



LAPORAN TAHUNAN **2008** ANNUAL REPORT





FINANCIAL STATEMENTS

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DIRECTORS' REPORT

for the year ended 31 December 2008

The Directors have pleasure in presenting their report and the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2008.

Principal activities

The principal activities of the Bank are those of development banking and related financial services.

The principal activities of the subsidiaries and associates are described in Note 8 and Note 9 to the financial statements.

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

Results

	Group RM'000	Bank RM'000
Profit for the year	<u>45,911</u>	<u>37,178</u>

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

In the opinion of the Directors, the results of the operations of the Group and of the Bank during the financial year were not substantially affected by any item, transactions or event of a material and unusual nature, other than gain on disposal of a building to Bank Pembangunan Malaysia Berhad ("Bank Pembangunan") amounting RM48,224,000 for the Group and the Bank as disclosed in Note 33 to the financial statements.

Dividends

No dividend was paid or declared by the Group and the Bank since the end of the previous financial year. The directors do not recommend the payment of dividends in respect of the current financial year.

DIRECTORS' REPORT (continued)

Directors

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

Y.Bhg. Dato' Gumuri bin Hussain (Chairman)
Y.Bhg. Dato' Azmi bin Abdullah
Y.Bhg. Dato' Huang Sin Cheng
Y.Bhg. Dato' Musa bin Muhamad
Y.Bhg. Datuk Nozirah binti Bahari
Mohd Yusof bin Hussain (appointed on 7 October 2008)
Izlan bin Izhah (appointed on 9 January 2009)
Dr. Ahmad Faisal bin Zakaria (appointed on 20 March 2009)
Y.Bhg. Dato' Wan Ismail bin Abd Rahman (resigned on 10 August 2008)

Directors' benefits

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Bank was a party, whereby the Directors might acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in Note 22 or the fixed salary of a full time employee of the Bank) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Directors' interests

None of the Directors holding office at 31 December 2008 had any interest in the ordinary shares of the Bank and of its related corporations during the financial year.

Other statutory information

- (a) Before the income statements and balance sheets of the Group and of the Bank were made out, the Directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

DIRECTORS' REPORT (continued)

Other statutory information (cont'd.)

- (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

- (b) At the date of this report, the Directors are not aware of any circumstances:
 - (i) which would render the amount written off as bad debts or the amount of the allowance for doubtful debts in the financial statements of Group and of the Bank inadequate to any substantial extent and the values attributed to current assets in the financial statements of the Group and of the Bank misleading;
 - (ii) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate; and
 - (iii) not otherwise dealt with in this report or financial statements of the Group and of the Bank which would render any amount stated in the financial statements misleading.

- (c) As at the date of this report, there does not exist:
 - (i) any charge on the assets of the Group or of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability in respect of the Group or of the Bank which has arisen since the end of the financial year.

- (d) In the opinion of the Directors:
 - (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Bank to meet its obligations when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Bank for the financial year which this report is made.

DIRECTORS' REPORT (continued)

Significant events

The significant event during the financial year is as disclosed in Note 33 to the financial statements.

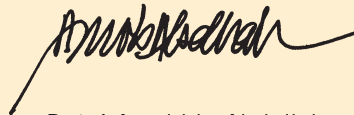
Auditors

The auditors, Ernst & Young have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 26 March 2009.



Dato' Gumuri bin Hussain



Dato' Azmi bin Abdullah

Kuala Lumpur, Malaysia

STATEMENT BY DIRECTORS

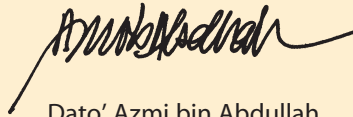
Pursuant to Section 169(15) of the Companies Act, 1965

We, Dato' Gumuri bin Hussain and Dato' Azmi bin Abdullah, being two of the Directors of Bank Perusahaan Kecil dan Sederhana Malaysia Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 78 to 155 are drawn up in accordance with provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia/ Development Financial Institutions Guidelines so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2008 and of the results and the cash flows of the Group and of the Bank for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 26 March 2009.



Dato' Gumuri bin Hussain



Dato' Azmi bin Abdullah

Kuala Lumpur, Malaysia

STATUTORY DECLARATION

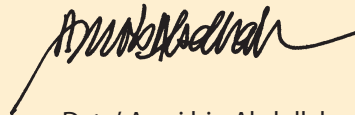
Pursuant to section 169(16) of the Companies Act, 1965 and Section 73(1)(e) of the Development Financial Institutions Act, 2002

We, Dato' Huang Sin Cheng and Dato' Azmi bin Abdullah, the Director and Managing Director, respectively, of the Bank who are primarily responsible for the financial management of Bank Perusahaan Kecil dan Sederhana Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 78 to 155 are, to the best of our knowledge and belief, correct and we make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur in the Federal Territory on 26 March 2009.

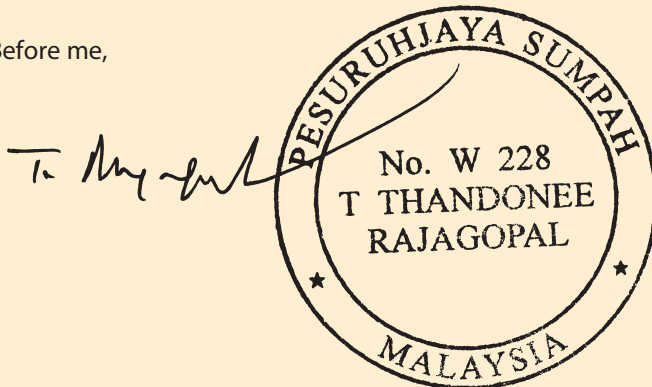


Dato' Huang Sin Cheng



Dato' Azmi bin Abdullah

Before me,



Lot LG 27B, Lower Ground Floor,
Wilayah Complex,
2, Jalan Munshi Abdullah,
50100 Kuala Lumpur.
MALAYSIA.

INDEPENDENT AUDITORS' REPORT

to the member of Bank Perusahaan Kecil dan Sederhana Malaysia Berhad
(Incorporated in Malaysia)

Report on the financial Statements

We have audited the financial statements of Bank Perusahaan Kecil dan Sederhana Malaysia Berhad, which comprise the balance sheets as at 31 December 2008 of the Group and of the Bank, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 78 to 155.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards as modified by Bank Negara Malaysia/ Development Financial Institutions guidelines and the Companies Act, 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT

to the member of Bank Perusahaan Kecil dan Sederhana Malaysia Berhad
(Incorporated in Malaysia) (continued)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia/Development Financial Institutions guidelines so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2008 and of their financial performance and cash flows of the Group and of the Bank for the year then ended.

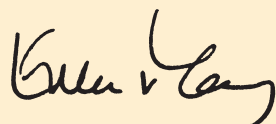
Report on other legal and regulatory requirements

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

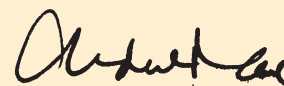
- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the accounts and the auditors' reports of a subsidiary of which we have not acted as auditors, which is indicated in Note 8 to the financial statements.
- (c) We are satisfied that the accounts of the subsidiaries that have been consolidated with the financial statements of the Bank are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.
- (d) The auditors' reports on the accounts of the subsidiaries were not subject to any qualification and in respect of the subsidiaries incorporated in Malaysia, did not include any comment required to be made under Section 174(3) of the Act.

Other matters

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



Ernst & Young
AF: 0039
Chartered Accountants
Kuala Lumpur, Malaysia
26 March 2009



Abdul Rauf bin Rashid
No. 2305/05/10(J)
Chartered Accountant

BALANCE SHEETS

as at 31 December 2008

	Note	Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Assets					
Cash and short term funds	3	909,959	875,559	877,005	871,998
Deposits and placements with banks and other financial institutions	4	382,340	542,214	382,340	542,214
Securities portfolio	5	280,453	192,936	242,974	125,076
Loans, advances and financing	6	3,050,213	2,506,190	3,050,213	2,506,190
Other assets	7	100,780	231,393	91,114	228,649
Investments in subsidiaries	8	-	-	129,387	80,000
Investments in associates	9	118,344	59,355	13,716	14,123
Investment properties	10	-	77,322	-	77,322
Property, plant and equipment	11	251,995	135,644	251,459	135,644
Prepaid land lease payment	12	33,756	31,432	33,756	31,432
		5,127,840	4,652,045	5,071,964	4,612,648
Total assets		5,127,840	4,652,045	5,071,964	4,612,648
Liabilities					
Deposits from customers	13	394,746	10,000	394,746	10,000
Term loans	14	2,697,504	2,775,194	2,697,504	2,775,194
Other liabilities	15	438,235	303,494	422,709	295,643
Government funds	17	359,932	365,933	359,932	365,933
Total liabilities		3,890,417	3,454,621	3,874,891	3,446,770
Share capital	16	1,350,000	1,350,000	1,350,000	1,350,000
Reserves		(112,616)	(152,576)	(152,927)	(184,122)
		1,237,384	1,197,424	1,197,073	1,165,878
Minority interests		39	-	-	-
Total equity		1,237,423	1,197,424	1,197,073	1,165,878
Total equity and liabilities		5,127,840	4,652,045	5,071,964	4,612,648
Commitment and contingencies	27	2,320,771	2,661,047	2,320,771	2,590,915

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

INCOME STATEMENTS

For the year ended 31 December 2008

	Note	Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Interest income	18	214,516	198,476	211,380	198,462
Interest expense	19	(64,724)	(59,578)	(64,724)	(59,578)
Net interest income		149,792	138,898	146,656	138,884
Other operating income	20	91,238	74,609	82,581	72,425
Net income		241,030	213,507	229,237	211,309
Operating expenses	21	(146,738)	(125,174)	(140,727)	(120,087)
Operating profit		94,292	88,333	88,510	91,222
Allowance for losses on loans, advances and financing	24	(28,286)	(37,796)	(28,286)	(37,796)
		66,006	50,537	60,224	53,426
Share of profit of associates		2,968	6,619	-	-
Profit before taxation and zakat		68,974	57,156	60,224	53,426
Taxation and zakat	25	(23,063)	-	(23,046)	-
Profit for the year		45,911	57,156	37,178	53,426
Attributable to:					
Equity holders of the Company		45,943	57,156	37,178	53,426
Minority interests		(32)	-	-	-
		45,911	57,156	37,178	53,426
Earnings per share attributable to equity holder of the Bank (sen)					
- Basic	26	3.40	4.23		

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

Group	<===== Attributable to Equity Holders of the Parent=====>						Minority interests	Total Equity	
	Share capital Rm'000	<===Non-distributable===>			Total Rm'000	Rm'000			Rm'000
		General reserve Rm'000	Available-for-sale reserve Rm'000	Accumulated losses Rm'000					
At 1 January 2007	1,350,000	10,114	14,805	(227,462)	1,147,457	-	1,147,457		
Unrealised net loss on revaluation of securities available-for-sale	-	-	(7,189)	-	(7,189)	-	(7,189)		
Net profit for the year	-	-	-	57,156	57,156	-	57,156		
At 31 December 2007	1,350,000	10,114	7,616	(170,306)	1,197,424	-	1,197,424		
At 1 January 2008	1,350,000	10,114	7,616	(170,306)	1,197,424	-	1,197,424		
Acquisition of a subsidiary	-	-	-	-	-	71	71		
Unrealised net loss on revaluation of securities available-for-sale	-	-	(5,983)	-	(5,983)	-	(5,983)		
Net profit/(loss) for the year	-	-	-	45,943	45,943	(32)	45,911		
At 31 December 2008	1,350,000	10,114	1,633	(124,363)	1,237,384	39	1,237,423		

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

	Share capital Rm'000	General reserve Rm'000	Available-for-sale reserve Rm'000	Accumulated losses Rm'000	Total Equity Rm'000
Bank					
At 1 January 2007	1,350,000	10,114	14,805	(255,278)	1,119,641
Unrealised net loss on revaluation of securities available-for-sale	-	-	(7,189)	-	(7,189)
Net profit for the year	-	-	-	53,426	53,426
At 31 December 2007	1,350,000	10,114	7,616	(201,852)	1,165,878
At 1 January 2008	1,350,000	10,114	7,616	(201,852)	1,165,878
Unrealised net loss on revaluation of securities available-for-sale	-	-	(5,983)	-	(5,983)
Net profit for the year	-	-	-	37,178	37,178
At 31 December 2008	1,350,000	10,114	1,633	(164,674)	1,197,073

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

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Cash flows from operating activities				
Profit before taxation and zakat	68,974	57,156	60,224	53,426
Adjustments for:				
Gain on disposal of:				
- Associated companies	(9,067)	(27)	(9,067)	(27)
- Quoted investments	(3,243)	(13,681)	(3,243)	(13,681)
Writeback of allowance for impairment in value:				
- Quoted investments	-	(3,686)	-	(3,686)
- Unquoted investments	(374)	(4,820)	(374)	(4,925)
Allowance for diminution in value:				
- Quoted investments	237	403	237	403
- Unquoted investments	24,963	704	1,000	704
- Subsidiary	-	-	32,613	-
Allowance for doubtful debts				
- Loans	94,357	67,643	94,357	67,643
- Others	557	4,053	557	4,053
Write back of allowance for doubtful debts	(12,967)	(1,889)	(12,967)	(1,254)
Bad debts written off	682	22,816	682	22,816
Share of profit of associates	(2,968)	(6,619)	-	-
Depreciation:				
- Property, plant and equipment	9,353	7,438	9,353	7,438
- Investment properties	219	1,580	219	1,580
Amortisation of prepaid land lease payment	794	742	794	742
Gain on disposal of property, plant and equipment	(48,224)	(90)	(48,224)	(90)
Government funds released	(18,966)	(17,530)	(18,966)	(17,530)

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Cash flows from operating activities (Cont'd.)				
Interest expenses	65,524	59,578	65,524	59,578
Dividend income	(1,954)	(3,715)	(1,954)	(3,715)
Investment written off	70	-	70	-
Sundry debtors written off	-	783	-	783
Operating profit before working capital changes	167,967	170,839	170,835	174,258
Changes in working capital:				
Other assets	126,853	195,214	130,848	197,360
Loans, advances and financing	(634,063)	(746,539)	(634,063)	(746,539)
Deposits and placements with financial institutions	159,874	(511,226)	159,874	(511,226)
Deposits from customers	384,746	10,000	384,746	10,000
Other liabilities	125,896	(1,541)	122,642	(895)
Cash generated/(used in) from operations	331,273	(883,253)	334,882	(877,042)
Interest paid	(71,910)	(51,099)	(71,910)	(51,099)
Taxation paid	(16,273)	-	(16,256)	-
Net cash generated/(used in) from operating activities	243,090	(934,352)	246,716	(928,141)

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

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Cash flows from investing activities				
Acquisition of a subsidiary company	1,182	-	-	-
Dividend received from other investments	3,418	3,283	3,418	3,283
Increase in investment of subsidiary	-	-	(82,000)	(74,000)
Increase in investment of associates	(50,163)	-	-	-
Purchase of unquoted investments	(2,112)	(147,972)	(2,112)	(80,000)
Purchase of bonds	(125,419)	-	(125,419)	-
Purchase of:				
- Property, plant and equipment	(123,612)	(20,803)	(123,612)	(20,803)
- Prepaid land lease payment	(3,118)	(2,465)	(3,118)	(2,465)
Proceeds from disposal of property, plant and equipment	126,071	107	126,071	107
Proceeds from redemption of preferences shares in associate company	-	3,887	-	3,887
Proceeds from disposal of investments				
- Quoted investments	5,656	30,848	5,656	30,848
Proceeds from disposal of investments in an associate	9,778	87	9,778	87
Net cash used in investing activities	(158,319)	(133,028)	(191,338)	(139,056)

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Cash flows from financing activities				
Drawdown of term loans	429,504	859,113	429,504	859,113
Repayment of term loans	(500,808)	(500,132)	(500,808)	(500,132)
Proceeds from government funds	20,933	5,061	20,933	5,061
Net cash (used in)/generated from financing activities	(50,371)	364,042	(50,371)	364,042
Net increase/(decrease) in cash and cash equivalents	34,400	(703,338)	5,007	(703,155)
Cash and cash equivalents at beginning of year	875,559	1,578,897	871,998	1,575,153
Cash and cash equivalents at end of year	909,959	875,559	877,005	871,998
Cash and cash equivalents comprise:				
Cash and short term funds	909,959	875,559	877,005	871,998

* The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008

1. Corporate information

Bank Perusahaan Kecil dan Sederhana Malaysia Berhad (“SME Bank or “the Bank”) is a public limited liability company, incorporated and domiciled in Malaysia.

The registered office of the Bank is located at Aras 23, Menara SME Bank, Jalan Sultan Ismail, 50250 Kuala Lumpur. Principal place of business is located at Menara SME Bank, Jalan Sultan Ismail, 50250 Kuala Lumpur.

The immediate holding company in the prior year is Bank Pembangunan Malaysia Berhad (“Bank Pembangunan”), a company incorporated in Malaysia. On 25 January 2008, Bank Pembangunan had announced its decision to dispose of its entire holding in SME Bank to its ultimate shareholder, the Minister of Finance Incorporated, as part of its rationalisation exercise. The disposal was completed on 31 March 2008.

The Bank is principally engaged in development banking. There have been no significant changes in the nature of the principal activities during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 26 March 2009.

2. Significant accounting policies

2.1 Statement of compliance and basis of preparation

The financial statements of the Group and of the Bank have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards (“FRSs”) in Malaysia as modified by Bank Negara Malaysia/Development Financial Institutions (“BNM/DFIs”) Guidelines.

The financial statements disclosed those activities relating to Islamic Banking Business in Note 34 to the financial statements. Those activities generally refer to the granting of financing under Shariah principles.

The financial statements of the Group and of the Bank have been prepared under the historical cost convention unless otherwise indicated in the accounting policies below.

The financial statements are presented in Ringgit Malaysia (RM), which is also the functional currency of the Group and of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

2. Significant accounting policies (cont'd.)

2.2 Summary of significant accounting policies

(a) Subsidiaries and basis of consolidation

(i) Subsidiaries

Subsidiaries are entities over which the Group has the ability to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

In the Bank's separate financial statements, investments in subsidiaries are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in income statement.

(ii) Basis of consolidation

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

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

Acquisitions of subsidiaries are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

(b) Associates

Associates are entities in which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not in control or joint control over those policies.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

2. Significant accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(b) Associates (cont'd.)

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, the investment in associate is carried in the consolidated balance sheet at cost adjusted for post-acquisition changes in the Group's share of net assets of the associate. The Group's share of the net profit or loss of the associate is recognised in the consolidated profit or loss. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes.

In applying the equity method, unrealised gains and losses on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any long-term interests that, in substance, form part of the Group's net investment in the associates, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

2. Significant accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(b) Associates (cont'd.)

In the Bank's separate financial statements, investments in associates are stated at cost less impairment losses.

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in income statement.

(c) Intangible assets

(i) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gain and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful life are not amortised but tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at changes in circumstances indicate that the carrying value may be impaired either individually or at cash-generating unit level.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

2. Significant accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(c) Intangible assets (cont'd.)

(ii) Other intangible assets (cont'd.)

The useful life of an intangible asset with an indefinite life is also reviewed annually to determine whether the useful life assessment continues to be supportable.

Research and development costs

All research costs are recognised in the profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which do not meet these criteria are expensed when incurred.

Development cost, considered to have finite useful life, are stated at cost less any impairment losses and are amortised using the straight-line method basis over the commercial life of the underlying products not exceeding five years. Impairment is assessed whenever there is an indication of impairment and the amortisation period and method are also reviewed at least at each balance sheet date.

(d) Property, plant and equipment and depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is disclosed in Note 2.2 (f).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

2. Significant accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(d) Property, plant and equipment and depreciation (cont'd.)

Freehold land has an unlimited useful life and therefore is not depreciated.

Buildings-in-progress are also not depreciated as these assets are not available for use. Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Building	50 years
Furniture and equipment	3 - 10 years
Office partition	3 years
Motor vehicles	5 years
Electrical and machinery	10 - 15 years

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

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

(e) Investment properties

Investment properties principally comprise of properties held for long-term rental yields or capital appreciation or both and which are not occupied by the Group. Investment property is carried at cost less accumulated depreciation and any impairment losses. The policy for the recognition and measurement of impairment losses is disclosed in Note 2.2(f).

Freehold land is not depreciated. Freehold building is depreciated at an annual rate of 2%, over the estimated useful life.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria is met and excludes the cost of day-to-day servicing of that property.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

2. Significant accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(e) Investment properties (cont'd.)

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

(f) Impairment of non-financial assets

The carrying amount of the assets, except, deferred tax assets, non-current asset (or disposal group) held for sales and financial assets (other than investments in subsidiaries and associates), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Recoverable amount for goodwill is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and fair value less costs to sell. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

2. Significant accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(g) Financial instruments

Financial instruments are recognised in the balance sheet when the Group and the Bank have become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(i) Cash and cash equivalents

For the purposes of the cash flow statements, cash and cash equivalents include cash on hand and at bank and deposits at call which have an insignificant risk of changes in value, net of outstanding bank overdrafts, if any.

(ii) Receivables

Receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debt based on a review of all outstanding amounts as at the balance sheet date.

(iii) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

(iv) Interest bearing loans and borrowings

All loans and borrowings are recorded at the amount of proceeds received, net of directly attributable transaction costs. All borrowing costs are recognised as an expense in the income statement in the period in which they are incurred.

(v) Equity instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

2. Significant accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(g) Financial instruments (cont'd)

(v) Equity instruments (cont'd.)

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

(h) Leases

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership. Leases of land and building are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. All leases that do not transfer substantially all the risks and rewards are classified as operating leases, with the following exceptions:

- Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (Note 2.2(e)); and
- Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease.

(i) Income tax

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

2. Significant accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Income tax (cont'd.)

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

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised as income or an expense and included in the profit or loss for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity.

(j) Zakat

This represents business zakat. It is an obligatory amount payable by the Group and the Bank to comply with the principles of Shariah. Zakat is computed 2.5% on assets and liabilities eligible for zakat, as determined using the adjusted growth method.

(k) Provision for liabilities

Provisions are recognised when the Group and the Bank has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

2. Significant accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(l) Employee benefits

(i) Short term benefits

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

(ii) Defined contribution plans

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

(m) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group and the Bank entities at exchange rates at the dates of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date except where the foreign exchange risk is borne by third parties (Guarantors). All foreign currency losses recognised out of the foreign currency loans are underwritten by the Government of Malaysia. Accordingly, these loans are carried as amount recoverable in the balance sheet. Foreign currency differences arising on retranslation are recognised in the income statement.

(n) Derivative financial instruments

Foreign exchange trading positions, including spot and forward contracts, are revalued at prevailing market rates at balance sheet date and the resultant gains and losses are recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

2. Significant accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(o) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest income from loans, advances and financing

Income is recognised in the income statement on accrual basis. Income from Islamic banking financing is recognised on an accrual basis in accordance with the principles of Shariah. Income on hire purchase, block discounting and leasing business are recognised on the reducing balance method. When an account is classified as impaired (arrears for more than six months or where doubt as to the recoverability of an advance exist) recognition of interest income or profit from Islamic financing is suspended until it is realised on a cash basis. The policy on suspension of interest/profit is in conformity with Bank Negara Malaysia's Guidelines on classification of impaired loans/financing and provisioning for bad and doubtful debts, BNM/DFI/GP3.

(ii) Interest income from fixed deposit and other placement of funds

Interest income is recognised on an accrual basis using the effective interest method.

(iii) Dividend income

Dividend income is recognised when the Group's and the Bank's right to receive payment is established.

(iv) Rental income

Rental income from investment property is recognised on a straight-line basis over the term of the lease. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis.

(v) Fee income recognition

Fee income from bank guarantee arrangement and letter of credit is recognised on an accrual basis.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

2. Significant accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(p) Government funds

Government funds comprise the following:

- (i) To finance the purchase of property, plant and equipment. The funds received are initially recognised at their fair values in the balance sheet as deferred income where there is reasonable assurance that the funds will be received and all attaching conditions will be complied with. Government funds that compensate the Group for expenses incurred are recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Government funds that compensate the Bank for the cost of an asset are recognised as income on a systematic basis over the useful life of the asset.

- (ii) To finance loans for specific projects and utilise against credit losses and charges arising from the financing of these projects. The Government funds are recognised at the fair value of the consideration received in the balance sheet. The interest income earned on the loans financed by the Government funds is recognised as revenue of the Bank. Any credit losses or charges as a result of the loans defaulted are utilised against the funds.

(q) Allowance for doubtful debts

(i) Basis of valuation of loans, advances and financing

Specific allowances are made for doubtful debts which have been individually reviewed and specifically identified as sub standard, bad and doubtful.

A general allowance is made based on a set percentage of the total outstanding loans, net of interest-in-suspense.

The allowance for doubtful debts and financing of the Bank are computed based on the requirements of BNM/DFI/GP3.

(ii) Non-banking operations

Debts considered to be uncollectible are written off while allowances are made for debts based on estimates of possible losses that may arise from non-collection of receivables accounts.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

2. Significant accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(r) Securities portfolio

The holdings of the securities portfolio of the Group and the Bank are recognised based on the following categories and valuation methods:

(i) Securities held-to-maturity

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

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

(ii) Securities available-for-sale

Securities available-for-sale are financial assets that are not classified as held-for-trading or held-to-maturity. The securities available-for-sale are measured at fair value, or at cost (less impairment losses) if the fair value cannot be reliably measured. The return and cost of the securities available-for-sale are credited and charged to the income statement using accreted/amortised cost based on the effective yield method. Any gain or loss arising from a change in fair value after applying the accreted/amortised cost method are recognised directly in equity through the statement of changes in equity, until the financial asset is sold, collected, disposed of or impaired, at which time the cumulative gain or loss previously recognised in equity will be transferred to the income statement.

(iii) Impairment of securities portfolio

The Group and the Bank assesses at each balance sheet date whether there is any objective evidence that a security or group of securities (other than securities held-for-trading) is impaired.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

2. Significant accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(r) Securities portfolio (cont'd.)

(iii) Impairment of securities portfolio (cont'd.)

- **Securities held-to-maturity**

For securities carried at amortised cost in which there are objective evidence of impairment, impairment loss is measured as the difference between the securities' carrying amount and the present value of the estimated future cash flows discounted at the securities' original effective interest rate. The amount of the impairment loss is recognised in the income statement.

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

For securities carried at cost, impairment loss is measured as the difference between the securities' carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. The amount of impairment loss is recognised in the income statement and such impairment losses are not reversed subsequent to its recognition.

- **Securities available-for-sale**

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

2. Significant accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(r) Securities portfolio (cont'd.)

(iii) Impairment of securities portfolio (cont'd.)

- Securities available-for-sale (cont'd.)

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

2.3 Adoption of new and revised FRSs

The Group and the Bank have not adopted the following new and revised FRSs which have been issued but not yet effective:

FRS and Interpretations		Effective date
FRS 4	Insurance Contract	1 January 2010
FRS 7	Financial Instruments: Disclosures	1 January 2010
FRS 8	Operating Segments	1 July 2009
FRS 139	Financial Instruments: Recognition and Measurements	1 January 2010
IC Interpretation 9	Reassessment of Embedded Derivatives	1 January 2010
IC Interpretation 10	Interim Financial reporting and Impairment	1 January 2010

The new FRSs and Interpretations above are expected to have no significant impact on the financial statements of the Group and of the Bank upon the initial application except for the FRS 139 and for the changes in disclosures from adoption of FRS 7.

The Group and the Bank are exempted from disclosing the possible impact, if any, to the financial statements upon the initial application of FRS 139.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

2. Significant accounting policies (cont'd.)

2.4 Significant accounting estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving higher degree of judgment and complexity, are as follows:

(i) Fair value estimation of securities held-to-maturity and securities available-for-sale

The fair value of securities that are not traded in an active market are determined using valuation techniques based on assumptions of market conditions existing at the balance sheet date, including reference to quoted market prices and independent dealer quotes for similar securities and discounted cash flow method.

(ii) Deferred tax and income taxes

The Group and the Bank are subject to income taxes and significant judgment is required in estimating the provision for income taxes. There are many transactions and interpretations of tax law for which the final outcome will not be established until some time later. Liabilities for taxation are recognised based on estimates of whether additional taxes will be payable. The estimation process includes seeking expert advice where appropriate. Where the final liability for taxation is different from the amounts that were initially recorded, the differences will affect the income tax and deferred tax provisions in the period in which the estimate is revised or the final liability is established.

(iii) Allowances for bad and doubtful debts

The Group and the Bank review the doubtful loans, advances and financing at each reporting date to assess whether allowances should be recorded in the financial statements. In particular, judgment is required in the identification of doubtful loans, and the estimation of realisation amount from the doubtful loans when determining the level of allowance required.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

2. Significant accounting policies (cont'd.)

2.4 Significant accounting estimates and judgments

(iii) Allowances for bad and doubtful debts (cont'd.)

The Group and the Bank review the doubtful loans, advances and financing at each reporting date to assess whether allowances should be recorded in the financial statements. In particular, judgment is required in the identification of doubtful loans, and the estimation of realisation amount from the doubtful loans when determining the level of allowance required.

The Group and the Bank have adopted certain criteria in the identification of doubtful loans, which include classifying loans as non-performing when repayments are in arrears for more than six (6) months. Specific allowances for doubtful loans are provided after taking into consideration the values assigned to collateral. The values assigned to collateral are estimated based on market value and/or forced sales value, as appropriate and conforms with BNM/DFIs guidelines. In addition to the specific allowances made, the Group and the Bank also make general allowance against exposure not specifically identified based on a certain percentage of total outstanding loans, net of interest-in-suspense and specific allowances, for credit risk. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

(iv) Classification between investment properties and property, plant and equipment

The Group has developed certain criteria based on FRS 140: Investment Property (“FRS 140”) in making judgment whether a property qualifies as an investment property. Investment property is a property held to earn rentals or for capital appreciation or both.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group would account for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

3. Cash and short term funds

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Cash and balances with licensed banks	47,894	56,641	14,940	53,080
Money at call and deposit placements maturing within three months	862,065	818,918	862,065	818,918
	909,959	875,559	877,005	871,998

4. Deposits and placements with banks and other financial institutions

	Group and Bank	
	2008 RM'000	2007 RM'000
Licensed banks	218,381	290,835
Other financial institutions	163,959	251,379
	382,340	542,214

5. Securities portfolio

Note	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
At fair value:				
Available-for-sale (i)	230,261	187,936	192,782	120,076
At amortised cost:				
Held-to-maturity (ii)	50,192	5,000	50,192	5,000
	280,453	192,936	242,974	125,076

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

5. Securities portfolio (cont'd.)

(i) Securities available-for-sale

At fair value, or at cost less impairment losses
for certain unquoted equity instruments

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<u>Quoted securities:</u>				
Shares quoted in Malaysia	18,625	23,807	18,625	23,807
<u>Money market instruments:</u>				
Malaysia Government Securities	29,752	-	29,752	-
<u>Unquoted securities:</u>				
Unquoted shares in Malaysia	21,579	57,001	13,547	14,255
Private debt securities	130,858	81,974	130,858	82,014
Debt financing fund	29,447	25,154	-	-
	181,884	164,129	144,405	96,269
Total securities available-for-sale	230,261	187,936	192,782	120,076

(ii) Securities held-to-maturity

At amortised cost

	Group and Bank	
	2008 RM'000	2007 RM'000
<u>Money market instruments:</u>		
Cagamas bonds	30,192	-
Malaysia Government Securities	-	5,000
	30,192	5,000
<u>Unquoted securities:</u>		
Private debt securities	20,000	-
Total securities held-to-maturity	50,192	5,000

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

5. Securities portfolio (cont'd.)

(ii) Securities held-to-maturity (cont'd.)

	Group and Bank	
	2008 RM'000	2007 RM'000
Indicative/market value:		
Cagamas bonds	30,290	-
Malaysia Government Securities	-	5,131
Private debt securities	21,327	-

(iii) Other disclosures

The maturity structure of money market instruments available-for-sale and held-to-maturity are as follows:

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
One year to two years	194,021	147,936	164,574	80,076
Three years to five years	60,735	45,000	52,703	45,000
More than five years	25,697	-	25,697	-
	280,453	192,936	242,974	125,076

6. Loans, advances and financing

Loans, advances and financing comprise of the following:

	Group and Bank	
	2008 RM'000	2007 RM'000
Amount receivable	3,214,597	2,602,181
Interest/income-in-suspense	(32,827)	(16,507)
	3,181,770	2,585,674
Allowance for bad and doubtful loans, advances and financing		
- General	(61,657)	(62,242)
- Specific	(108,924)	(44,346)
	3,011,189	2,479,086
Staff loans and advances	39,024	27,104
Net loans, advances and financing	3,050,213	2,506,190

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

6. Loans, advances and financing (cont'd.)

(i) The maturity profiles of the gross loans are as follows:

	Group and Bank	
	2008 RM'000	2007 RM'000
Maturity within one year	418,103	69,367
One year to three years	30,572	40,875
Three years to five years	446,519	157,125
Over five years	2,319,403	2,334,814
	3,214,597	2,602,181

Included in loans, advances and financing is gross loans, advances and financing of RM603,089,904 (2007: RM52,477,000) financed by the Government funds. The treatment of the income earned and credit losses incurred for these loans, advances and financing are as disclosed in Note 2.2(p).

7. Other assets

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Trade receivables	77	-	-	-
Other receivables and prepayments	84,981	203,579	77,485	200,835
Amount due from subsidiaries	-	-	3,242	3,242
Less: allowance for bad and doubtful debts	-	-	(3,242)	(3,242)
	-	-	-	-
Interest receivable	10,855	21,210	10,855	21,210
Tax recoverable	2,774	6,604	2,774	6,604
Development cost for the intellectual properties	2,093	-	-	-
	100,780	231,393	91,114	228,649

The amounts due from subsidiaries are unsecured, interest free and no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

8. Investments in subsidiaries

	Bank	
	2008 RM'000	2007 RM'000
Unquoted shares		
At cost		
At 1 January	80,000	9,353
Addition during the year	82,000	74,000
Amount written off	-	(3,353)
At 31 December	162,000	80,000
Accumulated impairment losses		
At 1 January	-	3,353
Addition during the year	(32,613)	(3,353)
At 31 December	(32,613)	-
Carrying amount		
At 31 December	129,387	80,000

During the year, the Bank subscribed for 82,000 (2007: 74,000) cumulative convertible redeemable preference shares of RM1 each at a premium of RM999, for cash.

The subsidiaries, all incorporated in Malaysia, are as follows:

Name of company	Principal activities	Effective ownership interest (%)	
		2008	2007
Held by the Bank:			
BI Technical Consultancy Services Sdn. Bhd.*	Under liquidation	93	93
BI Technology & Engineering Centre Sdn. Bhd.*	Under liquidation	100	100
BI Nelayan Malaysia Berhad	Dormant	100	100
Metro Prominent Sdn. Bhd.	Dormant	100	100
Guardmont Industries Sdn Bhd	Dormant	100	100
Metro Maple Sdn. Bhd.	Dormant	100	100

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

8. Investments in subsidiaries (cont'd.)

Name of company	Principal activities	Effective ownership interest (%)	
		2008	2007
Golden Prominent Sdn. Bhd.	Vessel operators	100	100
BI Nominees (Tempatan) Sdn. Bhd.	Nominee services	100	100
BI Walden Ventures ke Lima Sdn. Bhd.	Dormant	100	100
Malaysian Technology Investments (L) Bhd	Dormant	100	100
SME Growth Acceleration Fund Sdn. Bhd.	Venture capital fund	100	100
Held through a subsidiary: Profound Vaccine Sdn. Bhd.**	Bio-technology	93	93

* In members' voluntary liquidation.

** Audited by a firm other than Ernst & Young.

9. Investments in associates

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
At cost:				
Quoted shares in Malaysia	1,903	2,614	1,903	2,614
Unquoted shares in Malaysia	95,527	15,206	15,136	15,206
	97,430	17,820	17,039	17,820
Share of post-acquisition reserves	48,200	45,232	-	-
	145,630	63,052	17,039	17,820
Accumulated impairment losses	(27,286)	(3,697)	(3,323)	(3,697)
	118,344	59,355	13,716	14,123
Market value of quoted shares	24,383	37,323	24,383	37,323

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

9. Investments in associates (cont'd.)

The summarised financial statements of the associates are as follows:

	2008 RM'000	2007 RM'000
Assets and liabilities		
Total assets	1,124,478	865,997
Total liabilities	757,862	605,740
Net assets	366,616	260,257
Results		
Revenue	2,119,624	2,037,466
Expenses	2,096,976	1,995,422
Profit before tax	22,648	42,044
Taxation	23,219	8,075
Net profit for the year	45,867	50,119

The associates, all incorporated in Malaysia, are as follows:

Name of companies	Principal activities	Effective percentage of ownership	
		2008 %	2007 %
Held by the Bank:			
BI Walden Management Sdn. Bhd.*	Under liquidation	32	32
BI Walden Management Ketiga	Fund management Sdn. Bhd.	30	30
BI Walden Ventures Ketiga Sdn. Bhd.	Venture capital	34	34
BI Walden Ventures Keempat Sdn. Bhd.*	Under liquidation	40	40
Celcure Chemical Sdn. Bhd.	Manufacture of wood preservative	36	36
Metrod Malaysia Bhd.	Manufacturing of electrical conductor	21	21

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

9. Investments in associates (cont'd.)

Name of companies	Principal activities	Effective percentage of ownership	
		2008 %	2007 %
Capatronics (M) Sdn. Bhd.	Manufacturing of ceramic capacitor	30	30
Held through a subsidiary: Abedeem Hotel Management Sdn. Bhd.	Hotel management	26	-
Agrotech Farm & Industries Sdn. Bhd.	Supply of agriculture products	26	26
Alpha Interocean Sdn. Bhd.	Trading of consumable goods	26	-
Ambang Wibawa (M) Sdn. Bhd.	Food supplies and catering services	26	26
Cantuman Wawasan Sdn. Bhd.	Information technology and computer network services	26	26
Delphax Sdn. Bhd.	Trading of medical products	22	22
Enviro Green Biotech Sdn. Bhd.	Supply of agricultural products	26	-
Evoxen Sdn. Bhd.	Manufacturing of car park management system	26	26
IIFIN Planners Sdn. Bhd.	Financial and advisory consultancy services	26	26
Internexia Sdn. Bhd.	Provision of multimedia services	26	-
MS Time Ventures Sdn. Bhd.	Provision of heavy machinery rental services	26	26

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

9. Investments in associates (cont'd.)

Name of companies	Principal activities	Effective percentage of ownership	
		2008 %	2007 %
Nano C Sdn. Bhd.	Research and development services	26	-
Nature's Own Brand Sdn. Bhd.	Trading of food products	26	26
NCM Global Sdn. Bhd.	Engineering services	26	26
Orea Technologies Sdn. Bhd.	Development of information technology security	26	26
Paximej (M) Sdn. Bhd.	Event management	26	26
Sal's Food Industries Sdn. Bhd.	Manufacturing of food and beverage products	26	26
Schiffs & Industries Technic Sdn. Bhd.	Manufacturing of fuel treatment system for marine	26	26
Serene Quest Marine Sdn. Bhd.	Oil and gas services industries	26	26
Simfoni Maya Sdn. Bhd.	Electronic and digital advertising	26	26
Sutrasegi Sdn. Bhd.	Manufacturing of foam rubber product	31	31
Wellad Communications Sdn. Bhd.	Advertising agents and creative designers	26	26

* In members' voluntary liquidation.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

10. Investment properties

	Group and Bank	
	2008 RM'000	2007 RM'000
At cost		
At 1 January	87,688	87,688
Disposal	(87,688)	-
At 31 December	-	87,688
Accumulated depreciation		
At 1 January	10,366	8,786
Charge for the year	219	1,580
Disposal	(10,585)	-
At 31 December	-	10,366
Carrying amount	-	77,322
Included in the above are:		
Freehold land	-	34,014
Building	-	43,308
	-	77,322

The Directors estimated that the fair values of investment properties of the Group and the Bank in financial year 2007 amounting to RM120,000,000. The fair value was based on comparison with indicative market value stated in the Property Market Report 2006.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

11. Property, plant and equipment

Group	Freehold land RM'000	Building RM'000	Furniture and equipment RM'000	Office partition RM'000	Motor vehicles RM'000	Electrical and machinery RM'000	Work-in progress RM'000	Total RM'000
Cost								
At 1 January 2008	3,588	119,422	14,284	28,369	2,571	36,719	25,499	230,452
Reclassification	-	21,948	-	2,792	-	-	(24,740)	-
Transfer from an affiliate company	-	-	1,368	-	342	-	-	1,710
Additions	-	118,274	2,286	808	5	5,357	-	126,730
Addition through an acquisition of a subsidiary company	-	-	486	48	-	2	-	536
Disposal/written off	-	(1,176)	-	-	-	(36,513)	-	(37,689)
At 31 December 2008	3,588	258,468	18,424	32,017	2,918	5,565	759	321,739
Accumulated Depreciation								
At 1 January 2008	-	20,936	11,020	24,964	1,287	36,601	-	94,808
Charge for the year	-	5,186	1,247	2,595	719	470	-	10,217
Disposal/written off	-	(264)	-	-	-	(35,017)	-	(35,281)
At 31 December 2008	-	25,858	12,267	27,559	2,006	2,054	-	69,744
Net Book Value	3,588	232,610	6,157	4,458	912	3,511	759	251,995

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

11. Property, plant and equipment

Bank 2008	Freehold land RM'000	Building RM'000	Furniture and equipment RM'000	Office partition RM'000	Motor vehicles RM'000	Electrical and machinery RM'000	Work-in progress RM'000	Total RM'000
Cost								
At 1 January 2008	3,588	119,422	14,284	28,369	2,571	36,719	25,499	230,452
Reclassification	-	21,948	-	2,792	-	-	(24,740)	-
Transfer from an affiliate company	-	-	1,368	-	342	-	-	1,710
Additions	-	118,274	2,286	808	5	5,357	-	126,730
Disposal/written off	-	(1,176)	-	-	-	(36,513)	-	(37,689)
At 31 December 2008	3,588	258,468	17,938	31,969	2,918	5,563	759	321,203
Accumulated Depreciation								
At 1 January 2008	-	20,936	11,020	24,964	1,287	36,601	-	94,808
Charge for the year	-	5,186	1,247	2,595	719	470	-	10,217
Disposal/written off	-	(264)	-	-	-	(35,017)	-	(35,281)
At 31 December 2008	-	25,858	12,267	27,559	2,006	2,054	-	69,744
Net Book Value	3,588	232,610	5,671	4,410	912	3,509	759	251,459

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

11. Property, plant and equipment

Group & Bank 2007	Freehold land RM'000	Building RM'000	Furniture and equipment RM'000	Office partition RM'000	Motor vehicles RM'000	Electrical and machinery RM'000	Work-in progress RM'000	Total RM'000
At 1 January 2007	3,588	115,577	12,511	24,291	1,751	36,650	12,742	207,110
Reclassification	-	2,945	-	-	-	-	(2,945)	-
Transfer from holding company	-	900	1,878	-	111	-	-	2,889
Additions	-	-	9	4,078	945	69	15,702	20,803
Disposal/written off	-	-	(114)	-	(236)	-	-	(350)
At 31 December 2007	3,588	119,422	14,284	28,369	2,571	36,719	25,499	230,452
Accumulated Depreciation								
At 1 January 2007	-	18,492	10,248	21,702	1,262	35,999	-	87,703
Charge for the year	-	2,444	886	3,262	244	602	-	7,438
Disposal/written off	-	-	(114)	-	(219)	-	-	(333)
At 31 December 2007	-	20,936	11,020	24,964	1,287	36,601	-	94,808
Net Book Value	3,588	98,486	3,264	3,405	1,284	118	25,499	135,644

Included in depreciation charge during the year of the Group and the Bank is depreciation charge set off against Government Funds amounting to RM3,293,000 (2007:RM2,589,000), recognised as part of Government Funds in Other Income.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

12. Prepaid land lease payment

	Group and Bank	
	2008 RM'000	2007 RM'000
At cost		
At 1 January	37,708	35,243
Addition	3,073	2,465
At 31 December	40,781	37,708
Accumulated depreciation		
At 1 January	6,276	5,534
Charge for the year	749	742
At 31 December	7,025	6,276
Carrying amount	33,756	31,432
Analysed as:		
Long term leasehold land	33,756	31,432

13. Deposit from customers

	Group and Bank	
	2008 RM'000	2007 RM'000
Fixed deposits and negotiable instruments of deposits	394,746	10,000

Maturity structure of deposit from customers are as follows:

	Group and Bank	
	2008 RM'000	2007 RM'000
- One year or less	394,746	-
- More than one year	-	10,000
	394,746	10,000

The deposits are sourced from the following types of customers:

	Group and Bank	
	2008 RM'000	2007 RM'000
Government and statutory bodies	336,514	10,000
Business enterprises	23,232	-
Others	35,000	-
	394,746	10,000

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

14. Term loans

	Group and Bank	
	2008 RM'000	2007 RM'000
Term loans – unsecured (Note (i))	2,669,555	2,738,106
Bai' Al-Inah financing from Government	27,949	37,088
	<u>2,697,504</u>	<u>2,775,194</u>
Repayable within twelve months	133,862	193,342
Repayable after twelve months	2,563,642	2,581,852
	<u>2,697,504</u>	<u>2,775,194</u>

(i) Unsecured term loans of the Group and the Bank consist of the following facilities:

Loans from Government of Malaysia

The loans from the Government of Malaysia are repayable as follows:

Year	Principal amount due RM'000
2009	14,632
2010	14,779
Due after 2010	1,596,673
	<u>1,626,084</u>

Interest on the loan is charged at rates of 1.0 % to 3.75 % (2007: 1.0 % to 3.75%) per annum.

Loans from the Japan Bank of International Corporation (“JBIC”)

Included in loans from JBIC are as follows:

(a) Loan of ¥5,716,228,574 (approximately RM205,041,118) principal repayable over a period of 19 years commencing 20 December 1995, after a grace period of 6 years. As at 31 December 2008, the principal balance of the loan stood at RM30,570,259 (2007: RM40,349,863). The loan will mature on 20 December 2013.

(b) Loan of ¥4,660,000,000 (approximately RM167,154,200) principal repayable over a period of 18 years commencing 20 May 2002, after a grace period of 7 years. As at 31 December 2008, the principal balance of the loan stood at RM54,442,943 (2007: RM60,920,294). The loan will mature on 20 May 2017.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

14. Term loans (cont'd.)

- (c) Loan of ¥6,273,000,000 (approximately RM225,012,510) principal repayable over a period of 14 years commencing 19 December 1995 after a grace period of 6 years. As at 31 December 2008, the principal balance of the loan stood at RMNil (2007: RM10,777,973). The loan have been matured on 19 December 2008.
- (d) Loan of ¥10,344,000,000 (approximately RM371,039,280) principal repayable over a period of 8 years commencing on 26 July 2003 after a grace period of 2 years. As at 31 December 2008, the principal balance of the loan stood at RM24,490,528 (2007: RM73,472,381). The loan will mature on 26 January 2009.
- (e) Loan of USD150,000,000 (approximately RM570,000,000) principal payable over a period of 7 years commencing on 26 July 2003 after a grace period of 3 years. As at 31 December 2008, the principal balance of the loan stood at RM20,675,800 (2007: RM62,042,600). The loan will mature on 26 January 2009.
- (f) Loan of ¥8,400,000,000 (approximately RM301,308,000) principal repayable over a period of 7 years commencing on 26 October 2002 after a grace period of 3 years. The loan was obtained on 3 May 1999 and is guaranteed by the Government of Malaysia. As at 31 December 2008, the principal balance of the loan stood at RM21,538,333 (2007: RM64,613,600). The loan will mature on 26 April 2009.
- (g) Loans for Asean-Japan Development Fund (AJDF) and Small and Medium Industry Promotion Program (SMIPP) amounting to RM55,370,000 and RM51,239,700 respectively (2007: RM63,019,836 and RM57,267,900 respectively) which are repayable in semi annual instalments of Ringgit Malaysia equivalent of ¥281,921,000 and Ringgit Malaysia equivalent of ¥125,945,000 each commencing from December 1995 and May 1999 respectively.
- (h) Loan amounting to RM158,829,607 principle payable over a period of 30 years commencing on 30 September 2009 after a grace period of 10 years. As at 31 December 2008, the principal balance of the loan stood at RM139,208,673 (2007: RM139,208,673). The loan will mature on 30 September 2039.
- (i) Loan of ¥16,296,000,000 (approximately RM584,537,520) principal payable over a period of 40 years inclusive 10 years grace period commencing on 20 March 2009. The loan was obtained on 24 June 1999 and is unsecured. As at 31 December 2008, the principal balance of the loan stood at RM96,805,929 (2007: RM96,805,929). The loan will mature on 30 September 2039.

The Bank's loans are guaranteed by the Government of Malaysia.

The interest rates on long term loans ranges from 2% to 4.5% (2007: 2% to 4.5%) per annum during the year.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

14. Term loans (cont'd.)

Loans from other institutions

Included in the loans from other institutions are mainly from Bank Negara Malaysia (“BNM”) and Affin Bank Berhad amounting to RM974,304,325 (2007: RM975,257,009) and RM Nil (2007:RM4,888,889).

Interest on the loan is charged at rates of 1.0 % to 4.0 % (2007: 1.0% to 4.0%) per annum.

15. Other liabilities

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Other payables and accruals	105,591	69,717	94,362	68,937
Amount due to an affiliate company	308,379	-	301,308	-
Amount due to holding company	-	209,994	-	202,923
Interest payables	22,615	23,783	22,615	23,783
Provision for taxation and zakat	1,650	-	4,424	-
	438,235	303,494	422,709	295,643

The amount due to an affiliate company/holding company is unsecured, interest free and has no fixed term of repayment, except for term loan due to an affiliate company/holding company of RM200,000,000 (2007: RM200,000,000), which bears interest of 5.0% per annum and repayable over a period of 20 years, commencing on 22 November 2006.

16. Share capital

	Number of ordinary shares of RM1 each		Amount	
	2008 Unit '000	2007 Unit '000	2008 RM'000	2007 RM'000
Authorised:				
At 1 January/ 31 December	5,000,000	5,000,000	5,000,000	5,000,000
Issued and fully paid:				
At 1 January/31 December	1,350,000	1,350,000	1,350,000	1,350,000

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

17. Government Fund

	Note	Group and Bank	
		2008 RM'000	2007 RM'000
To finance:			
Purchase of property, plant and equipment	(a)	122,814	129,439
Loans	(b)	237,118	236,494
		359,932	365,933

(a) To finance the purchase of property, plant and equipment:

	Nursery		Nursery	
	Nursery	Factory	Factory	Factory
2008	Factory	Scheme	Scheme	Scheme
	Scheme	(RMK8) RM'000	(RMK9) RM'000	Total RM'000
At 1 January	101,533	17,249	10,657	129,439
Fund disbursed during the year	-	-	5,000	5,000
Utilised to offset depreciation	(128)	(3,144)	(21)	(3,293)
Utilised to offset expenses	611	(467)	(8,476)	(8,332)
At 31 December	102,016	13,638	7,160	122,814
2007				
At 1 January	100,718	27,512	5,900	134,130
Fund disbursed during the year	815	-	5,000	5,815
Utilised to offset depreciation	-	(2,669)	-	(2,669)
Utilised to offset expenses	-	(7,594)	(243)	(7,837)
At 31 December	101,533	17,249	10,657	129,439

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

17. Government Fund (cont'd)

(b) To finance loans:

Group and Bank	Soft Loan Scheme RM'000	Tabung Usahawan Pahang RM'000	Tabung Inkubator Pertanian Kelantan RM'000	Tabung Usahawan Siswazah (TUS) RM'000	Dana Usahawan Negeri Terengganu RM'000	SPEDI RM'000	Program dan Skim		Balance c/f RM'000
							Usahawan Kraf RM'000	Usahawan RM'000	
2007									
At 1 January	41,257	454	2,976	38,172	12,401	999	5,000		101,259
Allowance made during the year	(3)	-	-	-	(12)	(25)	-	-	(40)
Writeback of allowance	5	-	-	89	68	2	-	-	164
Amount written off	-	-	-	-	(71)	-	-	-	(71)
Hibah	-	-	-	-	(450)	-	-	-	(450)
Reclassification	-	(75)	14	(27)	7,168	-	-	-	7,080
At 31 December	41,259	379	2,990	38,234	19,104	976	5,000		107,942

Balance b/f	Program dan Skim Usahawan Batik RM'000	Soft Loan Scheme (SMA) RM'000	Skim Pembangunan Ekonomi Desa-Islamic RM'000	Small and Medium Industries Development Corp. (SMIDEC) RM'000	SASWE RM'000	Total RM'000
Allowance made during the year	(40)	-	(2,590)	-	-	(2,630)
Writeback of provision	164	-	-	-	-	164
Amount written off	(71)	-	(4,243)	-	-	(4,314)
Hibah	(450)	-	(549)	-	-	(999)
Reclassification	7,080	-	(7,080)	(516)	516	-
At 31 December	107,942	5,000	44,319	68,091	4,386	236,494

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

18. Interest income

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Loans, advances and financing				
- Interest income other than recoveries from non performing loan	161,795	134,772	158,659	134,772
- Recoveries from non performing loan	2,693	11,665	2,693	11,665
Money at call and deposit placements with bank and financial institutions	43,739	50,027	43,739	50,013
Securities available-for-sale	5,532	1,688	5,532	1,688
Securities held-to-maturity	757	324	757	324
	214,516	198,476	211,380	198,462

19. Interest expense

	Group and Bank	
	2008 RM'000	2007 RM'000
Deposits and acceptances	4,187	616
Term loans	60,404	58,916
Others	133	46
	64,724	59,578

20. Other operating income

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Fee income	12,160	12,433	12,153	12,433
Investment income				
Gain on disposal of:				
- Associates	9,067	27	9,067	27
- Quoted investments	-	13,681	-	13,681
- Unquoted investments	3,243	-	3,243	-

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

20. Other operating income (cont'd.)

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Gross dividend income:				
- Quoted investments	183	1,243	183	1,243
- Unquoted investments	1,528	460	1,528	460
- Associates	1,707	2,012	1,707	2,012
Allowance for impairment losses:				
- Quoted investments	(237)	(403)	(237)	(403)
- Unquoted investments	(24,963)	(704)	(1,000)	(704)
- Subsidiaries	-	-	(32,613)	-
Writeback of allowance for impairment losses:				
- Quoted investments	-	3,686	-	3,686
- Unquoted investments	374	4,820	374	4,925
Unquoted investment written off	(70)	-	(70)	-
	(9,168)	24,822	(17,818)	24,927
Other income				
Rental income				
- Holding company	1,859	6,085	1,859	6,085
- Affiliate company	1,765	-	1,765	-
- Others	5,414	4,924	5,414	4,924
Gain on disposal of property, plant and equipment	48,224	90	48,224	90
Government funds released	18,966	17,530	18,966	17,530
Writeback of allowance for bad and doubtful debts	-	1,004	-	369
Others	12,018	7,721	12,018	6,067
	88,246	37,354	88,246	35,065
Total non operating income	91,238	74,609	82,581	72,425

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

21. Operating expenses

	Note	Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Personnel costs	(i)	72,374	63,396	72,341	63,369
Establishment related expenses	(ii)	26,285	23,145	26,285	23,145
Promotion and marketing expenses	(iii)	3,912	1,868	3,912	1,868
General administrative expenses	(iv)	44,167	36,765	38,189	31,705
		146,738	125,174	140,727	120,087

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
(i) Personnel expenses				
Salaries, allowances and bonuses	55,248	50,911	55,215	50,884
Social security cost	500	400	500	400
Pension costs - defined contribution plan	8,612	5,192	8,612	5,192
Other staff related expenses	8,014	6,893	8,014	6,893
	72,374	63,396	72,341	63,369
(ii) Establishment related expenses				
Depreciation:				
- Property, plant and equipment	9,353	7,438	9,353	7,438
- Investment properties	219	1,580	219	1,580
Amortisation of prepaid land lease payment	794	742	794	742
Rental of leasehold land and premises	3,672	6,897	3,672	6,897
Repairs and maintenance of property, plant and equipment	12,247	6,488	12,247	6,488
	26,285	23,145	26,285	23,145

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

21. Operating expenses (cont'd.)

(iii) Promotion and marketing expenses

Advertisement and publicity	3,912	1,868	3,912	1,868
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(iv) General administrative expenses

Administrative expenses	7,664	9,575	7,664	9,592
Auditors' remuneration	312	243	255	220
General expenses	24,579	18,054	18,701	13,000
Sundry debtors written off	637	783	637	783
Others	10,975	8,110	10,932	8,110
	44,167	36,765	38,189	31,705

22. Directors' fees and remuneration

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Directors of the Bank:				
Executive director/managing director:				
Salary and other remuneration, including meeting allowances	1,065	819	1,064	819
Benefits-in-kind	-	9	-	9
	1,065	828	1,064	828
Non-executive directors:				
Fees	300	205	300	203
Other remuneration	8	48	8	48
	308	253	308	251

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

22. Directors' fees and remuneration (cont'd.)

Directors of the Subsidiaries:

Non-executive directors:

Fees	33	26	-	-
Total	33	26	-	-
Total (excluding benefits-in-kind)	1,406	1,098	1,372	1,070

Number of directors of the Bank whose remuneration falls into the following bands:

Number of executive director:
 RM1,100,001 to RM1,150,000
 RM800,001 to RM850,000

Group	
2008	2007
1	-
-	1

Number of non-executive directors:
 RM100,001 to RM150,000
 RM50,001 to RM100,000
 RM1 to RM50,000

Group	
2008	2007
-	1
2	1
11	7
13	8

23. Compensation to key management personnel

Key management personnel are defined as persons having authority and responsibility for planning, directing and controlling the activities of the Group and of the Bank directly or indirectly, including any director of the Group and of the Bank. Key management personnel comprise executive director and vice president of various sectors. The remuneration of directors and other members of key management during the year was as follows:

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

23. Compensation to key management personnel (cont'd.)

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Salary and other remuneration, including meeting allowance	2,871	1,941	2,871	1,941
Bonuses	968	550	968	550
Pension cost - defined contribution plan	174	174	174	174
	4,013	2,665	4,013	2,665

Included in the total key management personnel are:

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Directors' remuneration	1,406	1,098	1,372	1,070

24. Allowance for losses on loans, advances and financing

	Group and Bank	
	2008 RM'000	2007 RM'000
Allowance for bad and doubtful debts		
- Loan debtors	94,357	67,643
- Others	557	4,053
Writeback of allowance for bad and doubtful debts		
- Loan debtors	(12,967)	(885)
Amount written off	682	22,816
Recoveries	(54,343)	(55,831)
	28,286	37,796

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

25. Taxation and zakat

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Tax expenses for the year	15,372	-	15,355	-
Zakat	7,691	-	7,691	-
	23,063	-	23,046	-

Reconciliation of effective tax and zakat expense

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Profit before taxation	68,974	57,156	60,224	53,426
Income tax at 26% (2007: 27%)	17,933	15,432	15,658	14,425
Non-deductible expenses	32,060	9,269	36,171	12,027
Tax exempt income	(899)	(655)	(899)	(655)
Change in unrecognised temporary differences	(23,046)	(22,103)	(23,046)	(22,103)
Effects of share of associates' post-tax profits included in group's profit before taxation	1,853	1,751	-	-
Non-taxable income	(12,538)	(3,694)	(12,538)	(3,694)
Total tax expense	15,363	-	15,346	-
Zakat	7,691	-	7,691	-
Total taxation and zakat expense	23,054	-	23,037	-

Domestic income tax is calculated at the Malaysian statutory tax rate of 26% (2007: 27%) of the estimated assessable profit for the year. The domestic statutory tax rate will be reduced to 25% from the current year's rate 26% with effect from the year of assessment 2009. The computation of deferred tax as at 31 December 2008 has reflected these changes.

Prior to the year of assessment 2008, Malaysian companies adopt the full imputation system. In accordance with the Finance Act 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transition period from YA2008 and YA2013, whereby a company can still opt to declare its dividend using its existing Section 108 balance. Subsequent to YA2013, all companies are to declare dividend using the single tier system.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

25. Taxation and zakat (cont'd.)

Companies can also opt for an irrevocable option to disregard the Section 108 balance and to pay dividends under the single tier system. The change in the tax legislation also provides for the 108 balance to be locked-in as at 31 December 2008 in accordance with Section 39 of the Finance Act 2007.

The Bank did not elect for the irrevocable option to disregard the Section 108 balance. Accordingly, during the transitional period, the Bank may utilise the credit in the Section 108 balance as at 31 December 2008 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007.

Deferred tax assets have not been recognised in respect of the following items:

	Group and Bank	
	2008	2007
	RM'000	RM'000
Deductible temporary differences	61,657	62,242
Tax losses carried forward	-	64,427
Unabsorbed capital allowances	-	69,265
	61,657	195,934

The deductible temporary differences do not expire under current tax legislation unless there is substantial change in shareholders (more than 50%). If there is substantial change in shareholders, unutilised tax losses carried forward amounting to RM98,564,000 will not be available to the Group. Deferred tax assets have not been recognised in respect of these items due to past history of losses.

26. Earnings per share

The basic earnings per share ("EPS") of the Group are calculated by dividing the net profit for the year by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2008	2007
Net profit for the year (RM'000)	45,911	57,156
Weighted average number of ordinary shares in issue ('000)	1,350,000	1,350,000
Basic earnings per share (sen)	3.40	4.23

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

27. Commitment 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.

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Direct credit substitutes	381,147	425,097	381,147	425,097
Transaction-related contingent items	186,822	148,328	186,822	148,328
Irrevocable commitments to extend credit:				
- Maturity exceeding one year	324,838	269,313	324,838	199,181
- Maturity not exceeding one year	1,427,964	1,818,309	1,427,964	1,818,309
	2,320,771	2,661,047	2,320,771	2,590,915

28. Capital adequacy

Capital adequacy ratio of the Bank is as follows:

	Bank	
	2008 RM'000	2007 RM'000
Tier I Capital		
Paid-up share capital	1,350,000	1,350,000
Accumulated losses	(164,674)	(201,852)
Other reserves	10,114	10,114
Total Tier I capital	1,195,440	1,158,262
Tier II Capital		
General allowance for bad and doubtful debts and financing	61,657	62,242
Government grants and subsidies	359,932	365,933
Total Tier II capital	421,589	428,175
Total capital	1,617,029	1,586,437
Less: Investment in subsidiaries	(129,387)	(80,000)
Total capital base	1,487,642	1,506,437

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

28. Capital adequacy (cont'd.)

Breakdown of risk-weighted assets in the various categories of risk-weights:

	Bank	
	2008	2007
	RM'000	RM'000
10%	3,019	-
20%	307,874	327,411
50%	99,544	69,875
100%	3,872,432	3,255,146
	4,282,869	3,652,432
Core capital ratio	27.91%	31.71%
Risk-weighted capital adequacy ratio	34.73%	41.24%

29. Related party transactions

The Bank's major transactions with its related companies consist mainly of extending credit facilities and giving loans and advances. The directors of the Bank are of the opinion that these transactions have been entered into in the normal course of business and have been established under negotiated basis.

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

	2008	2007
	RM'000	RM'000
Rental of premises charged to an affiliate company/ holding company	1,289	8,379
Rental income from an affiliate company/holding company	1,859	6,086
Provision of IT services from an affiliate company/ holding company	694	3,506
Building maintenance	-	2,723
Property, plant and equipment transferred from holding company	3,379	2,889

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

29. Related party transactions (cont'd.)

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

	2008 RM'000	2007 RM'000
Amount due from subsidiaries		
Advances	162,000	80,000
Amount due from associates		
Advances	1,754	-

(c) Key management personnel compensation

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

	2008 RM'000	2007 RM'000
Short-term employee benefits		
- Fees	300	203
- Salaries, allowance and bonus	910	819
- Contribution to Employee Provident fund	155	-
- Other remuneration	8	48
Benefits-in-kind	-	9
Post-employment benefits	-	-
	1,373	1,079
Included in total key management personnel compensation are:		
Directors' remuneration including benefits-in-kind		
- Executive director/managing director	1,065	819

30. Capital Commitments

	Group and Bank	
	2008 RM'000	2007 RM'000
Capital expenditure		
Approved and contracted for:		
Property, plant and equipment	1,693	-

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

31. Financial instruments

The Group's financial risk management policies seek to enhance shareholder value. The Group focuses on the enterprise wide risk exposure, which include credit, market, liquidity and operation risk and seeks to minimise potential adverse effects on the financial performance of the Group.

As part of the Group's strategy to integrate the management and control of risks across the various risk segments, a dedicated department known as the Risk Management Department was established.

Financial risks management is carried out through risk assessment and reviews, internal control systems and adhered to Group financial risk management policies, which are reported to the Risk Management Committee and approved by the Board of Directors. The Board also approves the risks management policies on Treasury, which cover the management of these risks.

The main areas of financial risks faced by the Group are set out as follows:

Credit risk

Credit risk is the potential loss arising from customers or counterparties failing to meet their financial contractual obligations. Management of credit risk is principally through lending directions and policies, which are instituted based on prevailing business and economic conditions. Credit processes are also structured to ensure adherence of credit policies and to establish impartiality in loan origination, approval, documentation, disbursement and settlement.

The Risk Management Department, is primarily involved in managing, reviewing asset quality, reviews concentration limits, according to various categories such as customer, economic segment and product types and monitors credit portfolio risk. Industry risk is also evaluated and monitored as dynamic changes in the economic environment has a direct impact on the Group's assets quality.

The internal credit risk rating system has been established to measure the credit worthiness of each customer. The primary objectives are to provide a consistent approach in risk grading of the Group's borrowers and to measure the risk of default by borrowers objectively.

Internal single customer limit are regularly monitored to minimise the risk of over-concentration. The overall credit risk management is subjected to an ongoing process for reviewing and enhancement.

Credit reviews on loan applications before being approved by the approving authorities are conducted. Various Credit Committee have been established to review all loans to be submitted for the approval of the respective committees and Board of Directors of the Bank and subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

31. Financial instruments (cont'd.)

Foreign currency risk

The Group and the Bank is exposed to foreign currency risk as a result of its borrowings made in currencies other than Ringgit Malaysia. The Group's and the Bank's policy in managing its exposure to foreign currency risks is by hedging through forward contract deals or guaranteed by the Government.

Liquidity risk

Liquidity risk is the risk that an enterprise might encounter difficulty in raising funds to meet its current and future payment obligations associated with financial obligations when they fall due. The liquidity and cash flow risks are managed by maintaining a diversity of funding sources and spreading debt repayments over a range of maturities. The Group manages its liquidity requirement on a day-to-day basis to ensure that funds are readily available for its operational needs, withdrawals of deposits and repayments to fund providers. The Group may raise funds locally and globally either through government-to-government arrangements or direct negotiations. Other sources of funding through the capital market are being explored on an on-going basis to ensure a diversity of funding source.

Operational risk

Operational risk, which inherent in all business activities, is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Operational Risk Management (ORM) takes place in a day-to-day basis at each business unit level. The Group and the Bank mitigates its operational risk by having comprehensive internal controls, conduct risk assessments through Risk Control Self Assessment (RCSA), system and procedures, which are reviewed regularly and subjected to periodical audits by Internal Auditors.

The Business Continuity Management has been fully implemented in line with Bank Negara Malaysia's (BNM) guidelines.

Interest rate risk

The Group may be exposed to a loss in earnings due to the interest rates structure of the balance sheet arising from interest rates and yield curves changes. The sensitivity to interest rates arises from the mismatches in the reprising rates, cash flows and other characteristic of the assets and their corresponding liability funding. The Group manages its interest rate risk exposure through the use of fixed/floating rate debts and financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

31. Financial instruments (cont'd.)

Interest rate risk (cont'd.)

Group	----- Non-trading book ----->						Effective interest rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non-interest sensitive	
2008	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000 %
Assets							
Cash and short term funds	575,837	315,736	-	-	-	18,386	909,959 3.40
Deposits and placements with financial institutions	-	-	382,340	-	-	-	382,340 3.66
Securities portfolio	-	-	-	215,249	25,000	40,204	280,453 3.98-10.00
Loans, advances and financing	283,434	40,490	94,144	477,090	2,155,055	-	3,050,213 1.50-12.00
Other assets	-	-	11,447	-	-	86,559	98,006 3.25
Other non-interest sensitive balances	-	-	-	-	-	404,095	404,095
Total Assets	859,271	356,226	487,931	692,339	2,180,055	549,244	5,125,066
Liabilities and shareholder's funds							
Deposits from customers	76,112	139,202	179,432	-	-	-	394,746 3.41
Term loans	77,342	-	56,521	745,826	1,817,815	-	2,697,504 2.09

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

31. Financial instruments (cont'd.)

Interest rate risk (cont'd.)

Group (cont'd)

	----- Non-trading book ----->						Effective interest rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non-interest sensitive	
2008	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Liabilities and shareholder's funds (cont'd.)							
Other liabilities	1,249	1,814	5,974	10,495	3,321	412,574	435,427
Other non-interest sensitive balances	-	-	-	-	-	359,932	359,932
Total Liabilities	154,703	141,016	241,927	756,321	1,821,136	772,506	3,887,609
Shareholders' equity	-	-	-	-	-	1,237,457	1,237,457
Total Liabilities and Equity	154,703	141,016	241,927	756,321	1,821,136	2,009,963	5,125,066
On-balance sheet interest sensitivity gap	704,568	215,210	246,004	(63,982)	358,919	(1,460,719)	
Off-balance sheet interest sensitivity gap	-	-	-	-	-	-	
Total interest sensitivity gap	704,568	215,210	246,004	(63,982)	358,919	(1,460,719)	
Cumulative interest rate sensitivity gap	704,568	919,778	1,165,782	1,101,800	1,460,719	-	

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

31. Financial instruments (cont'd.)

Interest rate risk (cont'd.)	Non-trading book ----->						Effective interest rate		
	Group (cont'd.)	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years		Non-interest sensitive	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
2007									
Liabilities and shareholders' funds (cont'd.)									
Other liabilities	486	21	1,161	11,137	10,978	279,711	303,494	1.87	
Other non-interest sensitive balances	-	-	-	-	-	365,933	365,933		
Total Liabilities	57,376	2,465	137,159	1,315,658	1,296,319	645,644	3,454,621		
Shareholders' equity	-	-	-	-	-	1,197,424	1,197,424		
Total Liabilities and Equity	57,376	2,465	137,159	1,315,658	1,296,319	1,843,068	4,652,045		
On-balance sheet interest sensitivity gap	512,212	390,093	639,143	332,305	(605,683)	(1,268,070)	-		
Off-balance sheet interest sensitivity gap	-	-	-	-	-	-	-		
Total interest sensitivity gap	512,212	390,093	639,143	332,305	(605,683)	(1,268,070)	-		
Cumulative interest rate sensitivity gap	512,212	902,305	1,541,448	1,873,753	1,268,070	546,724			

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

31. Financial instruments (cont'd.)

Interest rate risk (cont'd.)

Bank	----- Non-trading book ----->						Effective interest rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non-interest sensitive	
2008	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000 %
Assets							
Cash and short term funds	546,329	315,736	.	.	.	14,940	877,005 3.25
Deposits and placements with financial institutions	.	.	382,340	.	.	.	382,340 3.66
Securities portfolio	.	.	.	172,433	40,000	30,541	242,974 3.98
Loans, advances and financing	283,434	40,490	94,144	477,090	2,155,055	.	3,050,213 1.50-12.00
Other assets	.	.	10,855	.	.	77,485	88,340 3.25
Other non-interest sensitive balances	.	.	.	.	.	428,318	428,318 .
Total Assets	829,763	356,226	487,339	649,523	2,195,055	551,284	5,069,190
Liabilities and shareholders' funds							
Deposits from customers	76,112	139,202	179,432	.	.	.	394,746 3.41
Term loans	77,342	.	56,521	745,826	1,817,815	.	2,697,504 2.09
Other liabilities	1,249	1,814	5,974	10,495	3,083	397,285	419,900 3.41
Other non-interest sensitive balances	.	.	.	.	.	359,932	359,932 .
Total Liabilities	154,703	141,016	241,927	756,321	1,820,898	757,217	3,872,082

31. Financial instruments (cont'd.)

Interest rate risk (cont'd.)

Bank (cont'd)

	Non-trading book ----->						Effective interest rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non-interest sensitive	
2008	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
	-	-	-	-	-	1,197,108	1,197,108
Shareholders' equity							-
Total Liabilities and Equity	154,703	141,016	241,927	756,321	1,820,898	1,954,325	5,069,190
On-balance sheet interest sensitivity gap	675,060	215,210	245,412	(106,798)	374,157	(1,403,041)	-
Off-balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	675,060	215,210	245,412	(106,798)	374,157	(1,403,041)	-
Cumulative interest rate sensitivity gap	675,060	890,270	1,135,682	1,028,884	1,403,041	-	-

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

31. Financial instruments (cont'd.)

Interest rate risk (cont'd.)

Bank (cont'd)	Non-trading book ----->					Effective interest rate		
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years		Non-interest sensitive	Total
2007	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Assets								
Cash and short term funds	483,549	335,369	-	-	-	53,080	871,998	3.59
Deposits and placements with financial institutions	-	-	542,214	-	-	-	542,214	3.64
Securities portfolio	-	-	87,014	-	-	38,062	125,076	4.06
Loans, advances and financing	79,612	52,844	137,431	1,647,116	589,187	-	2,506,190	2.00 - 10.00
Other assets	6,427	4,345	9,643	847	101,449	105,938	228,649	3.63
Other non-interest sensitive balances	-	-	-	-	-	338,521	338,521	-
Total Assets	569,588	392,558	776,302	1,647,963	690,636	535,601	4,612,648	
Liabilities and shareholders' funds								
Deposits from customers	-	-	-	10,000	-	-	10,000	3.50
Term loans	56,890	2,444	135,998	1,294,521	1,285,341	-	2,775,194	1.86
Other liabilities	486	21	1,161	11,137	10,978	271,860	295,643	1.87
Other non-interest sensitive balances	-	-	-	-	-	365,933	365,933	-
Total Liabilities	57,376	2,465	137,159	1,315,658	1,296,319	637,793	3,446,770	

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

31. Financial instruments (cont'd.)

Interest rate risk (cont'd.)

Bank (cont'd)	Non-trading book ----->						Effective interest rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non-interest sensitive	
2007	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Shareholders' equity	-	-	-	-	-	1,165,878	1,165,878
Total Liabilities and Equity	57,376	2,465	137,159	1,315,658	1,296,319	1,803,671	4,612,648
On-balance sheet interest sensitivity gap	512,212	390,093	639,143	332,305	(605,683)	(1,268,070)	-
Off-balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	512,212	390,093	639,143	332,305	(605,683)	(1,268,070)	-
Cumulative interest rate sensitivity gap	512,212	902,305	1,541,448	1,873,753	1,268,070	-	-

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

32. Fair values

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

Loans, advances and financing to customers, where such market prices are not available, various methodologies have been used to estimate the approximate fair values of such instruments. These methodologies are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in the assumptions could significantly affect these estimates and the resulting fair value estimates. Therefore, for a significant portion of the Group's and the Bank's financial instruments, including loans, advances and financing to customers, their respective fair value estimates do not purport to represent, nor should they be construed to represent, the amounts that the Group and the Bank could realise in a sale transaction at the balance sheet date. The fair value information presented herein should also in no way be construed as representative of the underlying value of the Group and the Bank as a going concern.

The financial assets and financial liabilities of the Group and the Bank whose fair values are required to be disclosed in accordance with FRS132 comprise all its assets and liabilities with the exception of investments in subsidiaries, investments in associated companies, property, plant and equipment and provision for current and deferred taxation.

The estimated fair values of financial assets and financial liabilities as at the balance sheet date approximate their carrying amounts as shown in the balance sheets, except for the following financial assets and liabilities:

	2008		2007	
	Carrying value RM'000	Carrying fair value RM'000	Carrying value RM'000	Carrying fair value RM'000
Group and Bank				
Financial assets				
Loans, advances and financing	3,050,213	3,793,327	2,506,190	2,614,206
Financial liabilities				
Deposits from customers	394,746	394,746	10,000	10,000
Term loans	2,696,089	1,566,548	2,775,194	1,747,782

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

32. Fair values (cont'd.)

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

(a) Cash and short-term funds

The carrying amount approximates fair value due to the relatively short maturity of the financial instruments.

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

The fair values of those financial instruments with remaining maturities of less than one year approximate their carrying values due to their relatively short maturities. For those financial instruments with maturities of more than one year, the fair values are estimated based on discounted cash flows using applicable prevailing market rates of similar remaining maturities at the balance sheet date.

(c) Securities portfolio

Fair values of securities that are actively traded is determined by quoted market prices. For non-actively traded securities, independent broker quotations are obtained. Fair values of equity securities are estimated using a number of methods, including net tangible assets and discounted cash flow method.

(d) Loans, advances and financing

The fair values of variable and fixed rate loans with remaining maturity of less than one year are estimated to approximate their carrying values. For fixed rate loans, variable rate loans and Islamic financing with maturities of more than one year, the fair values are estimated based on expected future cash flows of contractual installment payments and discounted at prevailing rates at balance sheet date offered for similar loans to new borrowers with similar credit profiles, where applicable. For non-performing loans, the fair values are deemed to approximate the carrying values, net of interest in suspense and specific allowance for bad and doubtful debts and financing.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

32. Fair values (cont'd.)

(e) Deposits from customers, deposits and placements of banks and other financial institutions

The fair values of deposits payable on demand and deposits and placements with maturities of less than one year approximate their carrying values due to the relatively short maturity of these instruments. The fair values of fixed deposits and placements with remaining maturities of more than one year are estimated based on discounted cash flows using applicable rates currently offered for deposits and placements with similar remaining maturities. The fair value of Islamic deposits are estimated to approximate their carrying values as the profit rates are determined at the end of their holding periods based on the actual profits generated from the assets invested.

(f) Term loans

The fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at prevailing rates at balance sheet date obtained for similar loans with similar maturities, where applicable.

(g) Derivative financial instruments

Fair values of derivative instruments are normally zero or negligible at inception and the subsequent change in value is favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The fair values of the Group's and the Bank's derivative instruments are estimated by reference to brokers' quotations. Internal models are used where no market price is available.

33. Significant events during the year

On 25 January 2008, Bank Pembangunan had announced its decision to dispose of its entire holdings in SME Bank to its ultimate shareholder, the Minister of Finance Incorporated as part of its rationalisation exercise. The disposal of SME Bank was completed on 31 March 2008 and thereafter, Bank Pembangunan is no longer the holding company of the Bank and is disclosed as an affiliate company from the date.

As part of the rationalisation exercise between SME Bank and Bank Pembangunan, SME Bank has acquired Menara SME Bank and SME Branches ("collectively known as SME Bank Buildings"), and Bank Pembangunan in turn purchase Menara Bank Pembangunan from SME Bank. Disposal of Menara Bank Pembangunan resulting a gain on a disposal of a building amounting to RM 48,224,000 for the Group and the Bank.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

34. Islamic banking business

The state of affairs as at 31 December 2008 and results for the financial year then ended under the Islamic Banking business of the Bank and included in the Group and the Bank financial statements are summarised as follows:

Balance sheets as at 31 December

	Note	Group and Bank	
		2008 RM'000	2007 RM'000
Assets			
Cash and short-term funds	(a)	159,270	263,711
Deposits and placements with financial institutions		38,831	160,867
Advances and financing	(b)	1,043,383	830,739
Other assets	(c)	12,439	13,819
Prepaid land lease payment		33,756	31,342
Investment properties		-	25,516
Property and equipment		162,862	113,152
Total assets		1,450,541	1,439,146
Liabilities			
Other liabilities	(d)	22,886	75,392
Total liabilities		22,886	75,392
Long term advances		577,607	552,616
Government funds		346,627	301,556
Islamic general fund		503,421	509,582
Total liabilities and Islamic banking funds		1,450,541	1,439,146
Commitments and contingencies	(i)	1,130,092	900,119

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

34. Islamic banking business (cont'd.)

Income statements for the financial year ended 31 December

	Note	Group and Bank	
		2008 RM'000	2007 RM'000
Income from Islamic banking business	(e)	81,353	62,814
Overhead expenses	(f)	(62,376)	(41,369)
Net income		18,977	21,445
Allowance for losses on advances and financing	(g)	(17,448)	(12,282)
Profit before taxation and zakat		1,529	9,163
Taxation and zakat	(h)	(7,691)	-
(Loss)/profit after taxation and zakat		(6,161)	9,163
Accumulated losses brought forward		(40,982)	(50,145)
Accumulated losses carried forward		(47,143)	(40,982)

Statement of changes of Islamic General Funds for the financial year ended 31 December

	Capital	Accumulated	Total RM'000
	funds RM'000	losses RM'000	
Group and Bank			
At 1 January 2007	550,564	(50,145)	500,419
Net profit for the year	-	9,163	9,163
At 31 December 2007	550,564	(40,982)	509,582
At 1 January 2008	550,564	(40,982)	509,582
Net loss for the year	-	(6,161)	(6,161)
At 31 December 2008	550,564	(47,143)	503,421

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

34. Islamic banking business (cont'd.)

Cash flow statements for the financial year ended 31 December

	Group and Bank	
	2008 RM'000	2007 RM'000
Cash flows from operating activities		
Profit before taxation	1,529	9,163
Adjustments for:		
Allowance for doubtful debts	30,394	24,162
Write back of allowance for doubtful debts	(13,629)	-
Bad debts written off	683	2,515
Depreciation	5,780	4,092
Amortisation	-	742
Interest expenses	8,266	-
Finance cost	16,512	66
Operating profit before working capital changes	49,535	40,740
Changes in working capital:		
Other assets	1,291	54,985
Other liabilities	(59,723)	49,982
Deposits and placement with financial institutions	122,036	(19,705)
Advances and financing	(214,228)	(309,869)
Cash used in operations	(101,089)	(183,867)
Interest expenses	(8,266)	-
Finance cost paid	(16,512)	-
Net cash used in operating activities	(125,867)	(183,867)
Cash flow from investing activities		
Purchase of assets	(35,592)	(23,268)
Net cash used in investing activities	(35,592)	(23,268)

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

34. Islamic banking business (cont'd.)

Cash flow statements for the financial year ended 31 December (cont'd.)

	Group and Bank	
	2008 RM'000	2007 RM'000
Cash flows from financing activities		
Government funds utilised	22,501	(40,561)
Net proceeds from long-term advances	34,517	121,963
Net cash generated from financing activities	57,018	81,402
Proceed from government funds		
Net decrease in cash and cash equivalents	(104,441)	(125,733)
Cash and cash equivalents at beginning of year	263,711	389,444
Cash and cash equivalents at end of year	159,270	263,711

Cash and cash equivalents

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

	Group and Bank	
	2008 RM'000	2007 RM'000
Cash and short term funds	159,270	263,711

Notes to the financial statements for the financial year ended 31 December 2008

(a) Cash and short-term funds

	Group and Bank	
	2008 RM'000	2007 RM'000
Cash and bank balances with banks and financial institutions	1,745	20,757
Money at call and deposit placements maturing within three months	157,525	242,954
	159,270	263,711

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

34. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2008 (cont'd.)

(b) Advances and financing

	Group and Bank	
	2008 RM'000	2007 RM'000
Bai Bithaman Ajil	684,452	471,826
Ijarah	102,625	66,589
Murabahah	10,256	5,888
Bai' Dayn	45,570	50,651
Istisna	112,757	114,056
Ijarah Thumma Al-Bai	208,662	175,681
Murabahah Dayn	70,683	78,487
Mali	71,548	52,660
Maluk	8,134	1,202
Ijarah	34,464	23,187
Staff financing	36,876	24,263
Others	994	1,614
	1,387,021	1,066,104
Less: unearned income	(268,949)	(194,635)
	1,118,072	871,469
Less: allowance for losses on advances and financing		
- Specific	(44,672)	(21,371)
- General	(21,452)	(17,535)
- Income-in-suspense	(8,565)	(1,824)
Advances and financing	1,043,383	830,739

The maturity profile of the advances and financing are as follows:

	Group and Bank	
	2008 RM'000	2007 RM'000
Advances and receivables after 12 months	1,043,383	830,739

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

34. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2008 (cont'd.)

(c) Other assets

	Group and Bank	
	2008 RM'000	2007 RM'000
Interest receivable	1,514	6,742
Other receivables	10,925	7,077
	12,439	13,819

(d) Other liabilities

	Group and Bank	
	2008 RM'000	2007 RM'000
Other payables	20,167	72,359
Accrued interest payable	2,719	3,033
	22,886	75,392

(e) Income from Islamic banking business

	Group and Bank	
	2008 RM'000	2007 RM'000
Income from financing:		
- Al-Bai Bithaman Ajil	26,802	17,958
- Al-Ijarah	4,098	2,678
- Bai'Murabahah	507	120
- Bai'Dayn	2,185	1,540
- Bai'Istisna	4,738	4,460
- Ijarah Thummalbai'	9,949	8,278
- Murabahah Dayn	3,554	3,421
- Mali	2,896	1,783
- Maluk	159	38
- Ijarah	1,741	488
Mudharabah placements with	10,541	16,308
Other income	14,183	5,742
	81,353	62,814

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

34. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2008 (cont'd.)

(f) Overhead expenses

	Group and Bank	
	2008 RM'000	2007 RM'000
Staff costs	26,302	19,622
Administration expenses	27,947	21,681
General expenses	8,110	-
Finance cost	17	66
	62,376	41,369

The above has been determined after charging amongst other items the following:

	Bank	
	2008 RM'000	2007 RM'000
Depreciation	5,780	4,092
Amortisation	-	742
Finance cost	16	66

(g) Advances and financing loss and allowance

	Bank	
	2008 RM'000	2007 RM'000
Allowance for doubtful financing	30,394	24,162
Amount written off	683	2,515
Recoveries	(13,629)	(14,395)
	17,448	12,282

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008 (continued)

34. Islamic banking business (cont'd.)

Notes to the financial statements for the financial year ended 31 December 2008 (cont'd.)

(h) Taxation and zakat

	Group and Bank	
	2008 RM'000	2007 RM'000
Zakat	7,691	-

(i) Commitment and contingencies

Commitment and contingencies as at year-end constitute the following:

	Group and Bank	
	2008 RM'000	2007 RM'000
Commitment	861,425	704,129
Financial guarantee	268,667	195,990
	1,130,092	900,119

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