

CIMB ISLAMIC BANK BERHAD
CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF FINANCIAL POSITION AS AT 31 MARCH 2010

<u>Assets</u>		31-Mar-10 RM'000	31-Dec-09 RM'000
Cash and short term funds	1	4,735,935	4,680,918
Deposits and placements with banks and other financial institutions	2	748,590	992,275
Financial assets held for trading	3	2,310,244	3,284,294
Financial investments available-for-sale	4	459,188	542,079
Financial investments held-to-maturity	5	1,095,619	1,011,378
Islamic derivative financial instruments	12(i)	232,249	257,688
Financing, advances and other loans	6	17,598,979	16,093,818
Other assets	7	102,641	108,031
Deferred taxation		7,275	44,625
Tax recoverable		42,818	-
Amount due from holding company		198,342	-
Statutory deposits with Bank Negara Malaysia		87,526	172,806
Property, plant and equipment		2,692	2,625
Intangible assets		2,909	3,676
Goodwill		136,000	136,000
Total Assets		27,761,006	27,330,213
<u>Liabilities</u>			
Deposits from customers	8	17,609,825	17,496,497
Deposits and placements of banks and other financial institutions	9	8,539,444	8,222,432
Other liabilities	10	197,647	229,387
Islamic derivative financial instruments	12(i)	212,337	158,036
Provision for tax and zakat		6,421	18,794
Subordinated Sukuk	11	300,000	300,000
Amount due to holding company		-	27,731
Amount due to related companies		3,133	6,278
Total liabilities		26,868,807	26,459,155
Equity			
Capital and reserves attributable to equity holder of the Bank			
Ordinary share capital		550,000	550,000
Reserves		272,199	251,058
		822,199	801,058
Perpetual preference shares		70,000	70,000
Total equity		892,199	871,058
Total equity and liabilities		27,761,006	27,330,213
Commitments and contingencies	12(ii)	14,681,307	13,359,420
Net assets per share (RM)		1.49	1.46

CIMB ISLAMIC BANK BERHAD
CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE QUARTER ENDED 31 MARCH 2010

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		QUARTER ENDED 31-Mar-10 RM'000	QUARTER ENDED 31-Mar-09 RM'000	3 MONTHS ENDED 31-Mar-10 RM'000	3 MONTHS ENDED 31-Mar-09 RM'000
Income derived from investment of depositors' funds and others	14	268,861	192,683	268,861	192,683
Income derived from investment of shareholders' funds	15	21,751	21,952	21,751	21,952
Allowances for impairment for losses on financing	16	(32,741)	(33,750)	(32,741)	(33,750)
Total distributable income		257,871	180,885	257,871	180,885
Income attributable to depositors	17	(121,549)	(99,182)	(121,549)	(99,182)
Total net income		136,322	81,703	136,322	81,703
Personnel expenses	18	(26,030)	(21,414)	(26,030)	(21,414)
Other overheads and expenditures	19	(29,640)	(20,356)	(29,640)	(20,356)
Profit for the financial period		80,652	39,933	80,652	39,933
Taxation and zakat	20	(20,466)	(9,597)	(20,466)	(9,597)
Net profit for the period		60,186	30,336	60,186	30,336
Basic and diluted earnings per share (sen)		10.94	5.52	10.94	5.52

CIMB ISLAMIC BANK BERHAD
CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)
FOR THE QUARTER ENDED 31 MARCH 2010

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	QUARTER ENDED 31-Mar-10 RM'000	QUARTER ENDED 31-Mar-09 RM'000	3 MONTHS ENDED 31-Mar-10 RM'000	3 MONTHS ENDED 31-Mar-09 RM'000
Net profit for the period	60,186	30,336	60,186	30,336
Other comprehensive income:				
Revaluation reserve financial investments available-for-sale				
- Net (loss)/gain from change in fair value	(408)	585	(408)	585
- Realised gain transferred to statement of comprehensive income	414	405	414	405
- Transfer (to)/from deferred tax assets	(1)	182	(1)	182
Total comprehensive income for the period	60,191	31,508	60,191	31,508

CIMB ISLAMIC BANK BERHAD
CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 31 MARCH 2010

	Non-distributable				Distributable				
	Share capital RM'000	Statutory reserve RM'000	Revaluation reserve- AFS RM'000	Merger reserve RM'000	Capital reserve RM'000	Accumulated profits RM'000	Total RM'000	Perpetual preference shares RM'000	Total equity RM'000
31 March 2010									
At 1 January 2010	550,000	135,635	194	(2,457)	458	117,228	801,058	70,000	871,058
Effect of adopting FRS 139 on 1 January 2010	-	-	-	-	-	(39,050)	(39,050)	-	(39,050)
Adjusted at 1 January 2010	550,000	135,635	194	(2,457)	458	78,178	762,008	70,000	832,008
Net profit for the financial period	-	-	-	-	-	60,186	60,186	-	60,186
Other comprehensive income (net of tax)	-	-	5	-	-	-	5	-	5
- Financial investments available-for-sale	-	-	5	-	-	-	5	-	5
At 31 March 2010	550,000	135,635	199	(2,457)	458	138,364	822,199	70,000	892,199
31 March 2009									
At 1 January 2009	550,000	73,764	(1,719)	(2,457)	458	55,357	675,403	70,000	745,403
Net profit for the financial period	-	-	-	-	-	30,336	30,336	-	30,336
Other comprehensive income (net of tax)	-	-	1,172	-	-	-	1,172	-	1,172
- Financial investments available-for-sale	-	-	1,172	-	-	-	1,172	-	1,172
At 31 March 2009	550,000	73,764	(547)	(2,457)	458	85,693	706,911	70,000	776,911



Company Number :671380-H

CIMB ISLAMIC BANK BERHAD
CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE PERIOD ENDED 31 MARCH 2010

	31-Mar-10 RM'000	31-Mar-09 RM'000
Cash flows from/(used in) operating activities		
Profit before taxation	80,652	39,933
Adjustments for non-cash items	<u>(29,234)</u>	<u>115,908</u>
Operating profit before changes in working capital	51,418	155,841
Net increase in operating assets	(414,740)	(1,411,225)
Net increase/(decrease) in operating liabilities	432,846	(577,102)
Tax paid	<u>(23,194)</u>	<u>(7,500)</u>
Net cash generated from/(used in) operating activities	46,330	(1,839,986)
Net cash flows from investing activities	<u>8,687</u>	<u>15,873</u>
Net increase/(decrease) in cash and cash equivalents	55,017	(1,824,113)
Cash and cash equivalents at beginning of the financial period	4,680,918	6,249,125
Cash and cash equivalents at end of the financial period	<u><u>4,735,935</u></u>	<u><u>4,425,012</u></u>

EXPLANATORY NOTES

A. BASIS OF PREPARATION

The unaudited condensed interim financial statements for the quarter ended 31 March 2010 have been prepared under the historical cost convention, except for securities held for trading, available-for-sale securities and Islamic derivative financial instruments that have been measured at fair value.

The unaudited condensed interim financial statements have been prepared in accordance with FRS134: Interim Financial Reporting issued by Malaysian Accounting Standards Board ("MASB"). The unaudited condensed interim financial statements should be read in conjunction with audited annual financial statements of the Bank for the year ended 31 December 2009. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Bank since the year ended 31 December 2009.

The significant accounting policies and methods of computation applied in the unaudited interim financial statements are consistent with those adopted in the most recent audited annual financial statements for the financial year ended 31 December 2009, and modified for the adoption of the following accounting standards applicable for financial periods beginning on or after 1 January 2010:

- Amendments to FRS 1 "First-time Adoption of Financial Reporting Standards" and FRS 127 "Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"
- Amendments to FRS 2 "Share-based Payment Vesting Conditions and Cancellations"
- FRS 7 "Financial Instruments: Disclosures"
- FRS 8 "Operating Segments"
- Amendment to FRS 8 "Operating Segments"
- FRS 101 "Presentation of Financial Statements"
- Amendment to FRS 108 "Accounting Policies, Changes in Accounting Estimates and Errors"
- Amendment to FRS 117 "Leases"
- Amendment to FRS 119 "Employee Benefits"
- Amendment to FRS 127 "Consolidated and Separate Financial Statements"
- Amendments to FRS 132 "Financial Instruments: Presentation"
- Amendment to FRS 134 "Interim Financial Reporting"
- Amendment to FRS 138 "Intangible Assets" (effective 1 January 2010)
- FRS 139 "Financial Instruments: Recognition and Measurement"
- IC Interpretation 9 "Reassessment of Embedded Derivatives"
- Amendments to FRS 139 "Financial Instruments: Recognition and Measurement", FRS 7 "Financial Instruments: Disclosures" and IC Interpretation 9 "Reassessment of Embedded Derivatives"
- IC Interpretation 10 "Interim Financial Reporting and Impairment"
- IC Interpretation 11 "FRS 2 Group and Treasury Share Transactions"
- IC Interpretation 13 "Customers Loyalty Programmes"
- IC Interpretation 14 "FRS 119 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"
- TR i-3 "Presentation of Financial Statements of Islamic Financial Institutions"

The following revised FRSs, new IC Interpretations and Amendments to FRSs have been issued by the MASB and are effective for annual periods commencing on or after 1 July 2010, and have yet to be adopted by the Bank :

- FRS 1 "First-time Adoption of Financial Reporting Standards"
- Amendment to FRS 1 "Limited Exemption from Comparative FRS 7 "Disclosures for First-time Adopters"
- Amendments to FRS 2 "Share-based Payment"
- FRS 3 "Business Combinations"
- Amendments to FRS 5 "Non-current Assets Held for Sale and Discontinued Operations" (effective 1 July 2010)
- Amendments to FRS 7 "Improving Disclosures about Financial Instruments"
- FRS 127 "Consolidated and Separate Financial Statements"
- Amendments to FRS 138 "Intangible Assets" (effective 1 July 2010)
- Amendments to IC Interpretation 9 "Reassessment of Embedded Derivatives"
- IC Interpretation 12 "Service Concession Arrangements"
- IC Interpretation 15 "Agreements for the Construction of Real Estate"
- IC Interpretation 16 "Hedges of a Net Investment in a Foreign Operation"
- IC Interpretation 17 "Distributions of Non-cash Assets to Owners"

A. BASIS OF PREPARATION (Continued)

The preparation of unaudited interim financial statements in conformity with the Financial Reporting Standards and Bank Negara Malaysia Guidelines requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reported period. It also requires the Directors to exercise their judgement in the process of applying the Bank's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ from those estimates.

B. CHANGES IN ESTIMATES

There were no material changes to financial estimates made in respect of the current financial period that had previously been announced or disclosed.

C. PROPOSED DIVIDEND

There were no dividends paid or proposed for the period ended 31 March 2010.

D. SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

There were no significant events that had occurred between 31 March 2010 and the date of this announcement.

E. PERFORMANCE REVIEW

For the first quarter ended 31 March 2010, the Bank registered a profit after tax of RM60.2 million, an increase of 100% from a profit after tax of RM30.3 million in the previous year corresponding period. This is mainly attributable to a significant growth in business activities during the current period under review as evidenced by the increase in financing by 132% to RM17.6 billion from RM7.6 billion as at 31 March 2009.

F. PROSPECTS FOR THE CURRENT FINANCIAL YEAR

The Bank remain optimistic about its prospects for 2010 as economy and capital market are in good shape. The Bank will continue to enlarge and strengthen its consumer banking base.

	31-Mar-10 RM'000	31-Dec-09 RM'000
<u>Notes to the accounts</u>		
1 Cash and short-term funds		
Cash and balances with banks and other financial institutions	31,892	55,817
Money at call and deposit placements maturing within one month	4,704,043	4,625,101
	<u>4,735,935</u>	<u>4,680,918</u>
2 Deposits and placements with banks and other financial institutions		
Licensed Islamic banks	150,000	425,375
Licensed Investment banks	19,250	29,900
Other financial institutions	579,340	537,000
	<u>748,590</u>	<u>992,275</u>
3 Financial assets held for trading		
Money market instruments		
Unquoted		
Government investment issues	135,642	498,587
Islamic negotiable instruments of deposits	1,139,543	1,328,917
Islamic accepted bills	-	54,634
Bank Negara negotiable notes	763,064	1,186,923
	<u>2,038,249</u>	<u>3,069,061</u>
Unquoted securities		
Islamic private debt securities	271,995	215,233
	<u>2,310,244</u>	<u>3,284,294</u>
4 Financial investments available-for-sale		
Money market instruments		
Unquoted		
Government investment issues	64,766	129,778
Islamic commercial papers	-	19,538
Islamic Cagamas bonds	34,795	34,392
Khazanah bonds	-	34,975
	<u>99,561</u>	<u>218,683</u>
Unquoted securities		
Islamic private debt securities	359,052	322,821
Placement with IBFIM	575	575
	<u>459,188</u>	<u>542,079</u>
5 Financial investments held-to-maturity		
Unquoted securities		
Islamic commercial papers	-	6,775
Government investment issues	100,044	-
Islamic private debt securities	1,002,720	1,010,812
Amortisation of premium less accretion of discount	(7,145)	(6,209)
	<u>1,095,619</u>	<u>1,011,378</u>

	31-Mar-10 RM'000	31-Dec-09 RM'000
6 Financing, advances and other loans		
(i) By type of financing:		
Cash line	253,875	241,179
Term financing		
- House financing	12,374,196	9,950,056
- Syndicated financing	404,106	388,512
- Hire purchase receivables	5,083,225	4,436,748
- Other term financing	13,102,958	12,344,730
Bills receivable	1,911	1,625
Islamic trust receipts	29,160	29,827
Claims on customer under Islamic accepted bills	189,766	173,893
Credit card receivables	58,767	48,973
Revolving credits	765,591	845,716
Others	81	72
	<u>32,263,637</u>	<u>28,461,331</u>
Less : Unearned income	<u>(14,333,960)</u>	<u>(12,093,008)</u>
Gross financing, advances and other loans	17,929,677	16,368,323
Fair value changes arising from fair value hedges	58,190	26,519
Less : Allowance for impairment losses		
- Specific allowance	-	(143,020)
- Individual impairment allowance	(105,543)	-
- General allowance	-	(158,004)
- Portfolio impairment allowance	(283,345)	-
Total net financing, advances and other loans	<u>17,598,979</u>	<u>16,093,818</u>

a) Included in other term financing for both financial periods is RM1.5 billion financing provided in normal commercial terms which is exempted from portfolio impairment allowance/general allowance by Bank Negara Malaysia

b) The Bank has undertaken fair value hedges on financing using profit rate swaps.

Gross financing hedged	1,500,000	1,350,000
Fair value changes arising from fair value hedges	58,190	26,519
	<u>1,558,190</u>	<u>1,376,519</u>

The fair values of profit rate swaps as at 31 March 2010 were RM73.6 million (31 December 2009 : RM41.6 million).

(ii) By geographical distribution:

Malaysia	17,929,677	16,368,323
	<u>17,929,677</u>	<u>16,368,323</u>

(iii) By contract :

Bai-Bithaman Ajil (<i>deferred payment sale</i>)	8,100,277	7,195,630
Ijarah Muntahiyah Bittamlik/AITAB (<i>lease ended with ownership</i>)	4,696,073	4,210,366
Murabahah (<i>cost-plus</i>)	2,519,904	2,486,613
Others	2,613,423	2,475,714
	<u>17,929,677</u>	<u>16,368,323</u>

(iv) By type of customer :

Domestic non-bank financial institutions		
- Others	62,391	51,355
Domestic business enterprises		
- Small medium enterprises	820,649	617,749
- Others	5,136,879	5,366,716
Government and statutory bodies	1,529,551	1,527,492
Individuals	10,343,998	8,764,262
Other domestic entities	4,738	17,802
Foreign entities	31,471	22,947
	<u>17,929,677</u>	<u>16,368,323</u>

	31-Mar-10 RM'000	31-Dec-09 RM'000
(v) By profit rate sensitivity :		
Fixed rate		
- House financing	310,832	308,792
- Hire purchase receivables	4,117,356	3,577,319
- Others	4,167,058	4,014,889
Variable rate		
- House financing	3,842,211	3,047,836
- Other financing	5,492,220	5,419,487
	<u>17,929,677</u>	<u>16,368,323</u>
(vi) By economic purpose :		
Personal use	1,447,743	1,417,727
Credit card	58,767	48,973
Purchase of consumer durables	4	21
Construction	333,167	258,358
Residential property	4,171,744	3,394,765
Non-residential property	1,266,328	1,005,163
Purchase of fixed assets other than land and building	320,222	317,848
Merger and acquisition	1,454	-
Purchase of securities	2,280,905	2,515,992
Purchase of transport vehicles	4,120,135	3,577,816
Working capital	3,613,098	3,557,758
Other purpose	316,109	273,902
	<u>17,929,677</u>	<u>16,368,323</u>
(vii) By residual contractual maturity :		
Within one year	1,701,250	1,799,248
One year to less than three years	2,807,003	2,515,413
Three years to less than five years	1,566,731	1,151,786
Five years and more	11,854,693	10,901,876
	<u>17,929,677</u>	<u>16,368,323</u>
(viii) Impaired financing/non-performing financing by economic purpose :		
Personal use	14,921	15,846
Credit card	1,725	1,211
Construction	5	-
Residential property	57,086	56,379
Non-residential property	7,822	8,345
Purchased of fixed assets other than land & building	1,620	1,620
Purchase of securities	18,670	18,670
Purchase of transport vehicles	55,273	42,779
Working capital	50,415	47,781
Other purpose	83,643	48,034
	<u>291,179</u>	<u>240,665</u>
(ix) Impaired financing/non-performing financing by geographical distribution:		
Malaysia	291,179	240,665
	<u>291,179</u>	<u>240,665</u>

	31-Mar-10 RM'000	31-Dec-09 RM'000
(x) Movement in impaired financing/non-performing financing, advances and other loans :		
Balance as at 1 January		
- as previously reported	240,665	201,468
- classified as impaired due to adoption of FRS 139*	37,121	-
- as adjusted 1 January	<u>277,786</u>	<u>201,468</u>
Impaired/non performing during the period/year	68,437	259,833
Recalssified as not impaired/performing during the period/year	(29,614)	(90,353)
Recoveries	(10,435)	(34,424)
Amount written off	(14,995)	(95,859)
Balance as at 31 March/31 December	<u><u>291,179</u></u>	<u><u>240,665</u></u>
Ratio of gross impaired/non-performing financing to total financing advances, and other loans	1.62%	1.47%

*Represents restatement of income-in-suspense previously classified as performing under GP3 but considered impaired under FRS 139

(xi) Movements in allowance for impaired financing/bad and doubtful financing :

Specific allowance

Balance as at 1 January	143,020	99,374
Adoption of FRS 139	(143,020)	-
Adjusted 1 January	-	99,374
Allowance made during the period/year	-	165,047
Amount written back in respect of recoveries	-	(25,785)
Amount written off	-	(95,616)
Balance as at 31 March/31 December	<u><u>-</u></u>	<u><u>143,020</u></u>

Individual impairment allowance

Balance as at 1 January	-	-
Adoption of FRS 139	105,851	-
Adjusted 1 January	105,851	-
Unwinding income	(88)	-
Amount written back in respect of recoveries	(220)	-
Balance as at 31 March/31 December	<u><u>105,543</u></u>	<u><u>-</u></u>

General allowance

Balance as at 1 January	158,004	75,613
Adoption of FRS 139	(158,004)	-
Adjusted 1 January	-	75,613
Net allowance made/(written back) during the period/year	-	82,391
Balance as at 31 March/31 December	<u><u>-</u></u>	<u><u>158,004</u></u>

General allowance as % of gross financing, advances and other loans (excluding RPSIA financing and financing exempted from general allowance by BNM) less specific allowance	-	1.51%
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Portfolio impairment allowance

Balance as at 1 January	-	-
Adoption of FRS 139	260,926	-
Adjusted 1 January	260,926	-
Net allowance made during the period/year	37,415	-
Amount written off	(14,996)	-
Balance as at 31 March/31 December	<u><u>283,345</u></u>	<u><u>-</u></u>

Portfolio impairment allowance as % of gross financing, advances and other loans (excluding RPSIA financing and financing exempted from portfolio impairment by BNM) less individual impairment/allowance	2.30%	-
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	31-Mar-10 RM'000	31-Dec-09 RM'000
7 Other assets		
Income receivable	13,439	16,611
Deposits and prepayments	318	315
Sundry debtors	88,884	91,105
	<u>102,641</u>	<u>108,031</u>
8 Deposits from customers		
(i) By type of deposit		
<u>Mudharabah</u>		
Demand deposits	1,172,269	2,155,363
Savings deposits	228,857	204,066
General investment deposits	1,417,149	1,570,542
Special general investment deposits	7,976,117	7,425,800
Specific investment deposits	1,610,960	1,658,582
	<u>12,405,351</u>	<u>13,014,353</u>
<u>Non-Mudharabah</u>		
Demand deposits	1,087,334	984,356
Savings deposits	562,938	510,379
Fixed return investment deposit	2,426,135	2,439,828
Negotiable instruments of deposit	1,086,728	523,090
Commodity Murabahah	21,335	17,125
Others	20,003	7,366
	<u>5,204,474</u>	<u>4,482,144</u>
	<u>17,609,825</u>	<u>17,496,497</u>
(ii) Maturity structure of investment deposits and negotiable instruments of deposit		
One year or less (short term)	12,873,362	11,933,478
More than one year (medium/long term)	1,643,727	1,684,364
	<u>14,517,089</u>	<u>13,617,842</u>
(iii) By type of customer		
Government and statutory bodies	4,396,013	4,071,897
Business enterprises	9,968,784	10,365,604
Individuals	2,679,556	2,517,423
Others	565,472	541,573
	<u>17,609,825</u>	<u>17,496,497</u>
9 Deposits and placements of banks and other financial institutions		
<u>Mudharabah</u>		
Licensed banks	4,929,486	5,140,878
Licensed investment banks	1,326,850	1,110,350
	<u>6,256,336</u>	<u>6,251,228</u>
<u>Non-Mudharabah</u>		
Licensed banks	2,257,469	1,957,124
Other financial institutions	25,639	14,080
	<u>2,283,108</u>	<u>1,971,204</u>
	<u>8,539,444</u>	<u>8,222,432</u>

	31-Mar-10	31-Dec-09
	RM'000	RM'000
10 Other liabilities		
Income payable	48,169	49,317
Accruals and other payables	149,478	180,070
	<u>197,647</u>	<u>229,387</u>

11 Subordinated sukuk

The RM300 million subordinated Sukuk ('the Sukuk') is part of the Tier-2 Junior Sukuk programme which was approved by the Securities Commission on 22 May 2009. Under the programme, the Bank is allowed to raise Tier-2 capital of up to RM2.0 billion in nominal value outstanding at any one time.

The Sukuk under the first issuance were issued at par on 25 September 2009 and are due on 25 September 2024, with optional redemption on 25 September 2019 or any periodic payment date thereafter. The Sukuk bear a profit rate of 5.85% per annum payable semi-annually in arrears.

The RM300 million Sukuk qualify as Tier-2 capital for the purpose of the RWCR computation.

12 Islamic derivative financial instruments, commitments and contingencies

(i) Islamic derivative financial instruments

The following tables summarise the contractual or underlying principal amounts of derivative financial instruments held at fair value through income statement and hedging purposes. The principal or contractual amounts of these instruments reflect the volume of transactions outstanding at balance sheet date, and do not represent amounts of risk.

In the financial statements, trading derivative financial instruments are revalued on a gross position basis and the unrealised gains or losses are reflected in " Derivative Financial Instruments" Assets and Liabilities respectively.

	31-Mar-10			31-Dec-09		
	Principal amount RM'000	Fair values Assets RM'000	Fair values Liabilities RM'000	Principal amount RM'000	Fair values Assets RM'000	Fair values Liabilities RM'000
<u>Foreign exchange derivatives</u>						
Currency forwards						
- Less than 1 year	403,919	1,529	(7,964)	542,757	1,982	(479)
Currency swaps						
- Less than 1 year	1,476,909	9,028	(35,504)	1,169,856	6,067	(10,442)
Cross currency profit rate swaps						
- More than 3 years	86,515	294	(294)	89,703	201	(201)
	<u>1,967,343</u>	<u>10,851</u>	<u>(43,762)</u>	<u>1,802,316</u>	<u>8,250</u>	<u>(11,122)</u>
<u>Islamic profit rate derivatives</u>						
Islamic profit rate swaps	3,789,400	128,248	(1,826)	3,405,868	144,670	(587)
- 1 year to 3 years	2,609,171	98,227	(493)	1,989,586	73,305	(271)
- More than 3 years	1,180,229	30,021	(1,333)	1,416,282	70,365	(316)
<u>Equity related derivatives</u>						
Equity options	2,741,435	93,150	(93,150)	2,984,288	104,768	(104,768)
- More than 3 years	2,741,435	93,150	(93,150)	2,984,288	104,768	(104,768)
<u>Held for hedging purpose</u>						
Islamic profit rate swaps	1,503,200	-	(73,599)	1,350,000	-	(41,559)
- More than 3 years	1,503,200	-	(73,599)	1,350,000	-	(41,559)
Total derivative assets/(liabilities)	<u>10,001,378</u>	<u>232,249</u>	<u>(212,337)</u>	<u>9,542,472</u>	<u>257,688</u>	<u>(158,036)</u>

Market Risk

Market risk is defined as any fluctuation in the value arising from changes in value of market risk factors such as profit rates, currency exchange rates, credit spreads, equity prices, commodities prices and their associated volatility. The contractual amounts provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. The Group's risk management department monitors and manages market risk exposure via stress testing of the Group's Value-at-Risk (VaR) model, in addition to reviewing and analysing its treasury trading strategy, positions and activities vis-à-vis changes in the financial market, monitoring limit usage, assessing limit adequacy, and verifying transaction prices.

Credit Risk

Credit risk arises when counterparties to derivative contracts, such as profit rate swaps, are not able to or willing to fulfil their obligation to pay the Bank the positive fair value or receivable resulting from the execution of contract terms. As at 31 March 2010, the amount of credit risk in the Bank, measured in terms of the cost to replace the profitable contracts, was RM232 million (31 December 2009: RM258 million). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

There have been no changes since the end of the previous financial year in respect of the following:

- the types of derivative financial contracts entered into and the rationale for entering into such contracts, as well as the expected benefits accruing from these contracts;
- the risk management policies in place for mitigating and controlling the risks associated with these financial derivative contracts; and
- the related accounting policies.

The above information, policies and procedures in respect of derivative financial instruments of the Bank are discussed in the audited annual financial statements for the financial year ended 31 December 2009 and the Risk Management section of the 2009 Annual Report.

(ii) **Commitments and contingencies**

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

The commitments and contingencies constitute the following :

	31-Mar-10			31-Dec-09		
	Principal amount RM'000	Credit equivalent amount * RM'000	Risk weighted amount RM'000	Principal amount RM'000	Credit equivalent amount * RM'000	Risk weighted amount RM'000
Credit-related						
Direct credit substitutes	32,914	32,914	32,914	26,949	26,949	26,949
Certain transaction-related contingent items	374,841	187,420	182,094	334,694	167,347	162,021
Short-term self-liquidating trade-related contingencies	38,299	7,660	7,660	33,982	6,796	6,796
Irrevocable commitments to extend credit :						
- maturity not exceeding one year	2,372,635	-	-	2,010,593	-	-
- maturity exceeding one year	1,794,016	1	1	1,386,942	1	1
Forward assets purchases	15,000	2	-	-	-	-
Miscellaneous commitments and contingencies	52,224	7,236	7,227	23,788	13,618	3,448
Total credit-related commitments and contingencies	<u>4,679,929</u>	<u>235,233</u>	<u>229,896</u>	<u>3,816,948</u>	<u>214,711</u>	<u>199,215</u>
Treasury-related						
Foreign exchange related contracts :						
- less than one year	1,880,828	28,222	6,355	1,712,613	19,655	3,958
- above 5 years	86,515	11,718	4,172	89,703	11,817	4,113
Profit rate related contracts :						
- one year to less than five years	3,789,400	63,297	13,673	3,405,868	46,648	10,342
- over five years	1,503,200	135,098	27,020	1,350,000	121,500	24,300
Equity related contracts :						
- less than one year	1,447,791	20,401	4,080	1,633,706	15,052	3,010
- one year to less than five years	1,061,706	71,259	12,218	1,131,977	90,458	18,092
- above 5 years	231,938	11,929	2,386	218,605	11,030	2,206
Total treasury-related commitments and contingencies	<u>10,001,378</u>	<u>341,924</u>	<u>69,904</u>	<u>9,542,472</u>	<u>316,160</u>	<u>66,021</u>
	<u>14,681,307</u>	<u>577,157</u>	<u>299,800</u>	<u>13,359,420</u>	<u>530,871</u>	<u>265,236</u>

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

13 CAPITAL ADEQUACY

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

	31-Mar-10 RM'000	31-Dec-09 RM'000
Tier I capital	651,189	690,239
Eligible Tier II capital	583,345	458,004
Capital base	<u>1,234,534</u>	<u>1,148,243</u>
Core capital ratio	5.57%	6.82%
Risk-weighted capital ratio	10.55%	11.34%

(b) Components of Tier I and Tier II capitals are as follows :

<u>Tier I capital</u>		
Paid-up share capital	550,000	550,000
Perpetual preference share	70,000	70,000
Statutory reserves	135,635	135,635
Retained profits and other reserves	76,179	115,229
	<u>831,814</u>	<u>870,864</u>
Less : Goodwill	(136,000)	(136,000)
Less : Deferred taxation	(44,625)	(44,625)
Total Tier-1 Capital	<u>651,189</u>	<u>690,239</u>
<u>Tier II capital</u>		
Subordinated sukuk	300,000	300,000
General allowance for bad & doubtful debts	-	158,004
Portfolio impairment allowance	283,345	-
Total Tier II capital	<u>583,345</u>	<u>458,004</u>
Total capital base	<u>1,234,534</u>	<u>1,148,243</u>

(c) Breakdown of risk-weighted assets in the various categories of risk-weights

	31 March 2010		31 December 2009	
	Principal RM'000	Risk-weighted RM'000	Principal RM'000	Risk-weighted RM'000
0%	5,874,022	-	6,100,082	-
20%	2,139,993	427,999	2,070,774	414,155
50%	3,789,328	1,894,664	3,068,223	1,534,112
100%	8,862,492	8,862,492	7,628,648	7,628,648
	<u>20,665,835</u>	<u>11,185,155</u>	<u>18,867,727</u>	<u>9,576,915</u>
Risk weighted assets for credit risk		11,185,155		9,576,915
Risk weighted assets for market risk		515,290		548,828
		<u>11,700,445</u>		<u>10,125,743</u>

Notes to the accounts

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	QUARTER ENDED	QUARTER ENDED	3 MONTHS ENDED	3 MONTHS ENDED
	31-Mar-10	31-Mar-09	31-Mar-10	31-Mar-09
	RM'000	RM'000	RM'000	RM'000
14 Income derived from investment of depositors funds and others				
Income derived from investment of :				
- General investment deposits	121,713	76,488	121,713	76,488
- Specific investment deposits	56,379	45,868	56,379	45,868
- Other deposits	90,769	70,327	90,769	70,327
	<u>268,861</u>	<u>192,683</u>	<u>268,861</u>	<u>192,683</u>
14a Income derived from investment of general investment deposits				
Financing, advances and other loans				
- Income other than recoveries	106,827	46,082	106,827	46,082
- Unwinding income [^]	47	-	47	-
Financial assets held for trading	3,426	59	3,426	59
Financial investments available-for-sale	3,046	3,127	3,046	3,127
Financial investments held-to-maturity	1,575	1,454	1,575	1,454
Money at call and deposit with financial institutions	7,948	15,586	7,948	15,586
	<u>122,869</u>	<u>66,308</u>	<u>122,869</u>	<u>66,308</u>
Accretion of discount less amortisation of premium	4,142	8,365	4,142	8,365
Total finance income and hibah	<u>127,011</u>	<u>74,673</u>	<u>127,011</u>	<u>74,673</u>
Other operating income				
- Net gain/(loss) arising from financial assets held for trading				
- realised (loss)/gain	(108)	44	(108)	44
- unrealised (loss)/gain	(590)	697	(590)	697
- Net gain from sale of financial investments available-for-sale	225	198	225	198
- Net loss from sale of financial investments held-to-maturity	-	(98)	-	(98)
- Net (loss)gain from foreign exchange transactions	(5,077)	584	(5,077)	584
	<u>(5,550)</u>	<u>1,425</u>	<u>(5,550)</u>	<u>1,425</u>
Fee and commission income	252	390	252	390
	<u>121,713</u>	<u>76,488</u>	<u>121,713</u>	<u>76,488</u>
14b Income derived from investment of specific investment deposits				
Financing, advances and other loans				
- Income other than recoveries	38,932	25,453	38,932	25,453
Financial investments held-to-maturity	9,370	10,702	9,370	10,702
Money at call and deposit with financial institutions	8,077	9,713	8,077	9,713
	<u>56,379</u>	<u>45,868</u>	<u>56,379</u>	<u>45,868</u>

Notes to the accounts

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	QUARTER ENDED	QUARTER ENDED	3 MONTHS ENDED	3 MONTHS ENDED
	31-Mar-10	31-Mar-09	31-Mar-10	31-Mar-09
	RM'000	RM'000	RM'000	RM'000

14c Income derived from investment of other deposits

Financing advances and other loans				
- Income other than recoveries	79,668	42,370	79,668	42,370
- Unwinding income [^]	36	-	36	-
Financial assets held for trading	2,555	54	2,555	54
Financial investments available-for-sale	2,272	2,876	2,272	2,876
Financial investments held-to-maturity	1,174	1,337	1,174	1,337
Money at call and deposit with financial institutions	5,927	14,330	5,927	14,330
	91,632	60,967	91,632	60,967
Accretion of discount less amortisation of premium	3,089	7,691	3,089	7,691
Total finance income and hibah	94,721	68,658	94,721	68,658

Other operating income				
- Net gain/(loss) arising from financial assets held for trading				
- realised (loss)/gain	(81)	40	(81)	40
- unrealised (loss)/gain	(440)	641	(440)	641
- Net gain from sale of financial investments available-for-sale	168	182	168	182
- Net loss from sale of financial investments held-to-maturity	-	(90)	-	(90)
- Net (loss)/gain from foreign exchange transactions	(3,787)	537	(3,787)	537
	(4,140)	1,310	(4,140)	1,310
Fee and commission income	188	359	188	359
	90,769	70,327	90,769	70,327

15 Income derived from investment of shareholders' funds

Financing advances and other loans				
- Income other than recoveries	10,087	5,791	10,087	5,791
- Unwinding income [^]	5	-	5	-
Financial assets held for trading	324	7	324	7
Financial investments available-for-sale	288	393	288	393
Financial investments held-to-maturity	149	183	149	183
Money at call and deposit with financial institutions	751	1,959	751	1,959
	11,604	8,333	11,604	8,333
Accretion of discount less amortisation of premium	391	1,051	391	1,051
Total finance income and hibah	11,995	9,384	11,995	9,384

Other operating income				
- Net gain/(loss) arising from financial assets held for trading				
- realised (loss)/gain	(10)	5	(10)	5
- unrealised (loss)/gain	(56)	88	(56)	88
- Net gain from sale of financial investments available-for-sale	21	25	21	25
- Net loss from sale of financial investments held-to-maturity	-	(12)	-	(12)
- Net (loss)/gain from foreign exchange transactions	(479)	73	(479)	73
- Net loss arising from hedging activities	(473)	-	(473)	-
- Net gain/(loss) arising from derivative financial instrument				
- realised gain	19,131	101,846	19,131	101,846
- unrealised (loss)	(21,157)	(100,047)	(21,157)	(100,047)
	(3,023)	1,978	(3,023)	1,978
Fee and commission income	10,837	10,044	10,837	10,044
Other income				
- Sundry income	1,942	546	1,942	546
	21,751	21,952	21,751	21,952

[^] Unwinding income is income earned on impaired financing, advances and other loans

Notes to the accounts

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	QUARTER ENDED	QUARTER ENDED	3 MONTHS ENDED	3 MONTHS ENDED
	31-Mar-10	31-Mar-09	31-Mar-10	31-Mar-09
	RM'000	RM'000	RM'000	RM'000
16 Allowance for impairment losses on financing, advances and other loans				
Allowance for impaired financing/bad and doubtful financing :				
Individual impairment allowance				
- Made during the period	-	-	-	-
- Written back	(220)	-	(220)	-
Specific allowance				
- Made during the period	-	23,873	-	23,873
- Written back	-	(5,206)	-	(5,206)
Portfolio impairment allowance				
- Made during the period	37,415	-	37,415	-
General allowance				
- Made during the period	-	17,565	-	17,565
Bad debts on financing :				
- recovered	(4,458)	(2,482)	(4,458)	(2,482)
- written off	4	-	4	-
	<u>32,741</u>	<u>33,750</u>	<u>32,741</u>	<u>33,750</u>
17 Income attributable to depositors				
Deposits from customers				
- Mudharabah	53,639	49,467	53,639	49,467
- Non-Mudharabah	17,947	19,552	17,947	19,552
Deposits and placements of banks and other financial institutions				
- Mudharabah	37,602	27,760	37,602	27,760
- Non-Mudharabah	8,007	2,403	8,007	2,403
Subordinated Sukuk				
	4,354	-	4,354	-
	<u>121,549</u>	<u>99,182</u>	<u>121,549</u>	<u>99,182</u>
18 Personnel expenses				
Salaries, allowances and bonuses	5,931	4,127	5,931	4,127
Management cost charged	17,564	14,149	17,564	14,149
Other staff related costs	2,535	3,138	2,535	3,138
	<u>26,030</u>	<u>21,414</u>	<u>26,030</u>	<u>21,414</u>
19 Other overheads				
Establishment				
Rental	194	459	194	459
Depreciation of fixed assets	265	252	265	252
EDP expenses	1,003	1,044	1,003	1,044
Management cost charged	9,075	5,774	9,075	5,774
Others	2,487	569	2,487	569
Marketing				
Advertisement and publicity	3,406	1,013	3,406	1,013
Management cost charged	(1,038)	1,865	(1,038)	1,865
Others	157	220	157	220
General expenses				
Auditor's remuneration-statutory audit	23	23	23	23
Amortisation of intangible assets	944	979	944	979
Professional fees	476	29	476	29
Management cost charged	9,290	4,443	9,290	4,443
Others	3,358	3,686	3,358	3,686
	<u>Page 19,640</u>	<u>20,356</u>	<u>29,640</u>	<u>20,356</u>

Notes to the accounts

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	QUARTER	QUARTER	3 MONTHS	3 MONTHS
	ENDED	ENDED	ENDED	ENDED
	31-Mar-10	31-Mar-09	31-Mar-10	31-Mar-09
	RM'000	RM'000	RM'000	RM'000
20 Taxation and zakat				
Major components of tax and zakat expense:				
Current tax and zakat expense	21,092	9,983	21,092	9,983
Deferred taxation	(626)	(386)	(626)	(386)
	<u>20,466</u>	<u>9,597</u>	<u>20,466</u>	<u>9,597</u>
Reconciliation				
Profit before taxation and zakat	80,652	39,933	80,652	39,933
Tax calculated at a rate of 25% (2008: 26%)	20,163	9,983	20,163	9,983
Tax effects:				
- income not subject to tax	(54)	51	(54)	51
- expenses not deductible for tax purposes	357	(437)	357	(437)
Tax expense	<u>20,466</u>	<u>9,597</u>	<u>20,466</u>	<u>9,597</u>

21 PROFIT RATE RISK
AS AT 31 MARCH 2010

	Non-trading book						Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate	
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 6 months RM'000	>6 - 12 months RM'000	>1 - 5 years RM'000	over 5 years RM'000				RM %	USD %
As at 31 March 2010											
Assets											
Cash and short-term funds	4,704,043	-	-	-	-	-	31,892	-	4,735,935	2.15	0.42
Deposit and placement with banks and other financial institutions	-	388,590	360,000	-	-	-	-	-	748,590	1.51	0.70
Financial assets held for trading	-	-	-	-	-	-	-	2,310,244	2,310,244	2.51	-
Financial investments available-for-sale	20,002	10,003	20,014	5,168	151,055	252,946	-	-	459,188	4.70	-
Financial investments held-to-maturity	-	15,483	15,483	30,966	932,634	101,053	-	-	1,095,619	5.27	-
Islamic derivative financial instruments	-	-	-	-	-	-	-	232,249	232,249	-	-
Financing, advances and other financing :											
- not impaired	272,659	716,582	94,964	487,743	4,291,104	11,833,547	-	-	17,696,600	5.54	-
- impaired ^	-	-	-	-	-	-	(97,621)	-	(97,621)	-	-
Other assets	-	-	-	-	-	-	102,640	-	102,640	-	-
Deferred taxation	-	-	-	-	-	-	7,275	-	7,275	-	-
Tax recoverable	-	-	-	-	-	-	42,818	-	42,818	-	-
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	87,526	-	87,526	-	-
Property, plant and equipment	-	-	-	-	-	-	2,692	-	2,692	-	-
Intangible assets	-	-	-	-	-	-	2,909	-	2,909	-	-
Goodwill	-	-	-	-	-	-	136,000	-	136,000	-	-
Amount due from holding company	-	-	-	-	-	-	198,342	-	198,342	-	-
Total assets	4,996,704	1,130,658	490,461	523,877	5,374,793	12,187,547	514,473	2,542,493	27,761,006		
Liabilities and Shareholders' Equity											
Deposits from customers	11,215,366	3,990,126	415,581	345,026	1,527,167	116,561	-	-	17,609,825	1.88	0.28
Deposits and placements of banks and other financial institutions	4,675,765	3,500,395	363,284	-	-	-	-	-	8,539,444	2.32	0.51
Islamic derivative financial instruments	-	-	-	-	-	-	212,337	-	212,337	-	-
Subordinated sukuk	-	-	-	-	-	300,000	-	-	300,000	5.85	-
Other liabilities	-	-	-	-	-	-	197,647	-	197,647	-	-
Provision for tax and zakat	-	-	-	-	-	-	6,421	-	6,421	-	-
Amount due to related company	-	-	-	-	-	-	3,133	-	3,133	-	-
Total liabilities	15,891,131	7,490,521	778,865	345,026	1,527,167	416,561	419,538	-	26,868,807		
Shareholders' funds									892,199		
Total liabilities and shareholders' funds	15,891,131	7,490,521	778,865	345,026	1,527,167	416,561	419,538	-	27,761,006		
Total profit rate gap	(10,894,427)	(6,359,862)	(288,404)	178,851	3,847,626	11,770,986	94,935	2,542,493	-		

^ Includes individual impairment allowance and portfolio impairment allowance of RM369,029,000.

21 PROFIT RATE RISK

As at 31 December 2009	Non-trading book							Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate	
	Up to 1 month	>1 - 3 months	>3 - 6 months	>6 - 12 months	>1 - 5 years	over 5 years	RM				USD	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%				%	
Assets												
Cash and short-term funds	4,625,101	-	-	-	-	-	55,817	-	4,680,918	2.02	0.39	
Deposit and placement with banks and other financial institutions	-	872,400	119,875	-	-	-	-	-	992,275	1.02	0.76	
Financial assets held for trading	-	-	-	-	-	-	-	3,284,294	3,284,294	2.36	-	
Financial investments available-for-sale	59,525	55,157	30,151	20,191	158,387	218,668	-	-	542,079	4.54	-	
Financial investments held-to-maturity	-	15,483	15,483	30,966	847,975	101,471	-	-	1,011,378	4.99	-	
Islamic derivative financial instruments	-	-	-	-	-	-	-	257,688	257,688			
Financing, advances and other financing :												
- performing	912,867	3,739,213	159,433	44,599	1,530,108	9,767,957	-	-	16,154,177	5.45	-	
- non-performing ^	-	-	-	-	-	-	(60,359)	-	(60,359)			
Other assets	-	-	-	-	-	-	108,031	-	108,031			
Deferred taxation	-	-	-	-	-	-	44,625	-	44,625			
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	172,806	-	172,806			
Property, plant and equipment	-	-	-	-	-	-	2,625	-	2,625			
Intangible assets	-	-	-	-	-	-	3,676	-	3,676			
Goodwill	-	-	-	-	-	-	136,000	-	136,000			
Total assets	5,597,493	4,682,253	324,942	95,756	2,536,470	10,088,096	463,221	3,541,982	27,330,213			
Liabilities and Shareholders' Equity												
Deposits from customers	10,120,499	4,394,250	788,727	488,051	1,576,753	120,850	7,367	-	17,496,497	1.59	0.27	
Deposits and placements of banks and other financial institutions	2,461,287	4,965,952	677,087	118,106	-	-	-	-	8,222,432	2.27	0.55	
Subordinated Sukuk	-	-	-	-	-	300,000	-	-	300,000	5.85		
Islamic derivative financial instruments	-	-	-	-	-	28,255	13,304	116,477	158,036			
Other liabilities	-	-	-	-	-	-	229,387	-	229,387			
Provision for tax and zakat	-	-	-	-	-	-	18,794	-	18,794			
Amount due to related company	-	-	-	-	-	-	6,278	-	6,278			
Amount due to holding company	-	-	-	-	-	-	27,731	-	27,731			
Total liabilities	12,581,786	9,360,202	1,465,814	606,157	1,576,753	449,105	302,861	116,477	26,459,155			
Shareholders' funds									871,058			
Total liabilities and shareholders' funds	12,581,786	9,360,202	1,465,814	606,157	1,576,753	449,105	302,861	116,477	27,330,213			
Total profit rate gap	(6,984,293)	(4,677,949)	(1,140,872)	(510,401)	959,717	9,638,991	160,360	3,425,505	-			

Note:

^ Includes specific and general allowances of RM301,024,000.

**Explanatory Notes Pursuant to Financial Reporting Standard 134 ("FRS 134") and
and Revised Guidelines on Financial Reporting
for Licensed Institutions (BNM/GP8) Issued by Bank Negara Malaysia**

A. CHANGE IN ACCOUNTING POLICIES

During the current reporting period, the Bank adopted the following significant standards and amendments to standards:

- i) FRS 139 Financial Instruments : Recognition and Measurement
- ii) IC Interpretation 9 Reassessment of Embedded Derivatives
- iii) FRS 7 Financial Instruments : Disclosures
- iv) Amendments to FRS 139 "Financial Instruments: Recognition and Measurement", FRS 7 "Financial Instruments: Disclosures" and IC Interpretation 9 "Reassessment of Embedded Derivatives"

The objective of FRS 139 is to establish principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. FRS 139 also deals with derecognition of financial assets and financial liabilities and hedge accounting. A significant portion of the requirements under FRS 139 had been addressed on 1 January, 2005, with the adoption of BNM's revised GP8 : Guidelines on Financial Reporting for Licensed Institutions. These included principles which address the conditions of recognition, derecognition and measurement of financial instruments and hedge accounting. With the full adoption of FRS 139 on 1 January, 2010, the additional requirements implemented by the Bank are as follows:

Impairment of financial assets

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Financing Impairment

Impairment losses are calculated on individual financings and on financings assessed collectively.

Losses for impaired financings are recognised promptly when there is objective evidence that impairment of a portfolio of financings has occurred. Evidence of impairment may include indications that the customer or a group of customers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Bank assesses individually whether objective evidence of impairment exists for all assets deemed to be individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the individual impairment allowance account and the amount of the loss is recognised in the income statement. Profit income continues to be accrued on the reduced carrying amount and is accrued using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss. The profit income is recorded as part of profit income.

CHANGE IN ACCOUNTING POLICIES (continued)

Financing Impairment (continued)

Financings that have been individually assessed and for which no evidence of loss has been specifically identified on an individual basis are grouped together for portfolio impairment. These financings are grouped according to their credit risk characteristics for the purposes of calculating an estimated collective loss. Future cash flows on a group of financial assets that are collectively assessed for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

The Bank is currently reporting under the BNM's transitional arrangement as prescribed in the guidelines on 'Classification and Impairment Provision for Financing' issued on 8 January 2010. However, our financial statements are prepared in full compliance with FRS 139 principles.

Profit Income Recognition

For all financial instruments measured at amortised cost, financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, profit income or expense is recorded using the effective profit rate ("EPR"), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EPR, but not future credit losses.

In accordance with the transitional arrangement under paragraph 103AA of FRS 139, the changes arising from the implementation of FRS 139 has been accounted for prospectively.

Recognition of Embedded Derivatives

In accordance with FRS 139 and IC Interpretation 9, embedded derivatives are to be separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative are not closely related to that of the host contract and the fair value of the resulting derivative can be reliably measured. This assessment is made when the entity first becomes a party to the contract.

Based on the assessment by the Bank upon adoption of FRS 139 on 1 January 2010, there were no material embedded derivatives which were not closely related to the host contracts and which required bifurcation.

In accordance with the transitional arrangement under paragraph 103AA of FRS 139, the changes arising from the implementation of FRS 139 has been accounted for prospectively.

B COMPARATIVE FIGURES

(i) FRS 101 Presentation of Financial Statements

As a result of the adoption of the revised FRS 101, income statements of the Bank for the comparative financial period ended 31 March 2009 have been re-presented as a combined statement of total comprehensive income comprising components of profit or loss and other comprehensive income. All non-owner changes in equity which were previously presented in the statement of changes in equity are now included in the statement of comprehensive income as other comprehensive income. Consequently, components of other comprehensive income are not presented in the statement of changes in equity. Since these changes only affect presentation aspects, there is no impact to the results, performance and earnings per ordinary share of the Bank.

(ii) FRS 7 Financial Instruments: Disclosures

The adoption of FRS 7 during the financial period will result in additional disclosures to be made in the annual accounts of the Bank. The standard also requires disclosure of the statement of financial position and statement of total comprehensive income to be made by categories of financial assets and liabilities, which has minimal impact on the comparative disclosures of the Bank, as the current presentation is already made by categories of financial assets and liabilities.

CHANGE IN ACCOUNTING POLICIES (CONTINUED)

C. ADOPTION OF FRS 139 FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

	<u>Effects of adopting FRS 139</u>			Adjusted 1 January 2010 RM'000
	Audited as at 31 December 2009 RM'000	Fair value/ impairment RM'000	Total RM'000	
ASSETS				
Financing, advances and other loans	16,093,818	(54,164)	(54,164)	16,039,654
Deferred taxation	44,625	(37,928)	(37,928)	6,697
Tax recoverable	-	53,042	53,042	53,042
EQUITY				
Reserves	251,058	(39,050)	(39,050)	212,008