

## **NOTES TO THE FINANCIAL STATEMENTS**

*for the financial year ended 31 December 2008*

### **1) GENERAL INFORMATION**

The Bank is principally engaged in all aspects of banking and related financial services. The principal activities of the Bank's subsidiaries are Islamic banking business, factoring of credit facilities, property management services, nominee and trustee services. There have been no significant changes in these principal activities during the financial year.

The number of employees in the Group and the Bank as at 31 December 2008 was 3,058 (2007: 3,134) and 2,891 (2007: 3,011) employees respectively.

The holding company of the Bank is AFFIN Holdings Berhad, a public listed company incorporated in Malaysia and the ultimate holding corporate body is Lembaga Tabung Angkatan Tentera, a statutory body incorporated under the Tabung Angkatan Tentera Act, 1973.

The Bank is a limited liability company, incorporated and domiciled in Malaysia.

### **2) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

#### **Market Risk**

Market risk is defined as the risk to the Bank's financial condition resulting from adverse price or volatility moves in the Bank's portfolio. The Bank is mainly exposed to interest rate risk and foreign exchange rate risk. The interest rate risk arises mainly from differences in timing between the maturities or repricing of assets, liabilities and derivatives. The Bank is also exposed to basis risk, when the pricing characteristics of two instruments change at different times or by different amounts. Foreign exchange rate risk arises from unhedged positions arising from customers' requirements and proprietary positions.

For the trading portfolios, market risk is measured and managed daily by the Market Risk Management Department, which is part of the Group Risk Management Division.

Market risk is primarily controlled through the imposition of Cut-loss, Value-at-Risk (VaR) i.e. potential loss amount and Net Open Position Limits which are approved by the Asset Liability Management Committee ('ALCO') in accordance with the Bank's risk appetite. These limits are set and reviewed regularly according to a number of factors, including the trading liquidity of the instruments and the Bank's business strategy. In addition, the Bank also conducts periodic stress testing analysis of its respective portfolios to ascertain the market risk under abnormal market conditions.

For the asset liability mismatch position in the Balance Sheet, the Bank employs a software to measure the risk. The risk is measured monthly using Net Interest Income simulations involving various interest rate scenarios managed through limits overtime-buckets and an Overall Risk Tolerance Limit approved by ALCO.

The Bank's management, ALCO and Board Risk Management Committee ('BRMC') are regularly kept informed of the risk profile and performance of the trading portfolios.

The market risk management infrastructure is adequate for the Bank's present scale of operations, exposures and business range.

## **NOTES TO THE FINANCIAL STATEMENTS**

*for the financial year ended 31 December 2008*

### **2) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

#### **Credit Risk**

Credit risk is the potential financial loss resulting from the failure of the customer or counterparty to settle the financial and contractual obligation to the Bank. Credit risk arises mainly from our lending activities.

The management of credit in the Bank is governed by a set of credit policies approved by the Board of Directors. Approval authorities are delegated to the Management Loan Committee to approve large and higher risk loans in order to ensure sound credit granting standards.

A credit scoring solution using statistically developed application scorecards for consumer mass market products was successfully deployed in 2008. The scorecard is applied during credit evaluation to assess the risks associated with a loan application.

A credit risk grading system is implemented for corporate and business loans. The grading is based on credit worthiness of the borrower, i.e. the ability to service and repay debt obligations based on the borrower's current condition, with regard to its management capacity and its market position. The credit risk grading system is being revised to make it more robust and risk sensitive. The Basel II compliant project is on target for completion during the first half of 2009.

#### **Liquidity Risk**

Liquidity risk is the risk of loss due to failure to access funds at reasonable cost to fund the Bank's operations and meet its liabilities as and when they fall due. Liquidity risk arises from the Bank's general on-going funding activities and the management of its assets.

To measure and manage net funding requirements, the Bank adopts BNM's New Liquidity Framework ('NLF'). The NLF ascertains the liquidity condition based on the contractual and behavioral cash-flow of assets, liabilities and off-balance sheet commitments, taking into consideration the realisable cash value of the eligible liquefiable assets.

The Bank employs liquidity risk indicators as an early alert of any structural change for liquidity risk management. The risk is measured monthly using internal and external qualitative and quantitative liquidity risk indicators. In addition, the Bank has in place the Contingency Funding Plan to deal with extreme liquidity crisis and emergencies.

The BRMC is responsible for the Bank's liquidity policy although the strategic management of liquidity has been delegated to the ALCO. The BRMC is however, informed regularly of the liquidity situation in the Bank.

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2008

**2) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Operational Risk Management**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Such risks may result in omissions, errors and breakdowns that can potentially lead to financial loss or other indirect losses to the Bank.

The Bank manages such risk through a control based environment in which policies and procedures are formulated after taking into account individual unit's business activities, the environment and market in which it is operating and any regulatory requirement in force. Risk is identified through the use of assessment tools and measured using threshold/limits mapped against risk matrix. Monitoring and control procedures include the use of key control standard, independent tracking of risk, back-up procedures and contingency plans, including disaster recovery and business continuity plans. This is supported by periodic reviews undertaken by Internal Audit to ensure adequacy and effectiveness of the Operational Risk Management process.

The Bank gathers and reports operational risk loss data and "near misses" events to the Operational Risk Management Committee and Board Risk Management Committee. Appropriate remedial actions are reviewed and implemented to minimize the recurrence of such risk.

The Bank's Operational Risk Management Framework has been automated with the implementation of the Operational Risk Management Solution in November 2007. Since then, all operational risk incidents (losses & near misses) reporting and risk assessments are undertaken 'on-line'.

**3) CASH AND SHORT-TERM FUNDS**

|   | The Group        |                  | The Bank         |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2008<br>RM'000   | 2007<br>RM'000   | 2008<br>RM'000   | 2007<br>RM'000   |
| Cash and bank balances with banks<br>and other financial institutions | 151,636          | 144,017          | 148,638          | 137,730          |
| Money at call and deposit placements<br>maturing within one month     | 6,525,446        | 8,129,116        | 4,170,296        | 4,602,856        |
|   | <b>6,677,082</b> | <b>8,273,133</b> | <b>4,318,934</b> | <b>4,740,586</b> |

**4) DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**

|                           | The Group      |                | The Bank       |                |
|---------------------------|----------------|----------------|----------------|----------------|
|                           | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| Licensed banks            | –              | 712,271        | 344,560        | 901,271        |
| Licensed investment banks | 110,216        | –              | 110,216        | –              |
|                           | <b>110,216</b> | <b>712,271</b> | <b>454,776</b> | <b>901,271</b> |

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 5) HELD-FOR-TRADING SECURITIES

|                                     | The Group      |                | The Bank       |                |
|-------------------------------------|----------------|----------------|----------------|----------------|
|                                     | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| <b>At fair value</b>                |                |                |                |                |
| Negotiable Instruments of Deposit   | 70,000         | 49,885         | 70,000         | 49,885         |
| Unquoted securities:                |                |                |                |                |
| Private debt securities in Malaysia | 68,844         | 4,971          | 68,844         | 4,971          |
|                                     | <b>138,844</b> | 54,856         | <b>138,844</b> | 54,856         |

### 6) AVAILABLE-FOR-SALE SECURITIES

|  | The Group        |                | The Bank         |                |
|--|------------------|----------------|------------------|----------------|
|  | 2008<br>RM'000   | 2007<br>RM'000 | 2008<br>RM'000   | 2007<br>RM'000 |
| <b>At fair value</b>   |                  |                |                  |                |
| Malaysian Government treasury bills  | 364,774          | 284,194        | 185,818          | 4,949          |
| Malaysian Government securities  | 601,208          | 24,849         | 601,208          | 24,849         |
| Malaysian Government investment certificates   | 80,212           | 34,698         | -                | 9,914          |
| Bank Negara Malaysia Monetary Notes  | 897,736          | 1,070,385      | 473,509          | 870,130        |
| Negotiable Instruments of Deposit and<br>Islamic Debt Certificates   | 639,690          | 1,139,998      | 609,720          | 1,139,998      |
| Bankers' acceptances and Islamic accepted bills  | 320,824          | 495,009        | 292,072          | 422,495        |
| Khazanah bonds   | 24,078           | -              | -                | -              |
|  | <b>2,928,522</b> | 3,049,133      | <b>2,162,327</b> | 2,472,335      |
| Quoted securities:   |                  |                |                  |                |
| Shares in Malaysia   | 83,534           | 185,197        | 74,819           | 173,783        |
| Private debt securities in Malaysia  | 2,867            | 3,474          | 2,866            | 3,474          |
| Unquoted securities:   |                  |                |                  |                |
| Private debt securities in Malaysia  | 1,267,553        | 894,526        | 962,423          | 697,074        |
|  | <b>4,282,476</b> | 4,132,330      | <b>3,202,435</b> | 3,346,666      |
| Allowance for impairment of securities   | <b>(94,463)</b>  | (110,532)      | <b>(87,719)</b>  | (103,787)      |
|  | <b>4,188,013</b> | 4,021,798      | <b>3,114,716</b> | 3,242,879      |
| Included in available-for-sale securities are the following:   |                  |                |                  |                |
| (i) amount pledged in accordance with Trust Deed of the<br>subordinated term loans as disclosed in Note 23 | <b>552,000</b>   | 550,000        | <b>552,000</b>   | 550,000        |

**NOTES TO THE FINANCIAL STATEMENTS***for the financial year ended 31 December 2008***7) HELD-TO-MATURITY SECURITIES**

|  | <b>The Group</b> |           | <b>The Bank</b>  |           |
|--|------------------|-----------|------------------|-----------|
|  | <b>2008</b>      | 2007      | <b>2008</b>      | 2007      |
|  | <b>RM'000</b>    | RM'000    | <b>RM'000</b>    | RM'000    |
| <b>At amortised cost</b>               |                  |           |                  |           |
| Quoted securities:                     |                  |           |                  |           |
| Private debt securities in Malaysia    | <b>38,123</b>    | 38,123    | <b>38,123</b>    | 38,123    |
| Unquoted securities:                   |                  |           |                  |           |
| Private debt securities in Malaysia    | <b>570,961</b>   | 418,076   | <b>564,496</b>   | 411,611   |
| <b>At cost</b>                         |                  |           |                  |           |
| Unquoted shares in Malaysia            | <b>54,398</b>    | 53,542    | <b>53,823</b>    | 53,542    |
|  | <b>663,482</b>   | 509,741   | <b>656,442</b>   | 503,276   |
| Allowance for impairment of securities | <b>(100,469)</b> | (116,404) | <b>(100,301)</b> | (116,236) |
|  | <b>563,013</b>   | 393,337   | <b>556,141</b>   | 387,040   |

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 8) LOANS, ADVANCES AND FINANCING

|  | The Group          |                | The Bank           |                |
|--|--------------------|----------------|--------------------|----------------|
|  | 2008<br>RM'000     | 2007<br>RM'000 | 2008<br>RM'000     | 2007<br>RM'000 |
| <b>(i) By type</b>                                   |                    |                |                    |                |
| Overdrafts   | 2,059,761          | 1,880,246      | 1,866,129          | 1,708,345      |
| Term loans/financing:                                |                    |                |                    |                |
| – Housing loans/financing                            | 4,620,336          | 4,063,704      | 2,498,428          | 2,546,165      |
| – Hire purchase receivables                          | 7,253,275          | 6,982,975      | 6,378,516          | 6,383,050      |
| – Syndicated financing                               | 1,295,542          | 705,062        | 399,200            | 355,120        |
| – Other term loans/financing                         | 5,025,473          | 4,399,941      | 4,418,687          | 3,907,027      |
| Bills receivables                                    | 57,879             | 95,596         | 51,605             | 87,559         |
| Trust receipts                                       | 299,477            | 452,453        | 215,713            | 387,558        |
| Claims on customers under acceptances credits        | 583,103            | 731,869        | 495,011            | 677,609        |
| Staff loans/financing (of which RM Nil to Directors) | 154,879            | 151,303        | 143,099            | 139,851        |
| Credit/charge cards                                  | 108,273            | 115,291        | 108,273            | 115,291        |
| Revolving credits                                    | 2,360,592          | 1,370,910      | 2,251,106          | 1,357,886      |
| Factoring  | 12,691             | 17,102         | –                  | –              |
|  | <b>23,831,281</b>  | 20,966,452     | <b>18,825,767</b>  | 17,665,461     |
| <b>Less:</b>   |                    |                |                    |                |
| Unearned interest and income                         | <b>(3,568,311)</b> | (2,596,133)    | <b>(1,079,516)</b> | (1,090,053)    |
| <b>Gross loans, advances and financing</b>           | <b>20,262,970</b>  | 18,370,319     | <b>17,746,251</b>  | 16,575,408     |
| <b>Less:</b>   |                    |                |                    |                |
| Allowance for bad and doubtful debts and financing:  |                    |                |                    |                |
| – General  | <b>(297,932)</b>   | (266,623)      | <b>(260,443)</b>   | (239,848)      |
| – Specific   | <b>(448,783)</b>   | (1,255,006)    | <b>(431,746)</b>   | (1,235,227)    |
| <b>Total net loans, advances and financing</b>       | <b>19,516,255</b>  | 16,848,690     | <b>17,054,062</b>  | 15,100,333     |

Included in term loans are housing loans sold to Cagamas Berhad with recourse amounting to RM11,088,000 (2007: RM116,284,000) and hire purchase loans sold to Cagamas Berhad with recourse amounting to RM Nil (2007: RM245,226,000).

**NOTES TO THE FINANCIAL STATEMENTS***for the financial year ended 31 December 2008***8) LOANS, ADVANCES AND FINANCING (continued)**

|   | The Group         |                | The Bank          |                |
|---|-------------------|----------------|-------------------|----------------|
|   | 2008<br>RM'000    | 2007<br>RM'000 | 2008<br>RM'000    | 2007<br>RM'000 |
| <b>(ii) By maturity structure</b>               |                   |                |                   |                |
| Maturing within one year                        | <b>6,111,357</b>  | 6,172,982      | <b>5,612,661</b>  | 5,775,050      |
| One year to three years                         | <b>2,615,044</b>  | 2,036,933      | <b>2,422,488</b>  | 1,976,952      |
| Three years to five years                       | <b>2,744,321</b>  | 2,475,090      | <b>2,479,903</b>  | 2,259,992      |
| Over five years                                 | <b>8,792,248</b>  | 7,685,314      | <b>7,231,199</b>  | 6,563,414      |
|   | <b>20,262,970</b> | 18,370,319     | <b>17,746,251</b> | 16,575,408     |
| <b>(iii) By type of customer</b>                |                   |                |                   |                |
| Domestic non-bank financial institutions:       |                   |                |                   |                |
| – Stockbroking companies                        | <b>150</b>        | 410            | <b>150</b>        | 410            |
| – Others  | <b>939,863</b>    | 157,121        | <b>788,152</b>    | 145,862        |
| Domestic business enterprises:                  |                   |                |                   |                |
| – Small and medium enterprises                  | <b>6,224,073</b>  | 5,288,156      | <b>5,751,863</b>  | 4,908,702      |
| – Others  | <b>3,263,253</b>  | 3,495,308      | <b>3,025,901</b>  | 3,291,421      |
| Government and statutory bodies                 | <b>91,130</b>     | 53,499         | <b>70,312</b>     | 17,931         |
| Individuals                                     | <b>9,422,285</b>  | 9,086,016      | <b>7,954,986</b>  | 7,992,929      |
| Other domestic entities                         | <b>54,841</b>     | 100,738        | <b>53,660</b>     | 91,340         |
| Foreign entities                                | <b>267,375</b>    | 189,071        | <b>101,227</b>    | 126,813        |
|   | <b>20,262,970</b> | 18,370,319     | <b>17,746,251</b> | 16,575,408     |
| <b>(iv) By interest/profit rate sensitivity</b> |                   |                |                   |                |
| Fixed rate:                                     |                   |                |                   |                |
| – Housing loans/financing                       | <b>444,869</b>    | 471,289        | <b>187,664</b>    | 106,872        |
| – Hire purchase receivables                     | <b>6,118,148</b>  | 5,911,029      | <b>5,406,058</b>  | 5,423,338      |
| – Other fixed rate loans/financing              | <b>2,971,623</b>  | 2,206,712      | <b>2,264,424</b>  | 1,770,297      |
| Variable rate:                                  |                   |                |                   |                |
| – BLR/BFR plus                                  | <b>8,341,476</b>  | 9,050,970      | <b>7,519,197</b>  | 8,563,006      |
| – Cost plus                                     | <b>2,386,854</b>  | 730,319        | <b>2,368,908</b>  | 711,895        |
|   | <b>20,262,970</b> | 18,370,319     | <b>17,746,251</b> | 16,575,408     |

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 8) LOANS, ADVANCES AND FINANCING (continued)

|   | The Group         |                | The Bank          |                |
|---|-------------------|----------------|-------------------|----------------|
|   | 2008<br>RM'000    | 2007<br>RM'000 | 2008<br>RM'000    | 2007<br>RM'000 |
| <b>(v) By sector</b>                                      |                   |                |                   |                |
| Primary agriculture                                       | 478,189           | 257,245        | 388,522           | 202,397        |
| Mining and quarrying                                      | 170,103           | 74,135         | 170,042           | 74,030         |
| Manufacturing   | 1,518,557         | 1,692,882      | 1,371,103         | 1,541,401      |
| Electricity, gas and water supply                         | 10,754            | 18,539         | 10,412            | 18,256         |
| Construction  | 1,872,525         | 1,511,815      | 1,569,976         | 1,357,537      |
| Real estate   | 1,068,510         | 727,415        | 1,017,887         | 695,816        |
| Wholesale and retail trade, and restaurants<br>and hotels | 1,212,672         | 1,451,167      | 1,160,061         | 1,392,328      |
| Transport, storage and communication                      | 865,740           | 616,189        | 831,698           | 570,295        |
| Finance, insurance and business activities                | 2,818,213         | 1,835,882      | 2,577,935         | 1,722,869      |
| Education, health and others                              | 568,687           | 784,044        | 466,307           | 727,777        |
| Household   | 9,508,384         | 9,153,764      | 8,023,094         | 8,051,077      |
| Others  | 170,636           | 247,242        | 159,214           | 221,625        |
|   | <b>20,262,970</b> | 18,370,319     | <b>17,746,251</b> | 16,575,408     |
| <b>(vi) By purpose</b>                                    |                   |                |                   |                |
| Purchase of securities                                    | 215,123           | 395,923        | 190,655           | 390,518        |
| Purchase of transport vehicles                            | 6,163,738         | 5,948,323      | 5,444,274         | 5,451,933      |
| Purchase of landed property of which:                     |                   |                |                   |                |
| – Residential   | 3,353,121         | 3,232,537      | 2,558,884         | 2,595,673      |
| – Non-residential   | 1,456,315         | 962,186        | 1,276,496         | 905,682        |
| Fixed assets other than land and building                 | 113,071           | 121,258        | 111,692           | 121,258        |
| Personal use  | 755,158           | 638,700        | 728,442           | 609,320        |
| Credit card   | 108,273           | 115,292        | 108,273           | 115,292        |
| Consumer durable  | 1,841             | 4,461          | 1,792             | 4,406          |
| Construction  | 432,825           | 502,944        | 348,358           | 482,722        |
| Merger and acquisition                                    | 29,522            | 31,685         | 29,522            | 31,685         |
| Working capital   | 7,045,884         | 3,556,220      | 6,426,008         | 3,174,419      |
| Others  | 588,099           | 2,860,790      | 521,855           | 2,692,500      |
|   | <b>20,262,970</b> | 18,370,319     | <b>17,746,251</b> | 16,575,408     |

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2008

**8) LOANS, ADVANCES AND FINANCING (continued)**

|  | The Group      |                  | The Bank       |                  |
|--|----------------|------------------|----------------|------------------|
|  | 2008<br>RM'000 | 2007<br>RM'000   | 2008<br>RM'000 | 2007<br>RM'000   |
| <b>(vii) Movements in non-performing loans, advances and financing</b>   |                |                  |                |                  |
| Balance at beginning of the financial year   | 2,571,055      | 2,940,185        | 2,520,510      | 2,851,403        |
| Classified as non-performing during the financial year   | 681,053        | 801,105          | 619,321        | 744,635          |
| Reclassified as performing during the financial year   | (478,188)      | (633,024)        | (439,745)      | (580,382)        |
| Loans/financing converted to securities  | –              | (21,486)         | –              | (16,477)         |
| Amount recovered   | (630,520)      | (468,883)        | (626,261)      | (456,141)        |
| Amount written-off   | (1,057,227)    | (46,842)         | (1,038,047)    | (22,528)         |
| Balance at end of the financial year   | 1,086,173      | 2,571,055        | 1,035,778      | 2,520,510        |
| Specific allowance   | (448,783)      | (1,255,006)      | (431,746)      | (1,235,227)      |
| <b>Net non-performing loans, advances and financing</b>  | <b>637,390</b> | <b>1,316,049</b> | <b>604,032</b> | <b>1,285,283</b> |
| Ratio of net non-performing loans, advances and financing to gross loans, advances and financing less specific allowance | 3.22%          | 7.69%            | 3.49%          | 8.38%            |
| <b>(viii) Movements in allowance for bad and doubtful debts and financing</b>  |                |                  |                |                  |
| <b>General allowance</b>   |                |                  |                |                  |
| Balance at beginning of the financial year   | 266,623        | 260,047          | 239,848        | 239,848          |
| Allowance made during the financial year   | 31,599         | 6,576            | 20,595         | –                |
| Amount written-back  | (290)          | –                | –              | –                |
| Balance at end of the financial year   | 297,932        | 266,623          | 260,443        | 239,848          |
| As % of gross loans, advances and financing less specific allowance  | 1.50%          | 1.56%            | 1.50%          | 1.56%            |
| <b>Specific allowance</b>  |                |                  |                |                  |
| Balance at beginning of the financial year   | 1,255,006      | 918,125          | 1,235,227      | 864,074          |
| Allowance made during the financial year   | 363,522        | 519,383          | 345,959        | 515,778          |
| Transferred to allowance for impairment of securities  | –              | (5,775)          | –              | (766)            |
| Amount recovered   | (114,718)      | (131,103)        | (113,329)      | (122,327)        |
| Amount written-off   | (1,055,027)    | (45,624)         | (1,036,111)    | (21,532)         |
| Balance at end of the financial year   | 448,783        | 1,255,006        | 431,746        | 1,235,227        |

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 8) LOANS, ADVANCES AND FINANCING (continued)

|   | The Group        |                | The Bank         |                |
|---|------------------|----------------|------------------|----------------|
|   | 2008<br>RM'000   | 2007<br>RM'000 | 2008<br>RM'000   | 2007<br>RM'000 |
| <b>(ix) Non-performing loans, advances and financing analysed by their economic sectors</b> |                  |                |                  |                |
| Primary agriculture   | 6,428            | 13,421         | 6,428            | 13,356         |
| Mining and quarrying  | 4,753            | 4,792          | 4,753            | 4,752          |
| Manufacturing   | 189,098          | 438,706        | 181,706          | 430,902        |
| Electricity, gas and water supply   | 85               | 1,093          | 85               | 1,093          |
| Construction  | 111,337          | 330,149        | 111,061          | 329,842        |
| Real estate   | 47,430           | 80,935         | 47,430           | 80,935         |
| Wholesale and retail trade, and restaurants and hotels                                      | 43,083           | 305,069        | 41,324           | 304,932        |
| Transport, storage and communication  | 46,539           | 103,193        | 46,539           | 103,193        |
| Finance, insurance and business activities  | 52,874           | 82,782         | 42,310           | 72,097         |
| Education, health and others  | 37,964           | 254,762        | 37,964           | 252,829        |
| Household   | 540,808          | 915,975        | 510,504          | 887,457        |
| Others  | 5,774            | 40,178         | 5,674            | 39,122         |
|   | <b>1,086,173</b> | 2,571,055      | <b>1,035,778</b> | 2,520,510      |
| <b>(x) Non-performing loans, advances and financing analysed by their economic purposes</b> |                  |                |                  |                |
| Purchase of securities  | 6,255            | 125,314        | 6,254            | 125,312        |
| Purchase of transport vehicles  | 82,306           | 269,636        | 76,782           | 262,085        |
| Purchase of landed property of which:   |                  |                |                  |                |
| – Residential   | 405,854          | 546,544        | 381,158          | 526,121        |
| – Non-residential   | 73,948           | 138,123        | 70,275           | 135,114        |
| Fixed assets other than land and building   | 27,492           | 21,726         | 27,492           | 21,726         |
| Personal use  | 24,214           | 42,911         | 24,194           | 42,853         |
| Credit card   | 3,804            | 3,236          | 3,804            | 3,236          |
| Consumer durable  | 96               | 768            | 96               | 768            |
| Construction  | 47,708           | 18,420         | 47,708           | 16,190         |
| Working capital   | 331,848          | 314,143        | 326,868          | 307,731        |
| Others  | 82,648           | 1,090,234      | 71,147           | 1,079,374      |
|   | <b>1,086,173</b> | 2,571,055      | <b>1,035,778</b> | 2,520,510      |

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2008

**9) OTHER ASSETS**

|  | The Group      |                | The Bank       |                |
|--|----------------|----------------|----------------|----------------|
|  | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| Other debtors, deposits and prepayments            | 95,040         | 32,461         | 94,257         | 32,476         |
| Clearing accounts                                  | 173,371        | 213,757        | 127,909        | 96,997         |
| Accrued interest/income receivable                 | 55,699         | 48,578         | 55,955         | 45,045         |
| Prepaid lease rental (a)                           | 17,347         | 17,690         | 15,660         | 15,458         |
| Foreclosed properties (b)                          | 187,422        | 74,347         | 187,009        | 74,347         |
| Derivative assets (c)                              | 67,910         | 44,148         | 67,910         | 44,148         |
| Others   | 2,147          | 2,102          | 2,144          | 2,101          |
|  | <b>598,936</b> | 433,083        | <b>550,844</b> | 310,572        |
| <b>(a) Prepaid lease rental</b>                    |                |                |                |                |
| <b>Cost</b>  |                |                |                |                |
| At beginning of the financial year                 | 20,805         | 21,058         | 17,618         | 17,871         |
| Reclassified from property and equipment (Note 15) | 1,440          | –              | 1,440          | –              |
| Disposals  | (2,078)        | (253)          | (781)          | (253)          |
| At end of the financial year                       | <b>20,167</b>  | 20,805         | <b>18,277</b>  | 17,618         |
| <b>Less: Accumulated amortisation</b>              |                |                |                |                |
| At beginning of the financial year                 | 3,115          | 2,869          | 2,160          | 1,954          |
| Amortisation during the year                       | 465            | 271            | 457            | 231            |
| Disposals  | (760)          | (25)           | –              | (25)           |
| At end of the financial year                       | <b>2,820</b>   | 3,115          | <b>2,617</b>   | 2,160          |
| <b>Net book value at end of financial year</b>     | <b>17,347</b>  | 17,690         | <b>15,660</b>  | 15,458         |
| <b>(b) Foreclosed properties</b>                   |                |                |                |                |
| At beginning of the financial year                 | 74,347         | 85,068         | 74,347         | 85,068         |
| Amount arising during the financial year           | 134,248        | 5,923          | 133,835        | 5,923          |
| Disposal during the financial year                 | (20,615)       | (4,808)        | (20,615)       | (4,808)        |
|  | <b>187,980</b> | 86,183         | <b>187,567</b> | 86,183         |
| Foreclosed properties – diminution in value        | (558)          | (11,836)       | (558)          | (11,836)       |
| At end of the financial year                       | <b>187,422</b> | 74,347         | <b>187,009</b> | 74,347         |

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 9) OTHER ASSETS (continued)

#### (c) Derivative assets

|   | The Group and The Bank<br>2008            |                  | The Group and The Bank<br>2007            |                  |
|---|---|------------------|---|------------------|
|   | Contract/<br>notional<br>amount<br>RM'000 | Assets<br>RM'000 | Contract/<br>notional<br>amount<br>RM'000 | Assets<br>RM'000 |
| <b>At fair value</b>                    |   |                  |   |                  |
| Foreign exchange derivatives:           |   |                  |   |                  |
| – currency forwards                     | 346,683                                   | 5,936            | 441,616                                   | 3,112            |
| – currency options                      | –   | –                | 49,043                                    | 318              |
| Interest rate derivatives:              |   |                  |   |                  |
| – currency swaps                        | 1,115,970                                 | 33,758           | 2,113,039                                 | 40,505           |
| – interest rate swap                    | 400,820                                   | 28,216           | 38,813                                    | 39               |
| – exchange-traded interest rate futures | –   | –                | 65,000                                    | 174              |
|   | <b>1,863,473</b>                          | <b>67,910</b>    | 2,707,511                                 | 44,148           |

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2008

**10) DEFERRED TAX ASSETS/(LIABILITIES)**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts determined after appropriate offsetting, are shown in the balance sheet:

|  | The Group      |                | The Bank       |                |
|--|----------------|----------------|----------------|----------------|
|  | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| Deferred tax assets                              | <b>62,417</b>  | 32,754         | <b>62,803</b>  | 31,657         |
| Deferred tax liabilities                         | <b>(2)</b>     | (4)            | <b>-</b>       | -              |
|  | <b>62,415</b>  | 32,750         | <b>62,803</b>  | 31,657         |
| At beginning of the financial year               | <b>32,750</b>  | 87,196         | <b>31,657</b>  | 88,420         |
| (Charged)/credited to income statement (Note 34) | <b>14,451</b>  | (53,843)       | <b>16,238</b>  | (55,972)       |
| - property and equipment                         | <b>369</b>     | (350)          | <b>628</b>     | (332)          |
| - intangible assets                              | <b>1,611</b>   | 2,475          | <b>1,513</b>   | 2,590          |
| - tax losses                                     | <b>-</b>       | (44,944)       | <b>-</b>       | (44,944)       |
| - general allowance on bad and doubtful debts    | <b>5,161</b>   | (891)          | <b>2,751</b>   | (2,399)        |
| - revaluation gain/(losses) on forex             | <b>973</b>     | (8,648)        | <b>5,218</b>   | (9,307)        |
| - revaluation gain/(losses) on derivatives       | <b>6,968</b>   | (1,326)        | <b>6,967</b>   | (1,325)        |
| - others   | <b>(631)</b>   | (159)          | <b>(839)</b>   | (255)          |
| Charged/(credited) to equity                     | <b>15,214</b>  | (603)          | <b>14,908</b>  | (791)          |
| At end of the financial year                     | <b>62,415</b>  | 32,750         | <b>62,803</b>  | 31,657         |

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 10) DEFERRED TAX ASSETS/(LIABILITIES) (continued)

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

|   | The Group              |                 | The Bank               |                 |
|---|------------------------|-----------------|------------------------|-----------------|
|   | 2008<br>RM'000         | 2007<br>RM'000  | 2008<br>RM'000         | 2007<br>RM'000  |
| <b>Subject to income tax</b>  |                        |                 |                        |                 |
| <b>Deferred tax assets (before offsetting)</b>                      |                        |                 |                        |                 |
| General allowance on bad and doubtful debts                         | 74,483                 | 69,322          | 65,111                 | 62,360          |
| Revaluation losses on derivatives                                   | 7,304                  | 336             | 7,304                  | 337             |
| Investment fluctuation reserve for<br>available-for-sale securities | 12,965                 | 141             | 12,518                 | -               |
| Others  | 820                    | 1,451           | 5,803                  | 6,642           |
|   | <u>95,572</u>          | <u>71,250</u>   | <u>90,736</u>          | <u>69,339</u>   |
| Offsetting  | <b>(33,155)</b>        | <b>(38,496)</b> | <b>(27,933)</b>        | <b>(37,682)</b> |
| <b>Deferred tax assets (after offsetting)</b>                       | <b>62,417</b>          | <b>32,754</b>   | <b>62,803</b>          | <b>31,657</b>   |
| <b>Deferred tax liabilities (before offsetting)</b>                 |                        |                 |                        |                 |
| Property and equipment  | <b>(8,590)</b>         | (8,959)         | <b>(8,277)</b>         | (8,905)         |
| Intangible assets   | <b>(9,798)</b>         | (11,409)        | <b>(9,477)</b>         | (10,990)        |
| Revaluation gain on forex   | <b>(14,769)</b>        | (15,742)        | <b>(10,179)</b>        | (15,397)        |
| Investment fluctuation reserve for<br>available-for-sale securities | -                      | (2,390)         | -                      | (2,390)         |
|   | <u><b>(33,157)</b></u> | <u>(38,500)</u> | <u><b>(27,933)</b></u> | <u>(37,682)</u> |
| Offsetting  | <b>33,155</b>          | 38,496          | <b>27,933</b>          | 37,682          |
| <b>Deferred tax liabilities (after offsetting)</b>                  | <b>(2)</b>             | <b>(4)</b>      | <b>-</b>               | <b>-</b>        |

The amount of unused tax losses for which no deferred tax asset is recognised in the balance sheet are as follows:

|            | The Group      |                | The Bank       |                |
|------------|----------------|----------------|----------------|----------------|
|            | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| Tax losses | <b>107,571</b> | 108,833        | -              | -              |

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 11) STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA

A non-interest bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with requirements of Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (revised 1994), the amounts of which is determined at a set percentage of total eligible liabilities.

### 12) INVESTMENT IN SUBSIDIARIES

Unquoted shares, at cost  
Less: Allowance for impairment losses

| The Bank        |          |
|-----------------|----------|
| 2008            | 2007     |
| RM'000          | RM'000   |
| <b>219,557</b>  | 219,557  |
| <b>(20,079)</b> | (20,079) |
| <b>199,478</b>  | 199,478  |

The subsidiaries of the Bank, all of which are incorporated in Malaysia, are as follows:

| Name                                     | Principal Activities         | Percentage of equity held |           |
|--|------------------------------|---------------------------|-----------|
|  |                              | 2008<br>%                 | 2007<br>% |
| AFFIN Islamic Bank Bhd                   | Islamic banking business     | <b>100</b>                | 100       |
| AFFIN Factors Sdn Bhd                    | Factoring credit facilities  | <b>100</b>                | 100       |
| PAB Properties Sdn Bhd                   | Property management services | <b>100</b>                | 100       |
| ABB Nominee (Tempatan) Sdn Bhd           | Share nominee services       | <b>100</b>                | 100       |
| ABB Nominee (Asing) Sdn Bhd              | Share nominee services       | <b>100</b>                | 100       |
| ABB Trustee Berhad*                      | Trustee management services  | <b>100</b>                | 100       |
| AFFIN Futures Sdn Bhd                    | Dormant                      | <b>100</b>                | 100       |
| PAB Property Management Services Sdn Bhd | Dormant                      | <b>100</b>                | 100       |
| PAB Property Development Sdn Bhd         | Dormant                      | <b>100</b>                | 100       |
| ABB Venture Capital Sdn Bhd              | Dormant                      | <b>100</b>                | 100       |
| ABB IT & Services Sdn Bhd                | Dormant                      | <b>100</b>                | 100       |
| BSNCB Nominees (Tempatan) Sdn Bhd        | Dormant                      | <b>100</b>                | 100       |
| BSNC Nominees (Tempatan) Sdn Bhd         | Dormant                      | <b>100</b>                | 100       |
| ABB Asset Management (M) Bhd             | Dormant                      | <b>100</b>                | 100       |
| AFFIN Recoveries Bhd                     | Dormant                      | <b>100</b>                | 100       |
| BSN Merchant Nominees (Tempatan) Sdn Bhd | Dormant                      | <b>100</b>                | 100       |
| BSN Merchant Nominees (Asing) Sdn Bhd    | Dormant                      | <b>100</b>                | 100       |
| AFFIN-ACF Nominees (Tempatan) Sdn Bhd    | Dormant                      | <b>100</b>                | 100       |

\* 80% held by Directors of the Bank, in trust for the Bank.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 13) INVESTMENT IN JOINTLY CONTROLLED ENTITY

|   | <b>The Group</b> |        |
|---|------------------|--------|
|   | <b>2008</b>      | 2007   |
|   | <b>RM'000</b>    | RM'000 |
| Unquoted shares at cost   | <b>500</b>       | –      |
| Bank's share of net assets  | <b>500</b>       | –      |
| The summarised financial information of jointly controlled entity are as follows: |                  |        |
| Revenue   | <b>2</b>         | –      |
| Profit after tax  | <b>2</b>         | –      |
| Total assets  | <b>2,508</b>     | –      |
| Total liabilities   | <b>1,514</b>     | –      |

The jointly controlled entity was incorporated on 1 April 2008 and the details are as follows:

| <b>Name</b>              | <b>Principal activities</b> | <b>Issued and paid up<br/>share capital<br/>RM'000</b> | <b>Percentage of<br/>equity held</b> |      |
|--------------------------|-----------------------------|--|--------------------------------------|------|
|                          |                             |  | <b>2008</b>                          | 2007 |
|                          |                             |  | %                                    | %    |
| AFFIN-i Goodyear Sdn Bhd | Land development project    | 1,000  | <b>50</b>                            | –    |

On 1 April 2008, AFFIN Islamic Bank Berhad and Jurus Positif Sdn Bhd, a subsidiary of Mutiara Goodyear Development Berhad, entered into a joint venture agreement under the Shariah principles ('Musharakah Agreement') to develop a land into a housing scheme at Bukit Gambir, Pulau Pinang.

The agreement also includes an arrangement where Jurus Positif Sdn Bhd may acquire the Bank's shares upon the completion of the project at a mutually agreed price, unless both shareholders decide to continue the joint venture for subsequent projects.

Major strategic operation and financial decisions relating to the activities of AFFIN-i Goodyear Sdn Bhd requires unanimous consent by both joint venture parties. The Group's interest in AFFIN-i Goodyear Sdn Bhd has been treated as investment in jointly controlled entity, which has been accounted for in the consolidated financial statements using the equity method of accounting.

### 14) AMOUNT DUE FROM SUBSIDIARIES

|                          | <b>The Bank</b> |         |
|--------------------------|-----------------|---------|
|                          | <b>2008</b>     | 2007    |
|                          | <b>RM'000</b>   | RM'000  |
| Advances to a subsidiary | <b>254,374</b>  | 207,611 |
| Other receivables        | <b>1,818</b>    | 2,645   |
|                          | <b>256,192</b>  | 210,256 |

The advances of RM254,374,000 (2007: RM207,611,000) to subsidiary are unsecured, bear interest at 3.55% per annum (2007: 3.58%) and have no fixed terms of repayment.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

## 15) PROPERTY AND EQUIPMENT

| The Group<br>2008   | Buildings     |               | Buildings on leasehold |                   | Renovation | Office equipment and furniture |        | Computer equipment and software | Motor vehicles | Capital work-in-progress | Total |
|---|---------------|---------------|------------------------|-------------------|------------|--------------------------------|--------|---------------------------------|----------------|--------------------------|-------|
|   | Freehold land | freehold land | on leasehold land      | on leasehold land |            | RM'000                         | RM'000 |                                 |                |                          |       |
| <b>Cost</b>   |               |               |                        |                   |            |                                |        |                                 |                |                          |       |
| At 1 January 2008   | 22,320        | 68,253        | 88,928                 | 86,784            | 46,518     | 118,375                        | 3,928  | 15,319                          | 450,425        |                          |       |
| Additions   | -             | -             | -                      | 8,631             | 6,174      | 6,181                          | 916    | 15,322                          | 37,224         |                          |       |
| Disposals   | (18,268)      | (4,951)       | (501)                  | (2,743)           | (932)      | (918)                          | (897)  | -                               | (29,210)       |                          |       |
| Written-off   | -             | -             | -                      | (4,478)           | (3,787)    | (68,099)                       | -      | -                               | (76,364)       |                          |       |
| Reclassification to intangible assets (Note 17) and other assets (Note 9) | 24,578        | (27,686)      | 1,668                  | 3,509             | 692        | 9,691                          | -      | (25,525)                        | (13,073)       |                          |       |
| At 31 December 2008   | 28,630        | 35,616        | 90,095                 | 91,703            | 48,665     | 65,230                         | 3,947  | 5,116                           | 369,002        |                          |       |
| <b>Accumulated depreciation and impairment losses</b>                     |               |               |                        |                   |            |                                |        |                                 |                |                          |       |
| At 1 January 2008   | -             | 14,499        | 14,300                 | 76,374            | 30,405     | 90,371                         | 2,806  | 9,433                           | 238,188        |                          |       |
| Charge for the financial year   | -             | 517           | 1,715                  | 4,530             | 3,766      | 11,387                         | 599    | -                               | 22,514         |                          |       |
| Disposal  | -             | (1,160)       | (145)                  | (2,736)           | (786)      | (918)                          | (897)  | -                               | (6,642)        |                          |       |
| Written-off   | -             | -             | -                      | (4,402)           | (3,079)    | (58,621)                       | -      | (9,433)                         | (75,535)       |                          |       |
| Reclassification to intangible assets (Note 17) and other assets (Note 9) | -             | (473)         | 473                    | -                 | -          | -                              | -      | -                               | -              |                          |       |
| At 31 December 2008   | -             | 13,383        | 16,343                 | 73,766            | 30,306     | 42,219                         | 2,508  | -                               | 178,525        |                          |       |
| <b>Net book value as at 31 December 2008</b>                              | 28,630        | 22,233        | 73,752                 | 17,937            | 18,359     | 23,011                         | 1,439  | 5,116                           | 190,477        |                          |       |

**NOTES TO THE FINANCIAL STATEMENTS**  
for the financial year ended 31 December 2008

**15) PROPERTY AND EQUIPMENT (continued)**

| The Group<br>2007                                     | Freehold land |         | Buildings on leasehold land |         | Buildings on land |          | Renovation |         | Office equipment and furniture |        | Computer equipment and software |        | Motor vehicles |        | Capital work-in-progress |        | Total<br>RM'000 |
|---|---------------|---------|-----------------------------|---------|-------------------|----------|------------|---------|--------------------------------|--------|---------------------------------|--------|----------------|--------|--------------------------|--------|-----------------|
|   | RM'000        | RM'000  | RM'000                      | RM'000  | RM'000            | RM'000   | RM'000     | RM'000  | RM'000                         | RM'000 | RM'000                          | RM'000 | RM'000         | RM'000 | RM'000                   | RM'000 |                 |
| <b>Cost</b>   |               |         |                             |         |                   |          |            |         |                                |        |                                 |        |                |        |                          |        |                 |
| At 1 January 2007                                     | 22,570        | 70,636  | 89,964                      | 88,913  | 46,126            | 159,233  | 3,624      | 11,994  | 493,060                        |        |                                 |        |                |        |                          |        |                 |
| Additions   | -             | 1,069   | -                           | 6,704   | 5,313             | 10,159   | 691        | 6,521   | 30,457                         |        |                                 |        |                |        |                          |        |                 |
| Disposals   | (250)         | (3,452) | (953)                       | (1,316) | (934)             | (1,497)  | (387)      | -       | (8,789)                        |        |                                 |        |                |        |                          |        |                 |
| Written-off   | -             | -       | (83)                        | (7,517) | (3,980)           | (49,843) | -          | -       | (61,423)                       |        |                                 |        |                |        |                          |        |                 |
| Reclassification to intangible assets (Note 17)       | -             | -       | -                           | -       | (7)               | 323      | -          | (3,196) | (2,880)                        |        |                                 |        |                |        |                          |        |                 |
| At 31 December 2007                                   | 22,320        | 68,253  | 88,928                      | 86,784  | 46,518            | 118,375  | 3,928      | 15,319  | 450,425                        |        |                                 |        |                |        |                          |        |                 |
| <b>Accumulated depreciation and impairment losses</b> |               |         |                             |         |                   |          |            |         |                                |        |                                 |        |                |        |                          |        |                 |
| At 1 January 2007                                     | -             | 13,732  | 13,601                      | 81,761  | 30,773            | 130,090  | 2,376      | 9,433   | 281,766                        |        |                                 |        |                |        |                          |        |                 |
| Charge for the financial year                         | -             | 1,417   | 1,852                       | 3,191   | 3,654             | 11,415   | 596        | -       | 22,125                         |        |                                 |        |                |        |                          |        |                 |
| Write back of over depreciation                       | -             | -       | (898)                       | -       | -                 | -        | -          | -       | (898)                          |        |                                 |        |                |        |                          |        |                 |
| Disposal  | -             | (650)   | (245)                       | (1,314) | (794)             | (1,361)  | (166)      | -       | (4,530)                        |        |                                 |        |                |        |                          |        |                 |
| Written-off   | -             | -       | (10)                        | (7,264) | (3,230)           | (49,767) | -          | -       | (60,271)                       |        |                                 |        |                |        |                          |        |                 |
| Reclassification to intangible assets (Note 17)       | -             | -       | -                           | -       | 2                 | (6)      | -          | -       | (4)                            |        |                                 |        |                |        |                          |        |                 |
| At 31 December 2007                                   | -             | 14,499  | 14,300                      | 76,374  | 30,405            | 90,371   | 2,806      | 9,433   | 238,188                        |        |                                 |        |                |        |                          |        |                 |
| <b>Net book value as at 31 December 2007</b>          | 22,320        | 53,754  | 74,628                      | 10,410  | 16,113            | 28,004   | 1,122      | 5,886   | 212,237                        |        |                                 |        |                |        |                          |        |                 |

The impairment of property and equipment arose from the replacement of computer equipment and software (including work-in-progress) of the Bank.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

## 15) PROPERTY AND EQUIPMENT (continued)

| The Bank<br>2008  | Freehold land |          | Buildings on freehold land |         | Buildings on leasehold land |          | Renovation |          | Office equipment and furniture |        | Computer equipment and software |        | Motor vehicles |        | Capital work-in-progress |        | Total<br>RM'000 |
|---|---------------|----------|----------------------------|---------|-----------------------------|----------|------------|----------|--------------------------------|--------|---------------------------------|--------|----------------|--------|--------------------------|--------|-----------------|
|   | RM'000        | RM'000   | RM'000                     | RM'000  | RM'000                      | RM'000   | RM'000     | RM'000   | RM'000                         | RM'000 | RM'000                          | RM'000 | RM'000         | RM'000 | RM'000                   | RM'000 |                 |
| <b>Cost</b>   |               |          |                            |         |                             |          |            |          |                                |        |                                 |        |                |        |                          |        |                 |
| At 1 January 2008   | 19,323        | 66,617   | 87,738                     | 85,447  | 46,257                      | 116,353  | 3,880      | 15,319   | 440,934                        |        |                                 |        |                |        |                          |        |                 |
| Additions   | -             | -        | -                          | 7,388   | 5,343                       | 5,251    | 458        | 15,121   | 33,561                         |        |                                 |        |                |        |                          |        |                 |
| Disposals   | (18,268)      | (4,951)  | (219)                      | (2,544) | (932)                       | (918)    | (897)      | -        | (28,729)                       |        |                                 |        |                |        |                          |        |                 |
| Written-off   | -             | -        | -                          | (4,436) | (3,766)                     | (67,930) | -          | -        | (76,132)                       |        |                                 |        |                |        |                          |        |                 |
| Reclassification to intangible assets (Note 17) and other assets (Note 9) | 24,578        | (27,686) | 1,668                      | 3,405   | 618                         | 9,691    | -          | (25,324) | (13,050)                       |        |                                 |        |                |        |                          |        |                 |
| At 31 December 2008   | 25,633        | 33,980   | 89,187                     | 89,260  | 47,520                      | 62,447   | 3,441      | 5,116    | 356,584                        |        |                                 |        |                |        |                          |        |                 |
| <b>Accumulated depreciation and impairment losses</b>                     |               |          |                            |         |                             |          |            |          |                                |        |                                 |        |                |        |                          |        |                 |
| At 1 January 2008   | -             | 13,708   | 13,735                     | 75,092  | 30,222                      | 88,552   | 2,758      | 9,433    | 233,500                        |        |                                 |        |                |        |                          |        |                 |
| Charge for the financial year   | -             | 485      | 1,697                      | 4,278   | 3,678                       | 11,169   | 522        | -        | 21,829                         |        |                                 |        |                |        |                          |        |                 |
| Disposal  | -             | (1,160)  | (10)                       | (2,537) | (786)                       | (918)    | (897)      | -        | (6,308)                        |        |                                 |        |                |        |                          |        |                 |
| Written-off   | -             | -        | -                          | (4,389) | (3,057)                     | (58,453) | -          | (9,433)  | (75,332)                       |        |                                 |        |                |        |                          |        |                 |
| Reclassification to intangible assets (Note 17) and other assets (Note 9) | -             | (473)    | 473                        | -       | (14)                        | -        | -          | -        | (14)                           |        |                                 |        |                |        |                          |        |                 |
| At 31 December 2008   | -             | 12,560   | 15,895                     | 72,444  | 30,043                      | 40,350   | 2,383      | -        | 173,675                        |        |                                 |        |                |        |                          |        |                 |
| <b>Net book value as at 31 December 2008</b>                              | 25,633        | 21,420   | 73,292                     | 16,816  | 17,477                      | 22,097   | 1,058      | 5,116    | 182,909                        |        |                                 |        |                |        |                          |        |                 |

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2008

**15) PROPERTY AND EQUIPMENT (continued)**

| The Bank<br>2007                                      | Freehold land |         | Buildings on leasehold land |         | Buildings on land |          | Renovation |         | Office equipment and furniture |        | Computer equipment and software |        | Motor vehicles |        | Capital work-in-progress |        | Total<br>RM'000 |
|---|---------------|---------|-----------------------------|---------|-------------------|----------|------------|---------|--------------------------------|--------|---------------------------------|--------|----------------|--------|--------------------------|--------|-----------------|
|   | RM'000        | RM'000  | RM'000                      | RM'000  | RM'000            | RM'000   | RM'000     | RM'000  | RM'000                         | RM'000 | RM'000                          | RM'000 | RM'000         | RM'000 | RM'000                   | RM'000 |                 |
| <b>Cost</b>   |               |         |                             |         |                   |          |            |         |                                |        |                                 |        |                |        |                          |        |                 |
| At 1 January 2007                                     | 19,573        | 69,000  | 88,774                      | 87,633  | 45,900            | 157,254  | 3,572      | 11,994  | 483,700                        |        |                                 |        |                |        |                          |        |                 |
| Additions   | -             | 1,069   | -                           | 6,647   | 5,264             | 10,080   | 691        | 6,522   | 30,273                         |        |                                 |        |                |        |                          |        |                 |
| Disposals   | (250)         | (3,452) | (953)                       | (1,316) | (927)             | (1,497)  | (383)      | -       | (8,778)                        |        |                                 |        |                |        |                          |        |                 |
| Written-off   | -             | -       | (83)                        | (7,517) | (3,980)           | (49,801) | -          | -       | (61,381)                       |        |                                 |        |                |        |                          |        |                 |
| Reclassification to intangible assets (Note 17)       | -             | -       | -                           | -       | -                 | 317      | -          | (3,197) | (2,880)                        |        |                                 |        |                |        |                          |        |                 |
| At 31 December 2007                                   | 19,323        | 66,617  | 87,738                      | 85,447  | 46,257            | 116,353  | 3,880      | 15,319  | 440,934                        |        |                                 |        |                |        |                          |        |                 |
| <b>Accumulated depreciation and impairment losses</b> |               |         |                             |         |                   |          |            |         |                                |        |                                 |        |                |        |                          |        |                 |
| At 1 January 2007                                     | -             | 12,974  | 13,060                      | 80,493  | 30,602            | 128,289  | 2,327      | 9,433   | 277,178                        |        |                                 |        |                |        |                          |        |                 |
| Charge for the financial year                         | -             | 1,384   | 1,828                       | 3,177   | 3,638             | 11,352   | 593        | -       | 21,972                         |        |                                 |        |                |        |                          |        |                 |
| Write back of over depreciation                       | -             | -       | (898)                       | -       | -                 | -        | -          | -       | (898)                          |        |                                 |        |                |        |                          |        |                 |
| Disposal  | -             | (650)   | (245)                       | (1,314) | (788)             | (1,360)  | (162)      | -       | (4,519)                        |        |                                 |        |                |        |                          |        |                 |
| Written-off   | -             | -       | (10)                        | (7,264) | (3,230)           | (49,725) | -          | -       | (60,229)                       |        |                                 |        |                |        |                          |        |                 |
| Reclassification to intangible assets (Note 17)       | -             | -       | -                           | -       | -                 | (4)      | -          | -       | (4)                            |        |                                 |        |                |        |                          |        |                 |
| At 31 December 2007                                   | -             | 13,708  | 13,735                      | 75,092  | 30,222            | 88,552   | 2,758      | 9,433   | 233,500                        |        |                                 |        |                |        |                          |        |                 |
| <b>Net book value as at 31 December 2007</b>          | 19,323        | 52,909  | 74,003                      | 10,355  | 16,035            | 27,801   | 1,122      | 5,886   | 207,434                        |        |                                 |        |                |        |                          |        |                 |

The impairment of property and equipment arose from the replacement of computer equipment and software (including work-in-progress) of the Bank.

**NOTES TO THE FINANCIAL STATEMENTS***for the financial year ended 31 December 2008***16) LAND HELD FOR SALE**

|               | <b>The Group</b> |        |
|---------------|------------------|--------|
|               | <b>2008</b>      | 2007   |
|               | <b>RM'000</b>    | RM'000 |
| Freehold land | <b>15,000</b>    | –      |

The above land was held in view to dispose to AFFIN-i Goodyear Sdn Bhd which is jointly owned by AFFIN Islamic Bank and Jurus Positif Sdn Bhd.

The sale and purchase agreement and transfer of land to AFFIN-i Goodyear Sdn Bhd is expected to be completed within the next year.

**17) INTANGIBLE ASSETS**

| <b>The Group</b>                                       | <b>Goodwill</b> | <b>Computer</b> | <b>Total</b>    |
|--|-----------------|-----------------|-----------------|
| <b>2008</b>  | <b>RM'000</b>   | <b>Software</b> | <b>RM'000</b>   |
|  |                 | <b>RM'000</b>   | <b>RM'000</b>   |
| <b>Cost</b>  |                 |                 |                 |
| At 1 January 2008                                      | <b>133,430</b>  | <b>79,772</b>   | <b>213,202</b>  |
| Additions  | –               | <b>6,999</b>    | <b>6,999</b>    |
| Written-off  | –               | <b>(402)</b>    | <b>(402)</b>    |
| Reclassification from property and equipment (Note 15) | –               | <b>11,634</b>   | <b>11,634</b>   |
| At 31 December 2008                                    | <b>133,430</b>  | <b>98,003</b>   | <b>231,433</b>  |
| <b>Less: Accumulated amortisation</b>                  |                 |                 |                 |
| At 1 January 2008                                      | –               | <b>(34,007)</b> | <b>(34,007)</b> |
| Amortised during the financial year                    | –               | <b>(17,737)</b> | <b>(17,737)</b> |
| Written-off  | –               | <b>385</b>      | <b>385</b>      |
| At 31 December 2008                                    | –               | <b>(51,359)</b> | <b>(51,359)</b> |
| <b>Net book value as at 31 December 2008</b>           | <b>133,430</b>  | <b>46,644</b>   | <b>180,074</b>  |

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 17) INTANGIBLE ASSETS (continued)

| <b>The Group</b>                                       | <b>Goodwill</b>       | <b>Computer</b>        | <b>Total</b>           |
|--|-----------------------|------------------------|------------------------|
| <b>2007</b>  | <b>RM'000</b>         | <b>Software</b>        | <b>RM'000</b>          |
| <b>Cost</b>  |                       | <b>RM'000</b>          | <b>RM'000</b>          |
| At 1 January 2007                                      | 133,430               | 110,097                | 243,527                |
| Additions  | –                     | 1,833                  | 1,833                  |
| Written-off  | –                     | (35,038)               | (35,038)               |
| Reclassification from property and equipment (Note 15) | –                     | 2,880                  | 2,880                  |
| At 31 December 2007                                    | <u>133,430</u>        | <u>79,772</u>          | <u>213,202</u>         |
| <b>Less: Accumulated amortisation</b>                  |                       |                        |                        |
| At 1 January 2007                                      | –                     | (53,445)               | (53,445)               |
| Amortised during the financial year                    | –                     | (15,596)               | (15,596)               |
| Written-off  | –                     | 35,038                 | 35,038                 |
| Reclassification from property and equipment (Note 15) | –                     | (4)                    | (4)                    |
| At 31 December 2007                                    | <u>–</u>              | <u>(34,007)</u>        | <u>(34,007)</u>        |
| <b>Net book value as at 31 December 2007</b>           | <u>133,430</u>        | <u>45,765</u>          | <u>179,195</u>         |
| <br>   |                       |                        |                        |
| <b>The Bank</b>  | <b>Goodwill</b>       | <b>Computer</b>        | <b>Total</b>           |
| <b>2008</b>  | <b>RM'000</b>         | <b>Software</b>        | <b>RM'000</b>          |
| <b>Cost</b>  |                       | <b>RM'000</b>          | <b>RM'000</b>          |
| At 1 January 2008                                      | <b>137,323</b>        | <b>77,356</b>          | <b>214,679</b>         |
| Additions  | –                     | <b>6,763</b>           | <b>6,763</b>           |
| Written-off  | –                     | <b>(402)</b>           | <b>(402)</b>           |
| Reclassification from property and equipment (Note 15) | –                     | <b>11,596</b>          | <b>11,596</b>          |
| At 31 December 2008                                    | <u><b>137,323</b></u> | <u><b>95,313</b></u>   | <u><b>232,636</b></u>  |
| <b>Less: Accumulated amortisation</b>                  |                       |                        |                        |
| At 1 January 2008                                      | –                     | <b>(33,201)</b>        | <b>(33,201)</b>        |
| Amortised during the financial year                    | –                     | <b>(17,245)</b>        | <b>(17,245)</b>        |
| Written-off  | –                     | <b>385</b>             | <b>385</b>             |
| At 31 December 2008                                    | <u>–</u>              | <u><b>(50,061)</b></u> | <u><b>(50,061)</b></u> |
| <b>Net book value as at 31 December 2008</b>           | <u><b>137,323</b></u> | <u><b>45,252</b></u>   | <u><b>182,575</b></u>  |

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2008

**17) INTANGIBLE ASSETS (continued)**

| <b>The Bank<br/>2007</b>                               | <b>Goodwill<br/>RM'000</b> | <b>Computer<br/>Software<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|--|----------------------------|---|-------------------------|
| <b>Cost</b>  |                            |   |                         |
| At 1 January 2007                                      | 137,323                    | 107,681                                 | 245,004                 |
| Additions  | –                          | 1,833                                   | 1,833                   |
| Written-off  | –                          | (35,038)                                | (35,038)                |
| Reclassification from property and equipment (Note 15) | –                          | 2,880                                   | 2,880                   |
| At 31 December 2007                                    | <u>137,323</u>             | <u>77,356</u>                           | <u>214,679</u>          |
| <b>Less: Accumulated amortisation</b>                  |                            |   |                         |
| At 1 January 2007                                      | –                          | (53,122)                                | (53,122)                |
| Amortised during the financial year                    | –                          | (15,113)                                | (15,113)                |
| Written-off  | –                          | 35,038                                  | 35,038                  |
| Reclassification from property and equipment (Note 15) | –                          | (4)                                     | (4)                     |
| At 31 December 2007                                    | <u>–</u>                   | <u>(33,201)</u>                         | <u>(33,201)</u>         |
| <b>Net book value as at 31 December 2007</b>           | <u>137,323</u>             | <u>44,155</u>                           | <u>181,478</u>          |

**Goodwill**

The carrying amount of the Bank's goodwill have been allocated to the following business segments, which represents the Bank's cash-generating units ('CGUs') of the Bank are as follows:

|                    | <b>2008<br/>RM'000</b> | 2007<br>RM'000 |
|--------------------|------------------------|----------------|
| Enterprise banking | <b>123,591</b>         | 123,591        |
| Consumer banking   | <b>13,732</b>          | 13,732         |
|                    | <u><b>137,323</b></u>  | <u>137,323</u> |

Goodwill is allocated to the Bank's CGUs which are expected to benefit from the synergies of the acquisitions. For annual impairment testing purposes, the recoverable amount of the CGUs are determined based on value-in-use calculations using the cash flow projections based on the 2009 financial budgets approved by the Directors, covering a period of 5 years. The cash flow beyond the fifth year is projected based on the assumption that the Year 5 operating cash flow will be generated by the respective CGUs at a growth rate of 5% (2007: constant) to infinity.

The cash flow projections are derived based on a number of key factors including past performance and management's expectations of the market developments. The discount rates used are based on the pre-tax weighted average cost of capital plus an appropriate risk premium where applicable ('WACC'), at the date of assessment of the CGUs.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 17) INTANGIBLE ASSETS (continued)

#### Goodwill (continued)

|                       | 2008<br>Enterprise<br>banking<br>% | 2008<br>Consumer<br>banking<br>% | 2007<br>Enterprise<br>banking<br>% | 2007<br>Consumer<br>banking<br>% |
|-----------------------|------------------------------------|----------------------------------|------------------------------------|----------------------------------|
| Pre-tax discount rate | <b>13.46</b>                       | <b>13.43</b>                     | 13.38                              | 13.48                            |

No impairment charge was required for goodwill arising from all the business segments. Management views that any reasonable possible change to the assumptions applied is not likely to cause the recoverable amount of all the business segments to be lower than its carrying amount.

### 18) DEPOSITS FROM CUSTOMERS

|   | The Group         |                | The Bank          |                |
|---|-------------------|----------------|-------------------|----------------|
|   | 2008<br>RM'000    | 2007<br>RM'000 | 2008<br>RM'000    | 2007<br>RM'000 |
| <b>(i) By type of deposit</b>   |                   |                |                   |                |
| Demand deposits   | <b>3,718,995</b>  | 3,660,612      | <b>2,387,947</b>  | 2,257,420      |
| Savings deposits  | <b>990,251</b>    | 903,325        | <b>793,158</b>    | 714,317        |
| Fixed deposits  | <b>14,723,919</b> | 13,873,403     | <b>13,629,757</b> | 13,076,137     |
| Special investment deposits   | <b>1,403,650</b>  | 1,223,571      | -                 | -              |
| Money market deposits   | <b>1,654,643</b>  | 1,427,800      | <b>1,654,643</b>  | 1,427,800      |
| Negotiable instruments of deposit ('NID')                               | <b>2,736,331</b>  | 2,387,215      | <b>2,514,063</b>  | 2,305,000      |
|   | <b>25,227,789</b> | 23,475,926     | <b>20,979,568</b> | 19,780,674     |
| <b>(ii) Maturity structure of fixed deposit and NID are as follows:</b> |                   |                |                   |                |
| Due within six months   | <b>15,710,102</b> | 13,633,659     | <b>14,541,859</b> | 12,972,434     |
| Six months to one year  | <b>1,671,642</b>  | 2,597,723      | <b>1,527,809</b>  | 2,386,153      |
| One year to three years   | <b>77,060</b>     | 25,388         | <b>73,058</b>     | 21,113         |
| Three years to five years   | <b>1,446</b>      | 3,848          | <b>1,094</b>      | 1,437          |
|   | <b>17,460,250</b> | 16,260,618     | <b>16,143,820</b> | 15,381,137     |
| <b>(iii) By type of customer</b>  |                   |                |                   |                |
| Government and statutory bodies   | <b>4,414,394</b>  | 4,678,106      | <b>2,385,711</b>  | 2,579,358      |
| Business enterprise   | <b>9,529,283</b>  | 8,025,642      | <b>8,177,393</b>  | 7,350,158      |
| Individuals   | <b>3,467,846</b>  | 3,317,576      | <b>3,183,438</b>  | 3,054,796      |
| Others  | <b>7,816,266</b>  | 7,454,602      | <b>7,233,026</b>  | 6,796,362      |
|   | <b>25,227,789</b> | 23,475,926     | <b>20,979,568</b> | 19,780,674     |

**NOTES TO THE FINANCIAL STATEMENTS***for the financial year ended 31 December 2008***19) DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS**

|  | The Group        |                  | The Bank         |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2008<br>RM'000   | 2007<br>RM'000   | 2008<br>RM'000   | 2007<br>RM'000   |
| Licensed banks                                 | 993,437          | 538,420          | 993,437          | 538,420          |
| Licensed investment banks                      | 339,350          | –                | 339,350          | –                |
| Bank Negara Malaysia                           | 65,353           | 327,280          | 42,532           | 322,565          |
| Other financial institutions                   | 2,422,747        | 3,536,091        | 1,546,723        | 1,667,083        |
|  | <b>3,820,887</b> | <b>4,401,791</b> | <b>2,922,042</b> | <b>2,528,068</b> |
| Maturity structure of deposits are as follows: |                  |                  |                  |                  |
| Due within six months                          | 3,816,142        | 4,367,891        | 2,917,297        | 2,494,786        |
| Six months to one year                         | 4,745            | 33,900           | 4,745            | 33,282           |
|  | <b>3,820,887</b> | <b>4,401,791</b> | <b>2,922,042</b> | <b>2,528,068</b> |

**20) RECOURSE OBLIGATION ON LOANS SOLD TO CAGAMAS BERHAD**

In the normal course of banking operations, the Bank sells loans to Cagamas Berhad with recourse at values equivalent to the unpaid principal balances of loans and advances due from the borrowers.

The Bank is liable in respect of housing loans and hire purchase portfolio sold directly and indirectly to Cagamas Berhad, under the condition that the Bank undertakes to administer these loans on behalf of Cagamas Berhad and to buy back any loans which are regarded as defective based on an agreed prudential criteria. Such financing transactions and the obligations to buy back the loans are reflected as a liability in the balance sheet.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 21) OTHER LIABILITIES

|  | The Group      |                | The Bank       |                |
|--|----------------|----------------|----------------|----------------|
|  | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| Bank Negara Malaysia and Credit Guarantee Corporation Funding programmes | 69,358         | 124,254        | 69,358         | 124,214        |
| Margin and collateral deposits   | 43,916         | 38,723         | 42,375         | 34,928         |
| Accrued interest payable   | 171,275        | 149,818        | 157,376        | 138,307        |
| Sundry creditors   | 181,775        | 181,425        | 161,154        | 174,151        |
| Defined contribution plan (Note a)                                       | 9,171          | 8,097          | 8,951          | 7,969          |
| Accrued employee benefits (Note b)                                       | 125            | 500            | 105            | 470            |
| Derivative liabilities (Note c)  | 81,393         | 25,899         | 81,393         | 25,899         |
|  | <b>557,013</b> | <b>528,716</b> | <b>520,712</b> | <b>505,938</b> |

#### (a) Defined contribution plan

The Group and the Bank contributes to the Employees' Provident Fund ('EPF'), the national defined contribution plan. Once the contributions have been paid, the Group and the Bank have no further payment obligations.

#### (b) Accrued employee benefits

This refers to the accruals for short-term employee benefits for leave entitlement. Under employment contract, employees earn their leave entitlement which they are entitled to carry forward and will lapse if not utilised in the following accounting period. Accruals are made for the estimated liability for unutilised annual leave.

#### (c) Derivative liabilities

|                               | The Group and The Bank<br>2008            |                       | The Group and The Bank<br>2007            |                       |
|-------------------------------|---|-----------------------|---|-----------------------|
|                               | Contract/<br>notional<br>amount<br>RM'000 | Liabilities<br>RM'000 | Contract/<br>notional<br>amount<br>RM'000 | Liabilities<br>RM'000 |
| <b>At fair value</b>          |   |                       |   |                       |
| Foreign exchange derivatives: |   |                       |   |                       |
| – currency forwards           | 391,600                                   | 7,134                 | 390,740                                   | 7,422                 |
| – currency options            | –   | –                     | 48,992                                    | 318                   |
| Interest rate derivatives:    |   |                       |   |                       |
| – currency swaps              | 445,942                                   | 16,159                | 609,880                                   | 14,214                |
| – interest rate swap          | 1,198,939                                 | 58,100                | 388,468                                   | 3,945                 |
|                               | <b>2,036,481</b>                          | <b>81,393</b>         | <b>1,438,080</b>                          | <b>25,899</b>         |

**NOTES TO THE FINANCIAL STATEMENTS***for the financial year ended 31 December 2008***22) AMOUNT DUE TO SUBSIDIARIES**

The amount due to subsidiaries is unsecured, interest-free and have no fixed terms of repayment.

**23) SUBORDINATED TERM LOAN**

The subordinated bonds 2002/2006 ('The Bonds') were issued at a nominal value of RM500 million in multiples of RM1,000,000, which are subordinated to all other liabilities. The Bonds were constituted by Trust Deeds dated 28 December 2001 and were issued on 31 December 2001. The Bonds are unsecured and redeemable in full on 31 December 2006, five years from the issue date.

On 31 December 2003, the Bank restructured the Bonds into a new 10 years subordinated term loan of the same value, with a revised coupon rate. The principal terms and conditions of the subordinated term loan remain similar to the Bonds. The new subordinated term loan has a prepayment option after the end of Year 5 and at each subsequent interest payment date, giving the Bank the right, subject to BNM approval, to repay the subordinated term loan after the end of Year 5.

The nominal value and coupon rate of the subordinated term loan, payable semi-annually are as follows:

|              |  |
|--------------|--|
| Value:       | RM500 million  |
| Coupon rate: | 7.30% per annum for a period of twenty months from the issue date, 6.80% per annum for the next sixteen months, 6.25% per annum for the next twelve months, 6.00% per annum for the next twelve months and thereafter the higher of 5 years Malaysian Government Securities interest rate plus 300 basis points or |
|              | Year 6 6.75%   |
|              | Year 7 7.25%   |
|              | Year 8 7.75%   |
|              | Year 9 8.25%   |
|              | Year 10 8.75%  |

In respect of the subordinated term loan, the Bank has undertaken to pledge the Bank's securities of RM10,000,000 every month beginning from one month after the issue date (31 January 2004) until the end of the third year after the issue date. These securities may only be used to fund the payment of any monies under the Trust Deed and/or the subordinated term loan which is due and unpaid.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 24) SHARE CAPITAL

|  | Number of ordinary shares of RM1 each |              | The Group and The Bank |                |
|--|---------------------------------------|--------------|------------------------|----------------|
|  | 2008<br>'000                          | 2007<br>'000 | 2008<br>RM'000         | 2007<br>RM'000 |
| <b>Authorised:</b>                     |                                       |              |                        |                |
| At beginning/end of the financial year | <b>2,000,000</b>                      | 2,000,000    | <b>2,000,000</b>       | 2,000,000      |
| <b>Issued and fully paid:</b>          |                                       |              |                        |                |
| At beginning of the financial year     | <b>1,439,285</b>                      | 1,290,283    | <b>1,439,285</b>       | 1,290,283      |
| Issued during the financial year       | -                                     | 149,002      | -                      | 149,002        |
| At end of the financial year           | <b>1,439,285</b>                      | 1,439,285    | <b>1,439,285</b>       | 1,439,285      |

### 25) RESERVES

|                                    | The Group        |                | The Bank         |                |
|------------------------------------|------------------|----------------|------------------|----------------|
|                                    | 2008<br>RM'000   | 2007<br>RM'000 | 2008<br>RM'000   | 2007<br>RM'000 |
| <b>Distributable:</b>              |                  |                |                  |                |
| Retained profits                   | <b>273,579</b>   | 191,016        | <b>196,817</b>   | 131,629        |
| <b>Non-distributable:</b>          |                  |                |                  |                |
| Share premium                      | <b>408,389</b>   | 408,389        | <b>408,389</b>   | 408,389        |
| Investment fluctuation reserve     | <b>(36,924)</b>  | 11,070         | <b>(37,553)</b>  | 6,802          |
| Statutory reserve                  | <b>625,209</b>   | 461,240        | <b>573,204</b>   | 423,236        |
|                                    | <b>1,270,253</b> | 1,071,715      | <b>1,140,857</b> | 970,056        |
| <b>Statutory reserve</b>           |                  |                |                  |                |
| At beginning of the financial year | <b>461,240</b>   | 351,090        | <b>423,236</b>   | 332,806        |
| Transfer from retained profits     | <b>163,969</b>   | 110,150        | <b>149,968</b>   | 90,430         |
| At end of the financial year       | <b>625,209</b>   | 461,240        | <b>573,204</b>   | 423,236        |

- (a) Subject to agreement by the Inland Revenue Board, the Bank has sufficient tax credit under Section 108 of the Income Tax Act, 1967 and the balance in the tax exempt account to frank the payment of dividends out of the Bank's entire retained profits as at 31 December 2008.
- (b) The statutory reserves of the Group and the Bank are maintained in compliance with the provisions of the Banking and Financial Institutions Act, 1989 and are not distributable as cash dividends.
- (c) Investment fluctuation reserves represent the unrealised gains or losses arising from the change in fair value of investments classified as available-for-sale securities. The gains or losses are transferred in the income statement upon disposal or when the securities become impaired.

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2008

**26) INTEREST INCOME**

|  | The Group        |                | The Bank         |                |
|--|------------------|----------------|------------------|----------------|
|  | 2008<br>RM'000   | 2007<br>RM'000 | 2008<br>RM'000   | 2007<br>RM'000 |
| Loans, advances and financing:                                   | <b>1,119,539</b> | 1,082,696      | <b>1,119,537</b> | 1,082,693      |
| – interest income other than recoveries from NPLs                | <b>1,042,657</b> | 971,620        | <b>1,042,657</b> | 971,620        |
| – recoveries from NPLs   | <b>76,882</b>    | 111,076        | <b>76,880</b>    | 111,073        |
| Money at call and deposit placements with financial institutions | <b>172,406</b>   | 247,198        | <b>182,443</b>   | 253,385        |
| Securities:  |                  |                |                  |                |
| – held-for-trading   | <b>927</b>       | 263            | <b>927</b>       | 263            |
| – available-for-sale   | <b>76,544</b>    | 57,568         | <b>76,544</b>    | 57,568         |
| – held-to-maturity   | <b>18,168</b>    | 33,301         | <b>18,105</b>    | 32,248         |
| Others   | <b>48,736</b>    | 55,016         | <b>51,377</b>    | 62,659         |
|  | <b>1,436,320</b> | 1,476,042      | <b>1,448,933</b> | 1,488,816      |
| Amortisation of premium less accretion of discount               | <b>40,385</b>    | 19,221         | <b>40,385</b>    | 19,221         |
| Interest suspended   | <b>(19,364)</b>  | (23,783)       | <b>(19,364)</b>  | (23,783)       |
|  | <b>1,457,341</b> | 1,471,480      | <b>1,469,954</b> | 1,484,254      |

**27) INTEREST EXPENSE**

|   | The Group      |                | The Bank       |                |
|---|----------------|----------------|----------------|----------------|
|   | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| Deposits and placements of banks and other financial institutions | <b>113,233</b> | 77,213         | <b>113,793</b> | 77,213         |
| Deposits from customers   | <b>585,454</b> | 623,003        | <b>585,487</b> | 623,031        |
| Subordinated term loan  | <b>30,151</b>  | 31,280         | <b>30,151</b>  | 31,280         |
| Loan sold to Cagamas Berhad                                       | <b>4,702</b>   | 20,352         | <b>4,702</b>   | 20,352         |
| Others  | <b>58,268</b>  | 97,369         | <b>58,268</b>  | 97,641         |
|   | <b>791,808</b> | 849,217        | <b>792,401</b> | 849,517        |

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 28) ISLAMIC BANKING INCOME

|  | The Group      |                |
|--|----------------|----------------|
|  | 2008<br>RM'000 | 2007<br>RM'000 |
| Income derived from investment of depositors' funds and others | 278,588        | 227,404        |
| Income derived from investment of shareholders' funds          | 12,062         | 11,240         |
| Total distributable income                                     | 290,650        | 238,644        |
| Income attributable to depositors                              | (142,516)      | (110,785)      |
|  | <b>148,134</b> | <b>127,859</b> |

### 29) OTHER OPERATING INCOME

|   | The Group      |                | The Bank       |                |
|---|----------------|----------------|----------------|----------------|
|   | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| <b>Fee income</b>   |                |                |                |                |
| Commission  | 14,629         | 16,728         | 14,629         | 16,728         |
| Service charges and fees  | 48,355         | 53,506         | 48,355         | 53,506         |
| Guarantee fees  | 27,652         | 20,706         | 27,652         | 20,706         |
| Management fees from subsidiary   | -              | -              | 43,366         | 32,672         |
| Other fee income  | 235            | 524            | 235            | 524            |
|   | <b>90,871</b>  | <b>91,464</b>  | <b>134,237</b> | <b>124,136</b> |
| <b>Securities income</b>  |                |                |                |                |
| Gains on sale/redemption of securities:                                 |                |                |                |                |
| - held-for-trading  | 2,901          | 4,417          | 2,901          | 4,417          |
| - available-for-sale  | 17,888         | 20,911         | 17,888         | 19,684         |
| - held-to-maturity  | 15,166         | 6,726          | 15,166         | 6,726          |
| Unrealised gains/(losses) on revaluation of held-for-trading securities | 189            | (388)          | 189            | (388)          |
| Gains/(losses) on derivatives:  |                |                |                |                |
| - realised  | 177            | 1,493          | 177            | 1,493          |
| - unrealised  | (29,217)       | (1,294)        | (29,217)       | (1,294)        |
| Gross dividends from Malaysia:  |                |                |                |                |
| - available-for-sale securities   | 212            | 581            | 212            | 581            |
| - held-to-maturity securities   | 4,394          | 3,321          | 4,394          | 3,321          |
|   | <b>11,710</b>  | <b>35,767</b>  | <b>11,710</b>  | <b>34,540</b>  |

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2008

**29) OTHER OPERATING INCOME (continued)**

|   | The Group      |                | The Bank       |                |
|---|----------------|----------------|----------------|----------------|
|   | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| <b>Other income</b>                       |                |                |                |                |
| Foreign exchange gains/(losses):          |                |                |                |                |
| – realised                                | <b>32,027</b>  | (8,189)        | <b>32,027</b>  | (8,189)        |
| – unrealised                              | <b>40,719</b>  | 59,222         | <b>40,719</b>  | 59,222         |
| Rental income                             | <b>1,493</b>   | 1,038          | <b>1,441</b>   | 985            |
| Gain on sale of property and equipment    | <b>9,928</b>   | 2,637          | <b>9,613</b>   | 2,637          |
| Gain on disposal of foreclosed properties | <b>2,883</b>   | 1,382          | <b>2,883</b>   | 1,382          |
| Other non-operating income                | <b>12,343</b>  | 10,946         | <b>9,194</b>   | 8,512          |
|   | <b>99,393</b>  | 67,036         | <b>95,877</b>  | 64,549         |
|   | <b>201,974</b> | 194,267        | <b>241,824</b> | 223,225        |

**30) OTHER OPERATING EXPENSES**

|   | The Group      |                | The Bank       |                |
|---|----------------|----------------|----------------|----------------|
|   | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| Personnel costs (a)                         | <b>239,618</b> | 247,871        | <b>228,711</b> | 241,123        |
| Establishment costs (b)                     | <b>151,429</b> | 129,649        | <b>148,666</b> | 128,369        |
| Marketing expenses (c)                      | <b>36,344</b>  | 34,840         | <b>31,317</b>  | 30,746         |
| Administrative and general expenses (d)     | <b>64,415</b>  | 56,795         | <b>57,748</b>  | 52,705         |
|   | <b>491,806</b> | 469,155        | <b>466,442</b> | 452,943        |
| (a) Personnel costs comprise the following: |                |                |                |                |
| Wages, salaries and bonus                   | <b>186,468</b> | 193,394        | <b>178,026</b> | 188,400        |
| Defined contribution plan ('EPF')           | <b>29,766</b>  | 28,062         | <b>28,390</b>  | 27,270         |
| Other personnel costs                       | <b>23,384</b>  | 26,415         | <b>22,295</b>  | 25,453         |
|   | <b>239,618</b> | 247,871        | <b>228,711</b> | 241,123        |

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 30) OTHER OPERATING EXPENSES (continued)

|  | The Group      |                | The Bank       |                |
|--|----------------|----------------|----------------|----------------|
|  | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| (b) Establishment costs comprise the following:                    |                |                |                |                |
| Rental of premises   | 17,093         | 17,127         | 16,842         | 17,322         |
| Equipment rental   | 2,107          | 1,331          | 2,093          | 1,322          |
| Repair and maintenance   | 21,006         | 19,136         | 20,504         | 18,872         |
| Depreciation   | 22,514         | 21,227         | 21,829         | 21,074         |
| Amortisation of intangible assets                                  | 17,737         | 15,596         | 17,245         | 15,113         |
| Lease rental – leasehold properties                                | 465            | 271            | 457            | 231            |
| IT consultancy fee   | 39,758         | 25,360         | 39,758         | 25,360         |
| Dataline rental  | 5,939          | 6,268          | 5,938          | 6,268          |
| Security services  | 8,333          | 7,367          | 8,137          | 7,367          |
| Electricity, water and sewerage                                    | 7,180          | 6,205          | 7,074          | 6,200          |
| Other establishment costs  | 9,297          | 9,761          | 8,789          | 9,240          |
|  | <b>151,429</b> | 129,649        | <b>148,666</b> | 128,369        |
| (c) Marketing expenses comprise the following:                     |                |                |                |                |
| Dealers' handling charges  | 27,101         | 25,769         | 22,964         | 22,297         |
| Business promotion and advertisement                               | 2,594          | 2,430          | 2,302          | 2,154          |
| Entertainment  | 1,913          | 2,363          | 1,856          | 2,294          |
| Travelling and accommodation                                       | 3,226          | 3,062          | 2,831          | 2,878          |
| Other marketing expenses   | 1,510          | 1,216          | 1,364          | 1,123          |
|  | <b>36,344</b>  | 34,840         | <b>31,317</b>  | 30,746         |
| (d) Administration and general expenses<br>comprise the following: |                |                |                |                |
| Telecommunication expenses   | 5,288          | 4,864          | 5,194          | 4,841          |
| Auditors' remuneration   | 943            | 836            | 702            | 651            |
| Professional fees  | 19,031         | 13,279         | 14,486         | 10,891         |
| Property and equipment written-off                                 | 845            | 1,152          | 816            | 1,152          |
| Foreclosed properties – diminution in value                        | 558            | 11,836         | 558            | 11,836         |
| Mail and courier charges   | 5,466          | 5,512          | 5,379          | 5,396          |
| Stationery and consumables   | 6,963          | 7,119          | 6,373          | 6,598          |
| Other administration and general expenses                          | 25,321         | 12,197         | 24,240         | 11,340         |
|  | <b>64,415</b>  | 56,795         | <b>57,748</b>  | 52,705         |

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2008

**30) OTHER OPERATING EXPENSES (continued)**

The above expenditure includes the following statutory disclosure:

|  | The Group      |                | The Bank       |                |
|--|----------------|----------------|----------------|----------------|
|  | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| Directors' remuneration (Note 31)      | 9,339          | 5,983          | 8,896          | 5,773          |
| Rental of premises                     | 17,093         | 17,127         | 16,842         | 17,322         |
| Equipment rental                       | 2,107          | 1,331          | 2,093          | 1,322          |
| Auditors' remuneration:                |                |                |                |                |
| – statutory audit fees                 | 694            | 636            | 546            | 506            |
| – non audit fees                       | 249            | 200            | 156            | 145            |
| Depreciation of property and equipment | 22,514         | 21,227         | 21,829         | 21,074         |
| Amortisation of intangible assets      | 17,737         | 15,596         | 17,245         | 15,113         |
| Property and equipment written-off     | 845            | 1,152          | 816            | 1,152          |

**31) DIRECTORS' REMUNERATION**

The Directors of the Bank who have held office during the financial year are as follows:

**Executive Director**

Dato' Sri Abdul Hamidy bin Abdul Hafiz

**Non-Executive Directors**

Gen Tan Sri Dato' Seri Ismail bin Haji Omar (Rtd)

Tan Sri Dato' Lodin bin Wok Kamaruddin  
(Directorship from 1 January 2008 to 29 March 2008)

Dr. Raja Abdul Malek bin Raja Jallaludin

Vice Admiral Dato' Seri Ahmad Ramli bin Mohd Nor (Rtd)

Datuk Razman Md. Hashim bin Che Din Md. Hashim

Dato' Dr Lee Chee Kuon

Dato' Sri Abdul Aziz bin Abdul Rahman

Mr Aubrey Li Kwok-Sing (appointed on 17 March 2008)

Mr Brian Li Man-Bun (appointed on 22 May 2008)  
(Alternate director to Mr Aubrey Li Kwok-Sing)

Mr Stephen Charles Li (appointed on 17 March 2008)

Mr Eric Koh Thong Hau (appointed on 17 March 2008)  
(Alternate director to Mr Stephen Charles Li)

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 31) DIRECTORS' REMUNERATION (continued)

The Directors were granted options under AFFIN Holding Berhad's ('AHB') Employee Share Option Scheme ('ESOS') on the same terms and conditions as those employees of AFFIN Group (Note 33(c)). The number of options granted to the Directors under the ESOS are as follows:

|  | As at<br>1.1.2008 | Granted | Exercised | As at<br>31.12.2008 |
|--|-------------------|---------|-----------|---------------------|
| <b>AFFIN Holdings Berhad</b>           |                   |         |           |                     |
| Tan Sri Dato' Lodin bin Wok Kamaruddin | 800,000           | -       | 800,000   | -                   |

The aggregate amount of remuneration for the Directors of the Bank for the financial years were as follows:

|                                     | The Group      |                | The Bank       |                |
|-------------------------------------|----------------|----------------|----------------|----------------|
|                                     | 2008<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2007<br>RM'000 |
| <b>Executive Directors</b>          |                |                |                |                |
| - Salaries                          | 1,757          | 1,597          | 1,757          | 1,597          |
| - Bonuses                           | 3,474          | 2,553          | 3,474          | 2,553          |
| - Defined contribution plan ('EPF') | 847            | 674            | 847            | 674            |
| - Other employee benefits           | 60             | 60             | 60             | 60             |
| - Benefits-in-kind                  | 121            | 115            | 121            | 115            |
| <b>Non-Executive Directors</b>      |                |                |                |                |
| - Fees                              | 3,045          | 956            | 2,602          | 746            |
| - Benefits-in-kind                  | 35             | 28             | 35             | 28             |
| Directors' remuneration (Note 30)   | <b>9,339</b>   | 5,983          | <b>8,896</b>   | 5,773          |
| Shariah Committee                   | 112            | 24             | -              | -              |
|                                     | <b>9,451</b>   | 6,007          | <b>8,896</b>   | 5,773          |

The remuneration attributable to the Managing Director/Chief Executive Officer of the Bank, including benefits-in-kind during the financial year amounted to RM6,259,000 (2007: RM4,999,000).

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2008

**31) DIRECTORS' REMUNERATION (continued)**

The number of Directors of the Bank whose total remuneration (including benefits-in-kind) received from the Group falls into the following remuneration bands:

| 2008                      | The Group |               | The Bank  |               |
|---------------------------|-----------|---------------|-----------|---------------|
|                           | Executive | Non-Executive | Executive | Non-Executive |
| Remuneration band:        |           |               |           |               |
| RM0 – RM50,000            | –         | 2             | –         | 2             |
| RM50,001 – RM100,000      | –         | 2             | –         | 2             |
| RM100,001 – RM150,000     | –         | 1             | –         | 1             |
| RM150,001 – RM200,000     | –         | 2             | –         | 2             |
| RM200,001 – RM250,000     | –         | 3             | –         | 3             |
| RM250,001 – RM300,000     | –         | 1             | –         | 1             |
| RM300,001 – RM350,000     | 1         | –             | 1         | –             |
| RM350,001 – RM400,000     | –         | –             | –         | –             |
| RM400,001 – RM450,000     | –         | –             | –         | –             |
| RM450,001 – RM500,000     | –         | –             | –         | –             |
| RM500,001 – RM6,250,000   | –         | –             | –         | –             |
| RM6,250,001 – RM6,300,000 | 1         | –             | 1         | –             |
|                           | <hr/>     | <hr/>         | <hr/>     | <hr/>         |
| 2007                      |           |               |           |               |
| Remuneration band:        |           |               |           |               |
| RM0 – RM50,000            | –         | 3             | –         | 3             |
| RM50,001 – RM100,000      | –         | 3             | –         | 3             |
| RM100,001 – RM150,000     | –         | 1             | –         | 1             |
| RM150,001 – RM200,000     | –         | –             | –         | –             |
| RM200,001 – RM250,000     | –         | –             | –         | –             |
| RM250,001 – RM4,950,000   | 1         | –             | 1         | –             |
| RM4,950,001 – RM5,000,000 | –         | –             | –         | –             |
|                           | <hr/>     | <hr/>         | <hr/>     | <hr/>         |

**32) ALLOWANCES FOR LOSSES ON LOANS, ADVANCES AND FINANCING**

|  | The Group |           | The Bank  |           |
|--|-----------|-----------|-----------|-----------|
|  | 2008      | 2007      | 2008      | 2007      |
|  | RM'000    | RM'000    | RM'000    | RM'000    |
| Allowance for bad and doubtful debts on loans and financing: |           |           |           |           |
| Specific allowance   |           |           |           |           |
| – made in the financial year                                 | 363,522   | 519,383   | 345,959   | 515,778   |
| – written-back   | (114,718) | (131,103) | (113,329) | (122,327) |
| General allowance  |           |           |           |           |
| – made in the financial year                                 | 31,599    | 6,576     | 20,595    | –         |
| – written-back   | (290)     | –         | –         | –         |
| Bad debts and financing                                      |           |           |           |           |
| – recovered  | (236,533) | (257,116) | (235,251) | (255,486) |
| – written-off  | 8,922     | 4,041     | 8,703     | 3,894     |
|  | <hr/>     | <hr/>     | <hr/>     | <hr/>     |
|  | 52,502    | 141,781   | 26,677    | 141,859   |

## **NOTES TO THE FINANCIAL STATEMENTS**

*for the financial year ended 31 December 2008*

### **33) SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties that have transactions and their relationship with the Bank are as follows:

| <b>Related parties</b>  | <b>Relationships</b>  |
|---|---|
| Lembaga Tabung Angkatan Tentera ('LTAT')                                    | Ultimate holding corporate body   |
| AFFIN Holdings Berhad ('AHB')   | Holding company   |
| Subsidiaries and associate of LTAT  | Subsidiary and associated companies of the ultimate holding corporate body  |
| Subsidiaries and associate of AHB as disclosed in its financial statements  | Subsidiary and associated companies of the holding company  |
| Subsidiaries of AFFIN Bank Berhad as disclosed in Note 12                   | Subsidiaries  |
| Joint controlled entity as disclosed in Note 13                             | Joint controlled entity of subsidiary   |
| Voting shares in body corporate not less than 15% of votes                  | Other related companies   |
| Key management personnel  | The key management personnel of the Bank consists of:<br>– Chief Executive Officer<br>– Members of Senior Management team and the company secretary   |
| Related parties of key management personnel (deemed as related to the Bank) | – Close family members and dependents of key management personnel<br>– Entities that are controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members |

Key management personnel includes the directors of the company in office during the year and their remuneration for the financial year are disclosed in Note 33(c).

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2008

**33) SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

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

|                                     | Ultimate holding corporate body |        | Subsidiaries |         | Other related companies |         | Companies in which certain Directors have substantial interest |        |
|-------------------------------------|---------------------------------|--------|--------------|---------|-------------------------|---------|--|--------|
|                                     | 2008                            | 2007   | 2008         | 2007    | 2008                    | 2007    | 2008   | 2007   |
|                                     | RM'000                          | RM'000 | RM'000       | RM'000  | RM'000                  | RM'000  | RM'000   | RM'000 |
| <b>The Group</b>                    |                                 |        |              |         |                         |         |  |        |
| <b>Sales</b>                        |                                 |        |              |         |                         |         |  |        |
| Negotiable Instruments of Deposit   | 2,900                           | 82,215 | -            | -       | 150,000                 | 250,000 | -  | -      |
|                                     | <b>2,900</b>                    | 82,215 | -            | -       | <b>150,000</b>          | 250,000 | -  | -      |
| <b>Purchases</b>                    |                                 |        |              |         |                         |         |  |        |
| Private debt securities in Malaysia | -                               | -      | -            | -       | 350,000                 | 281,724 | -  | -      |
|                                     | -                               | -      | -            | -       | <b>350,000</b>          | 281,724 | -  | -      |
| <b>The Bank</b>                     |                                 |        |              |         |                         |         |  |        |
| <b>Sales</b>                        |                                 |        |              |         |                         |         |  |        |
| Negotiable Instruments of Deposit   | -                               | -      | -            | -       | 150,000                 | 250,000 | -  | -      |
|                                     | -                               | -      | -            | -       | <b>150,000</b>          | 250,000 | -  | -      |
| <b>Purchases</b>                    |                                 |        |              |         |                         |         |  |        |
| Malaysian Government securities     | -                               | -      | -            | 77,244  | -                       | -       | -  | -      |
| Private debt securities in Malaysia | -                               | -      | -            | 25,965  | 350,000                 | 281,724 | -  | -      |
|                                     | -                               | -      | -            | 103,209 | <b>350,000</b>          | 281,724 | -  | -      |

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 33) SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(b) Related parties balances

|   | Ultimate holding corporate body |               | Holding company |              | Other related companies |               | Companies in which certain Directors have substantial interest |           |
|---|---------------------------------|---------------|-----------------|--------------|-------------------------|---------------|--|-----------|
|   | 2008                            | 2007          | 2008            | 2007         | 2008                    | 2007          | 2008   | 2007      |
|   | RM'000                          | RM'000        | RM'000          | RM'000       | RM'000                  | RM'000        | RM'000   | RM'000    |
| <b>The Group</b>  |                                 |               |                 |              |                         |               |  |           |
| <b>Income</b>   |                                 |               |                 |              |                         |               |  |           |
| Interest on private debt securities   | -                               | -             | -               | -            | 3,773                   | 2,985         | -  | -         |
| Interest on advances  | -                               | -             | -               | -            | 9,955                   | 5,651         | 1  | 1         |
| Interest on deposits and placements with banks and other financial institutions | -                               | -             | -               | -            | 1,877                   | 221           | -  | -         |
| Other income  | -                               | -             | -               | 40           | 3,780                   | 2,818         | -  | -         |
|   | <u>-</u>                        | <u>-</u>      | <u>-</u>        | <u>40</u>    | <u>19,385</u>           | <u>11,675</u> | <u>1</u>   | <u>1</u>  |
| <b>Expenditure</b>  |                                 |               |                 |              |                         |               |  |           |
| Interest on fixed deposits  | 1,190                           | 31            | 8,245           | 6,785        | 13,049                  | 2,588         | -  | -         |
| Interest on negotiable instruments of deposit                                   | 2,378                           | 20,445        | -               | -            | 2,766                   | 1,925         | -  | -         |
| Interest on deposits and placements of banks and other financial institutions   | -                               | -             | -               | -            | -                       | 564           | -  | -         |
| Interest on special investment account  | 325                             | -             | -               | -            | 2,042                   | -             | 3  | -         |
| Interest on money market deposits   | 9,267                           | -             | 3,275           | 203          | 6,837                   | 811           | 7  | -         |
| Interest on repurchase agreements   | -                               | 12,952        | -               | -            | -                       | 29            | -  | -         |
| Brokerage fees  | -                               | -             | -               | -            | 464                     | 444           | -  | -         |
| Rental  | 737                             | 985           | -               | -            | 9,971                   | 10,022        | -  | -         |
| Others  | -                               | 3             | -               | -            | 2,213                   | 1,174         | 1  | 92        |
|   | <u>13,897</u>                   | <u>34,416</u> | <u>11,520</u>   | <u>6,988</u> | <u>37,342</u>           | <u>17,557</u> | <u>11</u>  | <u>92</u> |

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2008

**33) SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

(b) Related parties balances (continued)

|   | Ultimate holding corporate body |         | Holding Company |         | Other related companies |         | Companies in which certain Directors have substantial interest |        |
|---|---------------------------------|---------|-----------------|---------|-------------------------|---------|--|--------|
|   | 2008                            | 2007    | 2008            | 2007    | 2008                    | 2007    | 2008   | 2007   |
|   | RM'000                          | RM'000  | RM'000          | RM'000  | RM'000                  | RM'000  | RM'000   | RM'000 |
| <b>The Group</b>  |                                 |         |                 |         |                         |         |  |        |
| <b>Amount due from</b>  |                                 |         |                 |         |                         |         |  |        |
| Private debt securities   | -                               | -       | -               | -       | 50,180                  | 66,066  | -  | -      |
| Advances  | -                               | -       | -               | -       | 370,935                 | 242,479 | -  | -      |
| Interest receivable on private debt securities                    | -                               | -       | -               | -       | 866                     | -       | -  | -      |
| Brokerage fees  | -                               | -       | -               | -       | -                       | 3       | -  | -      |
| Security deposits   | 196                             | 298     | -               | -       | 2,515                   | 2,507   | -  | -      |
|   | <b>196</b>                      | 298     | -               | -       | <b>424,496</b>          | 311,055 | -  | -      |
| <b>Amount due to</b>  |                                 |         |                 |         |                         |         |  |        |
| Demand and fixed deposits   | 80,387                          | 223,226 | 324,698         | 469,298 | 429,459                 | 340,023 | 15   | 34     |
| Negotiable instruments of deposit                                 | 2,900                           | 82,215  | -               | -       | 150,000                 | 250,000 | 76   | -      |
| Deposits and placements of banks and other financial institutions | -                               | -       | -               | -       | 110,216                 | -       | -  | -      |
| Special investment account  | 15,000                          | -       | -               | -       | 40,429                  | 9,199   | -  | -      |
| Money market deposits   | 178,632                         | 336,027 | 4,710           | 3,005   | 72,538                  | 238,250 | 317  | -      |
| Interest payable  | 305                             | 706     | 287             | 678     | 3,573                   | 1,467   | -  | -      |
| Other payable   | -                               | -       | -               | -       | 1                       | -       | -  | -      |
|   | <b>277,224</b>                  | 642,174 | <b>329,695</b>  | 472,981 | <b>806,216</b>          | 838,939 | <b>408</b>   | 34     |

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 33) SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(b) Related parties balances (continued)

|   | Ultimate holding corporate body |        | Holding Company |        | Subsidiaries |        | Other related companies |        | Companies in which certain Directors have substantial interest |        |
|---|---------------------------------|--------|-----------------|--------|--------------|--------|-------------------------|--------|--|--------|
|   | 2008                            | 2007   | 2008            | 2007   | 2008         | 2007   | 2008                    | 2007   | 2008   | 2007   |
|   | RM'000                          | RM'000 | RM'000          | RM'000 | RM'000       | RM'000 | RM'000                  | RM'000 | RM'000   | RM'000 |
| <b>The Bank</b>   |                                 |        |                 |        |              |        |                         |        |  |        |
| <b>Income</b>   |                                 |        |                 |        |              |        |                         |        |  |        |
| Interest on special investment account  | -                               | -      | -               | -      | 7,305        | 6,190  | -                       | -      | -  | -      |
| Interest on private debt securities   | -                               | -      | -               | -      | -            | -      | 3,773                   | 2,985  | -  | -      |
| Interest on advances  | -                               | -      | -               | -      | -            | -      | 9,955                   | 5,650  | 1  | 1      |
| Interest on deposits and placements with banks and other financial institutions | -                               | -      | -               | -      | 2,732        | -      | 1,877                   | 220    | -  | -      |
| Other income  | -                               | -      | -               | 40     | 46,444       | 34,935 | 3,780                   | 2,818  | -  | -      |
|   | -                               | -      | -               | 40     | 56,481       | 41,125 | 19,385                  | 11,673 | 1  | 1      |
| <b>Expenditure</b>  |                                 |        |                 |        |              |        |                         |        |  |        |
| Interest on fixed deposits  | 1,190                           | 31     | 8,245           | 6,785  | 33           | 25     | 12,322                  | 2,500  | -  | -      |
| Interest on negotiable instruments of deposit                                   | -                               | -      | -               | -      | -            | -      | 2,766                   | 1,925  | -  | -      |
| Interest on deposits and placements of banks and other financial institutions   | -                               | -      | -               | -      | -            | -      | -                       | 564    | -  | -      |
| Interest on money market deposits   | 9,267                           | 14,237 | 3,275           | 203    | 560          | -      | 6,837                   | 811    | 7  | -      |
| Interest on repurchase agreements   | -                               | 12,945 | -               | -      | -            | 271    | -                       | 29     | -  | -      |
| Brokerage fees  | -                               | -      | -               | -      | -            | -      | 445                     | 430    | -  | -      |
| Rental  | 737                             | 985    | -               | -      | 384          | 405    | 9,971                   | 10,022 | -  | -      |
| Others  | -                               | 3      | -               | -      | -            | -      | 2,062                   | 1,174  | 1  | 92     |
|   | 11,194                          | 28,201 | 11,520          | 6,988  | 977          | 701    | 34,403                  | 17,455 | 8  | 92     |

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2008

**33) SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

(b) Related parties balances (continued)

|   | Ultimate holding corporate body |                | Holding Company |                | Subsidiaries   |                | Other related companies |                | Companies in which certain Directors have substantial interest |           |
|---|---------------------------------|----------------|-----------------|----------------|----------------|----------------|-------------------------|----------------|--|-----------|
|   | 2008                            | 2007           | 2008            | 2007           | 2008           | 2007           | 2008                    | 2007           | 2008   | 2007      |
|   | RM'000                          | RM'000         | RM'000          | RM'000         | RM'000         | RM'000         | RM'000                  | RM'000         | RM'000   | RM'000    |
| <b>The Bank</b>   |                                 |                |                 |                |                |                |                         |                |  |           |
| <b>Amount due from</b>  |                                 |                |                 |                |                |                |                         |                |  |           |
| Special investment account  | -                               | -              | -               | -              | 176,000        | 189,000        | -                       | -              | -  | -         |
| Private debt securities   | -                               | -              | -               | -              | -              | -              | 50,180                  | 66,066         | -  | -         |
| Advances  | -                               | -              | -               | -              | -              | -              | 370,935                 | 242,471        | -  | -         |
| Deposits and placements with banks and other financial institutions | -                               | -              | -               | -              | 168,561        | -              | -                       | -              | -  | -         |
| Interest receivable   | -                               | -              | -               | -              | 6,683          | -              | 866                     | -              | -  | -         |
| Brokerage fees  | -                               | -              | -               | -              | -              | -              | -                       | 1              | -  | -         |
| Intercompany balances   | -                               | -              | -               | -              | 256,192        | 210,256        | -                       | -              | -  | -         |
| Security deposits   | 196                             | 298            | -               | -              | -              | -              | 2,515                   | 2,507          | -  | -         |
|   | <b>196</b>                      | <b>298</b>     | <b>-</b>        | <b>-</b>       | <b>607,436</b> | <b>399,256</b> | <b>424,496</b>          | <b>311,045</b> | <b>-</b>   | <b>-</b>  |
| <b>Amount due to</b>  |                                 |                |                 |                |                |                |                         |                |  |           |
| Demand and fixed deposits   | 79,845                          | 222,905        | 324,698         | 469,298        | 3,899          | 13,361         | 401,866                 | 276,663        | 15   | 34        |
| Negotiable Instruments of Deposit                                   | -                               | -              | -               | -              | -              | -              | 150,000                 | 250,000        | -  | -         |
| Deposits and placements of banks and other financial institutions   | -                               | -              | -               | -              | -              | -              | 110,216                 | -              | -  | -         |
| Money market deposits   | 178,632                         | 336,027        | 4,710           | 3,005          | 17,800         | 16,200         | 72,538                  | 238,250        | 317  | -         |
| Interest payable  | 213                             | 706            | 287             | 678            | 77             | 1              | 3,446                   | 1,454          | -  | -         |
| Intercompany balances   | -                               | -              | -               | -              | 31,886         | 21,300         | -                       | -              | -  | -         |
|   | <b>258,690</b>                  | <b>559,638</b> | <b>329,695</b>  | <b>472,981</b> | <b>53,662</b>  | <b>50,862</b>  | <b>738,066</b>          | <b>766,367</b> | <b>332</b>   | <b>34</b> |

The significant related party transactions and balances described above were carried out on terms and conditions obtainable on transactions with unrelated parties except for amount due from subsidiaries of RM224.3 million (2007: amount due from subsidiaries of RM189.0 million). Amount due from/(to) subsidiaries are unsecured, interest free and have no fixed terms of repayment.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 33) SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(c) Key management personnel compensation

The remuneration of key management personnel of the Group and the Bank during the year are as follows:

|                                     | <b>The Group</b> |        | <b>The Bank</b> |        |
|-------------------------------------|------------------|--------|-----------------|--------|
|                                     | <b>2008</b>      | 2007   | <b>2008</b>     | 2007   |
|                                     | <b>RM'000</b>    | RM'000 | <b>RM'000</b>   | RM'000 |
| Short-term employment benefits:     |                  |        |                 |        |
| – Salaries                          | <b>6,009</b>     | 5,245  | <b>5,272</b>    | 4,648  |
| – Bonuses                           | <b>7,257</b>     | 6,316  | <b>6,617</b>    | 5,883  |
| – Defined contribution plan ('EPF') | <b>2,233</b>     | 1,963  | <b>1,993</b>    | 1,776  |
| – Other employee benefits           | <b>687</b>       | 679    | <b>564</b>      | 539    |
| – Benefits-in-kind                  | <b>449</b>       | 478    | <b>375</b>      | 401    |
|                                     | <b>16,635</b>    | 14,681 | <b>14,821</b>   | 13,247 |

Included in the above table are Directors' remuneration as disclosed in Note 31.

The key management personnel were granted options under AHB's Employee Share Option Scheme ('ESOS') which has expired on 13 February 2008. The ESOS was offered to eligible employees in AFFIN Group on 14 February 2003 and 5 December 2005 at the subscription rate per share of RM1.00 and RM1.41 respectively.

The main features of the ESOS are as follows:

- Only staff, Executive Directors and Non-Executive Directors of AFFIN Group who on the date of allocation have been so appointed are eligible to participate in the ESOS.
- Options granted under the ESOS carry no dividend or voting rights. Upon exercise of the options, shares issued rank pari passu in all respects with existing ordinary shares of AHB.
- The persons to whom the options have been granted have no right to participate by virtue of the options in any share issue of any other company.

A total of 3,020,000 ESOS options, comprising 410,000 share options at RM1.00 per share and 2,610,000 share options at RM1.41 per share were granted to the key management personnel of the Group. As at 31 December 2008, Nil share options at RM1.00 per share (2007: Nil share options) and Nil share options at RM1.41 per share (2007: 1,070,000 share options) remained unexercised.

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2008

**34) TAXATION**

|   | The Group       |                | The Bank        |                |
|---|-----------------|----------------|-----------------|----------------|
|   | 2008<br>RM'000  | 2007<br>RM'000 | 2008<br>RM'000  | 2007<br>RM'000 |
| The taxation charge arising in Malaysia for the financial year: |                 |                |                 |                |
| – current tax   | <b>135,016</b>  | 32,262         | <b>125,912</b>  | 14,378         |
| – under/(over) provision in prior year                          | <b>392</b>      | 1,206          | <b>(57)</b>     | –              |
| – deferred tax (Note 10)  | <b>(14,451)</b> | 53,843         | <b>(16,238)</b> | 55,972         |
| Tax expense for the year  | <b>120,957</b>  | 87,311         | <b>109,617</b>  | 70,350         |

|   | The Group     |           | The Bank      |           |
|---|---------------|-----------|---------------|-----------|
|   | 2008<br>%     | 2007<br>% | 2008<br>%     | 2007<br>% |
| Statutory tax rate in Malaysia                    | <b>26.00</b>  | 27.00     | <b>26.00</b>  | 27.00     |
| Tax effect in respect of:                         |               |           |               |           |
| Change in tax rate                                | <b>0.44</b>   | 0.42      | <b>0.49</b>   | 0.52      |
| Non-allowable expenses                            | <b>0.97</b>   | 0.89      | <b>1.05</b>   | 1.11      |
| Non-taxable income                                | <b>(0.77)</b> | (0.71)    | <b>(0.77)</b> | (0.78)    |
| Utilisation of previously unrecognised tax losses | <b>(0.07)</b> | (0.83)    | –             | –         |
| Effect of different tax rate (Labuan branch)      | –             | (0.10)    | –             | (0.12)    |
| Under/(over) accrual in prior years               | <b>0.09</b>   | 0.37      | <b>(0.01)</b> | –         |
| Others  | <b>(0.05)</b> | 0.07      | –             | 0.27      |
| Average effective tax rate                        | <b>26.61</b>  | 27.11     | <b>26.76</b>  | 28.00     |

Tax savings during the financial year due to the recognition of previously unrecognised tax losses amounted to RM329,000 (2007: RM2,684,000).

**35) EARNINGS PER SHARE**

The basic and fully diluted earnings per ordinary share for the Group and the Bank have been calculated based on the net profit attributable to equity holders of the Group and the Bank of RM331,312,000 (2007: RM232,452,000) and RM299,936,000 (2007: RM180,859,000) respectively. The weighted average number of shares in issue during the financial year of 1,439,285,000 (2007: 1,291,916,000) is used for the computation.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 36) DIVIDENDS

Dividends declared or proposed for the financial year are as follows:

|  | <b>The Group and The Bank<br/>2008</b>          |   | The Group and The Bank<br>2007        |   |
|--|---|---|---------------------------------------|---|
|  | <b>Gross<br/>dividend<br/>per share<br/>sen</b> | <b>Amount of<br/>dividend<br/>net of tax<br/>RM'000</b> | Gross<br>dividend<br>per share<br>sen | Amount of<br>dividend<br>net of tax<br>RM'000 |
| <b>Ordinary shares</b>                     |   |   |                                       |   |
| – special dividend paid                    | –   | –   | 28.00                                 | 263,734                                       |
| – interim dividend paid                    | <b>5.00</b>                                     | <b>53,254</b>   | –                                     | –   |
| – proposed final dividend                  | <b>2.00</b>                                     | <b>21,589</b>   | 2.96                                  | 31,526  |
| Dividends in respect of the financial year | <b>7.00</b>                                     | <b>74,843</b>   | 30.96                                 | 295,260                                       |

At the forthcoming Annual General Meeting, a final dividend in respect of the current financial year of 2 sen per share, less 25% income tax, amounting to RM21,589,281 will be proposed for shareholders' approval. These financial statements do not reflect this final dividend which will be accounted for in the shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2009 when approved by the shareholders.

Dividends recognised as distribution to ordinary equity holders of the Bank:

|                           | <b>The Group and The Bank<br/>2008</b>          |   | The Group and The Bank<br>2007        |   |
|---------------------------|---|---|---------------------------------------|---|
|                           | <b>Gross<br/>dividend<br/>per share<br/>sen</b> | <b>Amount of<br/>dividend<br/>net of tax<br/>RM'000</b> | Gross<br>dividend<br>per share<br>sen | Amount of<br>dividend<br>net of tax<br>RM'000 |
| <b>Ordinary shares</b>    |   |   |                                       |   |
| – special dividend        | –   | –   | 28.00                                 | 263,734                                       |
| – interim dividend        | <b>5.00</b>                                     | <b>53,254</b>   | –                                     | –   |
| – final dividend for 2007 | <b>2.96</b>                                     | <b>31,526</b>   | –                                     | –   |
|                           | <b>7.96</b>                                     | <b>84,780</b>   | 28.00                                 | 263,734                                       |

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2008

**37) COMMITMENTS AND CONTINGENCIES**

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

The commitments and contingencies consist of:

|  | The Group<br>2008             |   |  | The Group<br>2007             |   |  |
|--|-------------------------------|---|--|-------------------------------|---|--|
|  | Principal<br>amount<br>RM'000 | Credit<br>equivalent<br>amount*<br>RM'000 | Risk-<br>weighted<br>amount*<br>RM'000 | Principal<br>amount<br>RM'000 | Credit<br>equivalent<br>amount*<br>RM'000 | Risk-<br>weighted<br>amount*<br>RM'000 |
| Direct credit substitutes                                  | 658,062                       | 658,062                                   | 609,474                                | 749,119                       | 749,119                                   | 749,119                                |
| Transaction-related<br>contingent items                    | 2,785,699                     | 1,392,849                                 | 1,115,835                              | 2,420,083                     | 1,210,042                                 | 1,210,042                              |
| Short-term self-liquidating<br>trade-related contingencies | 2,379,763                     | 475,952                                   | 202,368                                | 3,511,291                     | 702,258                                   | 108,604                                |
| Irrevocable commitments<br>to extend credit:               | 12,960,233                    | 3,715,536                                 | 2,595,269                              | 8,272,181                     | 1,601,953                                 | 1,574,089                              |
| – maturity less than one year                              | 9,153,894                     | 1,812,366                                 | 893,032                                | 5,068,275                     | –   | –                                      |
| – maturity more than one year                              | 3,806,339                     | 1,903,170                                 | 1,702,237                              | 3,203,906                     | 1,601,953                                 | 1,574,089                              |
| Foreign exchange related<br>contracts:                     | 738,283                       | 22,094                                    | 18,157                                 | 930,390                       | 27,716                                    | 13,235                                 |
| – less than one year                                       | 574,103                       | 11,551                                    | 11,442                                 | 680,861                       | 8,242                                     | 3,498                                  |
| – one year to less than<br>five years                      | 164,180                       | 10,543                                    | 6,715                                  | 249,529                       | 19,474                                    | 9,737                                  |
| Interest rate related<br>contracts:                        | 3,161,671                     | 155,707                                   | 43,470                                 | 3,215,200                     | 85,433                                    | 22,094                                 |
| – less than one year                                       | 1,628,702                     | 49,413                                    | 11,876                                 | 2,697,437                     | 60,235                                    | 13,789                                 |
| – one year to less than<br>five years                      | 1,009,619                     | 40,514                                    | 17,016                                 | 492,688                       | 23,459                                    | 7,435                                  |
| – more than five years                                     | 523,350                       | 65,780                                    | 14,578                                 | 25,075                        | 1,739                                     | 870                                    |
|  | <b>22,683,711</b>             | <b>6,420,200</b>                          | <b>4,584,573</b>                       | 19,098,264                    | 4,376,521                                 | 3,677,183                              |

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 37) COMMITMENTS AND CONTINGENCIES (continued)

|  | The Bank<br>2008              |   |  | The Bank<br>2007              |   |  |
|--|-------------------------------|---|--|-------------------------------|---|--|
|  | Principal<br>amount<br>RM'000 | Credit<br>equivalent<br>amount*<br>RM'000 | Risk-<br>weighted<br>amount*<br>RM'000 | Principal<br>amount<br>RM'000 | Credit<br>equivalent<br>amount*<br>RM'000 | Risk-<br>weighted<br>amount*<br>RM'000 |
| Direct credit substitutes                                  | 549,827                       | 549,827                                   | 542,246                                | 636,514                       | 636,514                                   | 636,514                                |
| Transaction-related<br>contingent items                    | 2,628,258                     | 1,314,129                                 | 1,049,593                              | 2,308,784                     | 1,154,392                                 | 1,154,392                              |
| Short-term self-liquidating<br>trade-related contingencies | 640,834                       | 128,167                                   | 127,540                                | 482,421                       | 96,484                                    | 94,528                                 |
| Irrevocable commitments<br>to extend credit:               | 7,878,313                     | 2,618,545                                 | 2,343,012                              | 7,480,204                     | 1,507,177                                 | 1,491,182                              |
| – maturity less than one year                              | 4,402,039                     | 880,408                                   | 786,782                                | 4,465,850                     | –   | –                                      |
| – maturity more than one year                              | 3,476,274                     | 1,738,137                                 | 1,556,230                              | 3,014,354                     | 1,507,177                                 | 1,491,182                              |
| Foreign exchange related<br>contracts:                     | 738,283                       | 22,094                                    | 18,157                                 | 930,390                       | 27,716                                    | 13,235                                 |
| – less than one year                                       | 574,103                       | 11,551                                    | 11,442                                 | 680,861                       | 8,242                                     | 3,498                                  |
| – one year to less than<br>five years                      | 164,180                       | 10,543                                    | 6,715                                  | 249,529                       | 19,474                                    | 9,737                                  |
| Interest rate related<br>contracts:                        | 3,161,671                     | 155,707                                   | 43,470                                 | 3,215,200                     | 85,433                                    | 22,094                                 |
| – less than one year                                       | 1,628,702                     | 49,413                                    | 11,876                                 | 2,697,437                     | 60,235                                    | 13,789                                 |
| – one year to less than<br>five years                      | 1,009,619                     | 40,514                                    | 17,016                                 | 492,688                       | 23,459                                    | 7,435                                  |
| – more than five years                                     | 523,350                       | 65,780                                    | 14,578                                 | 25,075                        | 1,739                                     | 870                                    |
|  | <b>15,597,186</b>             | <b>4,788,469</b>                          | <b>4,124,018</b>                       | 15,053,513                    | 3,507,716                                 | 3,411,945                              |

\* The credit equivalent amount and risk-weighted amount are arrived at using the credit conversion factors as per Bank Negara Malaysia Guidelines.

**NOTES TO THE FINANCIAL STATEMENTS***for the financial year ended 31 December 2008***37) COMMITMENTS AND CONTINGENCIES (continued)****FINANCIAL DERIVATIVES**

Financial derivatives are financial instruments whose characteristics are derived from the underlying assets, or from interest and exchange rates or indices. These include forwards, swaps, futures and options. The following outlines the nature and terms of the most common types of derivatives used by the Bank:

**Exchange rate contracts**

*Forward foreign exchange* contracts are agreements to buy or sell fixed amounts of currency at agreed rates of exchange on a specified future date.

*Cross currency swaps* are agreements to exchange, and on termination of the swap, re-exchange principal amounts denominated in different currencies. Cross currency swaps may involve the exchange of interest payments in one specified currency for interest payments in another specified currency for a specified period.

*Currency futures* are typically exchange-traded agreements to buy or sell standard amounts of a specified currency at an agreed exchange rate on a standard future date.

*Currency options* give the buyer on payment of a premium, the right, but not the obligation, to buy or sell specified amounts of currency at agreed rates of exchange on or before a specified future date.

**Interest rate contracts**

*Interest rate swaps* involve the exchange of interest obligations with counterparties for a specified period without exchanging the underlying (or notional principal).

*Interest rate caps and floors* give the buyer the ability to fix the maximum or minimum rate of interest. There is no facility to deposit or draw down funds; instead the writer pays to the buyer the amount by which the market rate exceeds or is less than the cap rate or the floor rate respectively. A combination of an interest rate cap and floor is known as an interest rate collar.

*Forward rate agreements* give the buyer the ability to determine the underlying rate of interest for a specified period commencing on a specified future date (the settlement date). There is no exchange of principal and settlement is effected on the settlement date. The settlement amount is calculated by reference to the difference between the contracted rate and the market rate prevailing on the settlement date.

*Swaptions* give the buyer the right, but not the obligation, to enter an interest rate swap as either the payer or receiver of the fixed side of the swap.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 37) COMMITMENTS AND CONTINGENCIES (continued)

The table below analyses the contractual or underlying principal amounts of derivative financial instruments held or issued. In addition, they also set out the corresponding gross positive credit equivalent of the derivative financial instruments.

|                             | <b>The Group and The Bank<br/>2008</b> |  | The Group and The Bank<br>2007 |  |
|-----------------------------|--|--|--------------------------------|--|
|                             | <b>Principal<br/>amount<br/>RM'000</b> | <b>Credit<br/>equivalent<br/>amount<br/>RM'000</b> | Principal<br>amount<br>RM'000  | Credit<br>equivalent<br>amount<br>RM'000 |
| Foreign exchange contracts: |  |  |                                |  |
| – forward contracts         | <b>738,283</b>                         | <b>22,094</b>                                      | 832,356                        | 25,636                                   |
| – option                    | –                                      | –  | 98,034                         | 2,080                                    |
| Interest rate contracts:    |  |  |                                |  |
| – swaps                     | <b>3,161,671</b>                       | <b>155,707</b>                                     | 3,150,200                      | 85,433                                   |
| – futures contracts         | –                                      | –  | 65,000                         | –  |

Foreign exchange related contracts and interest rate related contracts are subject to market risk and credit risk.

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2008

**38) INTEREST/PROFIT RATE RISK**

Sensitivity to interest rates arises from mismatches in the interest rate characteristics of the assets and their corresponding liability funding. One of the major causes of these mismatches is timing differences in the repricing of the assets and liabilities. These mismatches are actively managed as part of the overall interest rate risk management process which is conducted in accordance with Group policy guidelines.

The following table represents the Group's and the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates as at 31 December 2008.

| The Group<br>2008  | Up to 1           | >1-3             | >3-12            | >1-5             | Over 5           | Non-<br>interest/<br>profit<br>sensitive | Trading<br>book | Effective<br>interest<br>rate |      |
|--|-------------------|------------------|------------------|------------------|------------------|--|-----------------|-------------------------------|------|
|  | month<br>RM'000   | months<br>RM'000 | months<br>RM'000 | years<br>RM'000  | years<br>RM'000  | RM'000                                   | RM'000          | Total<br>RM'000               | %    |
| <b>Assets</b>  |                   |                  |                  |                  |                  |  |                 |                               |      |
| Cash and<br>short-term funds   | 6,525,445         | -                | -                | -                | -                | 151,637                                  | -               | 6,677,082                     | 3.25 |
| Deposits and<br>placements with<br>banks and other<br>financial institutions | -                 | 17,338           | 35,906           | 56,972           | -                | -  | -               | 110,216                       | 3.90 |
| Held-for-trading<br>securities   | -                 | -                | -                | -                | -                | -  | 138,844         | 138,844                       | 3.57 |
| Available-for-sale<br>securities   | 710,118           | 1,452,988        | 1,059,392        | 409,459          | 518,588          | 37,468                                   | -               | 4,188,013                     | 4.00 |
| Held-to-maturity<br>securities   | 27,938            | -                | 14,679           | 69,715           | 214,391          | 236,290                                  | -               | 563,013                       | 4.74 |
| Loans, advances<br>and financing   |                   |                  |                  |                  |                  |  |                 |                               |      |
| - performing   | 10,100,275        | 1,601,679        | 1,698,795        | 4,310,675        | 1,465,372        | (297,931)*                               | -               | 18,878,865                    | 5.53 |
| - non-performing   | -                 | -                | -                | -                | -                | 637,390#                                 | -               | 637,390                       | -    |
| Others (1)   | -                 | -                | -                | -                | -                | 1,784,538                                | 28,216          | 1,812,754                     | -    |
| Tax recoverable  | -                 | -                | -                | -                | -                | 5,197                                    | -               | 5,197                         | -    |
| <b>Total assets</b>  | <b>17,363,776</b> | <b>3,072,005</b> | <b>2,808,772</b> | <b>4,846,821</b> | <b>2,198,351</b> | <b>2,554,589</b>                         | <b>167,060</b>  | <b>33,011,374</b>             |      |

\* The negative balance represents general allowance for loans, advances and financing in accordance with the Group's accounting policy on allowance for bad and doubtful debts and financing.

# Net of specific allowance.

(1) Others include property and equipment, intangible assets, statutory deposits with Bank Negara Malaysia, deferred tax assets, subsidiaries, other assets, land for sale, investment in jointly controlled entity and amount due from jointly controlled entity.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 38) INTEREST/PROFIT RATE RISK (continued)

| The Group<br>2008   | Up to 1<br>month<br>RM'000 | >1-3<br>months<br>RM'000 | >3-12<br>months<br>RM'000 | >1-5<br>years<br>RM'000 | Over 5<br>years<br>RM'000 | Non-<br>interest/<br>profit<br>sensitive<br>RM'000 | Trading<br>book<br>RM'000 | Total<br>RM'000   | Effective<br>interest<br>rate<br>% |
|---|----------------------------|--------------------------|---------------------------|-------------------------|---------------------------|--|---------------------------|-------------------|------------------------------------|
| <b>Liabilities</b>  |                            |                          |                           |                         |                           |  |                           |                   |                                    |
| Deposits from customers   | 10,145,595                 | 8,207,654                | 4,795,744                 | 39,237                  | -                         | 2,039,559  | -                         | 25,227,789        | 2.97                               |
| Deposits and placements of banks and other financial institutions | 2,811,148                  | 1,004,994                | 4,745                     | -                       | -                         | -  | -                         | 3,820,887         | 3.00                               |
| Bills and acceptances payable                                     | -                          | -                        | -                         | -                       | -                         | 136,243  | -                         | 136,243           | -                                  |
| Recourse obligation on loans sold to Cagamas Berhad               | -                          | 11,088                   | -                         | -                       | -                         | -  | -                         | 11,088            | 4.82                               |
| Subordinated term loan  | -                          | -                        | -                         | 500,000                 | -                         | -  | -                         | 500,000           | 6.00                               |
| Other liabilities (2)   | -                          | -                        | -                         | -                       | -                         | 498,915  | 58,100                    | 557,015           | -                                  |
| Provision for taxation  | -                          | -                        | -                         | -                       | -                         | 48,814   | -                         | 48,814            | -                                  |
| <b>Total liabilities</b>  | <b>12,956,743</b>          | <b>9,223,736</b>         | <b>4,800,489</b>          | <b>539,237</b>          | <b>-</b>                  | <b>2,723,531</b>                                   | <b>58,100</b>             | <b>30,301,836</b> |                                    |
| <b>Shareholders' funds</b>  | <b>-</b>                   | <b>-</b>                 | <b>-</b>                  | <b>-</b>                | <b>-</b>                  | <b>2,709,538</b>                                   | <b>-</b>                  | <b>2,709,538</b>  |                                    |
| <b>Total liabilities and shareholders' funds</b>                  | <b>12,956,743</b>          | <b>9,223,736</b>         | <b>4,800,489</b>          | <b>539,237</b>          | <b>-</b>                  | <b>5,433,069</b>                                   | <b>58,100</b>             | <b>33,011,374</b> |                                    |
| On-balance sheet interest sensitivity gap                         | 4,407,033                  | (6,151,731)              | (1,991,717)               | 4,307,584               | 2,198,351                 | (2,878,480)  | 108,960                   |                   |                                    |
| Off-balance sheet interest sensitivity gap (3)                    | 597,179                    | 101,855                  | 43,402                    | (648,461)               | (93,975)                  | -  | -                         |                   |                                    |
| <b>Total interest sensitivity gap</b>                             | <b>5,004,212</b>           | <b>(6,049,876)</b>       | <b>(1,948,315)</b>        | <b>3,659,123</b>        | <b>2,104,376</b>          | <b>(2,878,480)</b>                                 | <b>108,960</b>            |                   |                                    |

(2) Other liabilities include other borrowings, deferred tax liabilities and other liabilities.

(3) The off-balance sheet gap represents the net notional amounts of all interest rate sensitive derivative financial instruments.

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2008

**38) INTEREST/PROFIT RATE RISK (continued)**

| <b>The Group<br/>2007</b>  | <b>Up to 1<br/>month<br/>RM'000</b> | <b>&gt;1-3<br/>months<br/>RM'000</b> | <b>&gt;3-12<br/>months<br/>RM'000</b> | <b>&gt;1-5<br/>years<br/>RM'000</b> | <b>Over 5<br/>years<br/>RM'000</b> | <b>Non-<br/>interest/<br/>profit<br/>sensitive<br/>RM'000</b> | <b>Trading<br/>book<br/>RM'000</b> | <b>Total<br/>RM'000</b> | <b>Effective<br/>interest<br/>rate<br/>%</b> |
|--|-------------------------------------|--------------------------------------|---------------------------------------|-------------------------------------|------------------------------------|---|------------------------------------|-------------------------|--|
| <b>Assets</b>  |                                     |                                      |                                       |                                     |                                    |   |                                    |                         |  |
| Cash and<br>short-term funds   | 8,109,790                           | -                                    | -                                     | -                                   | -                                  | 163,343   | -                                  | 8,273,133               | 3.64   |
| Deposits and<br>placements with<br>banks and other<br>financial institutions | -                                   | 545,581                              | 166,690                               | -                                   | -                                  | -   | -                                  | 712,271                 | 5.07   |
| Held-for-trading<br>securities   | -                                   | -                                    | -                                     | -                                   | -                                  | -   | 54,856                             | 54,856                  | 3.61   |
| Available-for-sale<br>securities   | 1,116,423                           | 684,504                              | 1,353,299                             | 326,349                             | 423,254                            | 117,969   | -                                  | 4,021,798               | 3.99   |
| Held-to-maturity<br>securities   | -                                   | -                                    | 34,615                                | 117,361                             | 378                                | 240,983   | -                                  | 393,337                 | 7.03   |
| Loans, advances<br>and financing   |                                     |                                      |                                       |                                     |                                    |   |                                    |                         |  |
| - performing   | 8,294,741                           | 1,224,500                            | 1,374,022                             | 3,586,403                           | 1,319,598                          | (266,623)*  | -                                  | 15,532,641              | 6.98   |
| - non-performing   | -                                   | -                                    | -                                     | -                                   | -                                  | 1,316,049 #   | -                                  | 1,316,049               | -  |
| Others (1)   | -                                   | -                                    | -                                     | -                                   | -                                  | 1,598,856   | 213                                | 1,599,069               | -  |
| Tax recoverable  | -                                   | -                                    | -                                     | -                                   | -                                  | 6,232   | -                                  | 6,232                   | -  |
| <b>Total assets</b>  | <b>17,520,954</b>                   | <b>2,454,585</b>                     | <b>2,928,626</b>                      | <b>4,030,113</b>                    | <b>1,743,230</b>                   | <b>3,176,809</b>  | <b>55,069</b>                      | <b>31,909,386</b>       |  |

\* The negative balance represents general allowance for loans, advances and financing in accordance with the Group's accounting policy on allowance for bad and doubtful debts and financing.

# Net of specific allowance.

(1) Others include property and equipment, intangible assets, statutory deposits with Bank Negara Malaysia, deferred tax assets, subsidiaries and other assets.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 38) INTEREST/PROFIT RATE RISK (continued)

| The Group<br>2007   | Up to 1<br>month<br>RM'000 | >1-3<br>months<br>RM'000 | >3-12<br>months<br>RM'000 | >1-5<br>years<br>RM'000 | Over 5<br>years<br>RM'000 | Non-<br>interest/<br>profit<br>sensitive<br>RM'000 | Trading<br>book<br>RM'000 | Total<br>RM'000   | Effective<br>interest<br>rate<br>% |
|---|----------------------------|--------------------------|---------------------------|-------------------------|---------------------------|--|---------------------------|-------------------|------------------------------------|
| <b>Liabilities</b>  |                            |                          |                           |                         |                           |  |                           |                   |                                    |
| Deposits from customers   | 11,155,907                 | 5,849,425                | 4,502,606                 | 29,236                  | -                         | 1,938,752  | -                         | 23,475,926        | 3.04                               |
| Deposits and placements of banks and other financial institutions | 2,590,828                  | 1,777,063                | 33,900                    | -                       | -                         | -  | -                         | 4,401,791         | 3.65                               |
| Bills and acceptances payable                                     | -                          | -                        | -                         | -                       | -                         | 126,697  | -                         | 126,697           | -                                  |
| Recourse obligation on loans sold to Cagamas Berhad               | 15,321                     | 148,340                  | 185,590                   | 12,259                  | -                         | -  | -                         | 361,510           | 4.02                               |
| Subordinated term loan  | -                          | -                        | -                         | 500,000                 | -                         | -  | -                         | 500,000           | 6.25                               |
| Other liabilities (2)   | -                          | -                        | -                         | -                       | -                         | 524,775  | 3,945                     | 528,720           | -                                  |
| Provision for taxation  | -                          | -                        | -                         | -                       | -                         | 3,742  | -                         | 3,742             | -                                  |
| <b>Total liabilities</b>  | <b>13,762,056</b>          | <b>7,774,828</b>         | <b>4,722,096</b>          | <b>541,495</b>          | <b>-</b>                  | <b>2,593,966</b>                                   | <b>3,945</b>              | <b>29,398,386</b> |                                    |
| <b>Shareholders' funds</b>  | <b>-</b>                   | <b>-</b>                 | <b>-</b>                  | <b>-</b>                | <b>-</b>                  | <b>2,511,000</b>                                   | <b>-</b>                  | <b>2,511,000</b>  |                                    |
| <b>Total liabilities and shareholders' funds</b>                  | <b>13,762,056</b>          | <b>7,774,828</b>         | <b>4,722,096</b>          | <b>541,495</b>          | <b>-</b>                  | <b>5,104,966</b>                                   | <b>3,945</b>              | <b>31,909,386</b> |                                    |
| On-balance sheet interest sensitivity gap                         | 3,758,898                  | (5,320,243)              | (1,793,470)               | 3,488,618               | 1,743,230                 | (1,928,157)  | 51,124                    |                   |                                    |
| Off-balance sheet interest sensitivity gap (3)                    | 203,704                    | 173,177                  | (1,458)                   | (350,348)               | (25,075)                  | -  | -                         |                   |                                    |
| <b>Total interest sensitivity gap</b>                             | <b>3,962,602</b>           | <b>(5,147,066)</b>       | <b>(1,794,928)</b>        | <b>3,138,270</b>        | <b>1,718,155</b>          | <b>(1,928,157)</b>                                 | <b>51,124</b>             |                   |                                    |

(2) Other liabilities include other borrowings, deferred tax liabilities and other liabilities.

(3) The off-balance sheet gap represents the net notional amounts of all interest rate sensitive derivative financial instruments.

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2008

**38) INTEREST/PROFIT RATE RISK (continued)**

| <b>The Bank<br/>2008</b>   | <b>Up to 1<br/>month<br/>RM'000</b> | <b>&gt;1-3<br/>months<br/>RM'000</b> | <b>&gt;3-12<br/>months<br/>RM'000</b> | <b>&gt;1-5<br/>years<br/>RM'000</b> | <b>Over 5<br/>years<br/>RM'000</b> | <b>Non-<br/>interest/<br/>profit<br/>sensitive<br/>RM'000</b> | <b>Trading<br/>book<br/>RM'000</b> | <b>Total<br/>RM'000</b> | <b>Effective<br/>interest<br/>rate<br/>%</b> |
|--|-------------------------------------|--------------------------------------|---------------------------------------|-------------------------------------|------------------------------------|---|------------------------------------|-------------------------|--|
| <b>Assets</b>  |                                     |                                      |                                       |                                     |                                    |   |                                    |                         |  |
| Cash and<br>short-term funds   | 4,170,295                           | -                                    | -                                     | -                                   | -                                  | 148,639   | -                                  | 4,318,934               | 3.26   |
| Deposits and<br>placements with<br>banks and other<br>financial institutions | -                                   | 224,308                              | 35,906                                | 178,022                             | 16,540                             | -   | -                                  | 454,776                 | 3.44   |
| Held-for-trading<br>securities   | -                                   | -                                    | -                                     | -                                   | -                                  | -   | 138,844                            | 138,844                 | 3.57   |
| Available-for-sale<br>securities   | 540,592                             | 1,149,793                            | 599,626                               | 284,919                             | 504,289                            | 35,497  | -                                  | 3,114,716               | 4.17   |
| Held-to-maturity<br>securities   | 27,938                              | -                                    | 8,382                                 | 69,715                              | 214,391                            | 235,715   | -                                  | 556,141                 | 4.81   |
| Loans, advances<br>and financing   |                                     |                                      |                                       |                                     |                                    |   |                                    |                         |  |
| - performing   | 9,230,392                           | 1,363,178                            | 1,426,356                             | 3,674,199                           | 1,016,348                          | (260,443)*  | -                                  | 16,450,030              | 5.53   |
| - non-performing   | -                                   | -                                    | -                                     | -                                   | -                                  | 604,032 #   | -                                  | 604,032                 | -  |
| Others (1)   | -                                   | -                                    | -                                     | -                                   | -                                  | 1,808,593   | 28,216                             | 1,836,809               | -  |
| Amount due from<br>subsidiaries  | 254,374                             | -                                    | -                                     | -                                   | -                                  | 1,818   | -                                  | 256,192                 | 3.55   |
| <b>Total assets</b>  | <b>14,223,591</b>                   | <b>2,737,279</b>                     | <b>2,070,270</b>                      | <b>4,206,855</b>                    | <b>1,751,568</b>                   | <b>2,573,851</b>  | <b>167,060</b>                     | <b>27,730,474</b>       |  |

\* The negative balance represents general allowance for loans, advances and financing in accordance with the Group's accounting policy on allowance for bad and doubtful debts and financing.

# Net of specific allowance.

(1) Others include property and equipment, intangible assets, statutory deposits with Bank Negara Malaysia, deferred tax assets, subsidiaries, other assets, land for sale, investment in jointly controlled entity and amount due from jointly controlled entity.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 38) INTEREST/PROFIT RATE RISK (continued)

| The Bank<br>2008  | Up to 1<br>month<br>RM'000 | >1-3<br>months<br>RM'000 | >3-12<br>months<br>RM'000 | >1-5<br>years<br>RM'000 | Over 5<br>years<br>RM'000 | Non-<br>interest/<br>profit<br>sensitive<br>RM'000 | Trading<br>book<br>RM'000 | Total<br>RM'000   | Effective<br>interest<br>rate<br>% |
|---|----------------------------|--------------------------|---------------------------|-------------------------|---------------------------|--|---------------------------|-------------------|------------------------------------|
| <b>Liabilities</b>  |                            |                          |                           |                         |                           |  |                           |                   |                                    |
| Deposits from customers   | 7,480,045                  | 7,046,665                | 4,378,063                 | 35,236                  | -                         | 2,039,559  | -                         | 20,979,568        | 3.00                               |
| Deposits and placements of banks and other financial institutions | 2,028,302                  | 888,995                  | 4,745                     | -                       | -                         | -  | -                         | 2,922,042         | 2.91                               |
| Bills and acceptances payable                                     | -                          | -                        | -                         | -                       | -                         | 136,243  | -                         | 136,243           | -                                  |
| Recourse obligation on loans sold to Cagamas Berhad               | -                          | 11,088                   | -                         | -                       | -                         | -  | -                         | 11,088            | 4.82                               |
| Subordinated term loan  | -                          | -                        | -                         | 500,000                 | -                         | -  | -                         | 500,000           | 6.00                               |
| Other liabilities (2)   | -                          | -                        | -                         | -                       | -                         | 462,612  | 58,100                    | 520,712           | -                                  |
| Provision for taxation  | -                          | -                        | -                         | -                       | -                         | 48,793   | -                         | 48,793            | -                                  |
| Amount due to subsidiaries  | -                          | -                        | -                         | -                       | -                         | 31,886   | -                         | 31,886            | -                                  |
| <b>Total liabilities</b>  | <b>9,508,347</b>           | <b>7,946,748</b>         | <b>4,382,808</b>          | <b>535,236</b>          | <b>-</b>                  | <b>2,719,093</b>                                   | <b>58,100</b>             | <b>25,150,332</b> |                                    |
| <b>Shareholders' funds</b>  | <b>-</b>                   | <b>-</b>                 | <b>-</b>                  | <b>-</b>                | <b>-</b>                  | <b>2,580,142</b>                                   | <b>-</b>                  | <b>2,580,142</b>  |                                    |
| <b>Total liabilities and shareholders' funds</b>                  | <b>9,508,347</b>           | <b>7,946,748</b>         | <b>4,382,808</b>          | <b>535,236</b>          | <b>-</b>                  | <b>5,299,235</b>                                   | <b>58,100</b>             | <b>27,730,474</b> |                                    |
| On-balance sheet interest sensitivity gap                         | 4,715,244                  | (5,209,469)              | (2,312,538)               | 3,671,619               | 1,751,568                 | (2,725,384)  | 108,960                   |                   |                                    |
| Off-balance sheet interest sensitivity gap (3)                    | 597,179                    | 101,855                  | 43,402                    | (648,461)               | (93,975)                  | -  | -                         |                   |                                    |
| <b>Total interest sensitivity gap</b>                             | <b>5,312,423</b>           | <b>(5,107,614)</b>       | <b>(2,269,136)</b>        | <b>3,023,158</b>        | <b>1,657,593</b>          | <b>(2,725,384)</b>                                 | <b>108,960</b>            |                   |                                    |

(2) Other liabilities include other borrowings and other liabilities.

(3) The off-balance sheet gap represents the net notional amounts of all interest rate sensitive derivative financial instruments.

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2008

**38) INTEREST/PROFIT RATE RISK (continued)**

| <b>The Bank<br/>2007</b>  | <b>Up to 1<br/>month<br/>RM'000</b> | <b>&gt;1-3<br/>months<br/>RM'000</b> | <b>&gt;3-12<br/>months<br/>RM'000</b> | <b>&gt;1-5<br/>years<br/>RM'000</b> | <b>Over 5<br/>years<br/>RM'000</b> | <b>Non-<br/>interest/<br/>profit<br/>sensitive<br/>RM'000</b> | <b>Trading<br/>book<br/>RM'000</b> | <b>Total<br/>RM'000</b> | <b>Effective<br/>interest<br/>rate<br/>%</b> |
|---|-------------------------------------|--------------------------------------|---------------------------------------|-------------------------------------|------------------------------------|---|------------------------------------|-------------------------|--|
| <b>Assets</b>   |                                     |                                      |                                       |                                     |                                    |   |                                    |                         |  |
| Cash and short-term funds   | 4,583,530                           | –                                    | –                                     | –                                   | –                                  | 157,056   | –                                  | 4,740,586               | 3.74   |
| Deposits and placements with banks and other financial institutions | –                                   | 721,581                              | 179,690                               | –                                   | –                                  | –   | –                                  | 901,271                 | 4.86   |
| Held-for-trading securities   | –                                   | –                                    | –                                     | –                                   | –                                  | –   | 54,856                             | 54,856                  | 3.61   |
| Available-for-sale securities                                       | 1,016,268                           | 630,104                              | 885,946                               | 174,007                             | 423,254                            | 113,300   | –                                  | 3,242,879               | 3.75   |
| Held-to-maturity securities   | –                                   | –                                    | 34,615                                | 111,064                             | 378                                | 240,983   | –                                  | 387,040                 | 7.32   |
| Loans, advances and financing                                       |                                     |                                      |                                       |                                     |                                    |   |                                    |                         |  |
| – performing  | 7,469,839                           | 1,143,942                            | 1,247,443                             | 3,160,202                           | 1,033,472                          | (239,848)*  | –                                  | 13,815,050              | 6.99   |
| – non-performing  | –                                   | –                                    | –                                     | –                                   | –                                  | 1,285,283 #   | –                                  | 1,285,283               | –  |
| Others (1)  | –                                   | –                                    | –                                     | –                                   | –                                  | 1,589,906   | 213                                | 1,590,119               | –  |
| Tax recoverable   | –                                   | –                                    | –                                     | –                                   | –                                  | 6,188   | –                                  | 6,188                   | –  |
| Amount due from subsidiaries  | 207,611                             | –                                    | –                                     | –                                   | –                                  | 2,645   | –                                  | 210,256                 | 3.58   |
| <b>Total assets</b>   | <b>13,277,248</b>                   | <b>2,495,627</b>                     | <b>2,347,694</b>                      | <b>3,445,273</b>                    | <b>1,457,104</b>                   | <b>3,155,513</b>  | <b>55,069</b>                      | <b>26,233,528</b>       |  |

\* The negative balance represents general allowance for loans, advances and financing in accordance with the Group's accounting policy on allowance for bad and doubtful debts and financing.

# Net of specific allowance.

(1) Others include property and equipment, intangible assets, statutory deposits with Bank Negara Malaysia, deferred tax assets, subsidiaries and other assets.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 38) INTEREST/PROFIT RATE RISK (continued)

| The Bank<br>2007  | Up to 1<br>month<br>RM'000 | >1-3<br>months<br>RM'000 | >3-12<br>months<br>RM'000 | >1-5<br>years<br>RM'000 | Over 5<br>years<br>RM'000 | Non-<br>interest/<br>profit<br>sensitive<br>RM'000 | Trading<br>book<br>RM'000 | Total<br>RM'000   | Effective<br>interest<br>rate<br>% |
|---|----------------------------|--------------------------|---------------------------|-------------------------|---------------------------|--|---------------------------|-------------------|------------------------------------|
| <b>Liabilities</b>  |                            |                          |                           |                         |                           |  |                           |                   |                                    |
| Deposits from customers   | 8,387,522                  | 5,467,742                | 3,964,108                 | 22,550                  | -                         | 1,938,752  | -                         | 19,780,674        | 3.09                               |
| Deposits and placements of banks and other financial institutions | 1,279,666                  | 1,215,120                | 33,282                    | -                       | -                         | -  | -                         | 2,528,068         | 3.81                               |
| Bills and acceptances payable                                     | -                          | -                        | -                         | -                       | -                         | 126,697  | -                         | 126,697           | -                                  |
| Recourse obligation on loans sold to Cagamas Berhad               | 15,321                     | 148,340                  | 185,590                   | 12,259                  | -                         | -  | -                         | 361,510           | 4.02                               |
| Subordinated term loan  | -                          | -                        | -                         | 500,000                 | -                         | -  | -                         | 500,000           | 6.25                               |
| Other liabilities (2)   | -                          | -                        | -                         | -                       | -                         | 501,993  | 3,945                     | 505,938           | -                                  |
| Amount due to subsidiaries  | -                          | -                        | -                         | -                       | -                         | 21,300   | -                         | 21,300            | -                                  |
| <b>Total liabilities</b>  | <b>9,682,509</b>           | <b>6,831,202</b>         | <b>4,182,980</b>          | <b>534,809</b>          | <b>-</b>                  | <b>2,588,742</b>                                   | <b>3,945</b>              | <b>23,824,187</b> |                                    |
| <b>Shareholders' funds</b>  | <b>-</b>                   | <b>-</b>                 | <b>-</b>                  | <b>-</b>                | <b>-</b>                  | <b>2,409,341</b>                                   | <b>-</b>                  | <b>2,409,341</b>  |                                    |
| <b>Total liabilities and shareholders' funds</b>                  | <b>9,682,509</b>           | <b>6,831,202</b>         | <b>4,182,980</b>          | <b>534,809</b>          | <b>-</b>                  | <b>4,998,083</b>                                   | <b>3,945</b>              | <b>26,233,528</b> |                                    |
| On-balance sheet interest sensitivity gap                         | 3,594,739                  | (4,335,575)              | (1,835,286)               | 2,910,464               | 1,457,104                 | (1,842,570)  | 51,124                    |                   |                                    |
| Off-balance sheet interest sensitivity gap (3)                    | 203,704                    | 173,177                  | (1,458)                   | (350,348)               | (25,075)                  | -  | -                         |                   |                                    |
| <b>Total interest sensitivity gap</b>                             | <b>3,798,443</b>           | <b>(4,162,398)</b>       | <b>(1,836,744)</b>        | <b>2,560,116</b>        | <b>1,432,029</b>          | <b>(1,842,570)</b>                                 | <b>51,124</b>             |                   |                                    |

(2) Other liabilities include other borrowings and other liabilities.

(3) The off-balance sheet gap represents the net notional amounts of all interest rate sensitive derivative financial instruments.

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2008

**39) CREDIT RISK CONCENTRATIONS**

Credit risk is the risk of financial loss from the failure of customers to meet their obligations. Exposure to credit risk is managed through portfolio management. The credit portfolio's risk profiles and exposures are reviewed and monitored regularly to ensure that an acceptable level of risk diversification is maintained. Exposure to credit risk is also managed in part by obtaining collateral security and corporate and personal guarantees.

The credit risk concentrations of the Group and the Bank, by industry concentration, are set out in the following tables:

| The Group<br>2008                                | Deposits and placements with banks |                                  |                               | Held-to-maturity securities | Loans, advances and financing | Other assets   | On balance sheet total | Commitments and contingencies |
|--|------------------------------------|----------------------------------|-------------------------------|-----------------------------|-------------------------------|----------------|------------------------|-------------------------------|
|  | Cash and short-term funds          | and other financial institutions | Available-for-sale securities |                             |                               |                |                        |                               |
| Agriculture                                      | -                                  | -                                | -                             | -                           | 476,973                       | -              | 476,973                | 47,381                        |
| Mining and quarrying                             | -                                  | -                                | -                             | -                           | 166,017                       | -              | 166,017                | 389,463                       |
| Manufacturing                                    | -                                  | -                                | 10,161                        | 168,872                     | 1,424,859                     | 425            | 1,604,317              | 482,242                       |
| Electricity, gas and water                       | -                                  | -                                | 8,722                         | -                           | 10,734                        | 98             | 19,554                 | 5,302                         |
| Construction                                     | -                                  | -                                | 111,989                       | 220,455                     | 1,816,675                     | 918            | 2,150,037              | 993,589                       |
| Real estate                                      | -                                  | -                                | -                             | 39,057                      | 1,064,935                     | -              | 1,103,992              | 432,931                       |
| Transport, storage and communication             | -                                  | -                                | 60,988                        | -                           | 850,241                       | -              | 911,229                | 143,407                       |
| Finance, insurance and business services         | 785,269                            | 110,216                          | 138,844                       | 37,000                      | 2,771,442                     | 43,383         | 5,895,730              | 1,190,064                     |
| Government and government agencies               | 5,790,657                          | -                                | -                             | 41,331                      | 91,106                        | 11,427         | 7,878,450              | 1,243,749                     |
| Wholesale and retail trade, restaurant and hotel | -                                  | -                                | 29,877                        | 30,685                      | 1,193,636                     | 164            | 1,254,362              | 371,670                       |
| Others   | -                                  | -                                | 282                           | 329                         | 9,947,568                     | 334,197        | 10,282,376             | 1,120,402                     |
| <b>Total assets</b>                              | <b>6,575,926</b>                   | <b>110,216</b>                   | <b>138,844</b>                | <b>537,729</b>              | <b>19,814,186*</b>            | <b>390,612</b> | <b>31,743,037</b>      | <b>6,420,200</b>              |

\* Not inclusive of general allowance amounting to RM298 million.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 37.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the financial year ended 31 December 2008

**39) CREDIT RISK CONCENTRATIONS (continued)**

| The Group<br>2007                                | Cash and short-term funds |                | Deposits and placements with banks and other financial institutions |                  | Held-for-trading securities RM'000 | Available-for-sale securities RM'000 | Held-to-maturity securities RM'000 | Loans, advances and financing RM'000 | Other assets RM'000 | On balance sheet total RM'000 | Commitments and contingencies RM'000 |
|--|---------------------------|----------------|---|------------------|------------------------------------|--------------------------------------|------------------------------------|--------------------------------------|---------------------|-------------------------------|--------------------------------------|
|  | RM'000                    | RM'000         | RM'000  | RM'000           |                                    |                                      |                                    |                                      |                     |                               |                                      |
| Agriculture                                      | -                         | -              | -   | -                | -                                  | -                                    | -                                  | 250,231                              | -                   | 250,231                       | 95,110                               |
| Mining and quarrying                             | -                         | -              | -   | -                | -                                  | -                                    | -                                  | 70,042                               | 786                 | 70,828                        | 277,486                              |
| Manufacturing                                    | -                         | -              | -   | -                | 194,533                            | 35,747                               | 1,431,903                          | -                                    | -                   | 1,662,183                     | 355,486                              |
| Electricity, gas and water                       | -                         | -              | -   | -                | -                                  | -                                    | -                                  | 17,694                               | -                   | 17,694                        | 7,296                                |
| Construction                                     | -                         | -              | -   | -                | 8,537                              | 114,845                              | 1,415,502                          | 1,415,502                            | 987                 | 1,539,871                     | 650,847                              |
| Real estate                                      | -                         | -              | -   | -                | 39,057                             | 10,073                               | 661,562                            | 661,562                              | 123                 | 710,815                       | 123,874                              |
| Transport, storage and communication             | -                         | -              | -   | -                | 2,105                              | -                                    | 550,069                            | 550,069                              | -                   | 552,174                       | 32,982                               |
| Finance, insurance and business services         | 2,031,445                 | 712,271        | 54,856  | 2,346,436        | 52,378                             | 1,764,680                            | 35,769                             | 6,997,835                            | 484,514             |                               |                                      |
| Government and government agencies               | 6,153,732                 | -              | -   | 1,414,126        | 41,331                             | 50,558                               | 10,533                             | 7,670,280                            | 590,771             |                               |                                      |
| Wholesale and retail trade, restaurant and hotel | -                         | -              | -   | 4,998            | 30,685                             | 1,276,014                            | -                                  | 1,311,697                            | 77,610              |                               |                                      |
| Others   | -                         | -              | -   | 218              | 330                                | 9,627,058                            | 291,516                            | 9,919,122                            | 1,680,545           |                               |                                      |
| <b>Total assets</b>                              | <b>8,185,177</b>          | <b>712,271</b> | <b>54,856</b>   | <b>3,926,443</b> | <b>368,956</b>                     | <b>17,115,313*</b>                   | <b>339,714</b>                     | <b>30,702,730</b>                    | <b>4,376,521</b>    |                               |                                      |

\* Not inclusive of general allowance amounting to RM267 million.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 37.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the financial year ended 31 December 2008

**39) CREDIT RISK CONCENTRATIONS (continued)**

| The Bank<br>2008                                 | Deposits and placements with banks  |   |                            |   |                                       |   |                        |  |   |                   | On balance sheet total contingencies<br>RM'000 | Commitments and<br>contingencies<br>RM'000 |
|--|-------------------------------------|---|----------------------------|---|---------------------------------------|---|------------------------|--|---|-------------------|--|--|
|  | Cash and short-term funds<br>RM'000 | Deposits and other financial institutions<br>RM'000 | Held-for-trading<br>RM'000 | Available-for-sale securities<br>RM'000 | Held-to-maturity securities<br>RM'000 | Loans, advances and financing<br>RM'000 | Other assets<br>RM'000 | On balance sheet total contingencies<br>RM'000 | Commitments and contingencies<br>RM'000 |                   |  |  |
| Agriculture                                      | -                                   | -   | -                          | -                                       | -                                     | 387,306                                 | -                      | -  | -                                       | 387,306           | -  | 35,819                                     |
| Mining and quarrying                             | -                                   | -   | -                          | -                                       | -                                     | 165,956                                 | -                      | -  | -                                       | 165,956           | -  | 389,441                                    |
| Manufacturing                                    | -                                   | -   | -                          | 10,161                                  | 168,872                               | 1,281,320                               | 56                     | 1,460,409                                      | -                                       | 1,460,409         | 56   | 460,215                                    |
| Electricity, gas and water                       | -                                   | -   | -                          | 8,722                                   | -                                     | 10,392                                  | 98                     | 19,212   | -                                       | 19,212            | 98   | 5,302                                      |
| Construction                                     | -                                   | -   | -                          | 51,156                                  | 220,455                               | 1,514,150                               | 323                    | 1,786,084                                      | -                                       | 1,786,084         | 323  | 902,683                                    |
| Real estate                                      | -                                   | -   | -                          | -                                       | 39,057                                | 1,014,312                               | -                      | 1,053,369                                      | -                                       | 1,053,369         | -  | 408,845                                    |
| Transport, storage and communication             | -                                   | -   | -                          | 16,130                                  | -                                     | 816,199                                 | -                      | 832,329  | -                                       | 832,329           | -  | 117,526                                    |
| Finance, insurance and business services         | 782,525                             | 454,776   | 138,844                    | 1,757,213                               | 37,000                                | 2,541,730                               | 40,328                 | 5,752,416                                      | -                                       | 5,752,416         | 40,328   | 1,030,148                                  |
| Government and government agencies               | 3,435,253                           | -   | -                          | 1,260,534                               | 35,034                                | 70,288                                  | 14,857                 | 4,815,966                                      | -                                       | 4,815,966         | 14,857   | 31,911                                     |
| Wholesale and retail trade, restaurant and hotel | -                                   | -   | -                          | -                                       | 30,685                                | 1,141,374                               | -                      | 1,172,059                                      | -                                       | 1,172,059         | -  | 354,380                                    |
| Others   | -                                   | -   | -                          | 282                                     | 329                                   | 8,371,478                               | 288,327                | 8,660,416                                      | -                                       | 8,660,416         | 288,327  | 1,052,199                                  |
| <b>Total assets</b>                              | <b>4,217,778</b>                    | <b>454,776</b>                                      | <b>138,844</b>             | <b>3,104,198</b>                        | <b>531,432</b>                        | <b>17,314,505*</b>                      | <b>343,989</b>         | <b>26,105,522</b>                              | <b>343,989</b>                          | <b>26,105,522</b> | <b>343,989</b>                                 | <b>4,788,469</b>                           |

\* Not inclusive of general allowance amounting to RM260 million.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 37.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the financial year ended 31 December 2008

**39) CREDIT RISK CONCENTRATIONS (continued)**

| The Bank<br>2007                                 | Deposits and placements with banks |  |                         |                                      |                                    |                                      |                     |                               |                                      |  |
|--|------------------------------------|--|-------------------------|--------------------------------------|------------------------------------|--------------------------------------|---------------------|-------------------------------|--------------------------------------|--|
|  | Cash and short-term funds RM'000   | Deposits and other financial institutions RM'000 | Held-for-trading RM'000 | Available-for-sale securities RM'000 | Held-to-maturity securities RM'000 | Loans, advances and financing RM'000 | Other assets RM'000 | On balance sheet total RM'000 | Commitments and contingencies RM'000 |  |
| Agriculture                                      | -                                  | -  | -                       | -                                    | -                                  | 195,383                              | -                   | 195,383                       | 91,923                               |  |
| Mining and quarrying                             | -                                  | -  | -                       | -                                    | -                                  | 69,937                               | 435                 | 70,372                        | 277,436                              |  |
| Manufacturing                                    | -                                  | -  | -                       | 900                                  | 194,533                            | 1,285,109                            | -                   | 1,480,542                     | 333,018                              |  |
| Electricity, gas and water                       | -                                  | -  | -                       | -                                    | -                                  | 17,411                               | -                   | 17,411                        | 7,296                                |  |
| Construction                                     | -                                  | -  | -                       | 42,685                               | 8,537                              | 1,261,248                            | 322                 | 1,312,792                     | 598,347                              |  |
| Real estate                                      | -                                  | -  | -                       | 10,073                               | 39,057                             | 629,963                              | 123                 | 679,216                       | 95,078                               |  |
| Transport, storage and communication             | -                                  | -  | -                       | -                                    | 2,105                              | 504,175                              | -                   | 506,280                       | 31,739                               |  |
| Finance, insurance and business services         | 1,910,005                          | 901,271  | 54,856                  | 2,188,475                            | 52,378                             | 1,661,824                            | 34,285              | 6,803,094                     | 433,577                              |  |
| Government and government agencies               | 2,742,625                          | -  | -                       | 909,842                              | 35,034                             | 14,990                               | 9,527               | 3,712,018                     | -                                    |  |
| Wholesale and retail trade, restaurant and hotel | -                                  | -  | -                       | -                                    | -                                  | 1,217,176                            | -                   | 1,247,861                     | 67,311                               |  |
| Others   | -                                  | -  | -                       | 218                                  | 330                                | 8,482,965                            | 174,784             | 8,658,297                     | 1,571,991                            |  |
| <b>Total assets</b>                              | <b>4,652,630</b>                   | <b>901,271</b>                                   | <b>54,856</b>           | <b>3,152,193</b>                     | <b>362,659</b>                     | <b>15,340,181*</b>                   | <b>219,476</b>      | <b>24,683,266</b>             | <b>3,507,716</b>                     |  |

\* Not inclusive of general allowance amounting to RM240 million.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 37.

**NOTES TO THE FINANCIAL STATEMENTS***for the financial year ended 31 December 2008***40) LEASE COMMITMENTS**

The Bank has lease commitments in respect of rented premises and hired equipment, all of which are classified as operating leases. A summary of the non-cancellable long-term commitments, net of sub-leases are as follows:

|                        | <b>The Group and The Bank</b> |        |
|------------------------|-------------------------------|--------|
|                        | <b>2008</b>                   | 2007   |
|                        | <b>RM'000</b>                 | RM'000 |
| Within one year        | <b>17,079</b>                 | 17,440 |
| One year to five years | <b>51,237</b>                 | 52,320 |

**41) CAPITAL AND OPERATING COMMITMENTS**

## (i) Capital commitments

Capital expenditure approved by the Directors but not provided for in the financial statements amounted to approximately:

|                                   | <b>The Group and The Bank</b> |        |
|-----------------------------------|-------------------------------|--------|
|                                   | <b>2008</b>                   | 2007   |
|                                   | <b>RM'000</b>                 | RM'000 |
| Authorised and contracted for     | <b>7,261</b>                  | 11,912 |
| Authorised but not contracted for | -                             | 12     |
|                                   | <b>7,261</b>                  | 11,924 |
| Analysed as follows:              |                               |        |
| Property and equipment            | <b>7,261</b>                  | 11,912 |

## (ii) Operating commitments

Operating expenditure approved by the Directors but not provided for in the financial statements amounted to approximately:

|                               | <b>The Group and The Bank</b> |         |
|-------------------------------|-------------------------------|---------|
|                               | <b>2008</b>                   | 2007    |
|                               | <b>RM'000</b>                 | RM'000  |
| Authorised and contracted for | <b>398,644</b>                | 399,640 |

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 42) CAPITAL ADEQUACY

(i) The capital adequacy ratios are as follows:

|  | The Group <sup>#</sup>     |                           | The Bank                   |                           |
|--|----------------------------|---------------------------|----------------------------|---------------------------|
|  | Basel II<br>2008<br>RM'000 | Basel I<br>2007<br>RM'000 | Basel II<br>2008<br>RM'000 | Basel I<br>2007<br>RM'000 |
| <b>Tier I capital</b>  |                            |                           |                            |                           |
| Paid-up share capital  | 1,439,285                  | 1,439,285                 | 1,439,285                  | 1,439,285                 |
| Share premium  | 408,389                    | 408,389                   | 408,389                    | 408,389                   |
| Retained profits   | 248,822                    | 169,634                   | 196,817                    | 131,629                   |
| Statutory reserve  | 625,209                    | 461,239                   | 573,204                    | 423,236                   |
|  | <b>2,721,705</b>           | 2,478,547                 | <b>2,617,695</b>           | 2,402,539                 |
| Less:  |                            |                           |                            |                           |
| Goodwill   | (137,323)                  | (137,323)                 | (137,323)                  | (137,323)                 |
| Deferred tax assets*   | (54,389)                   | (40,117)                  | (50,285)                   | (34,048)                  |
| Total Tier I capital   | <b>2,529,993</b>           | 2,301,107                 | <b>2,430,087</b>           | 2,231,168                 |
| <b>Tier II capital</b>   |                            |                           |                            |                           |
| Subordinated term loan   | 500,000                    | 500,000                   | 500,000                    | 500,000                   |
| General allowance for bad and doubtful debts and financing           | 297,752                    | 266,333                   | 260,443                    | 239,848                   |
| Total Tier II capital  | <b>797,752</b>             | 766,333                   | <b>760,443</b>             | 739,848                   |
| Less:  |                            |                           |                            |                           |
| Investment in subsidiaries   | (39,478)                   | (39,478)                  | (199,478)                  | (199,478)                 |
| <b>Capital base</b>  | <b>3,288,267</b>           | 3,027,962                 | <b>2,991,052</b>           | 2,771,538                 |
| Core capital ratio   | <b>10.06%</b>              | 10.56%                    | <b>10.79%</b>              | 11.10%                    |
| Risk-weighted capital ratio  | <b>13.08%</b>              | 13.88%                    | <b>13.29%</b>              | 13.79%                    |
| Core capital ratio (net of proposed dividends) <sup>^</sup>          | <b>9.98%</b>               | 10.41%                    | <b>10.70%</b>              | 10.94%                    |
| Risk-weighted capital ratio (net of proposed dividends) <sup>^</sup> | <b>12.99%</b>              | 13.73%                    | <b>13.19%</b>              | 13.63%                    |

\* Deferred tax assets exclude deferred tax arising from investment fluctuation reserves.

<sup>#</sup> The Group comprises the Bank and the Bank's subsidiary, AFFIN Islamic Bank Berhad.

<sup>^</sup> Net proposed dividends of RM21,589,000 (2007: RM31,526,000).

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 42) CAPITAL ADEQUACY (continued)

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

|  | The Group                               |  | The Bank                                |  |
|--|---|--|---|--|
|  | Basel II<br>Principal<br>2008<br>RM'000 | Basel I<br>Principal<br>2007<br>RM'000 | Basel II<br>Principal<br>2008<br>RM'000 | Basel I<br>Principal<br>2007<br>RM'000 |
| 0%   | 9,616,235                               | 9,117,108                              | 5,577,527                               | 4,519,502                              |
| 10%  | –                                       | –                                      | –                                       | –                                      |
| 20%  | 3,496,374                               | 4,743,904                              | 2,974,388                               | 4,633,001                              |
| 35%  | 1,235,318                               | –                                      | 1,179,407                               | –                                      |
| 50%  | 2,913,252                               | 2,714,273                              | 2,741,636                               | 2,118,419                              |
| 75%  | 8,451,331                               | –                                      | 7,082,435                               | –                                      |
| 100%                                       | 12,483,071                              | 19,227,435                             | 11,560,658                              | 17,887,282                             |
| 150%                                       | 1,185,581                               | –                                      | 999,235                                 | –                                      |
| Total risk-weighted assets for credit risk | <b>39,381,162</b>                       | 35,802,720                             | <b>32,115,286</b>                       | 29,158,204                             |

|  | The Group                                    |  | The Bank                                     |  |
|--|--|--|--|--|
|  | @Basel II<br>Risk-weighted<br>2008<br>RM'000 | Basel I<br>Risk-weighted<br>2007<br>RM'000 | @Basel II<br>Risk-weighted<br>2008<br>RM'000 | Basel I<br>Risk-weighted<br>2007<br>RM'000 |
| 0%   | –  | –  | –  | –  |
| 10%  | –  | –  | –  | –  |
| 20%  | 699,275                                      | 948,781                                    | 594,878                                      | 926,600                                    |
| 35%  | 432,361                                      | –  | 412,792                                      | –  |
| 50%  | 1,456,626                                    | 1,357,136                                  | 1,370,818                                    | 1,059,210                                  |
| 75%  | 6,338,499                                    | –  | 5,311,826                                    | –  |
| 100%                                       | 12,483,071                                   | 19,227,435                                 | 11,560,658                                   | 17,887,282                                 |
| 150%                                       | 1,778,371                                    | –  | 1,498,853                                    | –  |
| Total risk-weighted assets for credit risk | <b>23,188,203</b>                            | 21,533,352                                 | <b>20,749,825</b>                            | 19,873,092                                 |
| Risk-weighted assets for market risk       | <b>91,275</b>                                | 267,718                                    | <b>88,763</b>                                | 214,338                                    |
| Risk-weighted assets for operational risk  | <b>1,861,683</b>                             | –  | <b>1,673,945</b>                             | –  |
| Total risk-weighted assets                 | <b>25,141,161</b>                            | 21,801,070                                 | <b>22,512,533</b>                            | 20,087,430                                 |

@ The Group implemented the Basel II – Risk-Weighted Assets Computation under the BNM's Risk-Weighted Capital Adequacy Framework with effect from 1 January 2008. The Group has adopted the Standardised Approach for credit risk and market risk, and Basic Indicator Approach for operational risk computation.

Pursuant to Bank Negara Malaysia's circular, 'Recognition of Deferred Tax Asset ('DTA') and Treatment of DTA for RWCR Purposes' dated 8 August 2003, deferred tax income/(expenses) is excluded from the calculation of Tier I capital and DTA is excluded from the calculation of risk-weighted assets.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 42) CAPITAL ADEQUACY (continued)

#### Disclosure on Capital Adequacy under the Standardised Approach (RM'000)

The Group  
2008

| Exposure Class   | Gross Exposures   | Net Exposures      | Risk-Weighted Assets | Total Risk-Weighted Assets after Effects of PSIA | Capital Requirements |
|--|-------------------|--------------------|----------------------|--|----------------------|
| <b>1 Credit Risk</b>   |                   |                    |                      |  |                      |
| <b>On Balance Sheet Exposures</b>  |                   |                    |                      |  |                      |
| Sovereigns/Central Banks   | 7,769,947         | 7,769,947          | 1,901                | 1,901  | 152                  |
| Public Sector Entities   | 54,259            | 52,253             | 10,451               | 10,451   | 836                  |
| Banks, Development Financial Institutions & MDBs                             | 2,528,218         | 2,528,218          | 743,887              | 743,887  | 59,511               |
| Insurance Companies, Securities Firms & Fund Managers                        | 145,323           | 145,323            | 145,323              | 145,323  | 11,626               |
| Corporates   | 9,999,786         | 9,884,095          | 8,847,789            | 8,847,789  | 707,823              |
| Regulatory Retail  | 8,097,059         | 8,054,014          | 6,040,611            | 6,040,611  | 483,249              |
| Residential Real Estate (RRE) Financing                                      | 1,845,762         | 1,845,762          | 737,661              | 737,661  | 59,013               |
| Higher Risk Assets   | 472,076           | 472,076            | 708,112              | 708,112  | 56,649               |
| Equity Exposure  | 38,968            | 38,968             | 38,968               | 38,968   | 3,117                |
| Other Assets   | 1,486,791         | 1,486,791          | 397,779              | 397,779  | 31,822               |
| Defaulted Exposures  | 728,095           | 727,148            | 931,148              | 931,148  | 74,492               |
| Total for On Balance Sheet Exposures   | 33,166,284        | 33,004,595         | 18,603,630           | 18,603,630                                       | 1,488,290            |
| <b>Off Balance Sheet Exposures</b>   |                   |                    |                      |  |                      |
| Off Balance Sheet Exposures other than OTC derivatives or credit derivatives | 6,326,145         | 6,282,512          | 4,443,540            | 4,443,540  | 355,483              |
| Defaulted Exposures  | 94,055            | 94,055             | 141,033              | 141,033  | 11,283               |
| Total for Off Balance Sheet Exposures  | 6,420,200         | 6,376,567          | 4,584,573            | 4,584,573  | 366,766              |
| <b>Total for On and Off Balance Sheet Exposures</b>                          | <b>39,586,484</b> | <b>39,381,162</b>  | <b>23,188,203</b>    | <b>23,188,203</b>                                | <b>1,855,056</b>     |
| <b>2 Market Risk</b>   |                   |                    |                      |  |                      |
|  | Long Position     | Short Position     |                      |  |                      |
| Interest Rate Risk   | 2,143,546         | (2,045,824)        | 83,763               |  | 6,701                |
| Foreign Currency Risk  | 5,756             | (3,935)            | 7,512                |  | 601                  |
| <b>Total Market Risk</b>   | <b>2,149,302</b>  | <b>(2,049,759)</b> | <b>91,275</b>        |  | <b>7,302</b>         |
| <b>3 Operational Risk</b>  |                   |                    |                      |  |                      |
| Operational Risk   |                   |                    | <b>1,861,683</b>     |  | <b>148,935</b>       |
| <b>Total RWA And Capital Requirement</b>                                     |                   |                    | <b>25,141,161</b>    |  | <b>2,011,293</b>     |

PSIA "Profit Sharing Investment Account"

OTC "Over The Counter"

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2008

**42) CAPITAL ADEQUACY (continued)****Disclosure on Capital Adequacy under the Standardised Approach (RM'000) (continued)**

| The Bank<br>2008  |                    |                    |                             |                   |  | Total Risk-<br>Weighted<br>Assets<br>after<br>Effects<br>of PSIA | Capital<br>Requirements |
|---|--------------------|--------------------|-----------------------------|-------------------|--|--|-------------------------|
| Exposure Class  | Gross<br>Exposures | Net<br>Exposures   | Risk-<br>Weighted<br>Assets |                   |  |  |                         |
| <b>1 Credit Risk</b>  |                    |                    |                             |                   |  |  |                         |
| <b>On Balance Sheet Exposures</b>   |                    |                    |                             |                   |  |  |                         |
| Sovereigns/Central Banks  | 4,706,120          | 4,706,120          | 1,901                       | 1,901             |  | 152  |                         |
| Public Sector Entities  | 54,259             | 52,253             | 10,451                      | 10,451            |  | 836  |                         |
| Banks, Development Financial<br>Institutions & MDBs                             | 2,455,079          | 2,455,079          | 729,259                     | 729,259           |  | 58,341   |                         |
| Insurance Companies, Securities<br>Firms & Fund Managers                        | 50,199             | 50,199             | 50,199                      | 50,199            |  | 4,016  |                         |
| Corporates  | 8,814,995          | 8,722,552          | 7,884,214                   | 7,884,214         |  | 630,737  |                         |
| Regulatory Retail   | 6,773,809          | 6,736,105          | 5,052,078                   | 5,052,078         |  | 404,166  |                         |
| Residential Real Estate (RRE) Financing   | 1,713,032          | 1,713,032          | 679,665                     | 679,665           |  | 54,373   |                         |
| Higher Risk Assets  | 459,864            | 459,864            | 689,796                     | 689,796           |  | 55,184   |                         |
| Equity Exposure   | 38,968             | 38,968             | 38,968                      | 38,968            |  | 3,117  |                         |
| Other Assets  | 1,737,281          | 1,737,281          | 602,796                     | 602,796           |  | 48,224   |                         |
| Defaulted Exposures   | 695,238            | 694,435            | 886,480                     | 886,480           |  | 70,918   |                         |
| Total for On Balance Sheet Exposures  | 27,498,844         | 27,365,888         | 16,625,807                  | 16,625,807        |  | 1,330,064  |                         |
| <b>Off Balance Sheet Exposures</b>  |                    |                    |                             |                   |  |  |                         |
| Off Balance Sheet Exposures other than<br>OTC derivatives or credit derivatives | 4,694,564          | 4,655,493          | 3,983,211                   | 3,983,211         |  | 318,657  |                         |
| Defaulted Exposures   | 93,905             | 93,905             | 140,807                     | 140,807           |  | 11,265   |                         |
| Total for Off Balance Sheet Exposures   | 4,788,469          | 4,749,398          | 4,124,018                   | 4,124,018         |  | 329,922  |                         |
| <b>Total for On and Off Balance<br/>Sheet Exposures</b>                         | <b>32,287,313</b>  | <b>32,115,286</b>  | <b>20,749,825</b>           | <b>20,749,825</b> |  | <b>1,659,986</b>   |                         |
| <b>2 Market Risk</b>  |                    |                    |                             |                   |  |  |                         |
|   | Long Position      | Short Position     |                             |                   |  |  |                         |
| Interest Rate Risk  | 2,143,546          | (2,045,824)        | 83,763                      |                   |  | 6,701  |                         |
| Foreign Currency Risk   | 4,996              | (1,423)            | 5,000                       |                   |  | 400  |                         |
| <b>Total Market Risk</b>  | <b>2,148,542</b>   | <b>(2,047,247)</b> | <b>88,763</b>               |                   |  | <b>7,101</b>   |                         |
| <b>3 Operational Risk</b>   |                    |                    |                             |                   |  |  |                         |
| Operational Risk  |                    |                    | <b>1,673,945</b>            |                   |  | <b>133,916</b>   |                         |
| <b>Total RWA And Capital Requirement</b>  |                    |                    | <b>22,512,533</b>           |                   |  | <b>1,801,003</b>   |                         |

PSIA "Profit Sharing Investment Account"

OTC "Over The Counter"

## NOTES TO THE FINANCIAL STATEMENTS

*for the financial year ended 31 December 2008*

### 42) CAPITAL ADEQUACY (continued)

#### Disclosure on Credit Risk: Disclosures on Risk Weights (RM'000)

| The Group<br>2008                   |                                  | Exposures after Netting and Credit Risk Mitigation |                         |   |                   |                      |                               |                          |                  |   |                             |                     |   |                                  |  |
|-------------------------------------|----------------------------------|--|-------------------------|---|-------------------|----------------------|-------------------------------|--------------------------|------------------|---|-----------------------------|---------------------|---|----------------------------------|--|
| Supervisory<br>Risk<br>Weights<br>% | Sovereigns<br>& Central<br>Banks | PSEs   | Banks<br>MDBs<br>& FDIs | Insurance<br>Companies,<br>Securities<br>Firms & Fund<br>Managers | Corporate         | Regulatory<br>Retail | Residential<br>Real<br>Estate | Higher<br>Risk<br>Assets | Other<br>Assets  | Specialised<br>Financing/<br>Investment | Securitisation<br>Exposures | Equity<br>Exposures | Total<br>Exposure<br>after Netting<br>& Credit Risk<br>Mitigation | Total Risk<br>Weighted<br>Assets |  |
| 0%                                  | 8,579,247                        | -  | -                       | -   | -                 | -                    | -                             | -                        | 1,036,988        | -                                       | -                           | -                   | 9,616,235   | -                                |  |
| 10%                                 | -                                | -  | -                       | -   | -                 | -                    | -                             | -                        | -                | -                                       | -                           | -                   | -   | -                                |  |
| 20%                                 | 350,700                          | 63,098   | 2,226,487               | -   | 790,747           | -                    | -                             | -                        | 65,342           | -                                       | -                           | -                   | 3,496,374   | 699,275                          |  |
| 35%                                 | -                                | -  | -                       | -   | -                 | -                    | 1,235,318                     | -                        | -                | -                                       | -                           | -                   | 1,235,318   | 432,361                          |  |
| 50%                                 | -                                | -  | 1,110,332               | -   | 1,147,047         | 22,086               | 633,787                       | -                        | -                | -                                       | -                           | -                   | 2,913,252   | 1,456,626                        |  |
| 75%                                 | -                                | -  | -                       | -   | -                 | 8,451,331            | -                             | -                        | -                | -                                       | -                           | -                   | 8,451,331   | 6,338,499                        |  |
| 90%                                 | -                                | -  | -                       | -   | -                 | -                    | -                             | -                        | -                | -                                       | -                           | -                   | -   | -                                |  |
| 100%                                | -                                | -  | 196,526                 | 235,131   | 11,441,499        | 42,713               | 144,275                       | -                        | 383,960          | -                                       | -                           | 38,968              | 12,483,072  | 12,483,072                       |  |
| 110%                                | -                                | -  | -                       | -   | -                 | -                    | -                             | -                        | -                | -                                       | -                           | -                   | -   | -                                |  |
| 125%                                | -                                | -  | -                       | -   | -                 | -                    | -                             | -                        | -                | -                                       | -                           | -                   | -   | -                                |  |
| 135%                                | -                                | -  | -                       | -   | -                 | -                    | -                             | -                        | -                | -                                       | -                           | -                   | -   | -                                |  |
| 150%                                | -                                | -  | -                       | -   | 466,216           | 225,478              | -                             | 493,386                  | 500              | -                                       | -                           | -                   | 1,185,580   | 1,778,370                        |  |
| 270%                                | -                                | -  | -                       | -   | -                 | -                    | -                             | -                        | -                | -                                       | -                           | -                   | -   | -                                |  |
| 350%                                | -                                | -  | -                       | -   | -                 | -                    | -                             | -                        | -                | -                                       | -                           | -                   | -   | -                                |  |
| 400%                                | -                                | -  | -                       | -   | -                 | -                    | -                             | -                        | -                | -                                       | -                           | -                   | -   | -                                |  |
| 625%                                | -                                | -  | -                       | -   | -                 | -                    | -                             | -                        | -                | -                                       | -                           | -                   | -   | -                                |  |
| 938%                                | -                                | -  | -                       | -   | -                 | -                    | -                             | -                        | -                | -                                       | -                           | -                   | -   | -                                |  |
| 1250%                               | -                                | -  | -                       | -   | -                 | -                    | -                             | -                        | -                | -                                       | -                           | -                   | -   | -                                |  |
| <b>Total</b>                        | <b>8,929,947</b>                 | <b>63,098</b>                                      | <b>3,533,345</b>        | <b>235,131</b>  | <b>13,845,509</b> | <b>8,741,608</b>     | <b>2,013,380</b>              | <b>493,386</b>           | <b>1,486,790</b> | <b>-</b>                                | <b>-</b>                    | <b>38,968</b>       | <b>39,381,162</b>   | <b>23,188,203</b>                |  |

  

| The Bank<br>2008 |                  |               |                  |               |                   |                  |                  |                |                  |          |          |               |                   |                   |  |
|------------------|------------------|---------------|------------------|---------------|-------------------|------------------|------------------|----------------|------------------|----------|----------|---------------|-------------------|-------------------|--|
| 0%               | 4,696,617        | -             | -                | -             | -                 | -                | -                | -              | 880,910          | -        | -        | -             | 5,577,527         | -                 |  |
| 10%              | -                | -             | -                | -             | -                 | -                | -                | -              | -                | -        | -        | -             | -                 | -                 |  |
| 20%              | 9,502            | 63,098        | 2,153,349        | -             | 431,469           | -                | -                | -              | 316,970          | -        | -        | -             | 2,974,388         | 594,878           |  |
| 35%              | -                | -             | -                | -             | -                 | -                | 1,179,407        | -              | -                | -        | -        | -             | 1,179,407         | 412,792           |  |
| 50%              | -                | -             | 1,110,333        | -             | 1,053,009         | 21,813           | 556,481          | -              | -                | -        | -        | -             | 2,741,636         | 1,370,818         |  |
| 75%              | -                | -             | -                | -             | -                 | 7,082,435        | -                | -              | -                | -        | -        | -             | 7,082,435         | 5,311,826         |  |
| 90%              | -                | -             | -                | -             | -                 | -                | -                | -              | -                | -        | -        | -             | -                 | -                 |  |
| 100%             | -                | -             | 196,526          | 91,536        | 10,514,949        | 39,146           | 140,131          | -              | 539,402          | -        | -        | 38,968        | 11,560,658        | 11,560,658        |  |
| 110%             | -                | -             | -                | -             | -                 | -                | -                | -              | -                | -        | -        | -             | -                 | -                 |  |
| 125%             | -                | -             | -                | -             | -                 | -                | -                | -              | -                | -        | -        | -             | -                 | -                 |  |
| 135%             | -                | -             | -                | -             | -                 | -                | -                | -              | -                | -        | -        | -             | -                 | -                 |  |
| 150%             | -                | -             | -                | -             | 317,509           | 201,448          | -                | 480,278        | -                | -        | -        | -             | 999,235           | 1,498,853         |  |
| 270%             | -                | -             | -                | -             | -                 | -                | -                | -              | -                | -        | -        | -             | -                 | -                 |  |
| 350%             | -                | -             | -                | -             | -                 | -                | -                | -              | -                | -        | -        | -             | -                 | -                 |  |
| 400%             | -                | -             | -                | -             | -                 | -                | -                | -              | -                | -        | -        | -             | -                 | -                 |  |
| 625%             | -                | -             | -                | -             | -                 | -                | -                | -              | -                | -        | -        | -             | -                 | -                 |  |
| 938%             | -                | -             | -                | -             | -                 | -                | -                | -              | -                | -        | -        | -             | -                 | -                 |  |
| 1250%            | -                | -             | -                | -             | -                 | -                | -                | -              | -                | -        | -        | -             | -                 | -                 |  |
| <b>Total</b>     | <b>4,706,119</b> | <b>63,098</b> | <b>3,460,208</b> | <b>91,536</b> | <b>12,316,936</b> | <b>7,344,842</b> | <b>1,876,019</b> | <b>480,278</b> | <b>1,737,282</b> | <b>-</b> | <b>-</b> | <b>38,968</b> | <b>32,115,286</b> | <b>20,749,825</b> |  |

PSE "Public Sector Entities"

MDB "Multilateral Development Banks"

FDI "Financial Development Institutions"

**NOTES TO THE FINANCIAL STATEMENTS***for the financial year ended 31 December 2008***42) CAPITAL ADEQUACY (continued)****Disclosure on Off Balance Sheet and Counterparty Credit Risk (RM'000)**

| <b>The Group<br/>2008</b>  | <b>Total<br/>Principal<br/>Amount</b> | <b>Total<br/>Credit<br/>Equivalent<br/>Amount</b> | <b>Positive Fair<br/>Value of<br/>Derivative<br/>Contracts</b> | <b>Total Risk<br/>Weighted<br/>Amount</b> |
|--|---------------------------------------|---|--|---|
| <b>Nature of item:</b>   |                                       |   |  |   |
| Direct Credit Substitutes  | 658,062                               | 658,062   | –  | 609,474                                   |
| Transaction related contingent Items   | 2,785,699                             | 1,392,849   | –  | 1,115,835                                 |
| Short Term Self Liquidating trade related contingencies  | 2,379,763                             | 475,952   | –  | 202,368                                   |
| Foreign exchange related contracts   |                                       |   |  |   |
| – one year or less   | 574,103                               | 11,551  | 5,247  | 11,442                                    |
| – over one year to five years  | 164,180                               | 10,543  | 689  | 6,715                                     |
| Interest/Profit rate related contracts   |                                       |   |  |   |
| – one year or less   | 1,628,702                             | 49,413  | 412  | 11,876                                    |
| – over one year to five years  | 1,009,619                             | 40,514  | 31,788   | 17,016                                    |
| – over five years  | 523,350                               | 65,780  | 29,774   | 14,578                                    |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year  | 3,806,339                             | 1,903,170   | –  | 1,702,237                                 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year | 8,647,385                             | 1,711,064   | –  | 817,086                                   |
| Unutilised credit card lines   | 506,509                               | 101,302   | –  | 75,946                                    |
| <b>Total</b>   | <b>22,683,711</b>                     | <b>6,420,200</b>                                  | <b>67,910</b>  | <b>4,584,573</b>                          |

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 42) CAPITAL ADEQUACY (continued)

#### Disclosure on Off Balance Sheet and Counterparty Credit Risk (RM'000) (continued)

| The Bank<br>2008   | Total<br>Principal<br>Amount | Total<br>Credit<br>Equivalent<br>Amount | Positive Fair<br>Value of<br>Derivative<br>Contracts | Total Risk<br>Weighted<br>Amount |
|--|------------------------------|---|--|----------------------------------|
| <b>Nature of item:</b>   |                              |   |  |                                  |
| Direct Credit Substitutes  | 549,827                      | 549,827                                 | –  | 542,246                          |
| Transaction related contingent Items   | 2,628,258                    | 1,314,129                               | –  | 1,049,593                        |
| Short Term Self Liquidating trade related contingencies  | 640,834                      | 128,167                                 | –  | 127,540                          |
| Foreign exchange related contracts   |                              |   |  |                                  |
| – one year or less   | 574,103                      | 11,551                                  | 5,247  | 11,442                           |
| – over one year to five years  | 164,180                      | 10,543                                  | 689  | 6,715                            |
| Interest/Profit rate related contracts   |                              |   |  |                                  |
| – one year or less   | 1,628,702                    | 49,413                                  | 412  | 11,876                           |
| – over one year to five years  | 1,009,619                    | 40,514                                  | 31,788   | 17,016                           |
| – over five years  | 523,350                      | 65,780                                  | 29,774   | 14,578                           |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year  | 3,476,274                    | 1,738,137                               | –  | 1,556,230                        |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year | 3,895,530                    | 779,106                                 | –  | 710,836                          |
| Unutilised credit card lines   | 506,509                      | 101,302                                 | –  | 75,946                           |
| <b>Total</b>   | <b>15,597,186</b>            | <b>4,788,469</b>                        | <b>67,910</b>  | <b>4,124,018</b>                 |

**NOTES TO THE FINANCIAL STATEMENTS***for the financial year ended 31 December 2008***43) LITIGATIONS AGAINST THE BANK**

- (a) There are various legal suits against the Bank in respect of claims and counter claims of approximately RM103.8 million (2007: RM118.2 million). Based on legal advice, the Directors are of the opinion that no provision for damages need to be made in the financial statements, as the probability of adverse adjudication against the Bank is remote.
- (b) As part of a merger of banking businesses, by an Agreement dated 30 August 2000 ('the Acquisition Agreement') between AFFIN Holdings Berhad ('AHB'), AFFIN Bank Berhad ('ABB'), BSN Commercial Bank (Malaysia) Berhad ('BSNC') and Bank Simpanan Nasional Berhad ('BSN'), it was agreed that all banking assets and liabilities of BSNC would be sold to ABB in consideration of a purchase price of RM338,560,000 to be paid partly in cash and partly in shares ('the Purchase Price'). Pursuant to clause 2.1.5 of the Acquisition Agreement, BSNC and BSN undertook to ABB that debts other than those reflected as bad or doubtful debts in the audited financial statements of BSNC will be recoverable in the ordinary course of business. For the debts not recoverable, BSNC undertook to pay ABB within 30 days from the date of receipt of the Bank's letter of demand, the amounts claimed subject to a limit of 30% of the Purchase Price amounting to RM101,568,000.

Subsequent to the merger, an audit was conducted and it was found that there had been significant under-provisioning of bad and doubtful debts by BSNC. AHB, ABB and BSN agreed that the purchase price payable to BSNC would be reduced to compensate for this under-provisioning ('the Settlement Agreement'). In return, it was agreed that ABB would assign the bad and doubtful debts to BSNC under clause 2.1.5 of the Acquisition Agreement, subject to approval being given to both parties by regulatory authorities for the reassignment. However, the accounts to be reassigned to BSNC were not identified then.

Dispute arose when ABB subsequently did not agree with BSNC on the assignment of 106 non-performing accounts with gross amount of RM988,000,000 or net amount of RM578,000,000 which have been identified unilaterally by BSNC. In 2005, BSNC issued an Originating Summons against AHB and ABB seeking an order for ABB to reassign the 106 accounts to BSNC.

On 6 February 2009, the High Court had given its decision on the Originating Summons. The High Court concluded that there were numerous disputes of fact which had to be resolved before any final conclusion could be reached and has ordered to proceed with a full trial. No date has been fixed for the trial.

The Directors are of the opinion that the probable outcome of the legal case is still uncertain at this junction and it is too preliminary to quantify the financial impact to both ABB and the Group.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 44) FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets, financial liabilities and also off balance sheet financial instruments. The fair value of a financial instrument is the amount at which the instruments could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents estimates of fair values as at balance sheet date.

Quoted market prices, when available, are used as the measure of fair values. For financial instruments, without quoted market prices, fair values are estimated using net present value or other valuation techniques. These techniques involve a certain degree of uncertainty depending on the assumptions used and judgements made regarding risk characteristics of various financial instruments, discounts rates, estimates of future cash flows, future expected loss experience and other factors. Changes in these assumptions could materially affect these estimates and the resulting fair value.

Fair value information for non-financial assets and liabilities are excluded as they do not fall within the scope of FRS 132 which requires fair values to be disclosed. This includes property and equipment, statutory deposits with Bank Negara Malaysia, investment in subsidiaries, other assets, tax recoverable, deferred tax and intangible assets.

The fair values of the financial assets and financial liabilities of the Group and the Bank approximated to their respective carrying value as at the balance sheet date, except for the following:

|                               | The Group<br>2008           |                         | The Bank<br>2008            |                         |
|-------------------------------|-----------------------------|-------------------------|-----------------------------|-------------------------|
|                               | Carrying<br>value<br>RM'000 | Fair<br>value<br>RM'000 | Carrying<br>value<br>RM'000 | Fair<br>value<br>RM'000 |
| <b>Financial assets</b>       |                             |                         |                             |                         |
| Held-to-maturity securities   | 563,013                     | 651,409                 | 556,141                     | 644,602                 |
| Loans, advances and financing | 19,516,255                  | 19,725,925              | 17,054,062                  | 17,232,830              |
|                               | <u>20,079,268</u>           | <u>20,377,334</u>       | <u>17,610,203</u>           | <u>17,877,432</u>       |
| <b>Financial liabilities</b>  |                             |                         |                             |                         |
| Deposits from customers       | 25,227,789                  | 25,228,225              | 20,979,568                  | 20,978,386              |
| Subordinated term loan        | 500,000                     | 481,065                 | 500,000                     | 481,065                 |
|                               | <u>25,727,789</u>           | <u>25,709,290</u>       | <u>21,479,568</u>           | <u>21,459,451</u>       |

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2008

**44) FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

|   | The Group<br>2007           |                         | The Bank<br>2007            |                         |
|---|-----------------------------|-------------------------|-----------------------------|-------------------------|
|   | Carrying<br>value<br>RM'000 | Fair<br>value<br>RM'000 | Carrying<br>value<br>RM'000 | Fair<br>value<br>RM'000 |
| <b>Financial assets</b>                             |                             |                         |                             |                         |
| Held-to-maturity securities                         | 393,337                     | 484,964                 | 387,040                     | 479,008                 |
| Loans, advances and financing                       | 16,848,690                  | 16,931,371              | 15,100,333                  | 15,262,159              |
|   | <u>17,242,027</u>           | <u>17,416,335</u>       | <u>15,487,373</u>           | <u>15,741,167</u>       |
| <b>Financial liabilities</b>                        |                             |                         |                             |                         |
| Deposits from customers                             | 23,475,926                  | 23,478,484              | 19,780,674                  | 19,781,448              |
| Recourse obligation on loans sold to Cagamas Berhad | 361,510                     | 365,220                 | 361,510                     | 365,220                 |
| Subordinated term loan                              | 500,000                     | 542,922                 | 500,000                     | 542,922                 |
|   | <u>24,337,436</u>           | <u>24,386,626</u>       | <u>20,642,184</u>           | <u>20,689,590</u>       |

The fair values of derivative financial instruments at the balance sheet date are as follows:

|                            | The Group and The Bank<br>2008   |                 |                     | The Group and The Bank<br>2007   |                 |                     |
|----------------------------|----------------------------------|-----------------|---------------------|----------------------------------|-----------------|---------------------|
|                            | Underlying<br>notional<br>RM'000 | Asset<br>RM'000 | Liability<br>RM'000 | Underlying<br>notional<br>RM'000 | Asset<br>RM'000 | Liability<br>RM'000 |
| Foreign exchange contracts |                                  |                 |                     |                                  |                 |                     |
| – forward contracts        | <b>738,283</b>                   | <b>5,936</b>    | <b>7,134</b>        | 832,356                          | 3,112           | 7,422               |
| – option                   | –                                | –               | –                   | 98,034                           | 318             | 318                 |
| Interest rate contracts    |                                  |                 |                     |                                  |                 |                     |
| – swaps                    | <b>3,161,671</b>                 | <b>61,974</b>   | <b>74,259</b>       | 3,150,200                        | 40,544          | 18,159              |
| – futures contracts        | –                                | –               | –                   | 65,000                           | 174             | –                   |

The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuation in market interest rates or foreign exchange rates relative to their terms. The extent to which instruments are favourable or unfavourable and the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

## **NOTES TO THE FINANCIAL STATEMENTS**

*for the financial year ended 31 December 2008*

### **44) FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

The fair value estimates were determined by application of the methodologies and assumptions described below.

#### **Cash and short-term funds and placements with banks and other financial institutions**

For cash and short-term funds and placements with banks and other financial institutions with maturity of less than six months, the carrying amount is a reasonable estimate of fair value.

For amounts with maturities of six months or more, fair values have been estimated by reference to current rates at which similar deposits and placements would be made to banks with similar credit ratings and maturities.

#### **Held-for-trading, available-for-sale and held-to-maturity securities**

The fair value of held-for-trading, available-for-sale and held-to-maturity securities are reasonable estimates based on quoted market prices. In the absence of such quoted prices, the fair values are based on indicative market yields or the asset's book value of the invested company.

#### **Loans, advances and financing**

For performing fixed rate loans, fair values have been estimated by discounting the estimated cash flows using the prevailing market rates of loans and advances with similar credit ratings and maturities.

For floating-rate loans, the carrying amount is generally a reasonable estimate of fair value. Fair value of credit card receivables is based on the carrying value of receivables outstanding which is generally a reasonable estimate.

The fair value of impaired loans and advances, whether fixed or floating are based on the carrying value less specific allowance and carrying value of the general allowance for bad and doubtful debts and financing for the Group and the Bank respectively, which covers unidentified losses inherent in the loan portfolio, being the reasonable estimate of recoverable amount.

#### **Deposits from customers, banks and other financial institutions, bills and acceptances payable and recourse obligation on loans sold to Cagamas Berhad**

The fair value of demand deposits is the amounts payable on demand at the reporting date. For other liabilities with maturities of less than 6 months, the carrying amount is a reasonable estimate of fair value.

For liabilities with maturities of 6 months or longer, fair values have been based on quoted market prices, where such prices exist. Otherwise, fair values are estimated using discounted cash flows based on rates currently offered for similar liabilities of similar remaining maturities.

The estimated fair value of deposits with no stated maturity, which include non-interest bearing deposits, approximates carrying amount which represents the amount repayable on demand.

#### **Subordinated term loan**

The estimated fair value of subordinated term loan is based on discounted cash flow model using a current yield curve appropriate for the remaining term to maturity.

#### **Other assets and liabilities**

The carrying value less any estimated allowance for financial assets and liabilities included in other assets and other liabilities are assumed to approximate their fair values as these items are not materially sensitive to the shift in market interest rates.

#### **Derivative financial instruments**

The fair value of exchange rate and interest rate contracts is the estimated amount the Group would receive or pay to terminate the contracts at the reporting date.

## **NOTES TO THE FINANCIAL STATEMENTS**

*for the financial year ended 31 December 2008*

### **45) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The Group and the Bank make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. To enhance the information content of the estimates, certain variables that are anticipated to have material impact to the Group's and the Bank's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

#### **(a) Allowance for losses on loans, advances and financing and securities**

The Group and the Bank makes allowance for losses on loans, advances and financing and securities based on assessment of recoverability. Whilst management's judgement is guided by the relevant BNM Guidelines, judgement is made about the future and other key factors in respect of the recovery of loans, advances and financing and securities. Among the factors considered are the Group and the Bank's aggregate exposure to the borrower or issuer, the net realisable value of the underlying collateral value, the viability of the customer's or issuer's business model and the capacity to generate sufficient cash flow to service debt or security obligations and the aggregate amount and ranking of all other creditor claims.

#### **(b) Estimated impairment of goodwill**

The Group performs an impairment review on an annual basis to ensure that the carrying value of the goodwill does not exceed its recoverable amounts from cash generating units to which the goodwill is allocated. The recoverable amount represents the present value of the estimated future cash flows expected to arise from continuing operations. Therefore, in arriving at the recoverable amount, management exercises judgement in estimating the future cash flows, growth rate and discount rate.

### **46) SIGNIFICANT EVENT DURING THE FINANCIAL YEAR**

#### **Establishment of joint venture (50% owned) company, AFFIN-i Goodyear Sdn Bhd being a joint venture between AFFIN Islamic Bank Berhad and Jurus Positif Sdn Bhd**

On 1 April 2008, AFFIN Islamic Bank Berhad and Jurus Positif Sdn Bhd, a subsidiary of Mutiara Goodyear Development Berhad, entered into a joint venture agreement under the Shariah principles ('Musharakah Agreement') to develop a land into a housing scheme at Bukit Gambir, Pulau Pinang.

Pursuant to the joint venture, a joint venture company namely AFFIN-i Goodyear Sdn Bhd (AFFIN-i Goodyear) had been incorporated on 13 March 2008 with an initial issued and paid-up share capital of RM1.0 million divided into 1,000,000 ordinary shares of RM1.00 each, subscribed by and allotted and issued to AFFIN Islamic Bank Berhad and Jurus Positif Sdn Bhd in equal proportion of 50% each.

Under this hybrid structure, AFFIN Islamic Bank Berhad is the sole banker to AFFIN-i Goodyear and will be providing financing to AFFIN-i Goodyear using the Islamic concept such as Murabahah for the purchase of the land and Istisna' for the bridging financing.

AFFIN-i Goodyear has not started its operation during the year. Operation is expected to commence in the financial year ending 31 December 2009.

## **NOTES TO THE FINANCIAL STATEMENTS**

*for the financial year ended 31 December 2008*

### **47) SEGMENT ANALYSIS**

Segment analysis is presented in respect of the Group's business segment. The Group's activities are principally conducted in Malaysia and accordingly, no analysis on the Group's operations by geographical segments are disclosed.

The format of the segment analysis is based on the internal financial reporting system which reflect the Group's management reporting structure. The Group comprises the following main segments:

#### **Enterprise banking**

Corporate, commercial banking caters to funding or lending needs of corporate customers including public listed corporations and its related entities, multinational corporations, financial institutions, Government and state owned entities, small and medium enterprises.

#### **Consumer banking**

Retail banking focuses on providing products and services to individual customers. The products and services offered to customers include credit facilities (mortgages and personal loans), credit cards, remittance services, deposit collection and investment products.

#### **Treasury**

Treasury and money market operations are involved in proprietary trading in fixed income and foreign exchange, derivatives trading and structuring, managing customer-based foreign exchange and money market transactions, funding and investment in Ringgit and foreign currencies.

#### **Hire purchase**

Hire purchase focuses on the products and services offered to customers under the hire purchase financing facilities.

**NOTES TO THE FINANCIAL STATEMENTS***for the financial year ended 31 December 2008***47) SEGMENT ANALYSIS (continued)**

The segment analysis by activity:

|                               | <b>Enterprise<br/>banking<br/>RM'000</b> | <b>Consumer<br/>banking<br/>RM'000</b> | <b>Treasury<br/>RM'000</b> | <b>Hire<br/>purchase<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|-------------------------------|--|--|----------------------------|-------------------------------------|-------------------------|
| <b>The Group</b>              |  |  |                            |                                     |                         |
| <b>2008</b>                   |  |  |                            |                                     |                         |
| <b>Revenue</b>                |  |  |                            |                                     |                         |
| External revenue              | <u>655,681</u>                           | <u>332,490</u>                         | <u>519,304</u>             | <u>424,433</u>                      | <u>1,931,908</u>        |
| <b>Results</b>                |  |  |                            |                                     |                         |
| Segment results               | <b>235,385</b>                           | <b>91,095</b>                          | <b>67,262</b>              | <b>91,037</b>                       | <b>484,779</b>          |
| Unallocated expenses          |  |  |                            |                                     | <u>(30,151)</u>         |
| <b>Profit before taxation</b> |  |  |                            |                                     | <b>454,628</b>          |
| Taxation and zakat            |  |  |                            |                                     | <u>(123,316)</u>        |
| <b>Profit after taxation</b>  |  |  |                            |                                     | <u><b>331,312</b></u>   |
| <b>2007</b>                   |  |  |                            |                                     |                         |
| <b>Revenue</b>                |  |  |                            |                                     |                         |
| External revenue              | <u>569,131</u>                           | <u>321,174</u>                         | <u>576,753</u>             | <u>423,946</u>                      | <u>1,891,004</u>        |
| <b>Results</b>                |  |  |                            |                                     |                         |
| Segment results               | 160,133                                  | 56,600                                 | 67,270                     | 69,280                              | 353,283                 |
| Unallocated expenses          |  |  |                            |                                     | <u>(31,280)</u>         |
| <b>Profit before taxation</b> |  |  |                            |                                     | 322,003                 |
| Taxation and zakat            |  |  |                            |                                     | <u>(89,551)</u>         |
| <b>Profit after taxation</b>  |  |  |                            |                                     | <u>232,452</u>          |

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 47) SEGMENT ANALYSIS (continued)

The segment analysis by activity:

|                               | Enterprise<br>banking<br>RM'000 | Consumer<br>banking<br>RM'000 | Treasury<br>RM'000 | Hire<br>purchase<br>RM'000 | Total<br>RM'000       |
|-------------------------------|---------------------------------|-------------------------------|--------------------|----------------------------|-----------------------|
| <b>The Bank</b>               |                                 |                               |                    |                            |                       |
| <b>2008</b>                   |                                 |                               |                    |                            |                       |
| <b>Revenue</b>                |                                 |                               |                    |                            |                       |
| External revenue              | <u>616,336</u>                  | <u>277,811</u>                | <u>373,788</u>     | <u>382,484</u>             | <u>1,650,419</u>      |
| <b>Results</b>                |                                 |                               |                    |                            |                       |
| Segment results               | 225,112                         | 77,321                        | 55,322             | 81,949                     | 439,704               |
| Unallocated expenses          |                                 |                               |                    |                            | <u>(30,151)</u>       |
| <b>Profit before taxation</b> |                                 |                               |                    |                            | <b>409,553</b>        |
| Taxation and zakat            |                                 |                               |                    |                            | <u>(109,617)</u>      |
| <b>Profit after taxation</b>  |                                 |                               |                    |                            | <u><b>299,936</b></u> |
| <b>2007</b>                   |                                 |                               |                    |                            |                       |
| <b>Revenue</b>                |                                 |                               |                    |                            |                       |
| External revenue              | <u>534,338</u>                  | <u>280,637</u>                | <u>447,408</u>     | <u>399,089</u>             | <u>1,661,472</u>      |
| <b>Results</b>                |                                 |                               |                    |                            |                       |
| Segment results               | 131,504                         | 39,828                        | 50,588             | 60,569                     | 282,489               |
| Unallocated expenses          |                                 |                               |                    |                            | <u>(31,280)</u>       |
| <b>Profit before taxation</b> |                                 |                               |                    |                            | <b>251,209</b>        |
| Taxation and zakat            |                                 |                               |                    |                            | <u>(70,350)</u>       |
| <b>Profit after taxation</b>  |                                 |                               |                    |                            | <u><b>180,859</b></u> |

**NOTES TO THE FINANCIAL STATEMENTS***for the financial year ended 31 December 2008***47) SEGMENT ANALYSIS (continued)**

|  | Enterprise<br>banking<br>RM'000 | Consumer<br>banking<br>RM'000 | Treasury<br>RM'000 | Hire<br>purchase<br>RM'000 | Total<br>RM'000   |
|--|---------------------------------|-------------------------------|--------------------|----------------------------|-------------------|
| <b>The Group<br/>2008</b>              |                                 |                               |                    |                            |                   |
| Segment assets                         | 10,773,241                      | 4,326,601                     | 11,284,667         | 6,252,516                  | 32,637,025        |
| Deferred tax assets                    |                                 |                               |                    |                            | 62,417            |
| Tax recoverable                        |                                 |                               |                    |                            | 5,197             |
| Unallocated assets                     |                                 |                               |                    |                            | 306,735           |
| <b>Total assets</b>                    |                                 |                               |                    |                            | <b>33,011,374</b> |
| Segment liabilities                    | 9,480,495                       | 3,571,546                     | 11,284,667         | 5,286,157                  | 29,622,865        |
| Deferred tax liabilities               |                                 |                               |                    |                            | 2                 |
| Unallocated liabilities                |                                 |                               |                    |                            | 678,969           |
| <b>Total liabilities</b>               |                                 |                               |                    |                            | <b>30,301,836</b> |
| <b>Other segment items:</b>            |                                 |                               |                    |                            |                   |
| Capital expenditure                    | 15,820                          | 5,756                         | 13,822             | 8,825                      | 44,223            |
| Depreciation of property and equipment | 8,368                           | 3,450                         | 6,261              | 4,435                      | 22,514            |
| Amortisation of intangible assets      | 6,185                           | 2,344                         | 5,736              | 3,472                      | 17,737            |
| Lease rental – leasehold properties    | 180                             | 59                            | 131                | 95                         | 465               |
| Specific allowances                    | 144,376                         | 63,963                        | –                  | 40,465                     | 248,804           |
| General allowances                     | 27,627                          | 1,104                         | –                  | 2,578                      | 31,309            |
| Other non-cash items                   | (20,080)                        | 8,314                         | (165,688)          | 4,400                      | (173,054)         |

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 47) SEGMENT ANALYSIS (continued)

|  | Enterprise<br>banking<br>RM'000 | Consumer<br>banking<br>RM'000 | Treasury<br>RM'000 | Hire<br>purchase<br>RM'000 | Total<br>RM'000   |
|--|---------------------------------|-------------------------------|--------------------|----------------------------|-------------------|
| <b>The Group</b>                       |                                 |                               |                    |                            |                   |
| <b>2007</b>                            |                                 |                               |                    |                            |                   |
| Segment assets                         | 8,675,211                       | 4,125,573                     | 12,944,099         | 5,875,561                  | 31,620,444        |
| Deferred tax assets                    |                                 |                               |                    |                            | 32,754            |
| Tax recoverable                        |                                 |                               |                    |                            | 6,232             |
| Unallocated assets                     |                                 |                               |                    |                            | 249,956           |
| <b>Total assets</b>                    |                                 |                               |                    |                            | <u>31,909,386</u> |
| Segment liabilities                    | 7,342,719                       | 3,336,896                     | 12,944,099         | 5,140,829                  | 28,764,543        |
| Deferred tax liabilities               |                                 |                               |                    |                            | 4                 |
| Unallocated liabilities                |                                 |                               |                    |                            | 633,839           |
| <b>Total liabilities</b>               |                                 |                               |                    |                            | <u>29,398,386</u> |
| <b>Other segment items:</b>            |                                 |                               |                    |                            |                   |
| Capital expenditure                    | 10,042                          | 4,404                         | 11,009             | 6,835                      | 32,290            |
| Depreciation of property and equipment | 6,390                           | 3,349                         | 6,610              | 4,878                      | 21,227            |
| Amortisation of intangible assets      | 4,532                           | 2,156                         | 5,828              | 3,080                      | 15,596            |
| Lease rental – leasehold properties    | 111                             | 32                            | 79                 | 49                         | 271               |
| Specific allowances                    | 243,784                         | 87,127                        | –                  | 57,369                     | 388,280           |
| General allowances                     | (608)                           | 1,054                         | –                  | 6,130                      | 6,576             |
| Other non-cash items                   | (5,280)                         | 9,281                         | (162,613)          | 2,177                      | (156,435)         |

**NOTES TO THE FINANCIAL STATEMENTS**

for the financial year ended 31 December 2008

**47) SEGMENT ANALYSIS (continued)**

|  | Enterprise<br>banking<br>RM'000 | Consumer<br>banking<br>RM'000 | Treasury<br>RM'000 | Hire<br>purchase<br>RM'000 | Total<br>RM'000   |
|--|---------------------------------|-------------------------------|--------------------|----------------------------|-------------------|
| <b>The Bank<br/>2008</b>               |                                 |                               |                    |                            |                   |
| Segment assets                         | 10,196,067                      | 3,448,857                     | 7,792,057          | 5,538,110                  | 26,975,091        |
| Subsidiaries                           |                                 |                               |                    |                            | 199,478           |
| Amount due from subsidiaries           |                                 |                               |                    |                            | 256,192           |
| Deferred tax assets                    |                                 |                               |                    |                            | 62,803            |
| Unallocated assets                     |                                 |                               |                    |                            | 236,910           |
| <b>Total assets</b>                    |                                 |                               |                    |                            | <b>27,730,474</b> |
| Segment liabilities                    | 9,011,315                       | 2,898,679                     | 7,792,057          | 4,743,302                  | 24,445,353        |
| Amount due to subsidiaries             |                                 |                               |                    |                            | 31,886            |
| Unallocated liabilities                |                                 |                               |                    |                            | 673,093           |
| <b>Total liabilities</b>               |                                 |                               |                    |                            | <b>25,150,332</b> |
| <b>Other segment items:</b>            |                                 |                               |                    |                            |                   |
| Capital expenditure                    | 15,181                          | 5,186                         | 11,595             | 8,362                      | 40,324            |
| Depreciation of property and equipment | 8,196                           | 3,247                         | 6,085              | 4,301                      | 21,829            |
| Amortisation of intangible assets      | 6,106                           | 2,181                         | 5,594              | 3,364                      | 17,245            |
| Lease rental – leasehold properties    | 172                             | 59                            | 131                | 95                         | 457               |
| Specific allowances                    | 130,667                         | 63,216                        | –                  | 38,747                     | 232,630           |
| General allowances                     | 23,704                          | (2,313)                       | –                  | (796)                      | 20,595            |
| Other non-cash items                   | (50,100)                        | 7,134                         | (115,713)          | 4,116                      | (154,563)         |

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2008

### 47) SEGMENT ANALYSIS (continued)

|  | Enterprise<br>banking<br>RM'000 | Consumer<br>banking<br>RM'000 | Treasury<br>RM'000 | Hire<br>purchase<br>RM'000 | Total<br>RM'000   |
|--|---------------------------------|-------------------------------|--------------------|----------------------------|-------------------|
| <b>The Bank</b>                        |                                 |                               |                    |                            |                   |
| <b>2007</b>                            |                                 |                               |                    |                            |                   |
| Segment assets                         | 8,025,340                       | 3,481,270                     | 8,747,698          | 5,390,577                  | 25,644,885        |
| Subsidiaries                           |                                 |                               |                    |                            | 199,478           |
| Amount due from subsidiaries           |                                 |                               |                    |                            | 210,256           |
| Deferred tax assets                    |                                 |                               |                    |                            | 31,657            |
| Tax recoverable                        |                                 |                               |                    |                            | 6,188             |
| Unallocated assets                     |                                 |                               |                    |                            | 141,064           |
| <b>Total assets</b>                    |                                 |                               |                    |                            | <b>26,233,528</b> |
| Segment liabilities                    | 6,844,928                       | 2,817,103                     | 8,747,698          | 4,757,303                  | 23,167,032        |
| Amount due to subsidiaries             |                                 |                               |                    |                            | 21,300            |
| Unallocated liabilities                |                                 |                               |                    |                            | 635,855           |
| <b>Total liabilities</b>               |                                 |                               |                    |                            | <b>23,824,187</b> |
| <b>Other segment items:</b>            |                                 |                               |                    |                            |                   |
| Capital expenditure                    | 9,984                           | 4,389                         | 10,908             | 6,824                      | 32,105            |
| Depreciation of property and equipment | 6,279                           | 3,332                         | 6,594              | 4,869                      | 21,074            |
| Amortisation of intangible assets      | 4,400                           | 2,016                         | 5,689              | 3,008                      | 15,113            |
| Lease rental – leasehold properties    | 71                              | 32                            | 79                 | 49                         | 231               |
| Specific allowances                    | 251,149                         | 86,435                        | –                  | 55,867                     | 393,451           |
| General allowances                     | (2,614)                         | (648)                         | –                  | 3,262                      | –                 |
| Other non-cash items                   | (18,152)                        | 7,919                         | (144,439)          | 1,700                      | (152,972)         |

**NOTES TO THE FINANCIAL STATEMENTS***for the financial year ended 31 December 2008***48) CREDIT EXPOSURES ARISING FROM TRANSACTIONS WITH CONNECTED PARTIES**

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

|  |           |
|--|-----------|
| (i) The aggregate value of outstanding credit exposures with connected parties (RM'000)                            | 2,017,610 |
| (ii) The percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures | 6.69%     |
| (iii) The percentage of outstanding credit exposures with connected parties which is non-performing or in default  | Nil       |

**49) APPROVAL OF FINANCIAL STATEMENTS**

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 23 February 2009.