown above.

* The credit equivalent and risk weighted amounts are computed using credit conversion factors and risk weighting rules as per BNM guidelines. The credit conversion factors and risk weighting rules were based on Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF".

25. Lease commitments

The Bank has lease commitments in respect of rented premises, all of which are classified as operating leases. A summary of the long-term lease commitments is as follow:

	2011 RM'000	2010 RM'000
Within one year	2,328	1,220
After one year but not more than five years	1,667	1,033
	3,995	2,253

26. Capital adequacy

The capital adequacy ratios of the Bank are analysed as follows:

	2011 RM'000	2010 RM'000
Tier 1 capital		
Paid-up share capital	331,000	331,000
Retained earnings	6,867	1,059
Statutory reserves	6,869	1,060
	344,736	333,119
Less: Deferred tax assets	(2,235)	(766)
Total Tier 1 capital	342,501	332,353
Tier 2 capital		
Collective impairment allowance, representing total Tier 2 capital	5,420	1,809
Capital base	347,921	334,162
Core capital ratio	53.57%	71.40%
Risk-weighted capital ratio	54.42%	71.79%

Breakdown of gross risk-weighted assets ("RWA") in the various categories of risk-weights:

	2011		2010	
	Principal RM'000	Risk-weighted RM'000	Principal RM'000	Risk-weighted RM'000
Total RWA for credit risk	1,863,766	586,363	1,233,605	436,205
Total RWA for market risk	-	2,733	-	4,498
Total RWA for operational risk	-	50,245	-	24,781
	1,863,766	639,341	1,233,605	465,484

Capital adequacy ratios of the Bank are computed in accordance with BNM's revised Risk Weighted Capital Adequacy Framework, "RWCAF": Standardised Approach for Credit Risk and Market Risk, and Basic Indicator Approach for Operational Risk (Basel 2).

26. Capital adequacy *(continued)*

(a) The breakdown of RWA by exposures in each major risk category under standardised approach for the Bank are as follow:

		2011			
		Gross Exposures RM'000	**Net Exposures RM'000**	**Risk Weighted Assets RM'000**	**Capital Requirements RM'000**
Credit Risk					
On-Balance Sheet Exposures					
Sovereigns/Central Bank		359,066	359,066	-	-
Banks, Development Financial Institutions and MDBs		984,786	984,786	253,221	20,257
Corporates		361,353	361,353	231,409	18,513
Other assets		9,969	9,969	7,902	632
Total On-Balance Sheet Exposures		1,715,174	1,715,174	492,532	39,402
Off-Balance Sheet Exposures					
Credit-related off-balance sheet exposures		146,163	146,163	92,869	7,430
OTC derivatives		2,429	2,429	962	77
Total Off-Balance Sheet Exposures		148,592	148,592	93,831	7,507
Total On and Off-Balance Sheet Exposures		1,863,766	1,863,766	586,363	46,909
Large exposure risk requirement		-	-	-	-
Market Risk	Long position	Short position			
Foreign currency risk	1,939	2,733	2,733	2,733	219
Operational Risk	-	-	-	50,245	4,020
Total RWA and Capital Requirements				639,341	51,148

26. Capital adequacy *(continued)*

			2010			
			Gross Exposures RM'000	Net Exposures RM'000	Risk Weighted Assets RM'000	Capital Requirements RM'000
Credit Risk						
On-Balance Sheet Exposures						
Sovereigns/Central Bank			173,896	173,896	-	-
Banks, Development Financial Institutions and MDBs			714,325	714,325	260,405	20,832
Corporates			120,626	120,626	60,138	4,811
Other assets			8,871	8,871	7,548	604
Total On-Balance Sheet Exposures			1,017,718	1,017,718	328,091	26,247
Off-Balance Sheet Exposures						
Credit-related off-balance sheet exposures			215,460	215,460	107,730	8,618
OTC derivatives			427	427	384	31
Total Off-Balance Sheet Exposures			215,887	215,887	108,114	8,649
Total On and Off-Balance Sheet Exposures			1,233,605	1,233,605	436,205	34,896
Large exposure risk requirement			-	-	-	-
Market Risk	Long position	Short position				
Foreign currency risk	4,498	-		4,498	4,498	360
Operational Risk	-	-		-	24,781	1,982
Total RWA and Capital Requirements					465,484	37,238

Note:
MDBs - Multilateral Development Banks
OTC - Over the counter

(Company No. 839839 M)

26. Capital adequacy *(continued)*

(b) The breakdown of credit risk exposures by risk weights for the respective reporting dates are as follows:

2011 Risk Weights	Exposures after Netting and Credit Risk Mitigation: Sovereigns & Central Bank RM'000	Banks, MDBs and DFIs RM'000	Corporates RM'000	Other Assets RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
0%	359,066	-	16,164	2,068	377,298	-
20%	-	797,238	-	1,803	799,041	159,808
50%	-	187,548	334,148	48	521,744	260,872
100%	-	-	157,204	8,479	165,683	165,683
Total Exposures	359,066	984,786	507,516	12,398	1,863,766	586,363
Risk-Weighted Assets by Exposures	-	253,221	324,278	8,864	586,363	
Average Risk Weight	0.0%	25.7%	63.9%	71.5%	31.5%	
Deduction from Capital Base	-	-	-	-	-	

2010 Risk Weights	Exposures after Netting and Credit Risk Mitigation: Sovereigns & Central Bank RM'000	Banks, MDBs and DFIs RM'000	Corporates RM'000	Other Assets RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
0%	173,896	-	397	1,324	175,617	-
20%	-	322,524	-	53	322,577	64,515
50%	-	391,801	335,642	-	727,443	363,722
100%	-	-	47	7,921	7,968	7,968
Total Exposures	173,896	714,325	336,086	9,298	1,233,605	436,205
Risk-Weighted Assets by Exposures	-	260,405	167,868	7,932	436,205	
Average Risk Weight	0.0%	36.5%	49.9%	85.3%	35.4%	
Deduction from Capital Base	-	-	-	-	-	

The above are disclosures on credit risk by risk weight of the Bank as at the respective reporting dates as required with the adoption of the Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF".

<u>*Note:*</u>
MDBs - Multilateral Development Banks
DFIs - Development Financial Institutions

27. Fair values of financial assets and financial liabilities

Recognised financial instruments

The fair values are estimated based on quoted or observable market prices as at the respective reporting dates. Where such quoted or observable market prices are not available, the fair values are estimated using discounted cash flow techniques. The expected future cash flows are discounted using prevailing market rates for similar instruments as at the respective reporting dates.

The estimated fair values of the financial assets and financial liabilities carried on the statement of financial position as at 31 December for the respective reporting dates are as follow:

	2011 Carrying Value RM'000	2011 Fair Value RM'000	2010 Carrying Value RM'000	2010 Fair Value RM'000
Financial assets				
Cash and short-term funds	846,191	846,191	321,307	321,307
Deposits and placements with banks and other financial institutions	499,729	499,729	568,236	568,236
Loans, advances and financing	355,933	349,198	118,817	118,164
Financial liabilities				
Deposits from customers	386,572	386,572	32,030	32,030
Deposits and placements of banks and other financial institutions	962,658	962,658	645,430	645,430

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

(a) **Cash and short-term funds/Deposits and placements with banks and other financial institutions**

For cash and short-term funds and deposits and placements with banks and other financial institutions including interest-earning deposits, the carrying amounts are a reasonable estimate of the fair values because of their short-term nature (less than one year) and limited credit risk.

(b) **Loans, advances and financing**

The fair values of fixed rate loans with remaining maturity less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate loans with maturities of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at prevailing rates at the respective reporting dates offered for similar loans. In respect of impaired loans, the fair values are deemed to approximate the carrying values, net of individual assessment impairment allowance.

(c) **Deposits from customers**

The fair values of demand deposits and saving deposits maturing within a short period of time are the amounts payable on demand. Fair values of fixed deposits maturing within a year are estimated to approximate their carrying amounts.

(d) **Deposits and placements of banks and other financial institutions**

The fair values of non-interest bearing deposits are equal to amounts payable on demand. For deposits with maturity exceeding one year, fair values are estimated by discounting the estimated future cash flows based on the contracted maturity of the deposits.

28. Derivative financial instruments

	2011		2010	
	Assets	Liabilities	Assets	Liabilities
	RM'000	RM'000	RM'000	RM'000
Foreign exchange derivatives	821	2	20	-
Currency swaps	3	-	208	-
Total recognised derivative assets/liabilities (Notes 7, 12 and 24)	824	2	228	-

29. Financial risk management

(a) Introduction and overview

The Bank has exposure to the following risks from financial instruments:

• Credit risk
• Liquidity risk
• Market risk
• Operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risks, and the Bank's capital management.

Risk Management framework

The Bank's risk management policies are established to identify the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in the market condition, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

(b) Credit risk

Credit risk is the risk of financial loss to the Bank due to failure of the Bank's customers or counterparties in meeting their contractual financial obligation. The credit risk is primarily from the Bank's cash and deposits/placements, direct lending, trade finance and funding activities.

Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to the Credit Committee. The Credit Committee is supervised by the Senior Management. The functions of the Credit Committee are as follows:-

• *Formulating and reviewing credit policies*

Taking the ICBC Group’s credit policies as reference and in consultation with business units, the Credit Committee is tasked to formulate the credit policies that suit the local regulatory and business requirements. The credit policies, which encompass amongst others, the credit risk assessment, risk grading, collateral requirement, documentary and legal requirement, are to be reviewed from time to time to instill the industry's best practices.

29. Financial risk management *(continued)*

(b) Credit risk *(continued)*

• *Setting underwriting standards/lending direction*

The Credit Committee sets the underwriting standards/lending direction to ensure that the credit risks to be undertaken by the Bank are controlled even prior to the origination stage. The criteria set forth in the underwriting standards/lending direction will take into consideration the Bank's risk appetite and the client's credit profile. These underwriting standards are to be reviewed on an annual basis to reflect the dynamic changes in the industry and economic environment.

• *Recommending approval on credit requests*

Each credit facility to be extended to clients is subject to independent credit assessment by the Bank's Risk Management department, which would then be supported by the Credit Committee prior to escalation to the approving authority for approval. Only credit requests which meet certain criteria, e.g. fully cash-backed facility will be escalated directly to the approving authority without going through the Credit Committee.

• *Monitoring and controlling exposures*

Ongoing monitoring of the Bank's exposures is vital to maintain the quality of the Bank's loan assets. The credit limits are monitored annually or on a more frequent basis depending on the risk level. Mitigation measures, such as collateral and covenants setting, are imposed to protect the Bank's interest. Concentration risk arising from over-exposure to counterparties, industries and geographies are managed through regular monitoring and reporting. Stress test is conducted in the event of a major shift in the economic indicators or whenever a major change is anticipated.

Allowances for impairment

The Bank employs a 14-grade credit risk grading system as a tool for determining the credit risk profile of borrowers using appropriate form of scorecards. The credit grades are used as a basis to support the underwriting of credit and are mapped accordingly to the credit rating scales of major international credit rating agencies. In addition, the Bank also adopts loan classification in accordance with BNM's "Classification and Impairment Provisions for Loans/Financing" requirement.

Loan Class	*Grade*
Pass	AAA to BB
Impaired	Default Grade

A collective impairment assessment of 1.5% is applied to all loans. In the case of individual assessment, a loan is deemed as impaired if there is objective evidence of impairment which is triggered by certain events. As per BNM's guideline, one of the determinants for classification of impaired loan is the repayment conduct, whereby loan in arrears for 3 months is to be classified as impaired. The methodology adopted for collective impairment assessment and the list of trigger events for individual impairment assessment will be reviewed on a regular basis to suit with the Bank's policy and the traits of its loan portfolio.

Write-off policy

The Bank writes off a loan when the Credit Committee determines that the loan is uncollectible, subject to approval of the Board of Directors. The determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the exposure.

29. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Exposure to credit risk

	2011 Loans, advances and financing to customers RM'000	**2011** Loans, advances and financing to banks* RM'000
Carrying amount	355,933	1,345,920
Assets at amortised cost		
Individually impaired	-	-
Collective allowance for impairment	(5,420)	-
Neither past due nor impaired		
- Pass	361,353	1,345,920
	355,933	1,345,920

	2010 Loans, advances and financing to customers RM'000	**2010** Loans, advances and financing to banks* RM'000
Carrying amount	118,817	889,543
Assets at amortised cost		
Individually impaired	-	-
Collective allowance for impairment	(1,809)	-
Neither past due nor impaired		
- Pass	120,626	889,543
	118,817	889,543

The Bank holds collateral against loans, advances and financing to customers in the form of fixed deposits, properties and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. There is no impaired loans as at the respective reporting dates, hence collateral held as security for past due nor impaired loans are not disclosed.

The Bank monitors the concentration of credit risk by sector and by geographical distribution. An analysis of the concentration of credit risk as at the respective reporting dates are shown below:

	2011 Loans, advances and financing to banks* RM'000	**2010** Loans, advances and financing to banks* RM'000
Carrying amount	1,345,920	889,543
Concentration of credit risk based on geographical location		
Malaysia	394,188	362,827
China	674,017	526,716
United States of America	231,363	-
Qatar	41,309	-
Singapore	5,043	-
	1,345,920	889,543

* Consists of cash and short-term funds and deposits and placements with banks and other financial institutions.

Concentration by sector and geographical distribution for loans, advances and financing to customers are disclosed under Note 6 (iv) and 6 (vi) to the financial statements.

29. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Concentration of credit risk by geographical distribution for loans, advances and financing is measured based on the location of the borrower.

Derivatives risk

The Bank's derivatives may give rise to risks in the event the counterparty defaults. The derivatives risks are mitigated through hedging, by taking a position in one market to offset and balance against the risk adopted by assuming a position in a contrary or opposing market.

Settlement risk

The Bank's activities may give rise to risks at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash or other assets as contractually agreed.

(c) Liquidity risk

Liquidity risks are the risks when the Bank fails to raise funds to meet the present or future demand of customers or counterparties at a reasonable cost. The potential liquidity risks of the Bank mainly include customers' premature and collective withdrawal, overdue payment of the debtors, mismatched asset-liability maturity structure and difficulties in realisation of assets, and daily management of its liquidity positions.

Management of liquidity risk

The management of liquidity and funding is mainly carried out in compliance with BNM's New Liquidity Framework; and practices and limits set by ICBC Group, and the Asset and Liability Committee (ALCO). The Bank maintains a strong liquidity position and constantly manages the liquidity profile of its assets, liabilities and commitments to ensure that cash flow requirements are appropriately balanced and all obligations are met accordingly.

As an establishing financial institution in the local banking industry, it is imperative for the Bank to continuously seek and maintain new sources of funding to increase and diversify its funding base.

Cash flows payable by the Bank (financial liabilities) based on remaining contractual maturity:

	2011			
	On demand	Due within 3 months	Between 3 to 12 months	Total
	RM'000	RM'000	RM'000	RM'000
Deposits from customers	39,346	300,063	49,197	388,606
Deposits and placements of banks and other financial institutions	30,762	465,884	474,681	971,327
Derivative financial liabilities	2	-	-	2
Other liabilities	13,130	-	-	13,130
Provision for taxation	86	-	-	86
	83,326	765,947	523,878	1,373,151

	2010			
	On demand	Due within 3 months	Between 3 to 12 months	Total
	RM'000	RM'000	RM'000	RM'000
Deposits from customers	4,613	26,983	542	32,138
Deposits and placements of banks and other financial institutions	4,364	211,967	431,443	647,774
Other liabilities	2,332	-	-	2,332
Provision for taxation	1,683	-	-	1,683
	12,992	238,950	431,985	683,927

29. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

The balances in the above table will not agree directly with the balances in the statement of financial position as the table incorporates, on an undiscounted basis, all cash flows relating to principal and future coupon payments.

Cash flows payable in respect of customer and savings accounts are primarily contractually repayable on demand or at short notice. However, in practice, short term deposit balances remain stable as inflows and outflows broadly match.

(d) Market risk

Market risk is the risk of loss arising from movements in market variables, such as interest rates, credit spreads and exchange rates.

Management of market risk

The Bank's market risk management is the process of identifying, measuring, monitoring, controlling and reporting market risk for the purposes of setting up and enhancing the market risk management system, specifying responsibilities and process, determining and standardising the measurement approaches, limit management indicators and market risk reports, controlling and mitigating market risk and improving the level of market risk management. The objective of market risk management is to manage and control market risk exposures within a tolerable level and maximise risk-adjusted return according to the Bank's risk preference.

As an establishing financial institution in the local banking industry, the Bank tries to minimise and preferably eliminate exposure to market risk. The Bank does not engage in any proprietary trading activities. Exposures arising from normal banking activities (deposits, loans, foreign exchange, etcetera) are hedged accordingly. All risks related to treasury money market activities will be managed according to, and within the authorised risk limits.

Foreign exchange risk

Foreign exchange risk is the risk that arises as a result of movements in the relative value of currencies. The Bank is exposed to foreign currency risk on transactions that are denominated in currency other than its functional currency. The Bank minimises its exposure to foreign currency risk through hedging and limiting the net open position of the foreign exchange portfolio.

(Company No. 839839 M)

29. Financial risk management *(continued)*

(d) Market risk *(continued)*

Interest rate risk

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following tables indicate their effective interest rates at the respective balance sheet dates and the periods in which they reprice or mature, whichever is earlier.

2011	Non-trading book: Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
Assets									
Cash and short-term funds	596,955	-	-	-	-	249,236	-	846,191	2.33
Deposits and placements with banks and other financial institutions	-	328,791	170,938	-	-	-	-	499,729	3.31
Loans, advances and financing:									
- performing	149,249	139,217	67,467	-	-	-	-	355,933	3.19
Other assets ^	-	-	-	-	-	10,961	-	10,961	-
Total assets	746,204	468,008	238,405	-	-	260,197	-	1,712,814	
Liabilities									
Deposits from customers	69,421	232,258	48,515	-	-	36,378	-	386,572	1.55
Deposits and placements of banks and other financial institutions	325,061	164,024	467,441	-	-	6,132	-	962,658	1.65
Other liabilities #	-	-	-	-	-	18,848	-	18,848	-
Total liabilities	394,482	396,282	515,956	-	-	61,358	-	1,368,078	
Equity	-	-	-	-	-	344,736	-	344,736	
Total liabilities and equity	394,482	396,282	515,956	-	-	406,094	-	1,712,814	
On-balance sheet interest sensitivity gap	351,722	71,726	(277,551)	-	-	(145,897)	-		
Total interest sensitivity gap	351,722	71,726	(277,551)	-	-	(145,897)	-		

^ Other assets include other assets, deferred tax assets as well as plant and equipment as disclosed in the statement of financial position.

\# Other liabilities include other liabilities and provision for taxation as disclosed in the statement of financial position.

(Company No. 839839 M)

29. Financial risk management *(continued)*

(d) Market risk *(continued)*

Interest rate risk (continued)

2010	**Non-trading book** Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	**Trading book RM'000**	**Total RM'000**	**Effective interest rate %**
Assets									
Cash and short-term funds	306,756	-	-	-	-	14,551	-	321,307	2.67
Deposits and placements with banks and other financial institutions	-	135,180	433,056	-	-	-	-	568,236	2.53
Loans, advances and financing:									
- performing	38,012	56,507	24,298	-	-	-	-	118,817	1.93
Other assets ^	-	-	-	-	-	8,541	-	8,541	-
Total assets	344,768	191,687	457,354	-	-	23,092	-	1,016,901	
Liabilities									
Deposits from customers	11,959	16,045	526	-	-	3,500	-	32,030	2.35
Deposits and placements of banks and other financial institutions	120,105	92,958	429,332	-	-	3,035	-	645,430	1.36
Other liabilities #	-	-	-	-	-	6,322	-	6,322	-
Total liabilities	132,064	109,003	429,858	-	-	12,857	-	683,782	
Equity	-	-	-	-	-	333,119	-	333,119	
Total liabilities and equity	132,064	109,003	429,858	-	-	345,976	-	1,016,901	
On-balance sheet interest sensitivity gap	212,704	82,684	27,496	-	-	(322,884)	-		
Total interest sensitivity gap	212,704	82,684	27,496	-	-	(322,884)	-		

^ Other assets include other assets, deferred tax assets as well as plant and equipment as disclosed in the statement of financial position.
# Other liabilities include other liabilities and provision for taxation as disclosed in the statement of financial position.

29. Financial risk management *(continued)*

(d) Market risk *(continued)*

Interest rate risk (continued)

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:

RM'000	**100 bp* parallel increase**	**100 bp* parallel decrease**
Sensitivity of projected net interest income		
2011		
At 31 December	1,168	(1,168)
2010		
At 31 December	876	(876)

**bp - basis point*

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risk.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each department. The responsibility is supported by the development of an overall Bank standard for the management of operational risk in the following areas:

- requirement for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

30. Capital management

Regulatory capital

The Bank's lead regulator, Bank Negara Malaysia, sets and monitors capital requirement for the Bank. The Bank is required to comply with the provisions of the Basel 2 framework in respect of regulatory capital adequacy, and use of Basic Indicator Approach for Operational Risk. The Bank adopts the Standardised approach for Credit risk and Market risk in its trading portfolios. Please refer to Note 26 to the financial statements, for the Bank's regulatory capital position under Basel 2.

The Bank's regulatory capital is analysed in two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, statutory reserves and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purpose.

- Tier 2 capital, which includes collective impairment allowances (excluding collective impairment allowances attributable to financing classified as impaired).

31. Use of estimates and judgements

The results of the Bank are sensitive to accounting policies, assumptions and estimates that underline the preparation of its financial statements. The significant accounting policies used in the preparation of the financial statements are described in Note 3 to the financial statements.

The accounting policies that are deemed critical to the Bank's results and financial position, in terms of the materiality of the items to which the policy is applied, and which involve a high degree of judgement including the use of assumptions and estimates, are as follow:

(i) Impairment of loans, advances and financing

The Bank's accounting policy for losses arising from the impairment of customers' loans, advances and financing is described in Note 3(i) to the financial statements.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. 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.

(ii) Valuation of financial instruments

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

- Level 2: Valuation techniques based on observable inputs, either directly (as prices) or indirectly (derived from prices). This category includes instruments valued using: quoted prices for identical or similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.

- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

31. Use of estimates and judgements *(continued)*

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used in the market. The objective of valuation techniques is to arrive at fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length.

The table below analyses financial instruments measured at fair value at the end of the respective reporting dates, by the level in the fair value hierarchy into which the fair value measurement is categorised.

	2011			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Derivative financial assets	-	824	-	824
Derivative financial liabilities	-	2	-	2

	2010			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Derivative financial assets	-	228	-	228