EON CAPITAL BERHAD

454644-K

REPORTS AND FINANCIAL STATEMENTS 2010

DELIVERING ON OUR COMMITMENT

CONTENTS

STATEMENT OF DIRECTORS' RESPONSIBILITY

For Preparing the Financial Statements

In the course of preparing the annual financial statements of the Group and of the Company, the Directors are collectively responsible in ensuring that these financial statements are drawn up in accordance with the requirements of the applicable approved accounting standards in Malaysia, Bank Negara Malaysia Guidelines, the provision of the Companies Act, 1965 and the Listing Requirement of Bursa Malaysia Securities Berhad.

It is the responsibility of the Directors to ensure that the financial reporting of the Group and of the Company present a true and fair view of the state of affairs of the Group and of the Company as at the end of the financial year and the results and cash flows for the financial year then ended.

The Directors have adopted and applied the appropriate and relevant accounting policies on a consistent basis and made judgements and estimates that are prudent and reasonable in preparing the financial statements of the Group and of the Company.

The financial statements are prepared on a going concern basis and the Directors have ensured that proper accounting records are kept so as to enable the preparation of the financial statements with reasonable accuracy.

The Directors have also taken the necessary steps to ensure that appropriate systems are in place to safeguard the assets of the Group and of the Company and to prevent and detect fraud and other irregularities. The systems, by their nature, can only provide reasonable and not absolute assurance against material misstatements, loss and fraud.

The Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is set out on page 5 of the Annual Report.

DIRECTORS' REPORT

The Directors have pleasure in submitting their report to the members together with the audited financial statements of the Group and the Company for the financial year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company is principally an investment holding company. The Group is involved in commercial banking, investment banking, Islamic Banking business, stockbroking business and nominee and custodian services. Islamic Banking business refers generally to the acceptance of deposits and granting of financing under the Shariah principles.

There have been no significant changes in the nature of the principal activities of the Group and the Company during the financial year.

FINANCIAL RESULTS

	Group RM'000	Company RM'000
Profit before taxation and zakat	589,607	97,112
Taxation	(149,485)	(26,505)
Zakat	(34)	-
Profit for the financial year	440,088	70,607

DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year.

The Directors do not recommend the payment of any dividends in respect of the financial year ended 31 December 2010.

RESERVES AND PROVISIONS

All material transfers to or from reserves or provisions during the financial year are disclosed in the financial statements and notes to the financial statements.

BAD AND DOUBTFUL DEBTS AND FINANCING

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

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

CURRENT ASSETS

Before the financial statements of the Group and the Company were made out, the Directors took reasonable steps to ascertain that any current assets, other than debts and financing, which were unlikely to realise, in the ordinary course of business, their values as shown in the accounting records of the Group and the Company, have been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Group and the Company misleading.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities in the Group's and the Company's financial statements misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

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

(a) any charge on the assets of the Group and the Company which has arisen since the end of the financial year which secures the liability of any other person; or

(b) any contingent liability in respect of the Group and the Company that has arisen since the end of the financial year other than in the ordinary course of banking business.

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

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Group and the Company, which would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Group and the Company for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature, except those disclosed in Note 46 and Note 48 to the financial statements.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Group and the Company for the financial year in which this report is made except those disclosed in Note 47 to the financial statements.

DIRECTORS

The Directors who have held office during the period since the date of the last report are as follows:

Wee Hoe Soon @ Gooi Hoe Soon	Independent Non-Executive Director/Chairman
Y.M. Tengku Azman ibni Almarhum Sultan Abu Bakar	Independent Non-Executive Director
Y.M. Tengku Dato' Ahmad Faisal bin Tengku Ibrahim	Independent Non-Executive Director
Dato' Sri Dr. Tiong Ik King	Non-Independent Non-Executive Director
Datuk Haron bin Siraj	Independent Non-Executive Director
Dr. Zaha Rina binti Zahari	Independent Non-Executive Director
Ahmad Riza bin Nasir	Independent Non-Executive Director
Nicholas John Lough @ Sharif Lough bin Abdullah	Independent Non-Executive Director
Rin Kei Mei	Non-Independent Non-Executive Director
Ng Wing Fai	Non-Independent Non-Executive Director (vacated office on 28 September 2010)

In accordance with Article 97 of the Company's Article of Association, Wee Hoe Soon @ Gooi Hoe Soon, Y.M. Tengku Azman ibni Almarhum Sultan Abu Bakar and Dato' Sri Dr. Tiong Ik King retire from the Board at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Section 129 of the Companies Act, 1965, Rin Kei Mei, who is over seventy years of age, shall retire at the forthcoming Annual General Meeting and, being eligible, offers himself for re-appointment in accordance with Section 129(6) of the Act to hold office until the next Annual General Meeting of the Company.

DIRECTORS' INTEREST IN SHARES

According to the register of Directors' shareholdings, the Directors who held office at the end of the financial year and have interest in shares, share options and debentures of the Company and its related corporations during the financial year are as follows:

	Number of ordinary shares of RM1.00 each			
	Balance at 1.1.2010	**Acquired**	**Disposed**	**Balance at 31.12.2010**
The company				
Direct interest				
Wee Hoe Soon @ Gooi Hoe Soon	-	1,000	-	1,000
Rin Kei Mei	389,550	-	-	389,550
Dato' Sri Dr. Tiong Ik King	43	-	-	43
Deemed interest				
Rin Kei Mei	106,754,411	-	-	106,754,411
Dato' Sri Dr. Tiong Ik King	118,640,080	-	-	118,640,080

By virtue of their interests in shares in the Company, Rin Kei Mei and Dato' Sri Dr. Tiong Ik King are also deemed to have a substantial interest in the shares of the subsidiaries of the Company to the extent the Company has an interest.

Other than the above, none of the other Directors in office at the end of the financial year held any interest in shares, share options and debentures of the Company and its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than Directors' remuneration and benefits-in-kind as disclosed in Note 37 to the financial statements) by reason of a contract made by the Company 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, except that certain Directors received remuneration as Directors of related corporations.

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements made with the object or objects of enabling the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

PERFORMANCE REVIEW FOR 2010

For the financial year ended 31 December 2010, the Group recorded a profit before taxation and zakat of RM589.6 million, 39.7% higher as compared with RM421.9 million for the previous financial year. The factors contributing to the improvement in financial performance are as follows:

- Higher net interest income by RM141.9 million or 15.5%. Interest income was higher by RM226.1 million or 12.8% in tandem with the 14.4% increase in net loans outstanding and the impact from the 0.75% rise in the Base Lending Rate during the year, following the revisions of the Overnight Policy Rate ("OPR") in March, May and July 2010. This expansion in the interest income was partially offset by the RM84.1 million or 10.0% rise in interest expense, as customer deposits expanded by 22.2%, coupled with the full year impact of interest expense from the issuance of RM750 million of capital securities in the later part of FY2009.

- Non-interest income had increased by RM90.5 million or 30.6% arising mainly from transactional banking services, advisory and arrangement fees as well as the treasury trading activities.

- Impairment losses on loans, advances and financing increased by RM51.6 million. The increase was attributed to the additional collective assessment impairment allowance required on loans portfolio of RM67.5 million (i.e. RM35.1 million derived based on BNM's minimum requirement of 1.5% and additional amount of RM36.0 million in excess of the minimum requirement) arising from the expansion in gross loans by 14.4% in FY2010, compared with a 7.3% in the previous year. There was also an increase in net impairment allowances for individually assessed as well as specific loan accounts by RM54.5 million. However, recoveries from impaired loans previously written-off were higher by RM70.0 million. The individual assessment impairment allowance in FY2010 is derived based on FRS139, whereby pre-emptive allowances are taken upfront in respect of loans that show signs of impairment, as compared to the time based specific allowances made under the previous BNM/GP3 guidelines. The impaired loan loss coverage has improved from 81.9% as at 1 January 2010 (after incorporating the effects of adopting FRS 139) to 89.6% as at 31 December 2010. The overall gross impaired loans ratio has also declined from 4.3% as at 1 January 2010 to 3.6% as at 31 December 2010, reflecting the ongoing efforts of the Group to further improve its asset quality.

- The increase in impairment losses on securities was in relation to the partial default of the senior and super senior bonds issued by CapOne Berhad under a Collateralised Loan Obligation ("CLO") structure in 2005, upon its maturity on 20 September 2010.

- The overall cost to income ratio registered significant improvement to 49.3%, declining from 57.2% a year earlier, due to the implementation of various strategic cost management initiatives and the deferral of certain investments to upgrade the technology infrastructure and branding in view of the ongoing corporate developments of the Company.

For the financial year ended 31 December 2010, the Group's effective tax rate had normalised at approximately 25% (tax charge of RM149.5 million), whilst in FY2009, the tax charge was RM80.8 million, translating to a tax rate of 19% due to one-off non-recurring prior years' tax adjustments. The Group reported a net profit after tax of RM440.1 million for FY2010, or an increase of 29.0%, as compared with a net profit after tax of RM341.1 million in FY2009.

OUTLOOK FOR THE COMING FINANCIAL YEAR 2011

In line with the improving global economy and the implementation of the Government's Economic Transformation Programme, the Group is expected to leverage on the infrastructure that has been built over the last two years, to further expand its banking operations. The Group is confident that it will be able to achieve its loans growth targets driven mainly by ongoing expansion by the SME and the rising consumer spending on housing, car financing and other consumer durables. The Islamic banking business is also expected to register strong growth with the introduction of relevant and innovative Shariah-compliant products. However, interest margins will compress further in FY2011 as Bank Negara Malaysia is expected to tighten monetary policy and to raise the overnight policy rate to address inflationary concerns.

Non-interest income is expected to register stronger growth from transactional banking, treasury trading and investment banking and brokerage services. The Group would also continue to implement various initiatives to further enhance the efficiency of its process and productivity as well as to improve the overall asset quality of its lending portfolio.

In conclusion, the Group is confident that it will be able to sustain a satisfactory financial performance in FY2011.

RATING BY EXTERNAL RATING AGENCIES

EON Capital Berhad is not rated by any external agency. However, its subsidiary, EON Bank Berhad, is rated by external rating agencies. The ratings given to EON Bank Berhad take into account the financials and operations of the Group as a whole. The details of the ratings are as follows:

(a)	Moody's Investors Service Limited	23 August 2010	Long term deposits	Baa2 Note 1
			Short term deposits	P-3 Note 2
			Financial strength rating	D Note 3
			Outlook	Stable
(b)	RAM Rating Services	25 June 2010	Long term	A1 Note 4
			Short term	P1 Note 5

Notes:

1. Banks rated Baa for deposits offer adequate credit quality. However, certain protective elements may be lacking or may be characteristically unreliable over any great length of time. The modifier 2 indicates a mid-range ranking of its letter-rating category.
2. Banks rated P-3 for deposits offer acceptable credit quality and an adequate capacity for timely payment of short-term deposit obligations.
3. Banks rated D display modest intrinsic financial strength, potentially requiring some outside support at times. Such institutions may be limited by one or more of the following factors: a weak business franchise; financial fundamentals that are deficient in one or more respects; or an unpredictable and unstable operating environment.
4. Banks rated A1 offer adequate safety for timely payment of interest and principal. However, they are more susceptible to changes in circumstances and economic conditions than debts in higher-rated categories. The subscript 1 indicates that the issue ranks at the higher end of its generic rating category.
5. Financial institutions in this category have superior capacities for timely repayment of obligations.

AUDITORS

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

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

WEE HOE SOON @ GOOI HOE SOON
CHAIRMAN

NICHOLAS JOHN LOUGH @
SHARIF LOUGH BIN ABDULLAH
DIRECTOR

Kuala Lumpur
1 April 2011

STATEMENT BY DIRECTORS

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

We, Wee Hoe Soon @ Gooi Hoe Soon and Nicholas John Lough @ Sharif Lough bin Abdullah, being two of the Directors of EON Capital Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 6 to 50 are drawn up so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2010 and of the results and cash flows of the Group and the Company for the financial year ended on that date in accordance with the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965.

The information set out in Note 51 to the financial statements have been compiled in accordance with the Guidance of Special Matter No. 1, *Determination of Realised and Unrealised Profit or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysia Institute of Accountants.

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

WEE HOE SOON @ GOOI HOE SOON
CHAIRMAN

NICHOLAS JOHN LOUGH @ SHARIF LOUGH BIN ABDULLAH
DIRECTOR

Kuala Lumpur
1 April 2011

STATUTORY DECLARATION

Pursuant to Section 169(16) of the Companies Act, 1965

I, Amarjeet Kaur A/P Ranjit Singh, the Officer primarily responsible for the financial management of EON Capital Berhad, do solemnly and sincerely declare that the financial statements set out on pages 6 to 50 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

AMARJEET KAUR A/P RANJIT SINGH

Subscribed and solemnly declared by the abovenamed Amarjeet Kaur A/P Ranjit Singh at Kuala Lumpur on 1 April 2011, before me.

COMMISSIONER FOR OATHS

INDEPENDENT AUDITORS' REPORT

to the Members of EON CAPITAL BERHAD (Incorporated in Malaysia) (Company No. 454644-K)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of EON Capital Berhad on pages 6 to 50, which comprise the statements of financial position as at 31 December 2010 of the Group and the Company, and the statements of income, comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on Notes 1 to 50.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements have been properly drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2010 and of their financial performance and cash flows for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

(b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

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

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 51 on page 50 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

SRIDHARAN NAIR
(No. 2656/05/12 (J))
Chartered Accountant

Kuala Lumpur
1 April 2011

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2010

		Group	
	Note	2010 RM'000	2009 RM'000
ASSETS			
Cash and short-term funds	4	9,825,426	8,279,675
Deposits and placements with banks and other financial institutions	5	1,189,094	550,968
Held-for-trading securities	6	380,926	55,744
Derivative financial instruments	7	28,473	12,905
Available-for-sale securities	8	3,458,714	3,773,126
Held-to-maturity securities	9	152,841	211,179
Loans, advances and financing	10	36,650,026	32,048,326
Other assets	11	448,778	656,243
Statutory deposits with Bank Negara Malaysia	12	359,893	270,091
Deferred tax assets	14	163,872	129,684
Property, plant and equipment	15	318,986	313,295
Goodwill	16	86,610	86,610
TOTAL ASSETS		53,063,639	46,387,846
LIABILITIES AND SHAREHOLDERS' FUNDS			
Deposits from customers	17	41,386,506	33,865,921
Deposits and placements of banks and other financial institutions	18	4,110,031	4,948,004
Derivative financial instruments	7	36,154	58,712
Bills and acceptances payable		841,040	1,675,163
Provision for taxation and zakat	19	84,400	32,795
Other liabilities	20	932,464	1,069,858
Subordinated medium term notes	21	1,147,517	631,630
Hybrid capital	22	502,058	487,223
Borrowings	23	65,321	65,000
TOTAL LIABILITIES		49,105,491	42,834,306
Share capital	24	693,209	693,209
Reserves	25	3,264,939	2,860,331
SHAREHOLDERS' FUNDS		3,958,148	3,553,540
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		53,063,639	46,387,846
COMMITMENTS AND CONTINGENCIES	42(C)	25,619,983	21,541,403
Net assets per ordinary share (RM)		5.71	5.13

		Company		
	Note	31 December 2010 RM'000	31 December 2009 RM'000	1 January 2009 RM'000
ASSETS				
Cash and short-term funds	4	75,461	4,143	53
Deposits and placements with banks and other financial institutions	5	6,028	7,085	99,117
Other assets	11	4,968	4,484	7,250
Investment in subsidiaries	13	1,808,353	1,808,353	1,808,353
TOTAL ASSETS		1,894,810	1,824,065	1,914,773
LIABILITIES AND SHAREHOLDERS' FUNDS				
Other liabilities	20	1,067	1,250	1,520
Borrowings	23	65,321	65,000	148,894
TOTAL LIABILITIES		66,388	66,250	150,414
Share capital	24	693,209	693,209	693,209
Reserves	25	1,135,213	1,064,606	1,071,150
SHAREHOLDERS' FUNDS		1,828,422	1,757,815	1,764,359
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		1,894,810	1,824,065	1,914,773

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

STATEMENTS OF INCOME
For the Financial Year ended 31 December 2010

	Note	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Interest income	26	1,989,427	1,763,362	922	2,358
Interest expense	27	(929,213)	(845,068)	(2,353)	(11,999)
Net interest income/(expense)		1,060,214	918,294	(1,431)	(9,641)
Net income from Islamic Banking business	28	240,759	221,234	-	-
		1,300,973	1,139,528	(1,431)	(9,641)
Non-interest income	29	386,142	295,597	107,980	56,680
Net income		1,687,115	1,435,125	106,549	47,039
Other operating expenses	30	(831,669)	(820,527)	(9,437)	(1,687)
Operating profit		855,446	614,598	97,112	45,352
Impairment losses on loans, advances and financing	31	(232,433)	(180,815)	-	-
Impairment losses on securities	32	(32,731)	(11,853)	-	-
Loss on deconsolidation of subsidiaries	33	(675)	-	-	-
Profit before taxation and zakat		589,607	421,930	97,112	45,352
Taxation	34	(149,485)	(80,794)	(26,505)	(11,898)
Zakat		(34)	(32)	-	-
Profit for the financial year		440,088	341,104	70,607	33,454

	Note	Group 2010	Group 2009
Earnings per share (sen)			
- Basic	35	63.49	49.21
- Diluted	35	63.49	49.21

STATEMENTS OF COMPREHENSIVE INCOME
For the Financial Year ended 31 December 2010

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Profit for the financial year	440,088	341,104	70,607	33,454
Other comprehensive (loss)/income:				
Changes in fair value of available-for-sale securities	(389)	63,792	-	-
Taxation relating to components of other comprehensive (loss)/income	97	(15,947)	-	-
Other comprehensive (loss)/income for the financial year, net of tax	(292)	47,845	-	-
Total comprehensive income for the financial year	439,796	388,949	70,607	33,454

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

STATEMENTS OF CHANGES IN EQUITY

For the Financial Year ended 31 December 2010

Group	Note	Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Available-for-sale securities reserve RM'000	Retained profits RM'000	Total RM'000
Balance as at 1 January 2010							
- As previously reported		693,209	1,066,296	754,339	22,535	1,017,161	3,553,540
- Effects of adopting FRS 139	48	-	-	-	-	(35,188)	(35,188)
- As restated		693,209	1,066,296	754,339	22,535	981,973	3,518,352
Profit for the financial year		-	-	-	-	440,088	440,088
Other comprehensive loss		-	-	-	(292)	-	(292)
Total comprehensive income for the financial year		-	-	-	(292)	440,088	439,796
Transfer to statutory reserve		-	-	133,869	-	(133,869)	-
Balance as at 31 December 2010		693,209	1,066,296	888,208	22,243	1,288,192	3,958,148
Balance as at 1 January 2009		693,209	1,066,296	657,198	(25,310)	813,196	3,204,589
Profit for the financial year		-	-	-	-	341,104	341,104
Other comprehensive income		-	-	-	47,845	-	47,845
Total comprehensive income for the financial year		-	-	-	47,845	341,104	388,949
Transfer to statutory reserve		-	-	97,141	-	(97,141)	-
Dividends in respect of financial year ended 31 December 2008	36	-	-	-	-	(39,998)	(39,998)
Balance as at 31 December 2009		693,209	1,066,296	754,339	22,535	1,017,161	3,553,540

Company	Note	Share capital RM'000	Share premium RM'000	Retained profits RM'000	Total RM'000
Balance as at 1 January 2010					
- As previously reported		693,209	1,066,296	79,295	1,838,800
- Prior year adjustments	48	-	-	(80,985)	(80,985)
- As restated		693,209	1,066,296	(1,690)	1,757,815
Profit for the financial year		-	-	70,607	70,607
Other comprehensive income		-	-	-	-
Total comprehensive income for the financial year		-	-	70,607	70,607
Balance as at 31 December 2010		693,209	1,066,296	68,917	1,828,422
Balance as at 1 January 2009					
- As previously reported		693,209	1,066,296	47,364	1,806,869
- Prior year adjustments	48	-	-	(42,510)	(42,510)
- As restated		693,209	1,066,296	4,854	1,764,359
Profit for the financial year		-	-	33,454	33,454
Other comprehensive income		-	-	-	-
Total comprehensive income for the financial year		-	-	33,454	33,454
Dividends in respect of financial year ended 31 December 2008	36	-	-	(39,998)	(39,998)
Balance as at 31 December 2009		693,209	1,066,296	(1,690)	1,757,815

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

STATEMENTS OF CASH FLOWS

For the Financial Year ended 31 December 2010

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit for the financial year	440,088	341,104	70,607	33,454
Adjustments for:				
Property, plant and equipment:				
Depreciation	49,996	43,735	-	-
Net losses/(gains) on disposal	166	(431)	-	-
Written-off	628	671	-	-
Net gains on redemption of held-to-maturity securities	(7,432)	(2,257)	-	-
Net gains from sale of available-for-sale securities	(23,314)	(3,074)	-	-
Net gains from sale of held for trading securities	(3,302)	(455)	-	-
Net unrealised (gains)/losses on fair value changes on held for trading securities	(426)	126	-	-
Impairment losses on loans, advances and financing	422,128	300,106	-	-
Net allowances recovered in respect of other bad and doubtful debts	(311)	(468)	-	-
Impairment losses on securities	32,731	11,853	-	-
Provision for retirement benefit	51	89	-	-
Accretion of discount less amortisation of premium on securities	(7,629)	(9,446)	-	-
Accretion of discounts on subordinated obligations	7,835	5,816	-	-
Interest income from available-for-sale, held-to-maturity and held for trading securities	(100,978)	(130,754)	-	-
Interest expense on subordinated obligations	86,759	35,814	-	-
Interest expense on interest rate related derivatives	37,091	25,235	-	-
Net unrealised (gains)/losses on fair value changes between hedged items and interest rate swaps designated as fair value hedges	(5,227)	523	-	-
Reversal of net unrealised losses on fair value changes of hedged available-for-sale securities upon their maturity	2,613	3,536	-	-
Net unrealised (gains)/losses on fair value changes of derivatives held at fair value through profit or loss	(13,340)	4,618	-	-
Net gains on foreign exchange translation	(32,941)	(30,397)	-	-
Interest income on deposits and placements	-	-	(922)	(2,358)
Interest expense on borrowings	2,353	11,999	2,353	11,999
Dividend income	(2,599)	(5,581)	-	-
Dividend income from subsidiary	-	-	(107,980)	(56,680)
Loss on deconsolidation of subsidiaries	675	-	-	-
Taxation	149,485	80,794	26,505	11,898
Zakat	34	32	-	-
Operating profit/(loss) before working capital changes	1,035,134	683,188	(9,437)	(1,687)

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES (CONTINUED)				
(Increase)/decrease in operating assets				
Deposits and placements with banks and other financial institutions	(635,503)	(205,734)	-	-
Held for trading securities	(309,150)	(27,484)	-	-
Loans, advances and financing	(4,991,406)	(2,723,318)	-	-
Statutory deposits with Bank Negara Malaysia	(89,802)	670,861	-	-
Other assets	140,967	120,543	36	(5)
	(5,884,894)	(2,165,132)	36	(5)
Increase/(decrease) in operating liabilities				
Deposits from customers	7,338,347	1,881,113	-	-
Deposits and placements of banks and other financial institutions	(851,768)	262,775	-	-
Bills and acceptances payable	(834,123)	(142,277)	-	-
Other liabilities	51,403	249,569	30	44
	5,703,859	2,251,180	30	44
Cash generated from/(used in) operations	854,099	769,236	(9,371)	(1,648)
Income tax (paid)/refund	(122,368)	(61,273)	-	3,214
Income tax refunded	7,525	-	-	-
Zakat paid	(63)	(6)	-	-
Net cash generated from/(used in) operating activities	739,193	707,957	(9,371)	1,566
CASH FLOWS FROM INVESTING ACTIVITIES				
Net proceeds from disposal/ maturity of/ (purchase of) available-for-sale securities	350,361	(511,667)	-	-
Purchase of property, plant and equipment	(58,129)	(69,901)	-	-
Proceeds from disposal of property, plant and equipment	1,648	992	-	-
Deposits and placements with financial institutions	-	-	1,057	92,032
Interest received from deposits and placements	-	-	892	4,187
Interest/dividend received from available-for-sale and held-to-maturity securities	127,784	109,201	-	-
Net dividends received	2,578	4,770	-	-
Net dividends received from a subsidiary	-	-	80,985	42,510
Net cash generated from/(used in) investing activities	424,242	(466,605)	82,934	138,729

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

STATEMENTS OF CASH FLOWS (continued)

For the Financial Year ended 31 December 2010

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES				
Net proceeds from issuance of subordinated medium term notes	497,260	627,782	-	-
Redemption of subordinated obligations	-	(744,073)	-	-
Redemption of long term borrowings	-	(150,000)	-	(150,000)
Proceeds from short term borrowing, net of repayment	-	65,000	-	65,000
Net proceeds from issuance of Innovative Tier I Capital Securities	-	488,161	-	-
Interest paid on subordinated obligations	-	(18,947)	-	-
Interest paid on subordinated medium term notes	(37,950)	(11,691)	-	-
Interest paid on Innovative Tier-1 Capital Securities	(41,589)	-	-	-
Interest paid on borrowings	(2,245)	(11,207)	(2,245)	(11,207)
Net interest paid for interest rate related derivatives	(33,160)	(15,885)	-	-
Net dividends paid	-	(39,998)	-	(39,998)
Net cash generated from/(used in) financing activities	382,316	189,142	(2,245)	(136,205)
Net increase in cash and cash equivalents	1,545,751	430,494	71,318	4,090
Cash and cash equivalents:				
- as at beginning of the financial year	8,279,675	7,849,181	4,143	53
- as at end of the financial year (Note 4)	9,825,426	8,279,675	75,461	4,143

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

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 December 2010

1. GENERAL INFORMATION

The Company's principal activity is that of an investment holding company.

The Group is involved in banking and related financial services. The principal activities of the subsidiaries are stated in Note 13 to the financial statements. Islamic Banking business undertaken by the Islamic Banking subsidiary refers to the acceptance of deposits and granting of financing under the Shariah principles. There have been no significant changes in the nature of the principal activities of the Group and the Company during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Board of Bursa Malaysia.

The address of the registered office and the principal place of business of the Company is:

12th Floor, Menara EON Bank
288, Jalan Raja Laut
50350 Kuala Lumpur
Malaysia

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements of the Group and the Company have been prepared in accordance with Financial Reporting Standards ("FRS"), the Malaysian Accounting Standards Board ("MASB") Approved Accounting Standards in Malaysia for Entities Other than Private Entities together with the directives and guidelines issued by Bank Negara Malaysia ("BNM") and comply with the provisions of the Companies' Act, 1965 and Shariah requirements.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with the provisions of the Companies Act 1965, FRS, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and BNM's guidelines requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. It also requires Directors to exercise their judgement in the process of applying the Group's and the Company's accounting policies. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ from those estimates.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3 (critical accounting estimates and assumptions).

(i) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Company and are effective.

The new accounting standards, amendments and improvements to published standards and interpretations that are applicable and effective for the Group and the Company for the financial year ended 31 December 2010 are as follows:

- FRS 7 "Financial Instruments: Disclosures" and the related amendments
- FRS 8 "Operating Segments"
- FRS 123 "Borrowing Costs"
- FRS 139 "Financial Instruments: Recognition and Measurement" and the related amendments
- FRS 3 (revised) "Business Combinations"
- FRS 101 (revised) "Presentation of Financial Statements"
- FRS 101 (revised) "Presentation of Financial Statements - Puttable financial instruments and obligations arising on liquidation"

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(i) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Company and are effective. (continued)

- FRS 127 (revised) "Consolidated and Separate Financial Statements"
- Amendment to FRS 1 "First-time Adoption of Financial Reporting Standards"
- Amendments to FRS 132 "Financial Instruments: Presentation"
- IC Interpretation 9 "Reassessment of Embedded Derivative" and the related amendments
- IC Interpretation 10 "Interim Financial Reporting and Impairment"
- IC Interpretation 13 "Customer Loyalty Programmes"
- IC Interpretation 14 "FRS 119 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction"

Improvement to existing MASB's standards that are applicable and effective for the Group and the Company for the financial year ended 31 December 2010 are as follows:

- FRS 5 "Non-current Assets Held for Sale and Discontinued Operations"
- FRS 107 "Statement of Cash Flows"
- FRS 110 "Events after the Balance Sheet Date"
- FRS 116 "Property, Plant and Equipment"
- FRS 117 "Leases"
- FRS 118 "Revenue"
- FRS 127 "Consolidated and Separate Financial Statements"
- FRS 134 "Interim Financial Reporting"
- FRS 136 "Impairment of Assets"

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Company but not yet effective.

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

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

- Amendments to FRS 7 "Financial instruments: Disclosures" and FRS 1 "First-time adoption of financial reporting standards" (effective from 1 January 2011) requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.

  The Group and the Company have applied the transitional provision which exempts entities from disclosing the possible impact arising from the initial application of this amendment on the financial statements of the Group and the Company.

- IC Interpretation 4 "Determining whether an arrangement contains a lease" (effective from 1 January 2011) requires the Group to identify any arrangement that does not take the legal form of a lease, but conveys a right to use an asset in return for a payment or series of payments. This interpretation provides guidance for determining whether such arrangements are, or contain, leases. The assessment is based on the substance of the arrangement and requires assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset. If the arrangement contains a lease, the requirements of FRS 117 "Leases" should be applied to the lease element of the arrangement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Company but not yet effective. (continued)

- IC Interpretation 18 "Transfers of assets from customers" (effective prospectively for assets received on or after 1 January 2011) provides guidance where an entity receives from a customer an item of property, plant and equipment (or cash to acquire such an asset) that the entity must then use to connect the customer to a network or to provide the customer with services. Where the transferred item meets the definition of an asset, the asset is recognised as an item of property, plant and equipment at its fair value. Revenue is recognised for each separate service performed in accordance with the recognition criteria of FRS 118 "Revenue".

- IC Interpretation 19 "Extinguishing financial liabilities with equity instruments" (effective from 1 July 2011) provides clarification when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. A gain or loss, being the difference between the carrying value of the financial liability and the fair value of the equity instruments issued, shall be recognised in profit or loss. Entities are no longer permitted to reclassify the carrying value of the existing financial liability into equity with no gain or loss recognised in profit or loss.

Improvement to existing MASB's standards (effective for accounting period beginning on or after 1 January 2010) are as follows:

- FRS 3 (effective from 1 January 2011)
  - Clarifies that the choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by FRS.

  - Clarifies that the amendments to FRS 7, FRS 132 and FRS 139 that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of FRS 3 (2010). Those contingent consideration arrangements are to be accounted for in accordance with the guidance in FRS 3 (2005).

(b) Basis of consolidation of the financial statements

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to the end of the financial year.

Subsidiaries are consolidated using the aquisition method of accounting except for certain business combinations which were accounted for using the merger method for business combinations involving entities or businesses under common control with agreement dates on/after 1 January 2006.

The Group has taken advantage of the exemption provided by FRS 127_{2004} and FRS 3 to apply these Standards prospectively. Accordingly, business combinations entered into prior to the respective effective dates have not been restated to comply with these Standards.

Under the aquisition method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. The cost of an acquisition is measured as fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of consolidation of the financial statement (continued)

Identifiable assets and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired at the date of acquisition is recognised as goodwill. Refer to accounting policy Note 2(c) on goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Under the merger method of accounting, the results of the businesses merged are presented as if the merger had been affected throughout the current and prior years. The assets and liabilities combined are accounted for based on the carrying amounts from the perspective of the common control shareholder at the date of transfer.

All material inter-company and intra-group transactions and balances are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

The gain or loss on disposal of a subsidiary which is the difference between net disposal proceeds and the Group's share of its net assets together with the goodwill on acquisition, is recognised in the consolidated income statement.

(c) Goodwill

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

Goodwill is carried at cost less accumulated impairment losses and tested at least annually for impairment. Impairment losses on goodwill are not reversed. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the subsidiary sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination from which the goodwill arose. Refer to accounting policy Note 2(t) on impairment of non-financial assets.

(d) Securities portfolio

The Group classifies the securities portfolio into the following categories: held for trading, available-for-sale and held-to-maturity securities. Management determines the classifications of the securities up-front at the point when transactions are entered into.

(i) Held-for-trading securities

Held-for-trading ('HFT') securities are securities that are acquired and held principally for the purpose of selling in the short term to generate a profit from short-term fluctuations in price or from dealer's margin, and are subsequently carried at fair value, with unrealised gains and losses arising from changes in fair value recognised directly in the income statement.

The amortisation of premium and accretion of discount on HFT securities is recognised as interest income using the effective interest method.

The realised gains or losses on derecognition of HFT securities, which are derived based on the difference between the proceeds received and the carrying value of the securities, are credited or charged to the income statement.

(ii) Held-to-maturity securities

Held-to-maturity ('HTM') securities are securities with fixed or determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity, and are subsequently carried at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Securities portfolio (continued)

(ii) Held-to-maturity securities (continued)

The amortisation of premium and accretion of discount on HTM securities is recognised as interest income using the effective interest method.

The realised gains or losses on derecognition of HTM securities, which are derived based on the difference between the proceeds received and the carrying value of the securities, are credited or charged to the income statement.

If the Group sold or reclassified more than an insignificant amount of the HTM securities portfolio before maturity (other than under those conditions prescribed in FRS 139) during the current financial year or the last two preceding financial years, the entire category would be tainted and reclassified as available-for-sale securities at fair value. The difference between the carrying value and fair value at the date of reclassification is recognised directly in equity.

(iii) Available-for-sale securities

Available-for-sale ('AFS') securities are securities not classified as held for trading or held-to-maturity and are subsequently carried at fair value, with unrealised gains and losses arising from changes in fair value recognised in equity, net of income tax, until such securities are sold or otherwise disposed of, or until such securities are determined to be impaired.

Investments in equity instruments that do not have a quoted market price in an active market and for which fair value cannot be reliably measured are carried at cost, less impairment losses.

The amortisation of premium and accretion of discount on AFS securities is recognised as interest income using the effective interest method.

Securities are initially recognised at fair value plus transaction costs for all securities not categorised as held for trading. Securities are derecognised when the rights to receive cash flows from the securities have expired or where the Group has transferred substantially all risks and rewards of ownership.

All regular way purchases and sales of financial assets are recognised or derecognised on the settlement date i.e. the date that an asset is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place concerned.

Change in accounting policy

Prior to the adoption of FRS 139 on 1 January 2010, the accounting policies of the Group incorporated requirements of BNM's Revised Guidelines on Financial Reporting for Licensed Institutions (Revised BNM/GP8 issued on 5 October 2004) which includes selected principles (i.e. recognition, derecognition and measurement of financial instruments, including derivative financial instruments, and hedge accounting) of FRS 139.

Upon adoption of FRS 139, interest receivables previously classified under other assets are now reclassified into the respective category of financial assets.

(e) Derivative financial instruments and hedge accounting

Derivative financial instruments transacted by the Group during the financial year are forward foreign exchange contracts and interest rate swaps ("IRS"). Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair values are positive and as liabilities when fair values are negative.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Derivative financial instruments and hedge accounting (continued)

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments (fair value hedge); or, (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge), or (3) hedges of a net investment in a foreign operation (net investment hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

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

(i) Fair value hedge

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

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item, for which the effective interest method is used, is amortised to income statement over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

(ii) Cash flow hedge

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

Amounts accumulated in equity are released to the income statement in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place). When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

(iv) Derivatives that do not qualify for hedge accounting

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

(f) Loans, advances and financing

Loans, advances and financing, which include overdrafts, term loans, hire purchase financing, acceptances credit and staff loans are recognised when cash is advanced to borrowers. They are initially recorded at fair value, which is the cash given to originate the loans, advances and financing including the transaction costs, and subsequently carried at amortised cost using effective interest method. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loans, advances and financing.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Trade and other receivables

Trade receivables arising from share and stockbroking business are carried at cost net of allowances for bad and doubtful debts. The allowances for bad and doubtful debts are made in conformity with the minimum requirements of allowances for bad and doubtful debts specified in Rule 1104.1 of Schedule 7 (Chapter 11) of the Rules of Bursa Malaysia Securities Berhad.

Other receivables are carried at cost net of allowances for bad and doubtful debts. An estimate is made for doubtful debts based on a review of all outstanding amounts at the financial year end. Bad debts are written off during the financial year in which they are identified.

(h) Investment in subsidiaries

A subsidiary is a company in which the Company has power to exercise control over the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of voting rights.

Investments in subsidiaries are stated at cost and written down when, in the opinion of the Directors, there is an indication of impairment in the value of such investments. When an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. Refer to accounting policy Note 2(t) on impairment of non-financial assets.

(i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. 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 Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance are recognised as expense in profit or loss during the financial period in which they are incurred.

Freehold land is not depreciated as it has an infinite life. Other property, plant and equipment are depreciated over their estimated useful lives on a straight line basis at the following annual rates:

Leasehold land	1%
Buildings on freehold and leasehold land	2%
Office renovations	10% - 33 1/3%
Furniture, fittings and equipment	10% - 20%
Computer equipment and software	20%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date.

At each balance sheet date, the Group assesses whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the asset is written down to its recoverable amount. Refer to accounting policy Note 2(t) on impairment of non-financial assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the income statement.

(j) Financial liabilities

The Group's holding in financial liabilities is in financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that are designated at fair value) and financial liabilities at amortised cost. Financial liabilities are initially recognised at fair value plus transaction costs for all financial liabilities not carried at fair value through profit or loss. Financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs are recognised as expense in profit or loss. Financial liabilities are derecognised when extinguished.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial liabilities (continued)

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are derivative financial instrument.

(ii) Other liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from customers, deposits and placements of banks and other financial institutions, bills and acceptances payable, subordinated medium term notes and Hybrid Capital and borrowings.

Change in accounting policy

Prior to the adoption of FRS 139 on 1 January 2010, the accounting policies of the Group incorporate requirements of BNM's Revised Guidelines on Financial Reporting for Licensed Institutions (Revised BNM/GP8 issued on 5 October 2004) which includes selected principles (i.e. recognition, derecognition and measurement of financial instruments, including derivative financial instruments, and hedge accounting) of FRS 139.

Upon adoption of FRS 139, interest payables previously classified under other liabilities are now reclassified into the respective category of financial liabilities.

(k) Bills and acceptances payables

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

(l) Profit and equalisation reserve ("PER")

PER on Islamic Banking business refers to the amount appropriated out of the total gross income to mitigate the undesirable fluctuation of income and to maintain a certain level of return to depositors. The amount is provided based on BNM's circular on "The Framework of the Rate of Return". PER is shared by both the depositors and the Islamic banking subsidiary and hence can be appropriated from and written back to total gross income in deriving the distributable income. PER is reflected under other liabilities in the balance sheet.

(m) Provisions

Provisions are recognised when the Group and the Company have a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(n) Dividends payable

Dividends on ordinary shares are recognised as liabilities when shareholders' right to receive dividends is established.

(o) Borrowings

Borrowings are recognised initially at cost, being the issue proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost and any difference between the net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective yield method.

(p) Contingent liabilities and contingent assets

The Group and the Company do not recognise contingent liabilities but disclose their existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Contingent liabilities and contingent assets (continued)

Contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and the Company. The Group and the Company do not recognise contingent assets but disclose their existence where inflows of economic benefits are probable, but not virtually certain.

(q) Financial guarantee contract

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

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. All guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised.

The liability is subsequently recognised at the higher of the amount determined in accordance with FRS 137 'Provisions, Contingent Liabilities and Contingent Assets' and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantee is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where financial guarantees in relation to loans or payables of subsidiaries are provided by the Company for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of investment in subsidiaries.

(r) Income recognition

(i) Recognition of interest/finance income on loans, advances and financing

Interest/finance income on loans, advances and financing is recognised on an accrual basis using effective interest/profit method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the loan/financing or, when appropriate, a shorter period to the net carrying amount of the loan/financing. The calculation includes significant fees and transaction costs that are integral to the effective interest/profit rate, as well as premiums or discounts.

Once a loan/financing has been written down as a result of an impairment loss, interest/finance income is recognised using the rate of interest/profit used to discount the future cash flows for the purpose of measuring the impairment loss.

Finance income from Islamic Banking business is recognised in accordance with the principles of Shariah.

(ii) Recognition of interest income from securities portfolio

Interest income from securities portfolio is recognised on an accrual basis using the effective interest method. The interest income includes coupons earned and accretion of discount and amortisation of premium on these securities.

(iii) Other interest income

Interest income from clients, overdue outstanding contracts and contra losses arising from share and stockbroking business are recognised on an accrual basis.

(iv) Loan arrangement fees and commissions are recognised as income when all conditions precedent are fulfilled.

(v) Commitment fees and guarantees fees which are material are recognised as income based on time apportionment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Income recognition (continued)

(vi) Fees from advisory and corporate finance activities are recognised as income on completion of each stage of the assignment.

(vii) Fees and other income/profit from Islamic Banking business are recognised on an accrual basis in accordance with the principles of Shariah.

(viii) Brokerage fees are recognised when contracts are executed.

(ix) Dividends are recognised when the shareholder's right to receive payment is established.

Change in accounting policy

The Group has changed its accounting policy for interest income recognition upon adoption of FRS 139 on 1 January 2010. Previously, interest income is recognised based on contractual interest rate. Upon adoption of FRS 139, interest income is now recognised using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the loans, advances and financing, or when appropriate, a shorter period to the net carrying amount of loans, advances and financing.

The Group has applied the new policy according to the transitional provisions by re-measuring the loans, advances and financing as at 1 January 2010 and recording any adjustments to opening retained profits. Comparatives for prior year have not been restated. Refer to the Note 48 for the impact of this change in accounting policy.

(s) Impairment of financial assets

(i) Impairment of loans, advances and financing

At each balance sheet date, the Group assesses whether there is any objective evidence that a loan/financing or group of loans/financing is impaired. The loan/financing or group of loans/financing is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the loan/financing (an incurred 'loss event') and that loss event (or events) has an impact on future estimated cash flows of the loan/financing or group of loans/financing that can be reliably estimated.

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

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- Disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - adverse changes in the payment status of borrowers in the portfolio; and
  - national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for loans/financing which are individually significant, and collectively for loans/financing which are not individually significant. An individual assessment will only be carried out for loans/financing above the set threshold while loans/financing below the set threshold are collectively assessed for impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Impairment of financial assets (continued)

(i) Impairment of loans, advances and financing (continued)

Where a loan/financing that is individually assessed for impairment does not result in impairment provisions, the loan/financing is included in a group of loans/financing using similar credit characteristics for collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the loan's/financing's carrying amount and the present value of estimated future cash flows (excluding credit losses that have not been incurred) discounted at the loan's/financing's original effective interest rate. The carrying amount of the loan/financing is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If the loan/financing has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

In the Amendments to FRS 139, MASB has included an additional transitional arrangement for entities in the financial sector, whereby BNM may prescribe an alternative basis for collective assessment of impairment by banking institutions. This transitional arrangement is prescribed in BNM's Guidelines on "Classification and Impairment Provisions for Loans/Financing" issued on 8 January 2010 and subsequently updated on 26 January 2010 and 17 December 2010, whereby banking institutions are required to maintain collective assessment impairment allowances of at least 1.5% of total outstanding loans/financing, net of individual assessment impairment allowance.

In applying the transitional arrangement, the Group ensures that the overall level of impairment allowances maintained for loans/financing is adequate in relation to the total credit risk exposure in the loans/financing portfolio. In particular, for loans/financing classified as impaired but which are not individually assessed for impairment, the Group undertakes an assessment on the adequacy of impairment allowance for such loans/financing and provide additional collective assessment impairment allowance for these loans/financing where the amount provided under the transitional arrangement is inadequate.

Subject to the prior written approval of BNM, banking institutions may be allowed to maintain a lower level of collective assessment impairment allowances where BNM is satisfied that the institution has a loss estimation process that is sufficiently robust and supported by adequate historical loan loss data. The Group has applied the abovementioned transitional arrangement in determining the collective assessment impairment allowances for loans/financing at each reporting date.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Where a loan/financing is uncollectible, it is written off against the related allowance for loan/financing impairment. Such loans/financing are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loan/financing are classified in "impairment losses on loans, advances and financing". Recoveries in full or in part of amounts previously written off are credited to the income statement in "impairment losses on loans, advances and financing".

(ii) Impairment of securities

The Group assesses at each balance sheet date whether there is objective evidence that a security is impaired. A security is impaired and impairment loss is incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the security that can be reliably estimated.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Impairment of financial assets (continued)

(ii) Impairment of securities (continued)

Securities carried at amortised cost

If there is objective evidence that an impairment loss on HTM securities carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flow discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a HTM security has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement. For unquoted equity instruments stated at cost, no reversal of impairment loss is allowed when the amount of impairment loss decreases.

Securities carried at fair value

When a decline in fair value of AFS securities has been recognised directly in equity and there is objective evidence that the security is impaired, the cumulative loss that has been recognised directly in equity is removed from equity and recognised in the income statement even though the security has not been derecognised. The amount of cumulative loss is the difference between the acquisition price (net of principal repayment and amortisation) and current fair value, less any impairment loss on that security previously recognised in the income statement.

If, in a subsequent period, the fair value of a debts instrument classified as AFS increases and the increase can be related objectively to an event occurring after the impairment was recognised in the income statement, that portion of impairment loss is reversed through the income statement. For equity instruments classified as AFS, no reversal of impairment loss through the income statement is allowed when there is an increase in fair value of the equity instrument in a subsequent period.

Change in accounting policy

The Group has changed its accounting policy for impairment of loans, advances and financing upon adoption of FRS 139 and BNM's guidelines on Classification and Impairment Provisions for Loans/Financing issued on 8 January 2010 and subsequently updated on 26 January 2010 and 17 December 2010.

Prior to the adoption of FRS 139, the Group's loan loss allowance is in conformity with the minimum requirements of BNM/GP3 Guidelines on the Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts ('Revised BNM/GP3'). The basis of classification of non-performing loans and financing follows the period of default for non-performing loans of 3 months. In line with the classification of non-performing loans and financing, the Group's basis for specific allowance is also from default period of 3 months.

The Group has applied the new policy according to the transitional provisions by re-measuring loans, advances and financing, and recording any adjustments to the previous carrying amounts to opening retained profits. Comparatives for prior year have not been restated. Refer to Note 48 for the impact of this change in accounting policy.

(t) Impairment of non-financial assets

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the non-financial assets exceeds its recoverable amount.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Impairment of non-financial assets (continued)

The recoverable amount is the higher of a non-financial asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, non-financial assets are grouped at the lowest levels for which there is separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

The impairment loss is charged to the income statement. Any subsequent increase in recoverable amount is recognised in the income statement. Impairment losses on goodwill are not reversed.

(u) Leases

Leases are accounted for in accordance with FRS 117: Leases. They are divided into finance and operating lease.

(i) Operating lease

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessors are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessors, are charged to the income statement on a straight line basis over the period of the lease.

In the previous years, a leasehold land that normally had an indefinite economic life and title was not expected to pass to the lessee by the end of the lease term was treated as an operating lease. The payment made on entering into or acquiring a leasehold land that was accounted for as an operating lease represents prepaid lease payments.

The Group has adopted the improvement to FRS 117: Leases in relation to the classification of lease of land. Leasehold land in which the Group has substantially all the risks and rewards incidental to ownership has been reclassified retrospectively from operating lease to finance lease. Refer to the Note 48 for the impact of this change in accounting policy.

(ii) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counterparty. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(v) Employee benefits

(i) Short term employee benefits

Wages, salaries, bonuses, paid annual leave and non-monetary benefits are accrued in the period in which the associated services are rendered by the employees of the Group and the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Employee benefits (continued)

(ii) Post-employment benefits

The Group contributes to the Employees Provident Fund ('EPF'), the national defined contribution plan. The contributions to EPF are charged to the income statement in the period to which they are related. Once the contributions have been paid, the Group has no further payment obligations in future.

(w) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Company and each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Ringgit Malaysia, which is the functional and presentation currency of the Group and the Company.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(x) Taxation and deferred taxation

Current tax expense represents taxation at the current rate based on taxable profit earned during the financial year.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction does not affect either accounting or taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future profits will be available against which the temporary differences or unused tax loses can be utilised.

Deferred tax is recognised on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax relating to fair value measurement of AFS securities, which are charged or credited directly to equity, is also credited or charged directly to equity and subsequently recognised in the income statement together with the deferred gains or losses.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

(y) Zakat

Zakat is computed based on the "Net Invested Fund Method" which is in accordance with the Accounting and Auditing Organisation of Islamic Financial Institutions ('AAOIFI') guidelines as approved by the Islamic banking subsidiary's Shariah Advisory Committee. This method is consistent with the "Adjusted Growth Method" as prescribed by MASB TR i-1 Accounting for Zakat on Business. Zakat payable is computed based on the shareholding of Muslim individuals at the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, bank balances and deposits and placements maturing within one month which are held for the purpose of meeting short term commitments and are readily convertible into cash without significant risk of changes in value.

The statements of cash flows shows the changes in cash and cash equivalents arising during the period from operating activities, investing activities and financing activities. The cash flows from operating activities are determined by using the indirect method. Consolidated net income is therefore adjusted by non-cash items, such as measurement gains or losses, changes in provisions, as well as changes from receivables and liabilities. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are eliminated.

The cash flows from investing and financing activities are determined by using the direct method. The Group's assignment of the cash flows to operating, investing and financing category depends on the Group's business model (management approach).

(aa) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Group Chief Executive Officer as its chief operating decision-maker.

All transactions between business segments are conducted on an arm´s length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

Change in accounting policy

The Group has adopted FRS 8 'Operating Segment' from 1 January 2010. FRS 8 replaces FRS 114 'Segment Reporting' and is applied retrospectively. The adoption of FRS 8 resulted in additional disclosures in segment reporting disclosures. Comparatives have been restated. Refer to Note 48 for the impact of this change in accounting policy.

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. It is the policy of the Group to establish, through charges against profit, individual and collective assessment impairment allowances in respect of estimated and inherent credit losses in their portfolio.

In determining individual assessment impairment allowances for loans/financing above the set threshold, management considers objective evidence of impairment and exercises judgement in estimating cash flows and collateral value. When a loan/financing is impaired, an individual assessment impairment allowance is determined by using the discounted cash flow method, measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. If the loan/financing has a variable interest rate, the discount rate for measuring impairment loss is the current effective interest rate determined under the contract. The amount of individual assessment impairment allowance also takes into account the collateral value, which may be discounted to reflect the impact of a forced sale or timely liquidation.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(a) Allowance for impairment on loans, advances and financing (continued)

The Group has applied the transitional arrangement prescribed by BNM in determining collective assessment impairment allowance for loans/financing below the set threshold, whereby collective assessment impairment allowance of at least 1.5% of total outstanding loans/financing, net of individual assessment impairment allowance, is maintained by the Group. For loans/financing classified as impaired but which are not individually assessed for impairment, additional collective assessment impairment allowance is determined in accordance with the minimum requirement of the previous revised BNM's Guidelines on the "Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts" ("Revised BNM/GP3") issued on 7 August 2008 (which was subsequently replaced by BNM's Guidelines on "Classification and Impairment Provision for Loans/Financing" issued on 8 January 2010 and subsequently updated on 26 January 2010 and 17 December 2010).

(b) Impairment of goodwill

The Group performs an impairment review on an annual basis to ensure that the carrying value of the goodwill does not exceed its recoverable amount from the cash-generating unit to which the goodwill is allocated. The recoverable amount represents the present value of the estimated future cash flows expected to arise from continuing operations. Therefore, in arriving at the recoverable amount, management exercises judgement in estimating the future cash flows, growth rate and discount rate. Refer to Note 16 for details on goodwill.

(c) Impairment of securities

Assessment of impairment of securities is made in accordance with the guidance in FRS 139 in determining when the investment is impaired. Management judgement is required to evaluate the duration and extent to which the fair value of the investment is below its carrying value and when there is indication of impairment in the carrying value of the financial instrument.

(d) Fair value of financial instruments

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or timely liquidation.

The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market parameters. For financial instruments that are traded actively and have quoted market prices or parameters readily available, there is minimal subjectivity in determining fair value. When observable market prices and parameters do not exist, management judgement is necessary to estimate fair value. The fair value of financial instruments 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.

4. CASH AND SHORT-TERM FUNDS

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Cash and balance with banks and other financial institutions	280,286	283,457	248	4,143
Money at call and deposit placements maturing within one month	9,545,140	7,996,218	75,213	-
	9,825,426	8,279,675	75,461	4,143

4. CASH AND SHORT-TERM FUNDS (CONTINUED)

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Included in the cash and short-term funds are clients' monies placed in trust accounts maintained by a subsidiary as follows:				
Cash and balance with banks and other financial institutions	10,759	2,695	-	-
Money at call and deposit placements maturing within one month	36,985	26,007	-	-
	47,744	28,702	-	-

5. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Licensed banks	446,514	416,733	6,028	7,085
Licensed Islamic banks	100,164	-	-	-
Licensed investment banks	78,102	-	-	-
Bank Negara Malaysia	-	100,000	-	-
Other financial institutions	564,314	34,235	-	-
	1,189,094	550,968	6,028	7,085

6. HELD FOR TRADING SECURITIES

	Group	
	2010 RM'000	2009 RM'000
At fair value:		
Malaysian Government securities	-	55,744
Bank Negara Malaysia bills	149,058	-
Bank Negara Malaysia monetary notes	171,010	-
Private and Islamic debt securities	60,858	-
	380,926	55,744

7. DERIVATIVE FINANCIAL INSTRUMENTS

The following table summarises the contractual or underlying principal amounts of derivative financial instruments held or issued for trading and hedging purposes. The notional or contractual amounts of these instruments reflect the volume of transactions outstanding at balance sheet date and do not represent amounts at risk.

The hedging practices and accounting treatment are disclosed in Note 2 (e).

Fair value hedges

The Group hedges part of its existing interest rate risk from fixed rate assets and liabilities using interest rate swaps. The net fair value of these swaps for the Group at 31 December 2010 was a positive of RM5,447,000 (2009: a negative of RM38,856,000). For the financial year ended 31 December 2010, the net gain on the hedging instruments for the Group was RM26,234,000 (2009: RM26,040,000) while the net loss on the hedged items attributable to the hedged risks for the Group was RM21,007,000 (2009: RM26,563,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

7. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hedges (continued)

	2010			2009		
Group	**Contractual/ notional amounts RM'000**	**Fair values Assets RM'000**	**Fair values Liabilities RM'000**	**Contractual/ notional amounts RM'000**	**Fair values Assets RM'000**	**Fair values Liabilities RM'000**
Trading derivatives:						
Interest rate swaps	1,670,000	2,352	16,801	300,000	-	2,012
Foreign currency forwards	1,963,261	12,546	12,762	1,687,536	9,825	14,639
Cross currency interest rate swaps	16,294	1,537	-	21,182	-	125
	3,649,555	16,435	29,563	2,008,718	9,825	16,776
Hedging derivatives:						
Interest rate swaps	3,915,000	12,038	6,591	2,545,000	3,080	41,936
	7,564,555	28,473	36,154	4,553,718	12,905	58,712

The contractual or underlying principal amounts of derivative financial instruments of bank and non-bank counterparties for the Group amounted to RM7.47 billion and RM0.09 billion (2009: RM4.41 billion and RM0.14 billion) respectively.

8. AVAILABLE-FOR-SALE SECURITIES

	Group 2010 RM'000	Group 2009 RM'000
At fair value:		
Bank Negara Malaysia monetary notes	902,259	94,698
Bank Negara Malaysia negotiable notes	149,731	-
Bank Negara Malaysia bills	530,155	-
Malaysian Government investment issues	116,572	250,970
Malaysian Government treasury bills	19,909	-
Malaysian Government securities	181,592	499,224
Cagamas bonds	-	15,081
Khazanah bonds	-	9,982
Quoted equity securities in Malaysia	-	13,449
Quoted private debt securities	22,404	22,404
Private and Islamic debt securities	757,604	1,096,738
Negotiable instruments of deposit	401,123	1,500,017
Islamic negotiable instrument debt securities	179,636	278,798
Commercial papers	18,937	12,944
Islamic commercial papers	-	34,011
Bankers acceptances	154,483	-
Unquoted equity securities in Malaysia	26,185	6,215
Unquoted equity securities outside Malaysia	3,366	3,739
	3,463,956	3,838,270
Allowance for impairment	(5,242)	(65,144)
	3,458,714	3,773,126

During the financial year, the Group has reclassified unquoted equity securities in Malaysia from held-to-maturity securities to available-for-sale securities at amortised cost of RM18,082,330 pursuant to the BNM's Guidelines on "Financial Reporting for Banking Institutions". Under Paragraph 4.2 of the said guidelines, it is stated that "Where a banking institution had previously classified as 'held-to-maturity investments in equity holdings in organisations which are set up for specific socio-economic reasons (e.g. equity interests in Cagamas, MEPS, RAM and CGC) or equity instruments received as a result of loan restructuring or loan conversion, the reclassification of these instruments to 'Available-for-sale' shall not be subject to the 'tainting' rules when the requirements under FRS139 Financial Instruments: Recognition and Measurement are first applied."

8. AVAILABLE-FOR-SALE SECURITIES (CONTINUED)

(i) The contractual maturities of investments in money market instruments and debt securities are as follows:

	Group 2010 RM'000	Group 2009 RM'000
Maturing within one year	2,705,662	2,681,993
One year to three years	348,341	504,037
Three years to five years	180,542	78,880
Over five years	199,860	549,957
	3,434,405	3,814,867

9. HELD-TO-MATURITY SECURITIES

	Group 2010 RM'000	Group 2009 RM'000
At amortised cost:		
Private and Islamic debt securities	325,344	385,695
Allowance for impairment	(172,503)	(192,598)
	152,841	193,097
At cost:		
Unquoted equity securities in Malaysia	-	18,082
	152,841	211,179

(i) The contractual maturities of investments in debt securities are as follows:

	Group 2010 RM'000	Group 2009 RM'000
Maturing within one year	111,628	32,887
One year to three years	115,947	263,036
Three years to five years	97,226	89,547
Over five years	543	225
	325,344	385,695

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

10. LOANS, ADVANCES AND FINANCING

	Group 2010 RM'000	Group 2009 RM'000
Overdrafts/cash line	2,251,833	2,209,784
Term loans/financing:		
Housing loans/financing	10,375,904	7,809,069
Syndicated term loans/financing	1,399,500	1,349,287
Hire purchase receivables	13,552,099	12,692,576
Personal loans/financing	1,124,819	494,096
Other term loans/financing	7,258,742	6,176,446
Bills receivable	9,854	9,412
Trust receipts	166,713	120,976
Claims on customers under acceptance credit/financing	2,597,862	2,563,348
Staff loans/financing	241,024	237,014
Credit cards	1,677,862	1,445,975
Revolving credit/financing	1,716,939	1,530,220
Other loans/financing	89,609	94,464
	42,462,760	36,732,667
Unearned interest/income	(4,579,096)	(3,620,035)
Gross loans, advances and financing	37,883,664	33,112,632
Fair value changes arising from fair value hedge	(11,390)	15,567
Unamortised fair value changes arising from the unwinded fair value hedge	10,780	-
Allowances for impaired loans, advances and financing		
- Collective assessment impairment allowance	(746,544)	-
- Individual assessment impairment allowance	(486,484)	-
- General allowance	-	(487,810)
- Specific allowance	-	(592,063)
Net loans, advances and financing	36,650,026	32,048,326

The Group has designated certain hire purchase receivables for the purpose of fair value hedge using interest rate swaps. The total fair value gain of the said interest rate swaps relating to these hedges at 31 December 2010 amounted to RM1,020,000 (2009: fair value loss of RM16,134,000).

	Group 2010 RM'000	Group 2009 RM'000
(i) Gross loans, advances and financing analysed by residual contractual maturity are as follows:		
Maturing within one year	9,507,559	9,034,343
One year to three years	2,283,942	2,192,005
Three years to five years	5,455,359	4,481,200
Over five years	20,636,804	17,405,084
	37,883,664	33,112,632
(ii) Gross loans, advances and financing disbursed by type of customers are as follows:		
Domestic non-bank financial institutions	580,061	457,040
Domestic business enterprises	13,821,879	12,289,280
(of which: Small and medium enterprises)	7,864,430	6,749,056
Government and statutory bodies	30,827	35,989
Individuals	22,869,466	19,815,564
Other domestic entities	21,063	23,899
Foreign entities	560,368	490,860
	37,883,664	33,112,632

10. LOANS, ADVANCES AND FINANCING (CONTINUED)

	Group 2010 RM'000	Group 2009 RM'000
(iii) Gross loans, advances and financing analysed by interest rate/profit rate sensitivity are as follows:		
Fixed rate	15,692,221	14,091,455
(of which: (i) Housing loans/financing	2,191,315	1,542,556
(ii) Hire purchase receivables	11,569,313	10,803,102
(iii) Others)	1,931,593	1,745,797
Variable rate	22,173,596	19,007,235
(of which: (i) Base lending rate plus	13,809,309	11,379,517
(ii) Cost plus	6,283,219	5,772,714
(iii) Others)	2,081,068	1,855,004
Non-interest bearing	17,847	13,942
	37,883,664	33,112,632
(iv) Gross loans, advances and financing analysed by sector are as follows:		
Agriculture, hunting, forestry and fishing	654,731	545,283
Mining and quarrying	66,318	205,241
Manufacturing	3,070,880	2,959,430
Electricity, gas and water	305,656	337,658
Construction	2,189,358	2,227,894
Wholesale and retail trade, restaurants and hotels	2,833,835	2,589,827
Transport, storage and communication	1,102,979	781,559
Finance, insurance and business services	1,641,066	1,203,770
Real estate	2,307,333	1,627,020
Community, social and personal services	207,298	215,692
Household	23,056,471	19,912,220
(of which: (i) Purchase of transport vehicles	9,982,601	9,466,288
(ii) Purchase of residential properties	8,586,888	6,683,505
(iii) Purchase of non-residential properties	1,007,886	855,459
(iv) Consumption credit	3,235,577	2,723,187
(vi) Others)	243,519	183,781
Others	447,739	507,038
	37,883,664	33,112,632
(v) Gross loans, advances and financing analysed by economic purpose are as follows:		
Purchase of securities	458,279	503,823
Purchase of transport vehicles	11,461,022	10,733,667
Purchase of landed properties	12,083,290	9,377,958
(of which: (i) Residential	8,670,398	6,769,876
(ii) Non-residential)	3,412,892	2,608,082
Purchase of fixed assets (excluding landed properties)	598,390	396,150
Personal use	1,556,940	1,109,207
Credit cards	1,677,783	1,445,976
Purchase of consumer durables	160	363
Construction	483,616	781,530
Mergers and acquisitions	23,676	12,271
Working capital	7,980,648	7,682,346
Others	1,559,860	1,069,341
	37,883,664	33,112,632

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

10. LOANS, ADVANCES AND FINANCING (CONTINUED)

	Group 2010 RM'000	Group 2009 RM'000
(vi) Gross loans, advances and financing analysed by geographical distribution are as follows:		
Malaysia	37,654,316	32,873,722
Other countries	229,348	238,910
	37,883,664	33,112,632
(vii) Movements in impaired loans, advances and financing are as follows:		
Balance as at 1 January		
- As previously reported	1,253,834	1,545,654
- Effects of adopting FRS 139	176,680	-
- As restated	1,430,514	1,545,654
Classified as impaired during the financial year	1,929,985	2,062,892
Reclassified as non-impaired during the financial year	(1,013,860)	(1,372,136)
Amount recovered	(594,432)	(515,583)
Amount written off	(358,857)	(449,071)
Loans/financing converted to securities	-	(17,922)
Exchange differences	(16,953)	-
Balance as at 31 December	1,376,397	1,253,834
Less: Impaired loans, advances and financing which have no adverse financial impact on the Group	(9,949)	(9,170)
	1,366,448	1,244,664
Less:		
(a) Individual assessment impairment allowance/Specific allowance	(486,484)	(489,517)
(b) Additional collective assessment impairment allowance for loans/financing classified as impaired but not individually assessed for impairment	(149,585)	-
Net impaired loans, advances and financing	730,379	755,147
Gross impaired loans as a % of gross loans, advances and financing	3.6%	3.8%
Gross impaired loans as a % of gross loans, advances and financing as at 1 January 2010, restated for the effects of adopting FRS 139	4.3%	
Net impaired loans as a % of total loans, advances and financing, net of (a) and (b) above	2.0%	2.3%
Net impaired loans as a % of total loans, advances and financing, net of (a) and (b) above as at 1 January 2010, restated for the effects of adopting FRS 139	2.6%	
Impaired loans/financing loss coverage	89.6%	86.1%
Impaired loans/financing loss coverage as at 1 January 2010, restated for the effects of adopting FRS 139	81.9%	

10. LOANS, ADVANCES AND FINANCING (CONTINUED)

	Group 2010 RM'000	Group 2009 RM'000
(viii) Impaired loans, advances and financing analysed by sector are as follows:		
Agriculture, hunting, forestry and fishing	35,337	8,699
Mining and quarrying	3,735	626
Manufacturing	302,727	255,076
Electricity, gas and water	135	49
Construction	94,931	97,210
Wholesale and retail trade, restaurants and hotels	142,764	128,465
Transport, storage and communication	72,540	12,177
Finance, insurance and business services	21,114	12,034
Real estate	23,850	33,492
Community, social and personal services	818	1,640
Household	534,311	605,563
(of which: (i) Purchase of transport vehicles	142,847	166,773
(ii) Purchase of residential properties	296,519	331,066
(iii) Purchase of non-residential properties	20,903	26,470
(iv) Consumption credit	70,097	67,440
(v) Others)	3,945	13,814
Others	144,135	98,803
	1,376,397	1,253,834
(ix) Impaired loans, advances and financing analysed by economic purpose are as follows:		
Purchase of securities	9,511	16,027
Purchase of transport vehicles	165,249	202,764
Purchase of landed properties	363,374	400,217
(of which: (i) Residential	297,086	331,992
(ii) Non-residential)	66,288	68,225
Purchase of fixed assets (excluding landed properties)	19,025	15,272
Personal use	33,969	36,799
Credit cards	36,128	30,641
Purchase of consumer durables	7	12
Construction	25,162	26,603
Working capital		
(Analysed by geographical distribution:	693,369	505,902
Malaysia	554,710	413,472
Other countries)	138,659	92,430
Others	30,603	19,597
	1,376,397	1,253,834
(x) Impaired loans, advances and financing analysed by geographical distribution are as follows:		
Malaysia	1,237,629	1,159,643
Other countries	138,768	94,191
	1,376,397	1,253,834

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

10. LOANS, ADVANCES AND FINANCING (CONTINUED)

	Group 2010 RM'000	Group 2009 RM'000
(xi) Movements in allowances for impaired loans, advances and financing are as follows:		
Collective assessment impairment allowance		
Balance as at 1 January		
- As previously reported	-	-
- Effects of adopting FRS 139 (Note 48)	784,734	-
- As restated	784,734	-
Allowance made during the financial year	347,923	-
Allowance written-back in respect of recoveries/reclassification	(100,619)	-
Amount written off	(285,494)	-
Balance as at 31 December	746,544	-

Collective assessment impairment allowance comprised the following:

	Group 2010 RM'000	Group 2009 RM'000
(a) Based on 1.5% of total outstanding loans/financing, net of individual assessment impairment allowance	560,959	-
(b) Additional collective assessment impairment allowance above the minimum 1.5% requirement	36,000	-
Adjusted collective assessment impairment allowance	596,959	-
(c) Additional collective assessment impairment allowance for loans/financing classified as impaired but not individually assessed for impairment (determined in accordance with Revised BNM/GP3)	149,585	-
	746,544	-
Adjusted collective assessment impairment allowance [(a) + (b)] as a % of gross loans, advances and financing, net of individual assessment impairment allowance and additional collective assessment impairment allowance calculated under (c) above	1.6%	-
Adjusted collective assessment impairment allowance [(a) + (b)] as a % of gross loans, advances and financing, net of individual assessment impairment allowance and additional collective assessment impairment allowance calculated under (c) above as at 1 January 2010, restated for the effects of adopting FRS 139	1.5%	

The Group has applied the transitional arrangement in determining the collective assessment impairment allowances as at the end of the reporting period for loans/financing, as prescribed in BNM's Guideline on "Classification and Impairment Provisions for Loans/Financing" issued on 8 January 2010 and subsequently updated on 26 January 2010 and 17 December 2010.

10. LOANS, ADVANCES AND FINANCING (CONTINUED)

	Group 2010 RM'000	Group 2009 RM'000
(xi) Movements in allowances for impaired loans, advances and financing are as follows: (continued)		
Individual assessment impairment allowance		
Balance as at 1 January		
- As previously reported	-	-
- Effects of adopting FRS 139 (Note 48)	386,585	-
- As restated	386,585	-
Allowance made during the financial year	291,177	-
Allowance charged to deferred asset/other assets during the financial year	130	-
Allowance written-back in respect of recoveries/reclassification	(116,353)	-
Reversal of allowance set-off against deferred asset	(631)	-
Amount written-off	(73,364)	-
Exchange differences	(1,060)	-
Balance as at 31 December	486,484	-

With the adoption of FRS 139, individual assessment impairment allowance for the Group as at 31 December 2010 amounted to RM486.48 million. The specific provision for the Group would have amounted to RM404.64 million had it been determined in accordance with the minimum requirement of the previous revised BNM's Guidelines on the "Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts" (Revised BNM/GP3).

	Group 2010 RM'000	Group 2009 RM'000
General allowance		
Balance as at 1 January		
- As previously reported	487,810	450,928
- Effects of adopting FRS 139 (Note 48)	(487,810)	-
- As restated	-	450,928
Allowance made during the financial year	-	36,882
Balance as at 31 December	-	487,810
As % of gross loans, advances and financing less specific allowance	-	1.5%
Specific allowance		
Balance as at 1 January		
- As previously reported	592,063	792,530
- Effects of adopting FRS 139 (Note 48)	(592,063)	-
- As restated	-	792,530
Allowance made during the financial year	-	462,405
Allowance charged to deferred asset/other assets during the financial year	-	237
Allowance written-back in respect of recoveries/reclassification	-	(199,181)
Reversal of allowance set-off against deferred asset	-	(4,235)
Amount written-off	-	(449,071)
Amount transferred to allowance for impairment on securities	-	(10,622)
Balance as at 31 December	-	592,063

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

11. OTHER ASSETS

	Note	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Unamortised handling fees		-	77,691	-	-
Trade receivables	(i)	34,121	12,707	-	-
Interest/income receivable		-	35,730	-	10
Other debtors, deposits and prepayments	(ii)	385,445	379,246	13	10
Deferred asset account	(iii)	24,184	138,844	-	-
Tax recoverable	(iv)	5,028	12,025	4,955	4,464
		448,778	656,243	4,968	4,484

(i) Trade receivables mainly arose from the stockbroking activities of a subsidiary and represent amount receivable under outstanding purchase contracts and contra losses. This amount is stated net of allowance for bad and doubtful debts and interest-in-suspense of RM125,000 (2009: RM132,000) and RM8,000 (2009: RM3,000) respectively.

(ii) Other debtors, deposits and prepayments for the Group is stated net of specific allowance for doubtful debts of RM10,405,722 (2009: RM708,040). Included in the other debtors, deposits and prepayments of the Group is Clearing Accounts of RM302,968,000 (2009: RM289,515,000).

(iii) The net asset representing the excess of liabilities over the assets transferred, which arose from the acquisition of the assets and liabilities of ex-Oriental Bank Berhad by the banking and finance company subsidiary, is shown as deferred asset, and will be reduced progressively by an arrangement which has been agreed with BNM.

(iv) Tax recoverable comprises tax receivable from the tax authorities and tax deducted at source on dividend income received by the Group and the Company. This amount can be utilised to set-off future tax payable of the Group and the Company.

12. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

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

13. INVESTMENT IN SUBSIDIARIES

	Company 2010 RM'000	Company 2009 RM'000
Unquoted equity securities, at cost	1,808,353	1,808,353

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

Name of subsidiaries	Principal activities	Issued and paid-up ordinary capital 2010 RM'000	Issued and paid-up ordinary capital 2009 RM'000	Percentage of equity held 2010 %	Percentage of equity held 2009 %
Held by the Company					
EON Bank Berhad	Commercial banking	1,329,807	1,329,807	100	100
Held by EON Bank Berhad					
MIMB Investment Bank Berhad	Investment banking	75,000	75,000	100	100
EONCAP Islamic Bank Berhad	Islamic banking business	397,755	397,755	100	100

13. INVESTMENT IN SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Principal activities	Issued and paid-up ordinary capital 2010 RM'000	Issued and paid-up ordinary capital 2009 RM'000	Percentage of equity held 2010 %	Percentage of equity held 2009 %
Held by EON Bank Berhad (continued)					
EFB Berhad	Dormant	-*	-*	100	100
EB Nominees (Tempatan) Sdn Bhd	Nominees services	10	10	100	100
EB Nominees (Asing) Sdn Bhd	Nominees services	10	10	100	100
EB Realty Sdn Bhd	Property investment	100	100	100	100
OBB Realty Sdn Bhd	Property investment	330	330	100	100
Oriental Nominee (Tempatan) Sdn Bhd	Dormant	10	10	100	100
OFB Berhad	Dormant	105,626	105,626	100	100
CFB Asa Berhad	Dormant	35,549	35,549	100	100
CFB Nominees (Tempatan) Sdn Bhd	Dormant	-*	-*	100	100
PFB Asa Berhad	Dormant	32,600	32,600	100	100
Perkasa Nominees (Tempatan) Sdn Bhd	Dormant	10	10	100	100
Held by MIMB Investment Bank Berhad					
ECS Jaya (1969) Sdn Bhd	Dormant	20,000	20,000	100	100
MIMB Nominees (Tempatan) Sendirian Berhad	Dormant	10	10	100	100
MIMB Nominees (Asing) Sendirian Berhad	Dormant	10	10	100	100
SSSB Jaya (1987) Sdn Bhd	Dormant **	-	150,000	-	100
M.I.T. Nominees (Tempatan) Sdn Bhd	Nominees services	-*	-*	100	100
F.I.T. Nominees (Asing) Sdn Bhd	Nominees services	-*	-*	100	100
Held by SSSB Jaya (1987) Sdn Bhd					
SSSB Nominees (Tempatan) Sdn Bhd	Dormant **	-	20	-	100
SSSB Nominees (Asing) Sdn Bhd	Dormant **	-	20	-	100

* *denotes RM2*
** *undergoing liquidation*

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

14. DEFERRED TAX ASSETS

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

	Note	Group 2010 RM'000	Group 2009 RM'000
Deferred tax assets		163,872	129,684
Movements in deferred tax during the financial year are as follows:			
Balance as at 1 January			
- As previously reported		129,684	122,866
- Effects of adopting FRS 139	48	20,656	-
- As restated		150,340	122,866
Net deferred tax effects arising from:			
- temporary differences for the financial year		13,435	22,765
Transfer from income statement	34	13,435	22,765
Tax effects arising from fair value adjustments on available-for-sale securities		97	(15,947)
Balance as at 31 December		163,872	129,684

14. DEFERRED TAX ASSETS (CONTINUED)

(i) The unutilised tax losses of a subsidiary, SSSB Jaya (1987) Sdn Bhd ('SSSB'), amounting to approximately RM1,010 million has been transferred to the investment banking subsidiary, MIMB Investment Bank Berhad ('MIMB'), during the financial year ended 31 December 2009 pursuant to the tax incentive granted under the Investment Bank Guidelines issued jointly by Bank Negara Malaysia and Securities Commission. The unutilised tax losses can be set-off against current and future taxable profit of the investment banking subsidiary. However, no tax benefits were recognised by the Group at the date of acquisition of SSSB as the deferred tax asset did not satisfy the asset recognition criteria.

Due to the change in circumstances subsequent to the acquisition date, the tax benefits amounting to approximately RM40 million had been recognised as deferred tax asset by the Group in accordance with FRS 112: Income Taxes during the financial year ended 31 December 2007. The Group had applied paragraph 65 of FRS 3: Business Combination to account for such tax benefits as a reduction in the carrying amount of goodwill and recognised such reduction as an expense in the income statement. Correspondingly, the tax benefits had been recognised as tax credit in the income statement.

No additional deferred tax benefits has been recognised from the unutilised tax losses since 31 December 2007 as the total forecasted profit before taxation is sufficient to support only up to the amount of tax benefits already recognised as at 31 December 2010.

As at 31 December 2010, the amount of unutilised tax losses of the Group, of which no deferred tax asset has been recognised in the balance sheet amounted to RM842 million (2009: RM842 million).

14. DEFERRED TAX ASSETS (CONTINUED)

Group	Loans, advances and financing RM'000	Property, plant and equipment RM'000	Available-for-sale securities RM'000	Unutilised tax losses RM'000	Profit equalisation reserves RM'000	Handling fees RM'000	Other temporary differences RM'000	Total RM'000
Balance as at 1 January 2010								
- As previously reported	142,842	(23,769)	(7,509)	37,192	-	(19,421)	349	129,684
- Effects of adopting FRS 139	1,235	-	-	-	-	19,421	-	20,656
- As restated	144,077	(23,769)	(7,509)	37,192	-	-	349	150,340
Transfer from/(to) income statement	18,217	(6,522)	-	(2,132)	-	-	3,872	13,435
Transfer from reserves	-	-	97	-	-	-	-	97
Balance as at 31 December 2010	162,294	(30,291)	(7,412)	35,060	-	-	4,221	163,872
Balance as at 1 January 2009	112,742	(15,824)	8,438	38,461	2	(20,101)	(852)	122,866
Transfer from/(to) income statement	30,100	(7,945)	-	(1,269)	(2)	680	1,201	22,765
Transfer from reserves	-	-	(15,947)	-	-	-	-	(15,947)
Balance as at 31 December 2009	142,842	(23,769)	(7,509)	37,192	-	(19,421)	349	129,684

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

15. PROPERTY, PLANT AND EQUIPMENT

Group	As at 1 January 2010 RM'000	Change in accounting policy (Note 48) RM'000	As restated RM'000	Additions RM'000	Disposals and Write off RM'000	As at 31 December 2010 RM'000
2010						
At cost						
Freehold land	40,608	-	40,608	-	-	40,608
Leasehold land	-	915	915	-	-	915
Leasehold buildings						
- less than 50 years	261	-	261	-	-	261
- more than 50 years	9,027	-	9,027	-	-	9,027
Buildings on freehold land	124,271	-	124,271	-	-	124,271
Office renovations	70,154	-	70,154	10,205	(7,112)	73,247
Furniture, fittings and equipment	64,116	-	64,116	3,571	(3,380)	64,307
Computer equipment and software	231,701	-	231,701	41,371	(6,173)	266,899
Motor vehicles	4,290	-	4,290	2,982	(2,572)	4,700
Total	544,428	915	545,343	58,129	(19,237)	584,235
Accumulated depreciation						
Freehold land	-	-	-	-	-	-
Leasehold land	-	189	189	10	-	199
Leasehold buildings						
- less than 50 years	67	-	67	6	-	73
- more than 50 years	1,594	-	1,594	183	-	1,777
Buildings on freehold land	13,269	-	13,269	2,483	-	15,752
Office renovations	39,520	-	39,520	9,380	(6,768)	42,132
Furniture, fittings and equipment	30,687	-	30,687	5,893	(2,491)	34,089
Computer equipment and software	143,755	-	143,755	31,238	(5,426)	169,567
Motor vehicles	2,967	-	2,967	803	(2,110)	1,660
Total	231,859	189	232,048	49,996	(16,795)	265,249

Group	As at 1 January 2009 RM'000	Change in accounting policy (Note 48) RM'000	As restated RM'000	Additions RM'000	Disposals and Write off RM'000	As at 31 December 2010 RM'000
2009						
At cost						
Freehold land	40,608	-	40,608	-	-	40,608
Leasehold land	-	915	915	-	-	915
Leasehold buildings						
- less than 50 years	261	-	261	-	-	261
- more than 50 years	9,027	-	9,027	-	-	9,027
Buildings on freehold land	124,271	-	124,271	-	-	124,271
Office renovations	64,765	-	64,765	8,737	(3,348)	70,154
Furniture, fittings and equipment	59,329	-	59,329	7,691	(2,904)	64,116
Computer equipment and software	182,799	-	182,799	53,415	(4,513)	231,701
Motor vehicles	5,377	-	5,377	58	(1,145)	4,290
Total	486,437	915	487,352	69,901	(11,910)	545,343
Accumulated depreciation						
Freehold land	-	-	-	-	-	-
Leasehold land	-	180	180	9	-	189
Leasehold buildings						
- less than 50 years	64	-	64	3	-	67
- more than 50 years	1,411	-	1,411	183	-	1,594
Buildings on freehold land	10,786	-	10,786	2,483	-	13,269
Office renovations	34,839	-	34,839	7,875	(3,194)	39,520
Furniture, fittings and equipment	27,150	-	27,150	5,857	(2,320)	30,687
Computer equipment and software	121,157	-	121,157	26,625	(4,027)	143,755
Motor vehicles	3,404	-	3,404	700	(1,137)	2,967
Total	198,811	180	198,991	43,735	(10,678)	232,048

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the Financial Year ended 31 December 2010

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	2010 RM'000	As previously reported 2009 RM'000	Change in accounting policy (Note 48) 2009 RM'000	As restated 2009 RM'000
Net book value				
Freehold land	40,608	40,608	-	40,608
Leasehold land	716	-	726	726
Leasehold buildings				
- less than 50 years	188	194	-	194
- more than 50 years	7,250	7,433	-	7,433
Buildings on freehold land	108,519	111,002	-	111,002
Office renovations	31,115	30,634	-	30,634
Furniture, fittings and equipment	30,218	33,429	-	33,429
Computer equipment and software	97,332	87,946	-	87,946
Motor vehicles	3,040	1,323	-	1,323
Total	318,986	312,569	726	313,295

16. GOODWILL

	Group 2010 RM'000	Group 2009 RM'000
Balance as at 1 January/31 December	86,610	86,610

The carrying amounts of goodwill allocated to the cash generating units ("CGU") are as follows:

	Group 2010 RM'000	Group 2009 RM'000
Cash generating unit (CGU):		
Business banking	6,223	6,223
Retail banking	29,437	29,437
Islamic banking	3,488	3,488
Treasury business	10,183	10,183
Investment banking	13,546	13,546
Stockbroking business	23,733	23,733
	86,610	86,610

The recoverable amount of each CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets and forecasts approved by the Directors. Cash flows beyond the budgeted and/or forecasted period are assumed to grow at 5% (2009: 4.0%) in perpetuity based on the long term projected growth of Malaysia's gross domestic product which is expected to grow by more than 5% in 2011.

The pre-tax discount rate used for value in use calculations are as follows:

	Group 2010	Group 2009
Business banking	7.6%	9.0%
Retail banking	7.6%	9.0%
Islamic banking	7.6%	9.0%
Treasury business	7.6%	9.0%
Investment banking	7.3%	9.0%
Stockbroking business	5.4%	9.0%

There is no reasonable possible change in any of the key assumptions that would cause the carrying value of any CGU to exceed its recoverable amount. As such, no further sensitivity analysis was performed.

17. DEPOSITS FROM CUSTOMERS

	Group 2010 RM'000	Group 2009 RM'000
Demand deposits	5,424,627	4,594,199
Savings deposits	3,291,312	3,095,661
Fixed/investment deposits	26,580,685	23,538,826
Money market deposits	6,089,882	2,637,235
	41,386,506	33,865,921

(i) The maturity structure of fixed/investment deposits and money market deposits is as follows:

	Group 2010 RM'000	Group 2009 RM'000
Due within six months	28,074,696	20,675,187
Six months to one year	4,269,754	4,808,241
One year to three years	301,862	678,719
Three years to five years	24,255	13,914
	32,670,567	26,176,061

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

	Group 2010 RM'000	Group 2009 RM'000
Government and statutory bodies	3,996,440	3,500,571
Business enterprises	16,610,667	12,673,397
Individuals	13,267,201	12,504,900
Others	7,512,198	5,187,053
	41,386,506	33,865,921

18. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group 2010 RM'000	Group 2009 RM'000
Licensed banks	817,743	1,621,353
Licensed Islamic banks	-	317,890
Licensed investment banks	58,116	286,265
Bank Negara Malaysia	1,718,649	1,475,415
Other financial institutions	1,515,523	1,247,081
	4,110,031	4,948,004

19. PROVISION FOR TAXATION AND ZAKAT

	Group 2010 RM'000	Group 2009 RM'000
Taxation	84,366	32,732
Zakat	34	63
	84,400	32,795

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

20. OTHER LIABILITIES

		Group		Company	
		2010	2009	2010	2009
	Note	RM'000	RM'000	RM'000	RM'000
Trade payable	(i)	52,185	35,647	-	-
Other accruals and payables		412,388	327,645	1,067	1,037
Interest/dividend payable		-	181,169	-	213
Clearing account		276,970	327,246	-	-
Loans sold to Cagamas Berhad with recourse		190,914	198,144	-	-
Profit equalisation reserve	(ii)	7	7	-	-
		932,464	1,069,858	1,067	1,250

(i) Trade payables mainly arose from the stockbroking activities of a subsidiary and represent amount payable under outstanding sales contracts.

(ii) Movements in profit equalisation reserves are as follows:

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Balance as at 1 January/31 December	7	7	-	-

21. SUBORDINATED MEDIUM TERM NOTES

	Group	
	2010	2009
	RM'000	RM'000
Subordinated medium term notes, at par	1,160,000	660,000
Interest payable	9,346	-
Fair value changes arising from fair value hedge	1,645	(1,314)
	1,170,991	658,686
Less: Unamortised discounts	(23,474)	(27,056)
	1,147,517	631,630

On 27 February 2009, EON Bank Berhad ("EBB") issued the first tranche of RM410.0 million nominal value of the 10 non-callable 5 years Subordinated Medium Term Notes ("MTN") callable on 27 February 2014 (and thereafter) and due on 27 February 2019 under the RM2.0 billion Subordinated MTN Programme. The coupon rate of the Subordinated MTN is 5.75% per annum, which is payable semi-annually in arrears from the date of the issue. Should EBB decide not to exercise its call option on the fifth (5) year from the issue date, the coupon rate will be revised to be equivalent to 7.75% or the then prevailing 5 years RM swap rate plus 3.70% per annum, whichever is higher, from the beginning of the sixth (6) year to the final maturity date.

Subsequently, on 2 December 2009, EBB issued a second tranche of RM250.0 million nominal value of the 10 non-callable 5 years Subordinated MTN callable on 2 December 2014 (and at each anniversary date thereafter) and due on 2 December 2019 under the RM2.0 billion Subordinated MTN Programme. The coupon rate of this second tranche of the Subordinated MTN is 5.75% per annum, which is payable semi-annually in arrears from the date of the issue. Should EBB decide not to exercise its call option on the fifth (5) year from the issue date, the coupon rate of this second tranche will be revised to be equivalent to 7.75% or the then prevailing 5 years RM swap rate plus 3.70% per annum, whichever is higher, from the beginning of the sixth (6) year to the final maturity date; similar to the step-up rates in the first tranche.

Subsequently, on 30 December 2010, EBB issued a third tranche of RM500.0 million nominal value of the 10 non-callable 5 years Subordinated MTN callable on 30 December 2015 (and thereafter) and due on 30 December 2020 under the RM2.0 billion Subordinated MTN Programme. The coupon rate of this third tranche of the Subordinated MTN is 4.75% per annum, which is payable semi-annually in arrears from the date of the issue. Should the Company decide not to exercise its call option on the fifth (5) year from the issue date, the coupon rate of this third tranche will remain at 4.75% per annum, from the beginning of the sixth (6) year to the final maturity date.

21. SUBORDINATED MEDIUM TERM NOTES (CONTINUED)

The above tranches of Subordinated MTNs constitute unsecured liabilities of EBB and are subordinated to all deposit liabilities and all other liabilities except those liabilities, which by their terms, rank equally in rights of pavvent with the Subordinated MTNs. The Subordinated MTNs qualify as Tier II capital for the purpose of determining the capital adequacy ratio of EBB, and are rated A2 by RAM Rating Services Berhad.

The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the financial year ended 31 December 2010 (2009: Nil).

22. HYBRID CAPITAL

	Group	
	2010	2009
	RM'000	RM'000
Innovative Tier 1 Capital Securities, at par	500,000	500,000
Interest payable	12,318	-
Fair value changes arising from fair value hedge	1,073	(1,297)
	513,391	498,703
Less: Unamortised discounts	(10,309)	(11,480)
Unamortised fair value changes arising from the unwinded fair value hedge	(1,024)	-
	502,058	487,223

On 10 September 2009, EBB issued the first tranche of Innovative Tier 1 Capital Securities ("IT-1 Capital Securities") amounting to RM500 million in nominal value, from EBB's RM1.0 billion IT-1 Capital Securities Programme. The IT-1 Capital Securities is structured in accordance with the Risk-Weighted Capital Adequacy Framework (General Requirements and Capital Components) issued by Bank Negara Malaysia ("BNM") and is rated A3 by RAM Rating Services Berhad.

The RM500 million IT-1 Capital Securities has a tenor of 30 years and EBB has the option to redeem the RM500 million IT-1 Capital Securities at the 10th anniversary, subject to BNM approval. The RM500 million IT-1 Capital Securities has a coupon rate of 8.25% per annum, payable semi-annually. In the event the IT-1 Capital Securities is not redeemed at the 10th anniversary (the First Optional Redemption Date), the coupon rate will be revised to 9.25% per annum from the 11th year to the final maturity.

The IT-1 Capital Securities constitute unsecured and subordinated obligations of EBB and are subordinated to all deposit liabilities and all other liabilities except those liabilities which rank equally in right, and/or junior to, the rights of payment of the IT-1 Capital Securities. The IT-1 Capital Securities qualify as Tier 1 capital for the purpose of computing the capital adequacy ratio of EBB.

The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the financial year ended 31 December 2010 (2009: Nil).

23. BORROWINGS

		Group		Company	
		2010	2009	2010	2009
	Note	RM'000	RM'000	RM'000	RM'000
Short-term borrowings:					
Revolving credit facility	(i)	65,000	65,000	65,000	65,000
Interest payable		321	-	321	-
Total borrowings		65,321	65,000	65,321	65,000

(i) Short-term borrowings are unsecured revolving credit facilities granted by licensed banks under a rollover tenure of one, three and six months.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

24. SHARE CAPITAL

	Company 2010 RM'000	Company 2009 RM'000
Ordinary shares of RM1 each		
Authorised:		
Balance as at 1 January/31 December	2,000,000	2,000,000
Issued and fully paid:		
Balance as at 1 January/31 December	693,209	693,209

25. RESERVES

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Non-distributable				
Share premium	1,066,296	1,066,296	1,066,296	1,066,296
Statutory reserve	888,208	754,339	-	-
Available-for-sale securities reserve	22,243	22,535	-	-
	1,976,747	1,843,170	1,066,296	1,066,296
Retained profits	1,288,192	1,017,161	68,917	(1,690)
	3,264,939	2,860,331	1,135,213	1,064,606

The statutory reserve represents non-distributable profits held by the commercial banking and investment banking subsidiaries in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and held by its Islamic banking subsidiary in compliance with Section 15 of the Islamic Banking Act, 1983. These funds are not distributable as cash dividends.

Available-for-sale securities reserve arises from a change in the fair value of available-for-sale securities. The gains or losses are transferred to the income statement upon derecognition or impairment of such securities.

A single tier company tax was introduced effective 1 January 2008. Under this single tier system, tax on an entity's profits is a final tax, and dividends distributed to shareholders will be exempted from tax. Entities with tax credit balances under Section 108 of the Income Tax Act, 1967 are given an option to elect to move to a single tier system immediately or allowed to use the tax credit balances for the purpose of dividend distribution during a transitional period of 6 years until 31 December 2013.

The Company has elected to use its tax credit balances under Section 108 of the Income Tax Act, 1967 for the purpose of dividend distribution during a transitional period of 6 years until 31 December 2013. The tax credit balances of the Company as at 31 December 2007 have been frozen and can only be adjusted downwards for any tax discharged, remitted or refunded during the 6-year period.

As at 31 December 2010, the Company's Section 108 tax credits amounted to nil.

26. INTEREST INCOME

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Loans, advances and financing	1,697,602	1,498,770	-	-
Money at call and deposit placements with financial institutions	188,044	136,082	922	2,358
Held for trading securities	12,097	1,827	-	-
Available-for-sale securities	87,548	121,123	-	-
Held-to-maturity securities	4,136	5,560	-	-
	1,989,427	1,763,362	922	2,358
Of which:				
Interest income earned on impaired loans, advances and financing	1,458	-	-	-

27. INTEREST EXPENSE

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Deposits and placements of banks and other financial institutions	114,234	140,119	-	-
Deposits from customers	715,791	645,069	-	-
Subordinated medium term notes	44,338	26,132	-	-
Innovative Tier 1 Capital Securities	42,421	13,016	-	-
Subordinated obligations	-	2,481	-	-
Long term borrowings	-	9,570	-	9,570
Short term borrowings	2,353	2,429	2,353	2,429
Others	10,076	6,252	-	-
	929,213	845,068	2,353	11,999

28. NET INCOME FROM ISLAMIC BANKING BUSINESS

	Group 2010 RM'000	Group 2009 RM'000
Income derived from investment of depositors' funds	346,745	300,160
Income derived from investment of shareholders' funds	42,031	34,196
Transfer from profit equalisation reserve	-	-
Total distributable income	388,776	334,356
Income attributable to depositors	(148,017)	(113,122)
Net income from Islamic Banking business	240,759	221,234

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

29. NON-INTEREST INCOME

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Fee and commission income:				
Commissions	41,271	38,791	-	-
Service charges and fees	206,207	175,641	-	-
Guarantee fees	14,320	15,773	-	-
Advisory and arrangement fees	17,654	6,789	-	-
Underwriting commissions	2,538	789	-	-
Brokerage	9,489	8,914	-	-
	291,479	246,697	-	-
Net gains/(losses) on securities arising from:				
Sales of held for trading securities	3,302	455	-	-
Sales of available-for-sale securities	23,314	3,074	-	-
Redemption of held-to-maturity securities	7,432	2,257	-	-
Net unrealised gains/(losses) on fair value changes on held for trading securities	426	(126)	-	-
Dividend income from held-to-maturity securities	-	5,432	-	-
Dividend income from available-for-sale securities	2,599	149	-	-
	37,073	11,241	-	-
Dividend income from a subsidiary company	-	-	107,980	56,680
Net unrealised gains/(losses) on fair value changes on derivatives held at fair value through profit and loss	13,340	(4,618)	-	-
Net unrealised gains/(losses) on fair value changes between hedged items and interest rate swaps designated as fair value hedges	5,227	(523)	-	-
Other income/(expenditure):				
Net foreign exchange gains	32,941	30,397	-	-
Rental income from premises	1,533	2,054	-	-
Gains on disposal of property, plant and equipment	366	598	-	-
Other operating income	8,653	10,024	-	-
Other non-operating income	2,923	2,795	-	-
Amortisation of fair value changes arising from the unwinded fair value hedges	(5,091)	-	-	-
Reversal of net unrealised losses on fair value changes of hedged available-for-sale securities upon their maturity	(2,613)	(3,536)	-	-
Net allowances recovered in respect of other bad and doubtful debts	311	468	-	-
	39,023	42,800	-	-
	386,142	295,597	107,980	56,680

30. OTHER OPERATING EXPENSES

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Personnel expenses	507,608	478,546	55	-
Promotion and marketing related expenses	25,104	25,470	835	359
Establishment related expenses	141,661	130,384	-	-
General administrative expenses	157,296	186,127	8,547	1,328
	831,669	820,527	9,437	1,687
(i) Personnel expenses comprise the following:				
Salaries, bonuses and allowances	402,143	383,751	-	-
Defined contribution plan	65,980	63,788	-	-
Other employee benefits	39,485	31,007	55	-
	507,608	478,546	55	-
(ii) Promotion and marketing related expenses comprise the following:				
Advertising and publicity expenses	20,752	21,543	831	359
Marketing related travelling expenses	2,178	2,266	-	-
Others	2,174	1,661	4	-
	25,104	25,470	835	359
(iii) Establishment related expenses comprise the following:				
Depreciation of property, plant and equipment	49,996	43,735	-	-
Repair and maintenance	29,710	22,580	-	-
Rental of premises	25,409	25,379	-	-
Hire of equipment	2,079	1,638	-	-
Dataline rental	5,719	5,346	-	-
Security services	11,747	10,942	-	-
Electricity, water and sewerage	13,204	12,762	-	-
Others	3,797	8,002	-	-
	141,661	130,384	-	-
(iv) General administrative expenses comprise the following:				
Communication costs	21,525	21,920	-	150
Printing and stationeries	11,931	11,618	-	3
Property, plant and equipment:				
- loss on disposal	532	167	-	-
- written-off	628	671	-	-
Legal and other professional charges	22,665	23,065	6,859	349
Auditors' remuneration:				
- audit fees				
- statutory audit	871	692	61	61
- limited review	190	210	-	-
- other audit related	12	12	12	12
- non-audit fees	805	465	-	-
Taxation fees	280	385	15	34
Card expenses	64,852	65,547	-	-
Information service subscription	5,074	7,761	-	-
Transport and travelling	3,360	3,619	580	-
Others	24,571	49,995	1,020	719
	157,296	186,127	8,547	1,328

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

31. IMPAIRMENT LOSSES ON LOANS, ADVANCES AND FINANCING

	Group	
	2010 RM'000	2009 RM'000
Impairment losses on loans, advances and financing		
Collective assessment impairment allowance		
- Made	347,923	-
- Written back	(100,619)	-
Individual assessment impairment allowance		
- Made	291,177	-
- Written back	(116,353)	-
General allowance		
- Made	-	36,882
Specific allowance		
- Made	-	462,405
- Written back	-	(199,181)
Impaired loans, advances and financing		
- Recovered	(189,744)	(119,751)
- Written-off	49	460
	232,433	180,815

The Group has evaluated the portfolio of impaired loans, advances and financing of less than RM1 million each that had been impaired and remained uncollected for more than 5 years and no value has been assigned to the realisable value of collateral.

32. IMPAIRMENT LOSSES ON SECURITIES

	Group	
	2010 RM'000	2009 RM'000
Charge for the financial year		
Available-for-sales securities	32,691	3,670
Help-to-maturity securities	40	8,183
	32,731	11,853

33. LOSS ON DECONSOLIDATION OF SUBSIDIARIES

	Group	
	2010 RM'000	2009 RM'000
Loss on deconsolidation of subsidiaries	675	-

The Board of Directors of MIMB Investment Bank Berhad agreed to place the SSSB Jaya (1987) Sdn Bhd ("SSSB Jaya") to a creditors' voluntary winding up.

The appointment of the liquidators under the creditors' voluntary winding up represents a loss of control as described in Paragraph 32 of FRS 127 Consolidated and Separate Financial Statements (2010). Hence, the Group has derecognised the assets and liabilities of SSSB Jaya and its subsidiaries at their carrying amount and recognised the resulting difference as a loss in the financial statements of the Group.

34. TAXATION

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Malaysian income tax:				
Current year	175,758	116,387	26,505	11,901
Overprovision in prior years	(12,838)	(12,828)	-	(3)
	162,920	103,559	26,505	11,898
Transfers to deferred taxation (Note14)	(13,435)	(22,765)	-	-
Tax charge for the financial year	149,485	80,794	26,505	11,898

The reconciliation between the tax on the Group's and the Company's accounting profit with the theoretical amount that would arise using the statutory income tax rate of Malaysia is as follows:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Profit before taxation	589,607	421,930	97,112	45,352
Tax calculated at a rate of 25%	147,402	105,483	24,278	11,338
Zakat payment deductible for tax purposes	(61)	(9)	-	-
Tax effects of expenses not deductible for tax purposes/ income not subject to tax	23,957	(11,852)	2,674	563
Overprovision in prior years	(13,297)	(12,828)	(447)	(3)
Reversal of previously recognised deferred tax	(8,516)	-	-	-
Tax expense for the financial year	149,485	80,794	26,505	11,898

35. EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share are calculated by dividing the profit for the financial year by the weighted average number of ordinary shares of RM1 each in issue during the financial year.

	Group	
	2010 RM'000	2009 RM'000
Profit for the financial year	440,088	341,104
Weighted average number of ordinary shares in issue ('000)	693,209	693,209
Basic earnings per share (sen)	63.49	49.21

(b) Diluted earnings per share

As at 31 December 2010 and 31 December 2009, the diluted earnings per share of the Group are equal to the basic earnings per share as there were no dilutive potential ordinary shares outstanding.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

36. DIVIDENDS

	Company			
	2010		2009	
	Gross dividends per share sen	Amount of dividends net of tax RM'000	Gross dividends per share sen	Amount of dividends net of tax RM'000
Proposed first and final dividends	-	-	10.0	69,321
Dividends recognised as distribution to equity shareholders	-	-	5.77	39,998

The Directors do not recommend the payment of any dividends in respect of the financial year ended 31 December 2010.

37. KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Forms of remuneration in aggregate for all Directors and Chief Executive Officer ("CEO") charged against the profit for the financial year are as follows:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Non-Executive Directors:				
Fees	1,940	1,890	951	509
Other remuneration	803	347	370	98
	2,743	2,237	1,321	607

The aggregate fees and other remuneration paid to Non-Executive Directors of the Group and the Company during the financial year, analysed into bands of RM50,000 are as follows:

		Number of Non-Executive Directors			
		Group		Company	
	Note	2010	2009	2010	2009
Below RM50,000	(i)	-	-	4	-
RM50,000 - RM100,000	(ii)	2	3	3	7
RM100,001 - RM150,000	(iii)	10	-	6	1
RM150,001 - RM200,000	(iv)	-	-	1	-
RM250,001 - RM300,000	(v)	-	2	-	-
RM400,001 - RM450,000	(vi)	-	2	-	-
RM500,001 and above	(vii)	2	1	-	-

2010

Note (i) Company: Dato' Dr. Mohd Shahari bin Ahmad Jabar, Rodney Gordon Ward, Yeo Kar Peng and Tan Sri Dato' Seri Syed Zainol Anwar ibni Syed Putra Jamalullail

(ii) Group: Tengku Dato' Ahmad Faisal bin Tengku Ibrahim, Dato' Haron bin Siraj

Company: Tengku Azman ibni Almarhum Sultan Abu Bakar, Tengku Dato' Ahmad Faisal bin Tengku Ibrahim and Dato' Haron bin Siraj

(iii) Group: Rin Kei Mei, Tengku Azman ibni Almarhum Sultan Abu Bakar, Dr. Zaha Rina binti Zahari, Nicholas John Lough @ Sharif Lough bin Abdullah, Ahmad Rizal bin Basir, Ng Wing Fai, Dato' Sri Tiong Ik King, Rodney Gordon Ward, Tan Sri Dato' Seri Syed Zainol Anwar ibni Syed Putra Jamalullail and Yeo Kar Peng

Company: Rin Kei Mei, Dato' Sri Tiong Ik King, Dr. Zaha Rina binti Zahari, Nicholas John Lough @ Sharif Lough bin Abdullah, Ahmad Rizal bin Basir and Ng Wing Fai

(iv) Company: Gooi Hoe Soon

(vii) Group: Gooi Hoe Soon and Dato' Dr. Mohd Shahari bin Ahmad Jabar

37. KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

(a) Forms of remuneration in aggregate for all Directors and Chief Executive Officer ("CEO") charged against the profit for the financial year are as follows: (continued)

The aggregate fees and other remuneration paid to Non-Executive Directors of the Group and the Company during the financial year, analysed into bands of RM50,000 are as follows: (continued)

2009

Note (ii) Group: Rin Kei Mei, Dato' Sri Tiong Ik King and Dr. Huan Guocang

Company: Rin Kei Mei, Dato' Sri Tiong Ik King, Dr. Huan Guocang, Yeo Kar Peng, Rodney Gordon Ward, Dato' Dr. Mohd Shahari bin Ahmad Jabar and Ng Wing Fai

(iii) Company: Tan Sri Dato' Seri Syed Zainol Anwar ibni Syed Putra Jamalullail

(v) Group: Rodney Gordon Ward and Ng Wing Fai

(vi) Group: Tan Sri Dato' Seri Syed Zainol Anwar ibni Syed Putra Jamalullail and Yeo Kar Peng

(vii) Group: Dato' Dr. Mohd Shahari bin Ahmad Jabar

The Board of Directors comprises of all Non-Executive Directors and there is no Executive Director.

The estimated cash value of benefits-in-kind of Directors of the Group and the Company amounted to RM50,000 and RM Nil (2009: RM40,000 and RM Nil) respectively.

(b) Forms of compensation paid to the key management personnel [a] of the Group and the Company during the financial year are as follows:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Fees	1,940	1,890	951	509
Short term benefits [b]	11,969	14,464	370	98
	13,909	16,354	1,321	607

(a) Key management personnel of the Group and the Company refer to the Directors of EON Capital Berhad and the members of Group Management Committee of EON Bank Berhad.

(b) Short term benefits comprise salaries, bonuses, social security contributions, allowances and benefits-in-kind.

38. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related parties and relationships

The related parties of, and their relationship (other than those disclosed in Note 13 to the financial statements) with the Group and the Company are as follows:

Related parties	Relationship
Primus Pacific Partners 1 LP	Other related parties
All Directors of the Company and members of EON Bank Berhad's Group Management Committee	Key management personnel
Close family members and dependants of key management personnel and entities that are controlled or significantly influenced by, or for which significant voting power in such entity reside with, directly, or indirectly by key management personnel or its close family members	Related parties of key management personnel (deemed as related to the Group)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

38. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Significant related party transactions and balances

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Income				
Interest income from a subsidiary	-	-	298	638
Dividend income from a subsidiary	-	-	107,980	56,680
Interest on staff loans to key management personnel	47	32	-	-
Expenditure				
Professional fees to a subsidiary company	-	-	1,487	-
Interest on deposits from key management personnel	264	31	-	-
Amount due from				
Cash and short term funds with a subsidiary company	-	-	75,455	3,843
Fixed deposits placed with a subsidiary	-	-	5,722	7,093
Staff loans to key management personnel	2,631	1,507	-	-
Amount due to				
Deposits from key management personnel	17,675	8,805	-	-

39. CREDIT TRANSACTION AND EXPOSURES WITH CONNECTED PARTIES

	Group	
	2010 RM'000	2009 RM'000
Outstanding credit exposures with connected parties	699,843	786,190
of which:		
Total credit exposure which is non performing or in default	110	126
Total credit exposures	57,318,012	49,498,312
Percentage of outstanding credit exposures with connected parties		
as a proportion of total credit exposures	1.22%	1.59%
as a proportion of capital base	11.99%	15.87%
which is non performing or in default	0.02%	0.02%

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

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

(i) Director of a banking subsidiary, whether as an executive director or otherwise, and whether or not receiving compensation, and his close relatives. This includes alternate directors where permitted by the banking subsidiary;

(ii) Controlling shareholder of a banking subsidiary and his close relatives;

(iii) Executive officer, being a member of management having authority and responsibility for planning, directing and/or controlling the activities of the banking subsidiary, and his close relatives;

39. CREDIT TRANSACTION AND EXPOSURES WITH CONNECTED PARTIES (CONTINUED)

(iv) Officer of a banking subsidiary who is responsible for or has the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and his close relatives;

(v) Firms, partnerships, companies or any legal entities which control, or are controlled by, any person (including close relatives in the case of individuals) listed in (i) to (iv) above, or in which they have an interest, as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;

(vi) Any person for whom the persons listed in (i) to (iv) above is a guarantor; and

(vii) Subsidiary of, or an entity controlled by, the banking subsidiary and its connected parties.

40. CAPITAL COMMITMENTS

	Group	
	2010 RM'000	2009 RM'000
Authorised and contracted for	35,484	31,565
Authorised but not contracted for	39,765	3,741
	75,249	35,306
Analysed as follows:		
- Property, plant and equipment	75,249	35,306

41. LEASE COMMITMENTS

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

	Group	
	2010 RM'000	2009 RM'000
One year or less	203	203
Over one year to five years	894	864
Over five years	25,840	26,073
	26,937	27,140

42. FINANCIAL RISK MANAGEMENT

The Group's risk management framework outlines the overall structure, aspirations, values and risk managements strategies, and its structured approach in balancing risks and returns. The Group's aim is to achieve an optimum balance between risk and returns and minimise potential adverse effects on the Group's financial performance.

Appropriate methodologies and measures have been developed in our risk management approaches to manage uncertainties such that the deviation from intended strategic objectives are monitored and controlled within manageable levels.

Responsibility for risk management resides at all levels within the Group, and are managed within parameters established by the EON Bank Berhad's management/board committees, namely Group Asset and Liability Management Committee ("Group ALCO"), Group Risk Management Committee ("GRMC") and Board Group Risk Management Committee ("BGRMC"), and approved by the Board in ensuring the risk management activities are carried out effectively. The risk governance structure is primarily built to strengthen risk evaluation and management, whilst positioning the Group to manage the dynamic change in business and regulatory environments in an efficient and effective manner.

The core functions of the Group's risk management are to identify all key risks for the Group, measure these risks, manage the risk positions and determine the optimum capital allocations. The Group regularly reviews its risk management framework to reflect changes in markets, products, regulatory and emerging best market practice. The risk management framework that the Group has formulated is designed to administer the organisational structure, governance, risk strategies and appetite, monitoring and reporting processes.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(A) 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; and maximising risk-adjusted rate of returns by maintaining credit risk exposures within acceptable parameters, which are instituted based on prevailing business and economic conditions. Credit processes are also structured to ensure adherence of credit principles and to establish impartiality in loan origination, approval, documentation, disbursement and settlement. Industry sectors concentration, exposure to various product segments and internal single customer limits are regularly monitored to minimise the risk of over-concentration. The overall credit risk management is subject to an ongoing process for reviewing and enhancement.

The internal credit risk rating system has been developed and implemented to better measure the credit worthiness of each customer. This rating system will also link credit risk grading to default probabilities and enable risk-based assessment of loan portfolio.

Credit reviews on loan applications before being approved by higher approving authorities are conducted independently from the business units involved in the loan origination. Approval of loans with unacceptable credit risks or large exposures exceeding the internal single customer limits will be reported to the GRMC, BGRMC and the Board of Directors.

Risk limit control and mitigation policies

The Group manages, limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties and groups, and to industries and countries.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and country are approved quarterly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some other specific control and mitigation measures are outlined below:

(a) Collateral

As part of its policies and practices to mitigate credit risk, the Group implements guidelines on the acceptability of specific classes of collateral.

In assessing the acceptability of collateral, the Group takes into consideration, amongst others, the following:

- The value of the collateral;
- The ease of disposal of the collateral, namely its marketability;
- The aggregate size of the particular collateral that the Group and the Company hold;
- The adequacy of collateral coverage where certain portion of collateral's market value should be discounted to provide for markdown selling price due to forced sales or disposal under foreclosure.

The principal types of collateral for loans, advances and financing are:

- Mortgages over residential properties;
- Motor vehicles;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

Longer term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Group will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans, advances and financing.

Collateral held as security for financial assets other than loans, advances and financing depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Risk limit control and mitigation policies (continued)

(b) Lending limits (for derivatives and loan books)

The Group maintains strict control limits on net open derivative positions (that is, the difference between purchase and sale contracts) by both amount and term. The amount subject to credit risk is limited to expected future net cash inflows of instruments, which in relation to derivatives are only a fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not always obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Group's market transactions on any single day.

(c) Master netting arrangements

The Group further manages its credit exposure by entering into master netting arrangements with counterparties where it is appropriate and feasible to do so. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities as transactions are usually accounted for individually on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are settled on a net basis.

(d) Financial covenants (for credit related commitments and loan books)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards (often referred to as financial covenants).

The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Maximum exposure to credit risk before collateral held or other credit enhancements

On-balance sheet and off-balance sheet credit risk exposures are as follows:

	2010	
	Group RM'000	**Company RM'000**
On-Balance Sheet Exposures		
Short-term funds and placements with banks and other financial institutions (excluding cash on hand)	10,782,540	81,489
Held for trading securities	380,926	-
Derivative financial instruments	28,473	-
Available-for-sale securities	3,434,405	-
Held-to-maturity securities	152,841	-
Loans, advances and financing	36,650,026	-
Other assets *	67,823	-
	51,497,034	81,489
Off-Balance Sheet Exposures		
Undrawn loan commitments and other facilities	16,269,335	-
Guarantees, endorsements and other contingent items	9,350,648	-
	25,619,983	-
Total On and Off-Balance Sheet Exposures	77,117,017	81,489

The above table represents a worse-case scenario of credit risk exposures to the Group at 31 December 2010, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

Note:
* Includes only items under other assets which are subject to credit risk.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

Concentration of risks of financial assets with credit risk exposure by industry sectors

The table below sets out the on-balance sheet credit risk exposures at carrying amounts (without taking into account any collateral held or other credit support) and off-balance sheet credit risk exposures by industry sectors:

As at 31 December 2010 Group	Short term funds and placements with banks and other financial institutions RM'000	Held for trading securities RM'000	Derivative financial instruments RM'000	Available -for-sale securities RM'000	Held-to -maturity securities RM'000	Loans, advances and financing RM'000	Other assets * RM'000	Total on-balance sheet credit risk exposures RM'000	Undrawn loan commit -ments and other facilities RM'000	Guarantees, endorse -ments and other contingent items RM'000	Total off-balance sheet credit risk exposures RM'000	Total on and off-balance sheet credit risk exposures RM'000
Agriculture, hunting, forestry and fishing	-	-	-	-	-	621,812	-	621,812	591,072	5,149	596,221	1,218,033
Mining and quarrying	-	-	-	-	-	61,715	-	61,715	67,843	6,839	74,682	136,397
Manufacturing	-	-	-	30,824	36,379	2,840,892	892	2,908,987	1,900,089	148,001	2,048,090	4,957,077
Electricity, gas and water	-	19,995	-	511,275	-	300,737	9,400	841,407	95,925	73,865	169,790	1,011,197
Construction	-	25,975	-	38,149	43	2,099,939	251	2,164,357	2,693,519	720,201	3,413,720	5,578,077
Wholesale and retail trade, restaurants and hotels	-	-	-	9,986	-	2,722,339	501	2,732,826	1,544,548	259,373	1,803,921	4,536,747
Transport, storage and communication	-	15,213	-	30,626	-	1,036,720	1,759	1,084,318	458,433	276,753	735,186	1,819,504
Finance, insurance and business services	2,635,052	-	28,473	841,398	-	1,599,711	52,130	5,156,764	715,567	7,685,233	8,400,800	13,557,564
Government and government agencies	8,147,488	319,743	-	1,895,424	116,419	-	74	10,479,148	-	-		10,479,148
Real estate	-	-	-	76,723	-	2,262,689	-	2,339,412	988,526	110,506	1,099,032	3,438,444
Community, social and personal services	-	-	-	-	-	202,246	956	203,202	438,800	25,476	464,276	667,478
Household	-	-	-	-	-	22,545,498	1,265	22,546,763	6,659,039	12,877	6,671,916	29,218,679
(of which: (i) Purchase of transport vehicles	-	-	-	-	-	9,775,929	2	9,775,931	23,323	-	23,323	9,799,254
(ii) Purchase of residential properties	-	-	-	-	-	8,398,231	1,226	8,399,457	2,386,186	-	2,386,186	10,785,643
(iii) Purchase of non-residential properties	-	-	-	-	-	987,925	-	987,925	189,204	-	189,204	1,177,129
(iv) Consumption credit	-	-	-	-	-	3,147,659	-	3,147,659	3,883,944	-	3,883,944	7,031,603
(v) Others)	-	-	-	-	-	235,754	37	235,791	176,382	12,877	189,259	425,050
Others	-	-	-	-	-	355,728	595	356,323	115,974	26,375	142,349	498,672
Total on-balance sheet and off-balance sheet exposures	10,782,540	380,926	28,473	3,434,405	152,841	36,650,026	67,823	51,497,034	16,269,335	9,350,648	25,619,983	77,117,017

Note:
* Includes only items under other assets which are subject to credit risk.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

Concentration of risks of financial assets with credit risk exposure by industry sectors (continued)

The Company's maximum exposure to credit risk before collateral held or other credit enhancements by industry sectors is only in respect of its short-term funds and placements with banks and other financial institutions (excluding cash on hand) as at 31 December 2010 of RM81,489,000 which are classified under the finance, insurance and business services.

Loans, advances and financing

Loans, advances and financing are summarised as follows:

	2010 Group RM'000
Neither past due nor impaired	30,873,281
Past due but not impaired	5,633,986
Individually impaired	1,376,397
Gross loans, advances and financing	37,883,664
Fair value changes arising from fair value hedge	(11,390)
Unamortised fair value changes arising from the unwinded fair value hedge	10,780
Allowances for impaired loans, advances and financing	
- Collective assessment impairment allowance	(746,544)
- Individual assessment impairment allowance	(486,484)
Net loans, advances and financing	36,650,026

(i) Loans, advances and financing neither past due nor impaired

Corporates (including SME) credit risks are assessed by the Credit Management function, and each customer is assigned a credit rating. The rating is based on the assessment of relevant factors including customer's financial position, industry outlook, types of facilities and securities offered.

Consumer credit risk is managed on a portfolio basis. Scoring models and lending templates are used and these tools focus on lending to individual customers with similar characteristics and product needs.

Corporates credits are constantly being monitored to identify and detect signs of credit deterioration. Reviews are conducted at least once a year with updated information on the customer's financial position, market position, industry and economic condition and account conduct. Corrective actions are taken should the account show signs of credit deterioration. A post-approval evaluation of credit facilities is in place, with checks to ensure that credit facilities are properly approved, and further, post-mortems are also conducted on credit facilities that turn impaired. The findings of these credit reviews are tabled to the Group Credit Committee for remedial action, and credit policies further enhanced.

Risk grades for Consumer loans/financing are a result of credit assessment during application stage, whereas the respective Risk Grades for Corporate loans/financing would have taken into account the re-scoring results (in the event that the loans are annually reviewed) and as such, the Corporate loans/financing Risk Grades could be from the stage of origination of the loan or subsequent reviews.

The % of graded loans, advances and financing neither past due nor impaired for the Group was 65%.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Loans, advances and financing (continued)

(i) Loans, advances and financing neither past due nor impaired (continued)

The following table shows the credit quality continuum of the Group's portfolio for loans, advances and financing neither past due nor impaired.

		2010 Group RM'000
Consumer loans/financing		
Risk Grade	Credit Quality	
1-3	Good	5,166,290
4-5	Average	604,684
6	Weakest	535,861
Un-graded		10,666,186
		16,973,021
Corporates loans/financing		
Risk Grade	Credit Quality	
1-2	Good	3,031,108
3-4	↑	3,920,025
5-6		5,521,533
7-8	↓	1,386,889
9	Weakest	40,705
		13,900,260
Total		30,873,281

(ii) Loans, advances and financing past due but not impaired

A financial asset is defined as "past due" when the counterparty has failed to make a principal or interest payment when contractually due.

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans advances and financing less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans, advances and financing by class to customers that were past due but not impaired were as follows:

As at 31 December 2010 Group	Consumer loans/ financing RM'000	Corporates loans/ financing RM'000	Total RM'000
Past due up to 30 days	3,287,113	505,007	3,792,120
Past due 30-60 days	1,306,632	86,109	1,392,741
Past due 60-90 days	409,387	39,738	449,125
	5,003,132	630,854	5,633,986

Note:

(a) The fair value of collateral held as security in respect of loans, advances and financing past due but not impaired is not disclosed by the Group as it is not practicable to do so.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Loans, advances and financing

(iii) Loans, advances and financing individually impaired

The breakdown of the gross amount of individually impaired loans, advances and financing by class, along with the fair value of related collateral held by the Group as security, is as follows:

As at 31 December 2010 **Group**	**Consumer loans/ financing RM'000**	**Corporates loans/ financing RM'000**	**Total RM'000**
Gross amount of individually impaired loans	932,659	443,738	1,376,397
Individual assessment impairment allowance	279,896	206,588	486,484
Fair value of collateral	614,302	353,765	968,067

(a) Fair value of collateral held for loans, advances and financing which are individually impaired

	2010 Group RM'000
Properties	640,542
Shares and debentures	1,006
Machineries	49,849
Fixed deposits	106,437
Others	170,233
	968,067

(b) Repossessed collateral

As and when required, the Group will take possession of collateral they hold as securities and will dispose of them as soon as practicable but not later than 5 years from the date they take possession, with the proceeds used to reduce the outstanding indebtedness. Repossessed collaterals are classified in the balance sheet as other assets. The amount of such other assets for 2010 is not material.

(iv) Loans, advances and financing renegotiated

Credit facilities are classified as rescheduled and restructured ("R&R") assets when the Group grant concessions to a borrower because of deterioration in the financial position of the borrower or the inability of the borrower to meet the original repayment schedule. A R&R credit facility is classified into the appropriate facility grade depending on the assessment of the financial condition of the borrower and the ability of the borrower to repay based on the R&R terms.

R&R assets, are not classified back to the non impaired status until there are reasonable grounds to conclude that the borrower will able to service all future principal and interest payments on the credit facility in accordance with the R&R terms.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Loans, advances and financing (continued)

(iv) Loans, advances and financing renegotiated (continued)

	2010 Group RM'000
Carrying amount of renegotiated loans, advances and financing that would otherwise be past due or impaired	209,538

Short-term funds and deposits and placements with banks and other financial institutions, held for trading securities, available-for-sales securities, held-to-maturity securities and derivative financial instruments

The table below presents an analysis of short-term funds and deposits and placements with banks and other financial institutions, held for trading securities, available-for-sale securities, held-to-maturity securities and derivative financial instruments by rating agency designation as at 31 December 2010, based on RAM's ratings or its equivalent:

Group	**Short-term funds and Deposits and placements with banks and other financial institutions RM'000**	**Held for trading securities RM'000**	**Available-for-sale securities RM'000**	**Held-to-maturity securities RM'000**	**Derivative financial instruments RM'000**
Neither past due nor impaired					
AAA to AA3	2,408,906	61,183	2,155,478	71,037	28,247
A1 to A3	7,351,378	319,743	235,299	-	-
BBB1 to BBB3	654,047	-	-	-	-
Unrated	319,903	-	1,021,224	28,418	226
	10,734,234	380,926	3,412,001	99,455	28,473
Individual impaired	-	-	22,404	53,386	-
	10,734,234	380,926	3,434,405	152,841	28,473

(B) Market risk

Market risk is the potential loss which may arise from financial instrument positions held by the Group due to the adverse changes in market prices or price-influencing parameters in the financial markets. Most of the Group's trading activities are undertaken to meet proprietary business strategy and the requirements of wholesale customers for interest rate and foreign exchange products.

The Group's market risk framework comprises market risk policies and practices, the validation of valuation and risk models, the control structure with appropriate delegation of authority and market risk limits. Various control and mitigation measures are undertaken across the Group to manage market risks and to ensure they comply with approved risk limits. These risks are adequately controlled and monitored by way of sensitivity limits, net open position limits, portfolio limits, diversification limits, holding limits, and stop loss limits. These limits are governed by sequential trigger points which are defined as "Management Trigger Points", "Management Action Triggers" and "Board Limits".

Foreign exchange risk sensitivity analysis

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on their financial position and cash flows.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(B) Market risk (continued)

Foreign exchange risk sensitivity analysis (continued)

The table below sets out the principal structure of foreign exchange exposures (net of investment hedges) of the Group:

	2010 Group RM'000
United States Dollar ("USD")	9,863
Euro ("EUR")	31
Great Britain Pound ("GBP")	263
Singapore Dollar ("SGD")	873
Others	2,729
	13,759

An analysis of the exposures to assess the impact of a one per cent fall in the RM exchange rates are as follows:

	2010 Group RM'000
United States Dollar ("USD")	99
Great Britain Pound ("GBP")	3
Singapore Dollar ("SGD")	(9)
Others	27
	120

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(B) Market risk (continued)

Interest rate risk sensitivity analysis

The interest rate sensitivity results below shows the impact on profit after tax and equity of financial assets or financial liabilities bearing floating interest rates and fixed rate financial assets and financial liabilities that are re-measured to fair value.

	2010 Group Impact on profit after tax RM'000	2010 Group Impact on equity RM'000
+100 basis points ('bps')	(10)	(379)
-100 bps	10	414

Interest rate risk

Interest rate risk is the risk that an enterprise may be exposed to a loss in earnings arising from interest rates and yield curves changes due to the interest rates structure of its balance sheet. The interest rate risk is identified based on sensitivity to interest rates arising from the mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liability funding. For the Group, the interest rate risk is measured based on Earnings at Risk and Capital at Risk to measure the impact to profit and loss and capital respectively. The interest rate risk is closely monitored by the Group with periodic reports are submitted to the Management and the Board of Directors. To control the interest rate risk, various "Management Action Triggers" and "Board Limits" are established so as to ensure the risk is within the defined risk appetite and to prompt the Management to take the necessary actions.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(B) Market risk (continued)

Interest rate risk (continued)

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The off-balance sheet gap represents the net notional amounts of all interest rate sensitive derivative financial instruments. As interest rates and yield curves change over time, the Group may be exposed to a loss in earnings due to the interest rate structure of their balance sheet. Sensitivity to interest rates arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liability funding. As the majority of the longer term financial assets are of variable rate whereby the expected maturities are shorter than the contractual terms, this information is not relied on by the Group in its interest rate risk management.

Group As at 31 December 2010	Up to 1 month RM'000	> 1- 3 months RM'000	> 3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
ASSETS								
Cash and short-term funds	9,569,542	-	-	-	-	255,884	-	9,825,426
Deposits and placements with banks and other financial institutions	-	879,346	293,454	16,294	-	-	-	1,189,094
Held for trading securities	-	-	-	-	-	-	380,926	380,926
Derivative financial instruments	-	-	-	-	-	12,038	16,435	28,473
Available-for-sale securities	1,334,255	750,296	616,095	525,342	199,861	32,865	-	3,458,714
Held-to-maturity securities	-	-	-	116,482	175	36,184	-	152,841
Loans, advances and financing								
Non-impaired	21,139,101	740,153	488,590	5,492,347	8,627,494	16,184	-	36,503,869
Impaired	-	-	-	-	-	146,157^	-	146,157
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	359,893	-	359,893
Other assets [(1)]	93	-	-	-	-	1,018,153	-	1,018,246
Total assets	32,042,991	2,369,795	1,398,139	6,150,465	8,827,530	1,877,358	397,361	53,063,639

^ The amount represents impaired loans, net of individual assessment impairment allowance and collective assessment impairment allowance for loans, advances and financing made in accordance with the Group's accounting policy on allowances for impaired loans, advances and financing.

Note:
[(1)] Other assets include clients' and brokers' balances, property, plant and equipment, deferred tax assets and goodwill.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(B) Market risk (continued)

Interest rate risk (continued)

Group As at 31 December 2010	Up to 1 month RM'000	> 1- 3 months RM'000	> 3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
LIABILITIES								
Deposits from customers	19,005,824	7,478,260	9,222,471	326,117	-	5,353,834	-	41,386,506
Deposits and placements of banks and other financial institutions	1,504,303	912,149	171,408	1,522,171	-	-	-	4,110,031
Derivative financial instruments	-	-	-	-	-	6,591	29,563	36,154
Bills and acceptances payable	376,137	284,561	-	-	-	180,342	-	841,040
Other liabilities [1]	37,893	-	-	190,914	-	788,057	-	1,016,864
Subordinated medium term notes	-	-	-	100,000	1,160,000	(112,483)^	-	1,147,517
Hybrid capital	-	-	-	-	500,000	2,058 ^	-	502,058
Borrowings	-	65,321	-	-	-	-	-	65,321
Total liabilities	20,924,157	8,740,291	9,393,879	2,139,202	1,660,000	6,218,399	29,563	49,105,491
Shareholders' funds	-	-	-	-	-	3,958,148	-	3,958,148
Total liabilities and shareholders' funds	20,924,157	8,740,291	9,393,879	2,139,202	1,660,000	10,176,547	29,563	53,063,639
On-balance sheet interest sensitivity gap	11,118,834	(6,370,496)	(7,995,740)	4,011,263	7,167,530	(8,299,189)	367,798	-
Off-balance sheet interest sensitivity gap	(130,000)	1,670,000	105,000	(1,645,000)	-	-	-	-
Total interest sensitivity gap	10,988,834	(4,700,496)	(7,890,740)	2,366,263	7,167,530	(8,299,189)	367,798	-
Cumulative interest rate sensitive gap	10,988,834	6,288,338	(1,602,402)	763,861	7,931,391	(367,798)	-	-

^ The amount represents interest payable, positive changes in fair values arising from fair value hedge and unamortised discounts of the subordinated medium term notes and innovative Tier 1 capital securities calculated in accordance with the Group's accounting policy.

Note:
[1] Other liabilities include provision for taxation and zakat.

Group As at 31 December 2009	Up to 1 month RM'000	> 1- 3 months RM'000	> 3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
ASSETS								
Cash and short-term funds	7,967,168	158	300	-	-	312,049	-	8,279,675
Deposits and placements with banks and other financial institutions	-	504,236	25,000	21,732	-	-	-	550,968
Held for trading securities	-	-	-	-	-	-	55,744	55,744
Derivative financial instruments	-	-	-	-	-	3,080	9,825	12,905
Available-for-sale securities	1,253,855	683,194	666,006	591,825	549,958	28,288	-	3,773,126
Held-to-maturity securities	-	-	19,128	173,794	175	18,082	-	211,179
Loans, advances and financing								
Non-impaired	17,346,322	493,383	733,628	4,834,028	8,438,451	28,553	-	31,874,365
Impaired	-	-	-	-	-	173,961 ^	-	173,961
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	270,091	-	270,091
Other assets [1]	219	-	-	-	-	1,185,613	-	1,185,832
Total assets	26,567,564	1,680,971	1,444,062	5,621,379	8,988,584	2,019,717	65,569	46,387,846

^ The amount represents impaired loans, net of individual assessment impairment allowance and collective assessment impairment allowance for loans, advances and financing made in accordance with the Group's accounting policy on allowances for impaired loans, advances and financing.

Note:
[1] Other assets include clients' and brokers' balances, property, plant and equipment, deferred tax assets and goodwill.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(B) Market risk (continued)

Interest rate risk (continued)

Group **As at 31 December 2009**	**Up to 1 month RM'000**	**> 1- 3 months RM'000**	**> 3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-interest sensitive RM'000**	**Trading book RM'000**	**Total RM'000**
LIABILITIES								
Deposits from customers	12,569,234	7,449,284	8,426,331	826,003	-	4,595,069	-	33,865,921
Deposits and placements of banks and other financial institutions	2,817,200	341,557	264,129	1,525,093	-	25	-	4,948,004
Derivative financial instruments	-	-	-	-	-	41,936	16,776	58,712
Bills and acceptances payable	533,678	896,827	118,436	-	-	126,222	-	1,675,163
Other liabilities (1)	25,587	-	-	-	-	1,077,066	-	1,102,653
Subordinated medium term notes	-	-	-	-	660,000	(28,370)^	-	631,630
Hybrid capital	-	-	-	-	500,000	(12,777)^	-	487,223
Borrowings	-	65,000	-	-	-	-	-	65,000
Total liabilities	15,945,699	8,752,668	8,808,896	2,351,096	1,160,000	5,799,171	16,776	42,834,306
Shareholders' funds	-	-	-	-	-	3,553,540	-	3,553,540
Total liabilities and shareholders' funds	15,945,699	8,752,668	8,808,896	2,351,096	1,160,000	9,352,711	16,776	46,387,846
On-balance sheet interest sensitivity gap	10,621,865	(7,071,697)	(7,364,834)	3,270,283	7,828,584	(7,332,994)	48,793	-
Off-balance sheet interest sensitivity gap	470,000	1,055,000	(275,000)	(1,250,000)	-	-	-	-
Total interest sensitivity gap	11,091,865	(6,016,697)	(7,639,834)	2,020,283	7,828,584	(7,332,994)	48,793	-
Cumulative interest rate sensitive gap	11,091,865	5,075,168	(2,564,666)	(544,383)	7,284,201	(48,793)	-	-

^ The amount represents positive changes in fair values arising from fair value hedge and unamortised discounts of the subordinated medium term notes and innovative Tier 1 capital securities calculated in accordance with the Group's accounting policy.

Note:
(1) Other liabilities include provision for taxation and zakat.

Company **As at 31 December 2010**	**Up to 1 month RM'000**	**> 1- 3 months RM'000**	**> 3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-interest sensitive RM'000**	**Total RM'000**
ASSETS							
Cash and short-term funds	75,213	-	-	-	-	248	75,461
Deposits and placements with banks and other financial institutions	-	5,721	307	-	-	-	6,028
Investment in subsidiaries	-	-	-	-	-	1,808,353	1,808,353
Other assets (1)	-	-	-	-	-	4,968	4,968
Total assets	75,213	5,721	307	-	-	1,813,569	1,894,810
LIABILITIES							
Other liabilities (2)	-	-	-	-	-	1,067	1,067
Borrowings	-	65,321	-	-	-	-	65,321
Total liabilities	-	65,321	-	-	-	1,067	66,388
Shareholders' funds	-	-	-	-	-	1,828,422	1,828,422
Total liabilities and shareholders' funds	-	65,321	-	-	-	1,829,489	1,894,810
Net interest rate gap	75,213	(59,600)	307	-	-	(15,920)	-
Cumulative interest rate gap	75,213	15,613	15,920	15,920	15,920	-	-

Note:
(1) Other assets include tax recoverable.
(2) Other liabilities include provision for taxation and zakat.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(B) Market risk (continued)

Interest rate risk (continued)

Company **As at 31 December 2009**	**Up to 1 month RM'000**	**> 1- 3 months RM'000**	**> 3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-interest sensitive RM'000**	**Total RM'000**
ASSETS							
Cash and short-term funds	3,843	-	300	-	-	-	4,143
Deposits and placements with banks and other financial institutions	-	7,085	-	-	-	-	7,085
Investment in subsidiaries	-	-	-	-	-	1,808,353	1,808,353
Other assets (1)	-	-	-	-	-	4,484	4,484
Total assets	3,843	7,085	300	-	-	1,812,837	1,824,065
LIABILITIES							
Other liabilities (2)	-	-	-	-	-	1,250	1,250
Borrowings	-	65,000	-	-	-	-	65,000
Total liabilities	-	65,000	-	-	-	1,250	66,250
Shareholders' funds	-	-	-	-	-	1,757,815	1,757,815
Total liabilities and shareholders' funds	-	65,000	-	-	-	1,759,065	1,824,065
Net interest rate gap	3,843	(57,915)	300	-	-	53,772	-
Cumulative interest rate gap	3,843	(54,072)	(53,772)	(53,772)	(53,772)	-	-

Note:
(1) Other assets include tax recoverable.
(2) Other liabilities include provision for taxation and zakat.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(B) Market risk (continued)

Interest rate risk (continued)

The table below summarises the effective average interest rate for each class of interest sensitive financial assets and financial liabilities:

	Group 2010 %	**Group 2009 %**	**Company 2010 %**	**Company 2009 %**
Financial assets				
Cash and short-term funds	2.76	1.55	2.81	1.90
Deposits and placements with banks and other financial institutions	2.51	1.62	2.80	2.00
Held for trading securities	2.97	3.24	-	-
Derivative financial instruments	0.65	2.51	-	-
Available-for-sale securities	3.68	3.31	-	-
Held-to-maturity securities	4.47	5.34	-	-
Loans, advances and financing				
- Non-impaired	5.94	6.73	-	-
Other assets	8.00	7.00	-	-
Financial liabilities				
Deposits from customers	2.45	1.93	-	-
Deposits and placements of banks and other financial institutions	3.90	2.64	-	-
Derivative financial instruments	1.30	1.72		
Bills and acceptances payable	2.96	2.20	-	-
Other liabilities	5.12	4.19	-	-
Subordinated medium term notes	5.42	5.75	-	-
Hybrid capital	8.25	8.25	-	-
Borrowings	3.19	3.19	3.93	3.19

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(C) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet its financial obligations. The liquidity risk is identified based on concentration, volatility of source of fund and funding maturity structure and it is measured primarily using Bank Negara Malaysia's New Liquidity Framework and depositors' concentration ratios. The liquidity risk is closely monitored by the Group with periodic reports submitted to the Management and the Board of Directors Various "Management Action Triggers" and "Board Limits" are established to prompt the Management to take the necessary actions in relation to the liquidity risk issues.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(C) Liquidity risk (continued)

The table below analyses assets and liabilities of the Group based on the remaining period as at balance sheet date to the contractual maturity date:

As at 31 December 2010 Group	Up to 1 week RM'000	1 week to 1 month RM'000	1 - 3 months RM'000	3 - 6 months RM'000	6 - 12 months RM'000	Over 1 year RM'000	Total RM'000
Assets							
Cash and short-term funds	7,320,942	2,504,484	-	-	-	-	9,825,426
Deposits and placements with banks and other financial institutions	-	-	879,346	293,147	307	16,294	1,189,094
Held for trading securities	19,994	196,112	-	74,762	49,263	40,795	380,926
Derivative financial instruments	5,095	2,297	4,410	(1,322)	1,229	16,764	28,473
Available-for-sale securities	308,865	1,043,378	751,297	533,474	98,718	722,982	3,458,714
Held-to-maturity securities	-	-	-	-	-	152,841	152,841
Loans, advances and financing	3,482,413	917,833	2,288,321	1,940,705	3,063,889	24,956,865	36,650,026
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	359,893	359,893
Other assets (1)	330,495	6,728	-	-	-	681,023	1,018,246
Total assets	11,467,804	4,670,832	3,923,374	2,840,766	3,213,406	26,947,457	53,063,639
Liabilities							
Deposits from customers	14,121,759	10,196,732	7,081,059	5,364,573	4,296,266	326,117	41,386,506
Deposits and placements of banks and other financial institutions	610,517	893,786	912,149	171,408	-	1,522,171	4,110,031
Derivative financial instruments	794	3,622	5,911	9,688	7,216	8,923	36,154
Bills and acceptances payable	259,263	297,216	284,561	-	-	-	841,040
Other liabilities (2)	335,205	25,223	-	-	-	656,436	1,016,864
Subordinated medium term notes	-	-	-	9,346	-	1,138,171	1,147,517
Hybrid capital	-	-	-	12,318	-	489,740	502,058
Borrowings	-	-	65,321	-	-	-	65,321
Total liabilities	15,327,538	11,416,579	8,349,001	5,567,333	4,303,482	4,141,558	49,105,491
Shareholders' funds	-	-	-	-	-	3,958,148	3,958,148
Net liquidity gap	(3,859,734)	(6,745,747)	(4,425,627)	(2,726,567)	(1,090,076)	18,847,751	-

Note:
(1) Other assets include investment in subsidiaries, deferred tax assets, properties, plant and equipment, goodwill and other assets.
(2) Other liabilities include provision for taxation.

The table below analyses assets and liabilities of the Company based on the remaining period as at balance sheet date to the contractual maturity date:

As at 31 December 2010 Company	Up to 1 week RM'000	1 week to 1 month RM'000	1 - 3 months RM'000	3 - 6 months RM'000	6 - 12 months RM'000	Over 1 year RM'000	Total RM'000
Assets							
Cash and short-term funds	4,507	70,954	-	-	-	-	75,461
Deposits and placements with banks and other financial institutions	-	-	5,721	-	307	-	6,028
Other assets (1)	-	-	-	-	-	1,813,321	1,813,321
Total assets	4,507	70,954	5,721	-	307	1,813,321	1,894,810
Liabilities							
Other liabilities	-	-	-	-	1,067	-	1,067
Borrowings	-	-	65,321	-	-	-	65,321
Total liabilities	-	-	65,321	-	1,067	-	66,388
Shareholders' funds	-	-	-	-	-	1,828,422	1,828,422
Net liquidity gap	4,507	70,954	(59,600)	-	(760)	(15,101)	-

Note:
(1) Other assets include investment in subsidiaries and tax recoverable.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(C) Liquidity risk (continued)

The table below analyses liabilities of the Group and the Company based on contractual undiscounted repayment obligations:

As at 31 December 2010 Group	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Liabilities							
Deposits from customers	15,026,234	7,758,613	10,022,791	353,243	-	8,726,325	41,887,206
Deposits and placements of banks and other financial institutions	1,341,395	1,079,427	357,017	1,475,883	-	92,733	4,346,455
Derivative financial instruments	4,418	5,924	17,084	7,528	-	-	34,954
Bills and acceptances payable	556,479	284,561	-	-	-	-	841,040
Other liabilities [1]	441,229	164,380	86,391	192,376	-	88,509	972,885
Subordinated medium term notes	-	26,324	35,505	264,106	1,467,863	-	1,793,798
Hybrid capital	-	10,228	10,510	82,443	1,005,510	-	1,108,691
Borrowings	-	65,637	-	-	-	-	65,637
Total liabilities	17,369,755	9,395,094	10,529,298	2,375,579	2,473,373	8,907,567	51,050,666
Company							
Liabilities							
Other liabilities	-	-	1,067	-	-	-	1,067
Borrowings	-	65,637	-	-	-	-	65,637
Total liabilities	-	65,637	1,067	-	-	-	66,704

Note:
[1] Other liabilities include provision for taxation.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(C) Liquidity risk (continued)

Commitments and contingencies

The table below shows the contractual expiry by maturity of the Group's commitments and contingencies:

Group As at 31 December 2010	Less than 1 year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	Over 5 years RM'000	Total RM'000
Undrawn loan commitments[a] and other facilities	10,733,649	5,535,686	-	-	16,269,335
Guarantees, endorsements and other contingent items	4,539,123	2,226,525	2,525,000	60,000	9,350,648
Total commitments and contingencies	15,272,772	7,762,211	2,525,000	60,000	25,619,983

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(C) Liquidity risk (continued)

Commitments and contingencies (continued)

Group As at 31 December 2009	Less than 1 year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	Over 5 years RM'000	Total RM'000
Undrawn loan commitments[a] and other facilities	11,428,409	3,531,747	-	-	14,960,156
Guarantees, endorsements and other contingent items	4,011,247	1,300,000	1,270,000	-	6,581,247
Total commitments and contingencies	15,439,656	4,831,747	1,270,000	-	21,541,403

Note:
(a) Undrawn loan commitments are recognised at activation stage and include commitments which are unconditionally cancellable by the Group.
(b) The Group expects that not all of the contingent liabilities and undrawn loan commitments will be drawn before expiry.
(c) Disclosure of the credit equivalent amount and risk-weighted asset amount of the commitments and contingencies above, as required by Bank Negara Malaysia's Risk-Weighted Capital Adequacy Framework (Basel II) - Disclosure Requirements (Pillar 3), are presented in the Pillar 3 disclosures.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(D) Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risks.

An Operational Risk Management Framework is being implemented across the Group and the Company to all business and support units. The Framework consists of processes and tools that will assist these units to identify, assess, monitor and control their operational risks.

Additionally, on a day-to-day basis, each business and supporting unit level practises operational risk management through establishing and maintaining control/procedures that are appropriate for its operating environment. Integral elements such as sound banking processes, internal control, and additional support from group-wide functions such as internal audit, banking operations (including system and methods), compliance and financial control and risk management are used to manage these risks.

Within the Group, operational risk management is manifested in:

- Manuals and policies that incorporate internal control processes
- Human resources development and training programmes
- System controls and procedures governing IT usage in all banking products
- Establishment of specific policies and standards across all product lines
- Business Continuity Plan that looks into its business resumption in an organised and timely manner in time of disaster
- New Product Process to ensure that before new products and activities are being introduced, they are subject to proper risk assessments and possess adequate procedures and controls
- Whistle Blowing Policy that provides for staff and stakeholders to confidentially report on misconduct committed by an employee of the Group.

43. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

(i) To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;

(ii) To safeguard the Group's ability to continue operating as a going concern so that they can continue to provide returns for shareholders and benefits for other stakeholders; and

(iii) To maintain a strong capital base to support the development of the business of the Group.

Capital adequacy and the use of regulatory capital are monitored by the management of the Banking Units of the Group, employing techniques based on the guidelines developed by the Basel Committee as implemented by Bank Negara Malaysia ("BNM"), for supervisory purposes. The required information is filed with BNM on a monthly basis.

The Banking Units of the Group maintain ratios of total regulatory capital to their risk-weighted assets (the 'Tier I capital and risk weighted capital ratio') above a minimum level prescribed by BNM, which takes into account the risk profile of the Banking Units of the Group.

The Group's regulatory capital comprises two tiers:

(i) Tier I capital: share capital (net of any book values of the treasury shares), general bank reserve, statutory reserve, non-controlling interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier I capital; and

(ii) Tier II capital: qualifying subordinated loan capital and collective assessment impairment allowances.

The risk-weighted assets are measured using the 'standardised approach' (SA) for credit risk. Risk weights are assigned to assets and off balance sheet items according to the asset class and credit assessment of the Group. For the determination of credit assessments, the rating agencies RAM and MARC are used. Any eligible collateral and netting agreements are taken into account for calculation of risk-weighted assets.

43. CAPITAL MANAGEMENT (CONTINUED)

(a) The capital adequacy ratios of the Banking Units of the Group are analysed as follows:

	Group 2010	Group 2009
Before deducting proposed dividends:		
Tier I capital ratio	10.92%	11.15%
Risk-weighted capital ratio	15.41%	14.41%
After deducting proposed dividends:		
Tier I capital ratio	10.92%	10.92%
Risk-weighted capital ratio	15.41%	14.18%

The components of Tier I and Tier II Capital of the Banking Units of the Group are as follows:

	Group 2010 RM'000	Group 2009 RM'000
Tier I Capital:		
Paid-up share capital	1,329,807	1,329,807
Share premium	39,337	39,337
Retained profits	1,402,948	1,201,415
Other reserves	1,379,370	1,245,501
Innovative Tier 1 capital securities	489,691	488,520
	4,641,153	4,304,580
Less: Goodwill	(333,861)	(333,861)
Deferred tax assets	(171,284)	(137,193)
Total Tier I Capital	4,136,008	3,833,526
Tier II Capital:		
Subordinated medium term notes	1,136,526	632,944
Collective assessment impairment allowance [1]	562,939	-
General allowance	-	487,810
Total Tier II Capital	1,699,465	1,120,754
Total Capital	5,835,473	4,954,280
Less: Investment in subsidiaries	(690)	(690)
Capital Base	5,834,783	4,953,590

Note:

[1] Excluding collective assessment impairment allowance attributable to loans, advances and financing classified as impaired but not individually assessed for impairment pursuant to BNM's Guideline on "Classification and Impairment Provisions for Loans/Financing" issued on 8 January 2010 and subsequently updated on 26 January 2010 and 17 December 2010.

[2] Disclosure of the risk-weighted asset as required by Bank Negara Malaysia's Risk-Weighted Capital Adequacy Framework (Basel II) - Disclosure Requirements (Pillar 3), are presented in the Pillar 3 disclosures.

The capital adequacy ratios of the Banking Units of the Group consist of capital base and risk-weighted assets derived from consolidated balances of its banking subsidiaries which comprise EON Bank Berhad (""EBB""), EONCAP Islamic Bank Berhad (""EIBB"") and MIMB Investment Bank Berhad (""MIMB"").

The capital adequacy ratios of the Banking Units of the Group are computed in accordance with Bank Negara Malaysia's ("BNM") revised Risk-Weighted Capital Adequacy Framework ("RWCAF")– Basel II. The Banking Units of the Group have adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

43. CAPITAL MANAGEMENT (CONTINUED)

(a) The capital adequacy ratios of the Banking Units of the Group are analysed as follows: (continued)

EBB had, on 24 March 2010, granted a RM270 million Subordinated Financing Facility ("Financing Facility") to EIBB to support the expansion of the business operations of EIBB. EBB had issued RM270 million of Subordinated Medium Term Notes ("MTN") under its RM2.0 billion MTN Programme to raise this capital on behalf of EIBB. Under the Guidelines for the computation of Risk-Weighted Capital Adequacy Ratio ("RWCR"), the funding disbursed by EBB to EIBB under this Financing Facility will be reflected as a deduction from EBB's capital funds, as an "Investment in Capital Instruments of Other Banking Institutions". The first tranche of RM100 million under the Financing Facility has been drawn down by EIBB on 26 March 2010. The final tranche of RM170 million under the Financing Facility has been drawn down by EIBB on 31 January 2011.

(b) The capital adequacy ratios of the banking subsidiary companies of the Group are as follows:

	EON Bank Berhad [1]	MIMB Investment Bank Berhad [1]	EONCAP Islamic Bank Berhad [2]
31 December 2010			
Before deducting proposed dividends:			
Tier I capital ratio	12.56%	73.30%	12.39%
Risk-weighted capital ratio	14.83%	73.83%	15.96%
After deducting proposed dividends:			
Tier I capital ratio	12.56%	73.30%	11.84%
Risk-weighted capital ratio	14.83%	73.83%	15.41%
31 December 2009			
Before deducting proposed dividends:			
Tier I capital ratio	13.24%	71.88%	11.14%
Risk-weighted capital ratio	14.17%	72.52%	12.69%
After deducting proposed dividends:			
Tier I capital ratio	12.97%	71.88%	11.14%
Risk-weighted capital ratio	13.89%	72.52%	12.69%

[1] The capital adequacy ratios of EBB and MIMB are computed in accordance with BNM's revised RWCAF– Basel II. EBB and MIMB have adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

[2] The capital adequacy ratios of EIBB are computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks ("CAFIB"), which is based on the Basel II capital accord. EIBB has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

The Financing facility granted by EBB to EIBB qualified for inclusion as part of EIBB's Tier II capital funds for purposes of computation of EIBB's capital adequacy ratios.

44. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the uncertainties and assumptions could materially affect these estimates and the resultant fair value estimates.

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

In addition, fair value information for non-financial assets and non-financial liabilities are excluded, as they do not fall within the scope of FRS1322004, which requires the fair value information to be disclosed. These include property, plant and equipment, investment in subsidiary companies and intangibles.

A range of methodologies and assumptions had been used in deriving the fair values of the Group's financial instruments at balance sheet date.

Financial instruments not measured at fair value

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair values which are materially different from their carrying values:

	Group Carrying value RM'000	Group Fair value RM'000
2010		
Financial assets		
Loans, advances and financing	36,650,026	35,969,151
Financial liabilities		
Subordinated medium term notes	1,147,517	1,293,142
Hybrid capital	502,058	401,025
2009		
Financial assets		
Loans, advances and financing	32,048,326	31,312,140
Financial liabilities		
Subordinated medium term notes	631,630	620,461
Hybrid capital	487,223	459,386

The estimated fair values are derived using the following methodologies and assumptions:

Cash and short-term funds

The fair values of cash and short-term funds approximate their carrying values.

Deposits and placements with banks and other financial institutions

For deposits and placements with bank and other financial institutions with maturities of less than three months, the carrying values are reasonable estimates of their fair values.

For deposits and placements with maturities three months and above, estimated fair values are based on discounted cash flows using prevailing money market interest rates at which similar deposits and placements would be made with financial institutions of similar credit risk and remaining period to maturity.

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

The estimated fair values are generally based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been assessed by reference to market indicative interest yields or net tangible asset backing of the investee where applicable.

Loans, advances and financing

For floating rate loans, the carrying values are generally reasonable estimates of their fair values.

For fixed rate loans, the fair values are estimated by discounting the estimated future cash flows using the prevailing market rates of loans with similar credit risks and maturities.

The fair values of impaired floating and fixed rate loans are represented by their carrying values, net of allowances for impairment, being the expected recoverable amounts.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments not measured at fair value (continued)

The estimated fair values are derived using the following methodologies and assumptions: (continued)

Deposits from customers

For deposits from customers with maturities of less than three months, the carrying values are reasonable estimates of their fair values.

For deposit with maturities of three months or more, fair values are estimated using discounted cash flows based on prevailing market rates of similar deposits from customers.

Deposits and placements of banks and other financial institutions

The estimated fair values of deposits and placements of banks and other financial institutions with maturities of less than three months approximate their carrying values.

For deposits and placements with maturities three months or more, the fair values are estimated based on discounted cash flows using prevailing money market interest rates of deposits and placements with similar remaining period to maturities.

Bills and acceptances payable

The fair values of bills and acceptances payable approximate their carrying values.

Recourse obligation on loans sold to Cagamas Berhad

The estimated fair value of recourse obligation on loans sold to Cagamas Berhad is based on discounted cash flows using the prevailing interest rates offered by Cagamas Berhad for hire-purchase and housing loans sold to Cagamas Berhad with similar remaining period to maturities.

Other assets and liabilities

The carrying values less any estimated impairment allowances for financial assets and liabilities included in 'Other assets and liabilities' are assumed to approximate their fair values as these items are not materially sensitive to shift in market interest rates.

Subordinated medium term notes and hybrid capital

The estimated fair value is estimated based on discounted cash flows using a discounted rate based upon the borrowing rate which the Directors expect would be available to the Group at the balance sheet date.

Foreign exchange and interest rate related contracts

The fair values of foreign exchange and interest rate related contracts are the estimated amounts the Group would receive or pay to terminate the contracts at the balance sheet date.

45. SEGMENT REPORTING

In the financial year 2010, segment reporting by the Group was prepared for the first time in accordance with FRS 8, "Operating segments".

Segment information for 2009 that is reported as comparative information for 2010 has been restated to conform to the requirements of FRS 8.

Following the management approach of FRS 8, operating segments are reported in accordance with the internal reporting provided to the Group Chief Executive Officer (the chief operating decision-maker), who is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment under FRS 8.

The Group's business is organised mainly into the following operating segments:

(a) Business and Investment Banking

The Business and Investment Banking provides a range of commercial and corporate lending as well as investment banking services and products to the corporate and small and medium enterprises ("SME") customers. The range of products and services includes lending, trade finance and specialised funding schemes as well as the full range of debt and equity capital market products. The capital market products include structured financing, origination, underwriting and distribution of debt and equity securities, mergers and acquisitions, debt restructurings, corporate advisory, Islamic capital market products and project advisory as well as stockbroking related services.

(b) Consumer Banking

The Consumer Banking business provides financing for hire purchase, housing, credit cards, other personal loans, deposits, bancassurance, unit trust, and internet banking services to individual customers.

(c) Islamic Banking

The Islamic Banking business offers the full range of consumer, SME, commercial and corporate banking services to investment banking products and services that are Shariah compliant.

(d) Treasury

Treasury undertakes trading in currencies, interest rates, debt securities, credit spreads and other treasury related products and services across every market segment including the consumer, SME, corporate and inter-bank markets.

(e) Others

This segment comprises the Funding Centre which manages the Group's balance sheet and funding needs, as well as the other supporting departments in Head Office and non-banking subsidiaries.

The performance of each operating segment is measured on the basis of its profitability contribution, cost-to-income ratio, loan and deposit growth and asset quality. All direct expenses relating to its revenue are allocated directly to the segment whilst certain overheads and costs of shared resources are allocated on agreed allocation bases. The head office costs is grouped under the "Others" segment.

None of the segments have revenue from a single external customer that is greater than 10% of the Group's revenue for the current financial year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

45. SEGMENT REPORTING (CONTINUED)

(a) Segment revenue and segment results are as follows:

Group 2010	Business and Investment Banking RM'000	Consumer Banking RM'000	Islamic Banking RM'000	Treasury RM'000	Others RM'000	Inter-segment Elimination RM'000	Total RM'000
Net interest income and Islamic banking income	347,733	714,859	221,771	191,381	(175,112)	341	1,300,973
Non-interest income	120,153	186,860	11,935	68,892	4,861	(6,559)	386,142
Net income	467,886	901,719	233,706	260,273	(170,251)	(6,218)	1,687,115
Other operating expenses	(73,183)	(509,020)	(24,229)	(10,305)	(221,150)	6,218	(831,669)
Operating profit	394,703	392,699	209,477	249,968	(391,401)	-	855,446
Impairment losses on loans, advances and financing	(61,683)	(142,352)	(28,398)	-	-	-	(232,433)
Impairment losses on securities	(32,731)	-	-	-	-	-	(32,731)
Loss on disposal of subsidiaries	-	-	-	-	(675)	-	(675)
Profit before taxation and zakat	300,289	250,347	181,079	249,968	(392,076)	-	589,607
Taxation and zakat							(149,519)
Profit for the financial year							440,088

Group 2009	Business and Investment Banking RM'000	Consumer Banking RM'000	Islamic Banking RM'000	Treasury RM'000	Others RM'000	Inter-segment Elimination RM'000	Total RM'000
Net interest income and Islamic banking income	233,282	628,442	195,890	119,331	(37,521)	104	1,139,528
Non-interest income	96,156	166,747	8,952	29,992	(3,801)	(2,449)	295,597
Net income	329,438	795,189	204,842	149,323	(41,322)	(2,345)	1,435,125
Other operating expenses	(70,645)	(516,208)	(23,234)	(12,090)	(200,695)	2,345	(820,527)
Operating profit	258,793	278,981	181,608	137,233	(242,017)	-	614,598
Impairment losses on loans, advances and financing	3,880	(111,408)	(73,287)	-	-	-	(180,815)
Impairment losses on securities	(11,853)	-	-	-	-	-	(11,853)
Profit before taxation and zakat	250,820	167,573	108,321	137,233	(242,017)	-	421,930
Taxation and zakat							(80,826)
Profit for the financial year							341,104

(b) Segment assets and liabilities are as follows:

Group 2010	Business and Investment Banking RM'000	Consumer Banking RM'000	Islamic Banking RM'000	Treasury RM'000	Others RM'000	Inter-segment Elimination RM'000	Total RM'000
Segment assets	12,063,862	14,696,888	3,352,287	15,397,872	9,225,281	(1,672,551)	53,063,639
Segment liabilities	9,689,507	13,215,314	2,858,571	20,328,800	4,072,861	(1,059,562)	49,105,491
Group 2009							
Segment assets	10,692,210	13,770,068	2,686,844	12,668,732	7,607,920	(1,037,928)	46,387,846
Segment liabilities	8,678,954	12,512,511	2,426,191	16,382,532	3,260,714	(426,596)	42,834,306

(c) Revenue by products and services

Details of revenue from external customers by products or services are disclosed in Note 26 and Note 29.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

46. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

On 21 January 2010, the Company had received an unsolicited offer from Hong Leong Bank Berhad ("HLBB") to acquire the entire assets and liabilities of the Company for a total cash consideration of RM4,921,781,997.20. After due consideration of the said offer, the Board of Directors ("Board") of the Company had resolved that the said offer is not in the interest of the Company and its shareholders based on, amongst others, the consideration in relation to the offer. Accordingly, the Board of the Company had on 2 February 2010 notified HLBB that it has resolved not to table the offer for consideration and approval by the shareholders of the Company. The first offer had therefore lapsed.

On 30 March 2010, the Board received a second offer from HLBB to acquire the entire assets and liabilities of the Company for a total cash consideration of RM4,921,781,997.20. Following negotiations between the Company and HLBB, HLBB had subsequently on 1 April 2010 made a revised offer to the Company by increasing the offer price from RM4,921,781,997.20 to RM5,060,423,743.60 ("HLBB Offer" or "Proposed Disposal").

On 21 May 2010, the Company had announced a proposal to distribute all the proceeds arising from the Proposed Disposal back to the entitled shareholders via a proposed special dividend, proposed increase in authorised share capital, proposed capital reduction and proposed issue of 2 new shares ("Proposed Distribution").

On 21 June 2010, the Company announced that it had received a petition containing several complaints brought by Primus (Malaysia) Sdn Bhd under Section 181 of the Companies Act, 1965 against the Company (as nominal respondent) and Directors (save for Ng Wing Fai), seeking relief of the High Court of Malaya, on the grounds, among other matters, that the affairs of the Company are being conducted or the powers of the Directors of the Company are being exercised in a manner oppressive to one or more shareholders of the Company (including Primus) or in disregard of their interests as shareholders. The hearing of the petition commenced on 20 September 2010 and the trial is presently ongoing.

On 7 July 2010, the Company announced that after deliberation by its Board and consultation with the Company's legal advisers, the Board (with the exception of Ng Wing Fai who dissented) has affirmed its decision to table the HLBB Offer to the Company's shareholders at a general meeting for their consideration and approval and to empower the Board to make the decision whether or not to accept the Offer subject to the following being obtained:

(i) The approval of the shareholders for the HLBB Offer at such general meeting

(ii) The approval of the Minister of Finance for the HLBB Offer; and

(iii) A final decision of the court on the petition filed with the High Court of Malaya at Kuala Lumpur (Commercial Division) by Primus (Malaysia) Sdn Bhd on 21 July 2010 against the Company (as nominal respondent) and 12 others ("Petition").

The approval of the Minister of Finance for the Proposed Disposal dated 26 July 2010 was obtained vide Bank Negara Malaysia's letter dated 3 August 2010. At the Company's Extraordinary General Meeting ("EGM") held on 27 September 2010, all the resolutions in relation to the Proposed Disposal and the Proposed Distribution have been passed by the shareholders.

On 4 October 2010, Primus (Malaysia) Sdn Bhd via its solicitors had informed the Company that it has filed an originating summons at the High Court of Malaya at Kuala Lumpur seeking the Court's relief for, inter-alia, the declaration that all the resolutions passed at the EGM of the Company held on 27 September 2010 to be null and void and an order to restrain the Company, its servants, agents or whomsoever from implementing, or giving effect to, any such resolution passed at the EGM. The originating summons had been served on 15 October 2010 and on 19 October 2010, at the case management hearing, the originating summons was held on 2 December 2010.

47. SIGNIFICANT EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

On 31 January 2011, the Company announced that the Learned Judge had on 31 January 2010 held that:

Based on the proper construction of Article 63 of the Articles of Association of ECB, the Chairman of the EGM held on 27 September 2010, ought to have put the motion for adjournment which was properly seconded to the vote; (b) the the Chairman's refusal to put the motion to replace him as Chairman was justified; and (c) he would decline to make any other declaratory orders sought by Primus. The Learned Judge also held that the contravention of Article 63 does not render the EGM a nullity and the resolutions passed thereat void. As a result of the above, the shareholders resolutions passed at the EGM on 27 September 2010 are valid.

On 16 February 2011, the Company announced that Primus (Malaysia) Sdn Bhd has filed a notice of appeal to the Court of Appeal appealing against the decision of the Learned High Court Judge given on 31 January 2011 in relation to the validation of the EGM. As at 1 April 2011, the Court of Appeal has yet to fix the hearing date.

48. CHANGES IN ACCOUNTING POLICIES

The list of new accounting standards, amendments to published standards and interpretations to existing standards issued by MASB that are applicable and effective for the Group and the Company for the financial year ended 31 December 2010 is set out in Note 2 of the Summary of Significant Accounting Policies.

The adoption of the new standards, amendments to published standards and interpretation to existing standards does not have any significant financial impact on the Group and the Company except for the following:

FRS 8: Operating Segments

FRS 8 "Operating Segments" (effective from 1 July 2009) replaces FRS 114_{2004}. The adoption of FRS 8 on 1 January 2010 has no impact on the financial results of the Group. In accordance with the requirements of FRS 8, segment information is reported in a manner that is consistent with the internal reporting provided to the Chief Operating Decision-maker. Prior year comparative figures have been restated accordingly.

FRS 101: Presentation of financial statements

The adoption of the revised FRS 101 "Presentation of financial statements" (effective from 1 January 2010) has no impact on the financial results of the Group and the Company as the changes introduced are in terms of presentation. The revised FRS 101 "Presentation of Financial Statements" prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. 'Non-owner changes in equity' are to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group and the Company have opted to present two statements (the income statement and statement of comprehensive income) and the comparative figures for the prior year have been restated accordingly.

Amendments to FRS 110: Events After the Reporting Period

The adoption of the Amendments to FRS 110 "Events After the Reporting Period" (effective from 1 January 2010) has resulted in a change in the accounting policy relating to the recognition of dividend income. Prior to the adoption of the Amendments to FRS 110, proposed dividends by an entity in the reporting period were recognised as income of the Company. In view of the amendments to FRS 110, the Company has changed its dividend policy to only recognise dividends proposed by its subsidiary company as income of the Company upon the approval at the Annual General Meeting of the subsidiary company.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

48. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The adoption of the new standards, amendments to published standards and interpretation to existing standards does not have any significant financial impact on the Group and the Company except for the following: (continued)

Amendments to FRS 110: Events After the Reporting Period (continued)

The change in accounting policy has been applied retrospectively and an analysis of the impact to the financial statements of the Company is summarised as follows:

	As previously reported RM'000	Effects from changes in accounting policy RM'000	As restated RM'000
Company			
Impact to the Statement of Financial Position			
As at 1 January 2009			
Other assets	63,930	(56,680)	7,250
(of which: Tax recoverable	19,575	(14,170)	5,405
Dividend receivable from a subsidiary	42,510	(42,510)	-
Deferred tax liabilities	(14,170)	14,170	-
Reserves	(1,113,660)	42,510	(1,071,150)
(of which: Retained profits)	(47,364)	42,510	(4,854)
As at 31 December 2009			
Other assets	112,464	(107,980)	4,484
(of which: Tax recoverable	31,459	(26,995)	4,464
Dividend receivable from a subsidiary	80,985	(80,985)	-
Deferred tax liabilities	(26,995)	26,995	-
Reserves	(1,145,591)	80,985	(1,064,606)
(of which: Retained profits)	(79,295)	80,985	1,690
Impact to the Statement of Income			
For the financial year ended 31 December 2009			
Non-interest income	107,980	(51,300)	56,680
Taxation	(24,723)	12,825	(11,898)

Amendments to FRS 117: Leases

Prior to the adoption of the Amendments to FRS 117 "Leases", leasehold land that had an indefinite economic life and with title that was not expected to pass to the lessee at the end of the lease term was classified as operating lease. Upfront payments for the rights to use the leasehold land over a predetermined period were accounted for as prepaid lease payments and amortised on a straight-line basis over the remaining period of the lease, which are included under "Other assets".

Upon adoption of the Amendment to FRS 117 (effective from 1 January 2010) in relation to classification of leasehold land, the Group reassessed the classification of leasehold land as a finance lease or an operating lease based on the extent of risks and rewards associated with the land. The Group has determined that all leasehold land of the Group are in substance finance leases and has reclassified its leasehold land from prepaid lease payments to property, plant and equipment.

48. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The adoption of the new standards, amendments to published standards and interpretation to existing standards does not have any significant financial impact on the Group and the Company except for the following: (continued)

Amendments to FRS 117: Leases (continued)

The change in accounting policy has been applied retrospectively and an analysis of the impact to the financial statements of the Group is summarised as follows:

	As previously reported RM'000	Effects from changes in accounting policy RM'000	As restated RM'000
Group			
Impact to the Statement of Financial Position			
As at 1 January 2009			
Property, plant and equipment	287,626	735	288,361
Other assets	780,988	(735)	780,253
(of which: Prepaid lease payments)	735	(735)	-
As at 31 December 2009			
Property, plant and equipment	312,569	726	313,295
Other assets	656,969	(726)	656,243
(of which: Prepaid lease payments)	726	(726)	-
Impact to the Statement of Income			
For the financial year ended 31 December 2009			
Establishment related expenses	130,384	-	130,384
(of which: Depreciation of property, plant and equipment	43,726	9	43,735
Others)	8,011	(9)	8,002

FRS 139: Financial Instruments: Recognition and Measurement

FRS 139 "Financial Instruments: Recognition and Measurement" (effective from 1 January 2010) establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Prior to the adoption of FRS 139 on 1 January 2010, the accounting policies of the Group incorporate requirements of BNM's Revised Guidelines on Financial Reporting for Licensed Institutions (Revised BNM/GP8 issued on 5 October 2004) which includes selected principles (i.e. recognition, derecognition and measurement of financial instruments, including derivative instruments, and hedge accounting) of FRS 139.

The adoption of FRS 139 on 1 January 2010 has resulted in the following changes in accounting policies:

(a) Impairment of loans, advances and financing

The adoption of FRS 139 has resulted in a change in the accounting policy relating to the assessment for impairment of loans, advances and financing. Prior to the adoption of FRS 139, allowances for impaired loans, advances and financing (previously referred to as non-performing loans, advances and financing) were computed in conformity with the Guidelines on "Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts" (Revised BNM/GP3). Upon the adoption of FRS 139, the Group assesses at each balance sheet date whether there is any objective evidence that a loan/financing or group of loans/financing is impaired. The loan/financing or group of loans/financing is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan/financing (an incurred 'loss event') and that loss event (or events) has an impact on future estimated cash flows of the loan/financing or group of loans/financing that can be reliably estimated.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

48. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The adoption of the new standards, amendments to published standards and interpretation to existing standards does not have any significant financial impact on the Group and the Company except for the following: (continued)

FRS 139: Financial Instruments: Recognition and Measurement (continued)

(a) Impairment of loans, advances and financing (continued)

The Group first assesses whether objective evidence of impairment exists individually for loans/financing which are individually significant, and collectively for loans/financing which are not individually significant. An individual assessment will only be carried out for loans/financing above the set threshold while loans/financing below the set threshold are collectively assessed for impairment.

Where a loan/financing that is individually assessed for impairment does not result in impairment provisions, the loan/financing is included in a group of loans/financing using similar credit characteristics for collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the loan's/financing's carrying amount and the present value of estimated future cash flows (excluding credit losses that have not been incurred) discounted at the loan's/financing's original effective interest/profit rate. The carrying amount of the loan/financing is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If the loan/financing has a variable interest/profit rate, the discount rate for measuring any impairment loss is the current effective interest/profit rate determined under the contract.

In the Amendments to FRS 139, MASB has included an additional transitional arrangement for entities in the financial sector, whereby BNM may prescribe an alternative basis for collective assessment of impairment by banking institutions. This transitional arrangement is prescribed in BNM's Guidelines on "Classification and Impairment Provisions for Loans/Financing" issued on 8 January 2010 and subsequently updated on 26 January 2010 and 17 December 2010, whereby banking institutions are required to maintain collective assessment impairment allowances of at least 1.5% of total outstanding loans/financing, net of individual assessment impairment allowance.

The Group has applied the abovementioned transitional arrangement in determining the collective assessment impairment allowances for loans/financing at each reporting date.

The change in accounting policy above has been accounted for prospectively, in line with the transitional arrangement under Paragraph 103AA of FRS 139, with adjustments to the previous carrying amount of loans, advances and financing at the beginning of the current financial period being adjusted against the opening retained profits. With the adoption of the loans impairment basis under FRS 139 and application of the transitional arrangement under BNM's Guidelines on "Classification and Impairment Provisions for Loans/Financing", the Group wrote back general allowance of RM487,809,480 and specific allowance of RM592,062,747 against opening retained profits as at 1 January 2010. In addition, the Group has also recognised opening collective assessment impairment allowance of RM784,734,121 and opening individual assessment impairment allowance of RM386,585,135 against opening retained profits as at 1 January 2010. Any further collective assessment impairment allowance and individual assessment impairment allowance charged subsequent to the initial adoption of FRS 139 is recognised as impairment losses on loans, advances and financing in the income statement.

(b) Recognition of interest/finance income on loans, advances and financing

FRS 139 prescribes that loans and receivables are measured at amortised cost using the effective interest/profit method. Prior to the adoption of FRS 139, interest/finance income on loans, advances and financing of the Group were recognised based on contractual interest/profit rates. Upon the adoption of FRS 139 on 1 January 2010, interest/finance income on loans, advances and financing is recognised using effective interest/profit rates, which is the rate that exactly discounts estimated future cash receipts through the expected life of the loan or, when appropriate, a shorter period to the net carrying amount of the loan. This change in accounting policy has been accounted for prospectively in line with the transitional arrangement under Paragraph 103AA of FRS 139, resulting in an adjustment of RM46,177,092 for the Group against the opening retained profits.

48. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The adoption of the new standards, amendments to published standards and interpretation to existing standards does not have any significant financial impact on the Group and the Company except for the following: (continued)

FRS 139: Financial Instruments: Recognition and Measurement (continued)

(b) Recognition of interest/finance income on loans, advances and financing (continued)

Prior to the adoption of FRS 139, where a loan account becomes non-performing, interest earned was reversed out from the income statement and reduced against the loan interest receivables accounts. Subsequently, interest earned on non-performing loan was recognised as interest income on a cash basis. Where an Islamic financing account becomes non-performing, income was suspended until it is realised on a cash basis. Islamic financing income recognised prior to non-performing classification was not clawed back to the first day of default, in conformity with BNM Guidelines. Upon the adoption of FRS 139, once a loan/financing has been written down as a result of an impairment loss, interest/profit is recognised using the rate of interest/finance income used to discount the future cash flows for the purpose of measuring impairment loss.

(c) Recognition of Embedded Derivatives

Upon the adoption of FRS 139, embedded derivatives are to be separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative are not closely related to that of the host contract and the fair value of the resultant derivative can be reliably measured. Based on the assessment by the Group upon adoption of FRS 139 on 1 January 2010, there were no material embedded derivatives which were not closely related to the host contracts and which required bifurcation.

The changes in accounting policies have been applied prospectively and an analysis of the impact to the financial position of the Group is summarised as follows:

	As previously reported RM'000	Effects from changes in accounting policies RM'000	As restated RM'000
Group			
As at 1 January 2010			
Net loans, advances and financing	32,048,326	32,422	32,080,748
(of which: Gross Loans, advances and financing	33,112,632	-	33,112,632
Reclassification of unamortised handling fee from other assets	-	77,691	77,691
Adjustment for effective interest rate	-	46,177	46,177
Collective assessment impairment allowance	-	(784,734)	(784,734)
Individual assessment impairment allowance	-	(386,585)	(386,585)
General allowance	(487,810)	487,810	-
Specific allowance)	(592,063)	592,063	-
Deferred tax assets	129,684	20,656	150,340
Other assets [(1)]	656,243	(77,691)	578,552
Provision for taxation and zakat	(32,795)	(10,575)	(43,370)
Reserves	(2,860,331)	35,188	(2,825,143)
(of which: Retained profits)	(1,017,161)	35,188	(981,973)

Notwithstanding the restatement or adjustments to the opening retained profits of the Group as at 1 January 2010, retrospective restatement of the statutory reserves maintained in compliance with Section 36 of the BAFIA 1989 is not required as specified in Paragraph 4.3 of the BNM's Guidelines on "Financial Reporting for Banking Institutions" issued on 5 February 2010.

Note:

(1) The previously reported figure has taken into account the retrospective adjustment arising from the Amendments to FRS 117 "Leases" amounting to RM726,000 as disclosed above.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Financial Year ended 31 December 2010

49. RESTATEMENT OF COMPARATIVES

Certain comparatives were restated to conform with the current financial year's presentation. There is no impact to the financial performance for the financial year ended 31 December 2009. The restatements are as follows:

	As previously reported RM'000	Reclassi-fication RM'000	As restated RM'000
Group			
Other operating expenses	837,829	(17,302)	820,527
(of which: Legal and other professional charges)	40,367	(17,302)	23,065
Impairment losses on loans, advances and financing.	163,513	17,302	180,815
(of which: Impaired loans, advances and financing - Recovered)	(137,053)	17,302	(119,751)

Effective from 1 January 2010, legal fee and other professional charges incurred for the recovery of impaired loans advances and financing written-off earlier have been offset against the "Impaired loans, advances and financing - Recovered" under "Impairment losses on loans, advances and financing. Hence, the reclassification of such expenses incurred in the financial year 2009 from "Other operating expenses" to " Impairment losses on loans, advances and financing" under "Impaired loans, advances and financing - Recovered".

50. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 1 April 2011.

51. REALISED AND UNREALISED PROFITS

On 25 March 2010, Bursa Malaysia Securities Berhad ("Bursa Malaysia") issued a directive to all listed issuers pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated lossess as at the end of the reporting period, into realised and unrealised profits or losses.

On 20 December 2010, Bursa Malaysia further issued guidance on the disclosure and the format required.

The breakdown of retained profits of the Group as at 31 December 2010, into realised and unrealised profits is as follows:

	Group 2010 RM'000	Company 2010 RM'000
Retained profits:		
- Realised	1,102,518	68,917
- Unrealised - in respect of deferred tax recognised in the income statement	171,284	-
- in respect of other items of income and expense	14,390	-
Total retained profits as per accounts	1,288,192	68,917

The determination of realised and unrealised profits is based on the Guidance of Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements , issued by the Malaysian Institute of Accountants on 20 December 2010.

Accordingly, the unrealised retained profits of the Group and the Company as disclosed above exclude translation gains and losses on monetary items denominated in a currency other than the functional currency and foreign exchange contracts, as these translation gains and losses are incurred in the ordinary course of business of the Group, and are hence deemed as realised.

The disclosure of realised and unrealised profits above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for any other purposes.

EON CAPITAL BERHAD

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BASEL II PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

CONTENTS

BASEL II PILLAR 3 DISCLOSURES

For the Financial Year ended 31 December 2010

1. INTRODUCTION

The capital adequacy ratios of the Banking Units of the Group ("the Banking Units of the Group" or "the Group") are computed in accordance with the Bank Negara Malaysia's ("BNM") revised Risk-Weighted Capital Adequacy Framework ("RWCAF") - Basel II effective from 1 January 2008.

The Group places great importance to Basel II and views Basel II as a group-wide initiative that will ensure that the Group continues to meet international best practices for the credit, market and operational risk management practices. By adopting Basel II, the Group will be able to enhance and embed sound risk management practices within the Group and be equipped with the right risk management discipline, practices, processes and systems.

The following information concerning the Group's risk exposures, risk management practices and capital adequacy is disclosed as accompanying information to the annual report and does not form part of the audited accounts.

2. SCOPE OF APPLICATION

The capital adequacy ratios of the Group consist of capital base and risk-weighted assets derived from consolidated balances of its banking subsidiaries which comprise EON Bank Berhad ("EBB"), EONCAP Islamic Bank Berhad ("EIBB") and MIMB Investment Bank Berhad ("MIMB"). Islamic Banking business undertaken by the EIBB refers generally to the acceptance of deposits and granting of financing under the Shariah principles.

The capital adequacy ratios of the Banking Units of the Group are computed in accordance with BNM's revised RWCAF– Basel II. The Banking Units of the Group have adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

The Group's capital requirements are generally based on the principles of consolidation adopted in the preparation of its financial statements, as discussed in Note 2(b) to the Financial Statements, except where deductions from eligible capital are required under BNM's RWCAF or where entities meet separation requirements set by BNM.

During the course of the year, the Banking Units of the Group did not experience any restrictions or other major impediments on transfer of funds or regulatory capital within the Group.

3. CAPITAL STRUCTURE AND ADEQUACY

The Group monitors the capital adequacy position of the Banking Units of the Group to ensure compliance with requirements of BNM and to take prompt actions to address projected capital deficiency. The capital position is reviewed on a quarterly basis by undertaking stress tests and taking into account the levels and trend of material risks. The sufficiency of capital is assessed against the various risks in the balance sheet as well as future capital requirements based on the Group's expansion plans.

The Group has also formalised an overall capital management framework, which seeks to ensure that there is an adequate balance between Tier I and Tier II capital. The Group is also following very closely the global developments on capital management.

The following table sets forth details on the capital resources, capital adequacy ratios and risk-weighted assets for the Group as at 31 December 2010. BNM's revised RWCAF-Basel II sets out the minimum capital adequacy ratios for the banking institutions and the methodology for calculating these ratios. As at 31 December 2010, the Tier I and the total capital adequacy ratios of the Banking Units of the Group were higher than BNM's minimum requirements.

3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

The constituents of total eligible capital are set out in BNM's revised RWCAF-Basel II. These include shareholders' funds after regulatory-related adjustments, and eligible capital instruments issued by the Group. Refer to Note 21 and Note 22 to the financial statements for the terms and conditions of the main features of these capital instruments.

(a) The capital adequacy ratios of the Banking Units of the Group are analysed as follows:

	Group 2010	Group 2009
Before deducting proposed dividends:		
Tier I capital ratio	10.92%	11.15%
Risk-weighted capital ratio	15.41%	14.41%
After deducting proposed dividends:		
Tier I capital ratio	10.92%	10.92%
Risk-weighted capital ratio	15.41%	14.18%

The components of Tier I and Tier II Capital of the Banking Units of the Group are as follows:

	Group 2010 RM'000	Group 2009 RM'000
Tier I Capital:		
Paid-up share capital	1,329,807	1,329,807
Share premium	39,337	39,337
Retained profits	1,402,948	1,201,415
Other reserves	1,379,370	1,245,501
Innovative Tier I capital securities	489,691	488,520
	4,641,153	4,304,580
Less: Goodwill	(333,861)	(333,861)
Deferred tax assets	(171,284)	(137,193)
Total Tier I Capital	4,136,008	3,833,526
Tier II Capital:		
Subordinated medium term notes	1,136,526	632,944
Collective assessment impairment allowance #	562,939	-
General allowance	-	487,810
Total Tier II Capital	1,699,465	1,120,754
Total Capital	5,835,473	4,954,280
Less: Investment in subsidiaries	(690)	(690)
Capital Base	5,834,783	4,953,590

\# Excludes collective assessment impairment allowance attributable to loans, advances and financing classified as impaired but not individually assessed for impairment pursuant to BNM's Guideline on "Classification and Impairment Provisions for Loans/Financing" issued on 8 January 2010 and subsequently updated on 26 January 2010 and 17 December 2010.

3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(a) The capital adequacy ratios of the Banking Units of the Group are analysed as follows: (continued)

EBB had, on 24 March 2010, granted a RM270 million Subordinated Financing Facility ("Financing Facility") to EIBB to support the expansion of the business operations of EIBB. The Bank had issued RM270 million of Subordinated Medium Term Notes ("MTN") under its RM2.0 billion MTN Programme to raise this capital on behalf of EIBB. Under the Guidelines for the computation of Risk-Weighted Capital Adequacy Ratio ("RWCR"), the funding disbursed by EBB to EIBB under this Financing Facility will be reflected as a deduction from EBB's capital funds, as an "Investment in Capital Instruments of Other Banking Institutions". The first tranche of RM100 million under the Financing Facility has been drawn down by EIBB on 26 March 2010. The final tranche of RM170 million under the Financing Facility has been drawn down by EIBB on 31 January 2011.

(b) The capital adequacy ratios of the banking subsidiary companies of the Group are as follows:

	EON Bank Berhad [1]	MIMB Investment Bank Berhad [1]	EONCAP Islamic Bank Berhad [2]
31 December 2010			
Before deducting proposed dividends:			
Tier I capital ratio	12.56%	73.30%	12.39%
Risk-weighted capital ratio	14.83%	73.83%	15.96%
After deducting proposed dividends:			
Tier I capital ratio	12.56%	73.30%	11.84%
Risk-weighted capital ratio	14.83%	73.83%	15.41%
31 December 2009			
Before deducting proposed dividends:			
Tier I capital ratio	13.24%	71.88%	11.14%
Risk-weighted capital ratio	14.17%	72.52%	12.69%
After deducting proposed dividends:			
Tier I capital ratio	12.97%	71.88%	11.14%
Risk-weighted capital ratio	13.89%	72.52%	12.69%

[1] The capital adequacy ratios of EBB and MIMB are computed in accordance with BNM's revised RWCAF– Basel II. EBB and MIMB have adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

[2] The capital adequacy ratios of EIBB are computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks ("CAFIB"), which is based on the Basel II capital accord. EIBB has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

The Financing facility granted by EBB to EIBB qualified for inclusion as part of EIBB's Tier II capital funds for purposes of computation of EIBB's capital adequacy ratios.

3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(c) The breakdown of risk-weighted assets ("RWA") by exposure is as follows:

Group 31 December 2010 Exposure Class			**Gross exposures before CRM RM'000**	**Net exposures after CRM RM'000**	**Risk weighted assets RM'000**	**Minimum Capital require-ments at 8% RM'000**
Credit Risk						
On-Balance Sheet Exposures						
Sovereigns/Central Banks			10,480,005	10,480,005	-	-
Public Sector Entities			176	176	35	3
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")			3,492,050	3,492,050	759,251	60,740
Insurance Cos, Securities Firms ("SF") and Fund Managers ("FM")			15,618	15,618	15,618	1,249
Corporates			11,130,871	10,713,294	9,838,444	787,076
Regulatory Retail			22,573,149	22,334,929	16,750,647	1,340,052
Residential Mortgages			3,010,124	2,999,166	1,192,836	95,427
Higher Risk Assets			8,508	8,458	12,687	1,015
Other Assets			757,069	757,069	527,338	42,187
Equity Exposures			23,491	23,491	13,827	1,107
Defaulted Exposures			1,251,232	1,228,310	1,571,443	125,715
Total On-Balance Sheet Exposures			52,742,293	52,052,566	30,682,126	2,454,571
Off-Balance Sheet Exposures						
Over-the-counter ("OTC") Derivatives			169,778	169,778	35,435	2,835
Off-Balance Sheet Exposures Other Than OTC Derivatives or Credit Derivatives			4,405,941	4,405,941	3,882,680	310,614
Total Off-Balance Sheet Exposures			4,575,719 ^	4,575,719	3,918,115	313,449
Total On and Off-Balance Sheet Exposures			57,318,012	56,628,285	34,600,241	2,768,020
Large Exposures Risk Requirements			-	-	-	-
Market Risk	**Long Position**	**Short Position**				
Interest Rate Risk	4,166,909	3,694,071		472,838	298,580	23,886
Foreign Currency Risk	8,267	12,334		12,334	12,334	987
Equity Risk	30,940	-		30,940	42,542	3,403
Total	4,206,116	3,706,405		516,112	353,456	28,276
Operational Risk					2,917,141	233,371
Total RWA and Capital Requirements					37,870,838	3,029,667

Note:
CRM - Credit risk mitigation
^ - The gross exposures before CRM of Off-Balance Sheet exposures refer to the credit equivalent of Off-Balance Sheet items on page 62.

BASEL II PILLAR 3 DISCLOSURES (continued)

For the Financial Year ended 31 December 2010

3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(c) The breakdown of risk-weighted assets ("RWA") by exposure is as follows: (continued)

Group 31 December 2009 Exposure Class	Gross exposures before CRM RM'000	Net exposures after CRM RM'000	Risk weighted assets RM'000	Minimum Capital require-ments at 8% RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	8,809,865	8,809,865	-	-
Public Sector Entities	314	314	63	5
Banks, DFIs and MDBs	2,897,929	2,897,929	579,586	46,368
Corporates	9,345,238	9,037,112	8,285,149	662,812
Regulatory Retail	20,512,884	20,310,781	15,233,086	1,218,647
Residential Mortgages	1,457,706	1,452,502	557,716	44,617
Higher Risk Assets	5,891	5,891	8,837	707
Other Assets	708,802	708,802	521,429	41,714
Equity Exposures	42,442	42,442	32,778	2,622
Defaulted Exposures	1,927,658	1,844,990	2,555,855	204,468
Total On-Balance Sheet Exposures	45,708,729	45,110,628	27,774,499	2,221,960
Off-Balance Sheet Exposures				
OTC Derivatives	94,831	94,831	21,664	1,733
Off-Balance Sheet Exposures Other Than OTC Derivatives or Credit Derivatives	3,694,752	3,694,752	3,298,900	263,912
Total Off-Balance Sheet Exposures	3,789,583 ^	3,789,583	3,320,564	265,645
Total On and Off-Balance Sheet Exposures	49,498,312	48,900,211	31,095,063	2,487,605
Large Exposures Risk Requirements	-	-	-	-

Market Risk	Long Position	Short Position			
Interest Rate Risk	3,333,214	2,640,121	693,093	519,497	41,560
Foreign Currency Risk	13,331	3,881	13,331	13,331	1,067
Equity Risk	30,200	-	30,200	41,525	3,322
Total	3,376,745	2,644,002	736,624	574,353	45,949
Operational Risk				2,704,993	216,399
Total RWA and Capital Requirements				34,374,409	2,749,953

Note:
^ - The gross exposures before CRM of Off-Balance Sheet exposures refer to the credit equivalent of Off-Balance Sheet items on page 62.

4. RISK MANAGEMENT

The Group believes that an integrated risk management framework is key to ensuring the overall financial soundness and stability of the Group's business operations. Key components of our enterprise wide risk management framework include:

(i) A structured risk governance model, incorporating strong Board and senior management oversight.
(ii) Sound capital management processes.
(iii) Comprehensive assessment of material risks.
(iv) A rigorous system of check and balance reviews.
(v) Regular monitoring and reporting.
(vi) Independent reviews by the internal and external auditors.

4. RISK MANAGEMENT (CONTINUED)

Risk governance structure

The Board has overall responsibility for providing leadership, overseeing risk appetite and ensuring that a robust risk and compliance culture prevails. The Board is assisted by the following Board and Management Committees of EBB:

(i) Board Group Risk Management Committee (BGRMC).
(ii) Group Risk Management Committee (GRMC).
(iii) Group Asset and Liability Management Committee (Group ALCO).

The BGRMC is responsible for the following:

(i) Reviewing and recommending risk management strategies, policies and risk tolerance for the Board's approval.
(ii) Reviewing and assessing adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively.
(iii) Ensuring infrastructure, resources and systems are in place for risk management i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independently of EON Bank Group's risk taking activities.
(iv) Reviewing management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

The Group Risk Division of EBB is responsible for assisting the BGRMC, the GRMC and the Board in ensuring that the risk management activities are carried out as per their directives. Amongst others, Group Risk Division is responsible for setting the risk management framework and developing tools and methodologies for the identification, measurement, monitoring, control and valuation of risks.

The Group Risk Division of EBB consists of five main departments namely Market and Liquidity Risk, Credit Risk Management, Operational and Continuity Risk, Specialist Risk Analytics Group and Enterprise Risk Framework.

The Group Internal Audit function of EBB complements the Group Risk Division in the management of risk by:

(i) Ensuring that the risk policies prepared by the Group Risk Division are enforced through its regular audit cycle.
(ii) Performing independent reviews to assess the risk control environment developed by the Group Risk Division.
(iii) Performing independent reviews to assess the risk grading system and the credit process.
(iv) Forming independent opinions on risk controls being formulated by the Group Risk Division.

Eight broad principles of risk management

(i) Align risk appetite and strategy

Risk appetite is the degree of risk that the Group is willing to accept in pursuit of its goals. Risk appetite is set first in evaluating strategic alternatives, then in setting objectives aligned with the selected strategy and in developing mechanisms to manage the related risks.

(ii) Link growth, risk and return

The Group accepts risk as part of value creation and expects a return commensurate with the risk. The Framework provides an enhanced ability to identify and assess risks and establish acceptable levels of risk relative to growth and return objectives.

(iii) Enhance risk response decisions

The Group strives to identify and select among alternative risk responses - risk avoidance, reduction, sharing and acceptance based on generally accepted practices and methodologies.

(iv) Minimise operational surprises and losses

The Group continually enhances its capability to identify potential events, assess risk and establish responses, thereby reducing the occurrence of surprises and related costs or losses.

BASEL II PILLAR 3 DISCLOSURES (continued)

For the Financial Year ended 31 December 2010

4. RISK MANAGEMENT (CONTINUED)

Eight broad principles of risk management

(v) Identify and manage cross-risks

Every product faces a myriad of risks. The Group not only manages the individual risks, but also manages interrelated impacts.

(vi) Provide integrated responses to multiple risks

Business processes carry many inherent risks and the Group continually finds solutions for managing the risks.

(vii) Seize opportunities

The Group considers potential events, using risk management as offensive initiatives rather than just risks (defensive), and by considering a full range of events, the Group gains an understanding of how certain events represent opportunities.

(viii) Rationalise capital

More robust information on total risk allows the Group to more effectively assess overall capital needs and improve capital allocation.

Risk management framework

The Group's risk management framework outlines the overall structure, aspirations, values and risk management strategies, and is a structured approach in balancing risks and returns.

Appropriate methodologies and measures have been developed in our risk management approaches to manage uncertainties such that the deviations from the intended strategic objectives are monitored and kept within tolerable levels.

Risk management culture

The risk management culture of the Group encompasses the following:

(i) Developing strategies

Documentation that is approved by the Board which expresses the Group's risk management strategies and appetite.

(ii) Adopting skills

The capabilities and resources required for implementing the risk management function.

(iii) Cultivating shared values

The universal risk management culture that the Group expects and promotes throughout the business units.

Risk management approach

The risk management approach is summarised as follows:

(i) Strategy

Risk management policies are integrated with business and strategies, in line with Board approved risk appetite.

(ii) Policy

Risks are addressed using specific risk policies.

(iii) Tools

Risks are measured and assessed using clearly defined models, methodologies and benchmarking.

(iv) Communication

Risks are adequately communicated across the Group in a timely manner.

4. RISK MANAGEMENT (CONTINUED)

Risk management approach (continued)

(v) Implementation

Risks and returns are identified and managed by respective accountable business, support and operating units.

(vi) Maintenance

Risk management policies are clearly and formally documented, with a review in place to respond to changes in operating environment.

Risk management process

The risk management approaches are based on four simple processes:

(i) Identify what, why and how risks can arise:

- Nature of risk.
- Circumstances.
- Causes.
- Potential contributing factors.

(ii) Analyse and evaluate risks:

- Analyse and measure risk exposures using impact and probability analysis.
- Establish priorities using risk matrix.
- Compare risk exposures with Group's risk appetite.

(iii) Measures to control or mitigate the identified risks:

- Measures to mitigate the identified risks or risk controls.
- Action plans to either prevent or mitigate the risks.

(iv) Monitor and review the performance of the risk management process:

- Review effectiveness of mitigating measures or controls.
- Tracking of incidences and losses.
- Review feedback from internal reports and take appropriate action.

Policies for hedging and mitigating risk, strategies and processes for monitoring the continuing effectiveness of hedge and mitigants

(i) Financial instruments designated as fair value through profit and loss

The Group economically hedges part of its existing fixed rate assets to reduce the exposure on interest rate risk as part of its risk management strategy. All hedging are contracted using hedge instruments such as the interest rate swap and designated as fair value hedges.

(ii) Fair value hedges

The Group hedges solely using interest rate swap as the hedge instruments. The interest rate swap contracts used for the hedging are contracted with other financial institutions.

Further information relating to the fair value hedges are disclosed in the Note 7 to the financial statements.

(iii) The accounting policies on derivative financial instruments and hedging accounting are disclosed in Note 2 (e) to the financial statements.

(A) Credit risk

Credit risk arises as a result of customers or counterparties not being able to or willing to fulfill their financial and contractual obligations as and when they fall due. These obligations arise from lending, trade finance and other activities undertaken by the Group.

The primary objective of the credit risk management framework is to ensure that exposure to credit risk is kept within the Group's financial capacity to withstand potential future losses. Lending activities are guided by internal credit policies and guidelines that are approved by the Board. These policies were reviewed and further enhanced during the year.

BASEL II PILLAR 3 DISCLOSURES (continued)

For the Financial Year ended 31 December 2010

4. RISK MANAGEMENT (CONTINUED)

Policies for hedging and mitigating risk, strategies and processes for monitoring the continuing effectiveness of hedge and mitigants (continued)

(A) Credit risk (continued)

Credit portfolio management strategies and significant exposures are reviewed by the Board. These portfolio management strategies are designed to achieve a desired ideal portfolio risk tolerance level and sector distribution. This includes minimum credit rating targets for new credit facilities.

The Group's credit approving process encompasses pre-approval evaluation, approval and post-approval evaluation. While the business units are responsible for credit origination, the credit approving function rests mainly with the Group Credit Committee ("GCC") and the Board Group Credit Committee of EBB.

Selection and training of new lending personnel is considered a key process in the management of credit risk. Newly appointed lending personnel are required to undergo comprehensive credit training programmes and are encouraged to sit for the Certified Credit Professional examination conducted by the Institute of Bankers Malaysia. Credit training programmes are also conducted to enhance the skills of the existing lending personnel.

Credit risk is also identified as part of the new product sign-off process to ensure that new products prior to marketing are acceptable from a credit risk management perspective.

The Group also believes that authority limits for credit approvals should be directly related to the risk levels of the borrower and the transaction. In this respect, a Risk Based Authority Limit structure, known as "Delegated Lending Powers" had been implemented.

Credit Risk Management Process

(i) Identification

- Risk assessment on the potential impact of internal and external factors on transactions and positions.

(ii) Assessment/Measurement

- Internal credit rating systems to evaluate customer's credit worthiness.

(iii) Control/Mitigation

- Credit risk management policies and guidelines on credit rating, collateral and loan recovery.
- Exposure limits based on credit worthiness level for corporate groups, and prudent thresholds by economic sectors.
- Monitoring the benchmark return to consider the risk taken.

(iv) Monitoring/Review

- Analysis/review on loan exposures, asset quality evaluation, and movement of impaired loans, advances, and financing.
- Reporting on exposures against approved credit limits.

Management of credit risk

Corporate and SME credit risks are assessed by the Credit Management function, and each customer is assigned a credit rating. The rating is based on the assessment of relevant factors including customer's financial position, industry outlook, types of facilities and securities offered.

Consumer credit risk is managed on a portfolio basis. Scoring models and lending templates are used and these tools focus on lending to individual customers with similar characteristics and product needs.

Corporate and SME credits are constantly being monitored to identify and detect signs of credit deterioration. Reviews are conducted at least once a year with updated information on the customer's financial position, market position, industry and economic condition and account conduct. Corrective actions are taken should the account show signs of credit deterioration. A post-approval evaluation of credit facilities is in place, with checks to ensure that credit facilities are properly approved, and further, post-mortems are conducted on credit facilities that turn impaired. The findings of these credit reviews are tabled to the GCC for remedial action, and credit policies are further enhanced.

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Management of credit risk (continued)

Under Basel II, credit risk for the Group is computed using the Standardised Approach.

External credit assessments (or external ratings) on the customer (the issuer) or specific securities issued by the issuer (the issue) form as a basis for the determination of risk weights under the Standardised Approach for exposures to sovereigns, central banks, public sector entities, banking institutions, corporates as well as certain other specific portfolios.

The approved External Credit Assessment Institutions ("ECAI") ratings and the prescribed risk weights on the above stated asset classes are used in the computation of regulatory capital. An exposure would be deemed to have an external rating if the issuer or the issue has a rating provided by an ECAI. In cases where an exposure does not have an issuer or issue rating, the exposure shall be deemed unrated and shall be accorded a risk weight appropriate for unrated exposures in their respective exposure category.

The ECAI used by the Group are Fitch Ratings, Moody's Investors Service and Standard & Poor's, Rating and Investment Inc (R&I), Malaysia Rating Corporation Berhad (MARC) and Rating Agency Malaysia (RAM). ECAI ratings are mapped to a common credit quality grade as prescribed by BNM.

Gross credit exposure

(i) The table below sets out the breakdown of gross credit exposures by geographical distribution as follows:

Group 31 December 2010	Malaysia RM'000	Other countries RM'000	Total RM'000
On-Balance Sheet Exposures			
Held for trading securities	380,926	-	380,926
Derivative financial instruments	28,473	-	28,473
Available-for-sale securities *	3,434,405	-	3,434,405
Held-to-maturity securities	152,841	-	152,841
Loans, advances and financing **	37,099,134	148,461	37,247,595
Total On-Balance Sheet Exposures	41,095,779	148,461	41,244,240
Off-Balance Sheet Exposures ^			
OTC Derivatives	169,778	-	169,778
Off-Balance Sheet Exposures Other Than OTC Derivatives or Credit Derivatives	4,405,941	-	4,405,941
Total Off-Balance Sheet Exposures	4,575,719	-	4,575,719
Total On and Off-Balance Sheet Exposures	45,671,498	148,461	45,819,959

Note:

(1) For this table, the Group has allocated the loans, advances and financing to geographical areas based on the country where the loans, advances and financing were utilised.

* Excludes equity securities.

** Gross loans, advances and financing, net of individual assessment impairment allowance and collective assessment impairment allowance attributable to loans, advances and financing classified as impaired but not individually assessed for impairment.

^ Off balance sheet exposures refer to the credit equivalent of off-balance sheet items on page 62.

BASEL II PILLAR 3 DISCLOSURES (continued)

For the Financial Year ended 31 December 2010

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure (continued)

(ii) The table below sets out the breakdown of gross credit exposures by sector as follows:

Group As at 31 December 2010	Held for trading securities RM'000	Derivative financial instruments RM'000	Available -for-sale securities* RM'000	Held-to -maturity securities RM'000	Loans, advances and financing** RM'000	Total on-balance sheet credit risk exposures RM'000	OTC derivatives RM'000	Off-balance sheet exposures other than OTC derivatives or credit derivatives RM'000	Total off-balance sheet credit risk exposures^ RM'000	Total on and off-balance sheet credit risk exposures RM'000
Agriculture, hunting, forestry and fishing	-	-	-	-	631,837	631,837	-	210,566	210,566	842,403
Mining and quarrying	-	-	-	-	62,712	62,712	-	15,064	15,064	77,776
Manufacturing	-	-	30,824	36,379	2,887,176	2,954,379	-	211,577	211,577	3,165,956
Electricity, gas and water	19,995	-	511,275	-	305,523	836,793	-	54,170	54,170	890,963
Construction	25,975	-	38,149	43	2,133,867	2,198,034	-	783,736	783,736	2,981,770
Wholesale and retail trade, restaurants and hotels	-	-	9,986	-	2,767,177	2,777,163	-	304,692	304,692	3,081,855
Transport, storage and communication	15,213	-	30,626	-	1,053,471	1,099,310	-	293,412	293,412	1,392,722
Finance, insurance and business services	-	28,473	841,398	-	1,625,514	2,495,385	169,778	66,004	235,782	2,731,167
Government and government agencies	319,743	-	1,895,424	116,419	-	2,331,586	-	-	-	2,331,586
Real estate	-	-	76,723	-	2,299,205	2,375,928	-	389,063	389,063	2,764,991
Community, social and personal services	-	-	-	-	205,516	205,516	-	34,523	34,523	240,039
Household	-	-	-	-	22,914,185	22,914,185	-	2,022,840	2,022,840	24,937,025
(of which: (i) Purchase of transport vehicles	-	-	-	-	9,935,487	9,935,487	-	11,884	11,884	9,947,371
(ii) Purchase of residential properties	-	-	-	-	8,534,927	8,534,927	-	1,198,319	1,198,319	9,733,246
(iii) Purchase of non-residential properties	-	-	-	-	1,003,998	1,003,998	-	69,046	69,046	1,073,044
(iv) Consumption credit	-	-	-	-	3,200,104	3,200,104	-	741,650	741,650	3,941,754
(vi) Others)	-	-	-	-	239,669	239,669	-	1,941	1,941	241,610
Others	-	-	-	-	361,412	361,412	-	20,294	20,294	381,706
Total On-Balance sheet and Off-Balance Sheet Exposures	380,926	28,473	3,434,405	152,841	37,247,595	41,244,240	169,778	4,405,941	4,575,719	45,819,959

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure (continued)

(iii) The table below sets out the breakdown of gross credit exposures by residual contractual maturity as follows:

Group As at 31 December 2010	Less than 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
On-Balance Sheet Exposures					
Held for trading securities	340,131	40,795	-	-	380,926
Derivative financial instruments	14,384	14,089	-	-	28,473
Available-for-sale securities*	2,705,662	528,883	199,860	-	3,434,405
Held-to-maturity securities	-	152,666	175	-	152,841
Loans, advances and financing**	9,507,559	7,739,301	19,270,356	730,379	37,247,595
Total On-Balance Sheet Exposures	12,567,736	8,475,734	19,470,391	730,379	41,244,240

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure (continued)

(iii) The table below sets out the breakdown of gross credit exposures by residual contractual maturity as follows: (continued)

Group As at 31 December 2010	Less than 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Off-Balance Sheet Exposures^					
OTC Derivatives	37,431	132,347	-	-	169,778
Off-Balance Sheet Exposures Other Than OTC Derivatives or Credit Derivatives	1,638,097	2,767,844	-	-	4,405,941
Total Off-Balance Sheet Exposures	1,675,528	2,900,191	-	-	4,575,719
Total On and Off-Balance Sheet Exposures	14,243,264	11,375,925	19,470,391	730,379	45,819,959

BASEL II PILLAR 3 DISCLOSURES (continued)

For the Financial Year ended 31 December 2010

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Loans, advances and financing

(i) The table below sets out the breakdown by sector the amount of past due loans, advances and financing, impaired loans, advances and financing, individual assessment impairment allowance, collective assessment impairment allowance, charges for individual assessment impairment allowance during the year and write-offs during the year as follows:

Group **As at 31 December 2010**	**Past due loans, advances and financing RM'000**	**Impaired loans, advances and financing RM'000**	**Individual assessment impairment allowance RM'000**	**Collective assessment impairment allowance RM'000**	**Charges for Individual assessment impairment allowance during the year RM'000**	**Write offs during the year RM'000**
Agriculture, hunting, forestry and fishing	23,888	35,337	22,507	10,412	17,100	-
Mining and quarrying	6,125	3,735	3,528	1,075	3,528	-
Manufacturing	110,550	302,727	173,691	56,297	49,573	39,657
Electricity, gas and water	1,589	135	34	4,885	34	-
Construction	181,732	94,931	50,720	38,699	7,472	3,949
Wholesale and retail trade, restaurants and hotels	116,366	142,764	51,434	60,063	17,876	14,000
Transport, storage and communication	207,691	72,540	48,188	18,071	35,871	378
Finance, insurance and business services	43,289	21,114	13,148	28,207	13,075	805
Real estate	56,906	23,851	7,216	37,428	(1,565)	912
Community, social and personal services	17,576	818	1,396	3,656	1,293	-
Household	4,863,245	534,309	28,798	481,565	21,600	13,663
Others	5,029	144,136	85,824	6,186	8,967	-
	5,633,986	1,376,397	486,484	746,544	174,824	73,364

Note:
Refer to Note 10 (xi) to the financial statements for "movements in individual assessment impairment allowance and collective assessment impairment allowance" during the year for the Group.

4. RISK MANAGEMENT (CONTINUED)

(ii) The table below sets out the breakdown by geographical areas the amount of past due loans, advances and financing, impaired loans, advances and financing, individual assessment impairment allowance and collective assessment impairment allowance as follows:

Group **As at 31 December 2010**	**Past due loans, advances and financing RM'000**	**Impaired loans, advances and financing RM'000**	**Individual assessment impairment allowance RM'000**	**Collective assessment impairment allowance RM'000**
Malaysia	5,633,986	1,237,738	405,597	744,273
Other countries	-	138,659	80,887	2,271
	5,633,986	1,376,397	486,484	746,544

Note:
(1) A financial asset is defined as "past due" when the counterparty has failed to make a principal or interest payment when contractually due.

(2) For description of approaches adopted by the Group for the determination of individual and collective assessment impairment allowances, refer to Note 2 (r) to the financial statements.

BASEL II PILLAR 3 DISCLOSURES (continued)

For the Financial Year ended 31 December 2010

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit risk exposures by risk weight

The breakdown of credit risk exposures by risk weight is as follows:

Group

31 December 2010

	Exposures after Netting and Credit Risk Mitigation (RM'000)											
Risk Weight	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs & MDBs RM'000	Insurance Cos, SF and FM RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
0%	10,485,015	-	-	-	-	-	-	-	229,731	-	10,714,746	-
20%	-	176	3,448,382	-	630,908	1,000	-	-	-	12,080	4,092,546	818,509
35%	-	-	-	-	-	-	2,044,981	-	-	-	2,044,981	715,743
50%	-	-	206,856	-	853,379	37,396	959,703	-	-	-	2,057,334	1,028,667
75%	-	-	-	-	-	24,426,973	-	-	-	-	24,426,973	18,320,230
100%	-	-	-	15,618	11,703,549	81,229	101,786	-	527,338	11,411	12,440,931	12,440,931
150%	-	-	-	-	241,618	598,968	-	10,188	-	-	850,774	1,276,161
Total	10,485,015	176	3,655,238	15,618	13,429,454	25,145,566	3,106,470	10,188	757,069	23,491	56,628,285	34,600,241
Risk Weighted Assets by Exposure	-	35	793,104	15,618	12,618,847	19,318,809	1,297,381	15,282	527,338	13,827	34,600,241	
Average Risk Weight	-	20.00%	21.70%	100.00%	93.96%	76.83%	41.76%	150.00%	69.66%	58.86%	61.10%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	

31 December 2009

Risk Weight	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs & MDBs RM'000	Insurance Cos, SF and FM RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
0%	8,809,865	-	-	-	-	-	-	-	187,373	-	8,997,238	-
20%	-	314	2,989,387	-	627,627	-	-	-	-	12,080	3,629,408	725,881
35%	-	-	-	-	-	-	1,123,561	-	-	-	1,123,561	393,246
50%	-	-	-	-	611,037	29,517	333,108	223	-	-	973,885	486,943
75%	-	-	-	-	-	21,894,189	-	-	-	-	21,894,189	16,420,642
100%	-	-	-	-	9,952,361	88,843	115,509	585	521,429	30,362	10,709,089	10,709,089
150%	-	-	-	-	663,023	902,168	-	7,650	-	-	1,572,841	2,359,262
Total	8,809,865	314	2,989,387	-	11,854,048	22,914,717	1,572,178	8,458	708,802	42,442	48,900,211	31,095,063
Risk Weighted Assets by Exposure	-	63	597,878	-	11,377,939	17,877,495	675,309	12,172	521,429	32,778	31,095,063	
Average Risk Weight	-	20.00%	20.00%	-	95.98%	78.02%	42.95%	143.91%	73.56%	77.23%	63.59%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	

BASEL II PILLAR 3 DISCLOSURES (continued)

For the Financial Year ended 31 December 2010

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

The following tables summarise the rated exposures according to ratings by External Credit Assessment Institutions ("ECAI's") as follows:

(i) Ratings of Public Sector Entities, Insurance Cos, SF and FM and Corporates by approved ECAIs

	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B to D	Unrated
Group	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
31 December 2010	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
Exposure Class						
On and Off-Balance Sheet Exposures						
Public Sector Entities		176	-	-	-	-
Insurance Cos, SF and FM		-	-	-	-	15,618
Corporates		620,758	680,309	70,580	12,179	12,465,300
		620,934	680,309	70,580	12,179	12,480,918

(ii) Ratings of Sovereigns/Central Banks and Banking Institutions by approved ECAIs

	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S & P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
Group	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
31 December 2010	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Exposure Class							
On and Off-Balance Sheet Exposures							
Sovereigns/Central Banks		2,323,105	8,161,910	-	-	-	-
Banks, MDBs and FDIs		1,825,202	526,378	462,001	194,890	-	530,616
		4,148,307	8,688,288	462,001	194,890	-	530,616

(iii) Short-term ratings of Banking Institutions and Corporates by approved ECAIs

	Moodys	P-1	P-2	P-3	Others	Unrated
	S & P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
Group	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
31 December 2010	Rating & Investment Inc	a-1+, a-1	a-2	a-3	b,c	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
Exposure Class						
On and Off-Balance Sheet Exposures						
Banks, DFIs and MDBs		201,151	-	-	-	-
Corporates		9,986	8,951	-	-	-
		211,137	8,951	-	-	-

BASEL II PILLAR 3 DISCLOSURES (continued)

For the Financial Year ended 31 December 2010

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit risk mitigation

The Group's credit principle is principally granting credit facilities on the basis of the borrower's credit standing, repayment and debt servicing ability. Where possible, collateral is taken to mitigate and reduce any credit risk for the particular credit facility extended. The value of the collateral is monitored periodically and where applicable, a revised valuation may be requested from the borrower. The types of collateral accepted ranges from cash, marketable securities, properties, machineries or equipments, inventory and receivables. In certain cases, corporate guarantees are obtained where the credit worthiness of the corporate borrower is insufficient for amount sought. There are policies and processes in place to monitor collateral concentration. For credit risk mitigation ("CRM") purposes, only collateral or guarantees that are legally enforceable are taken into account. The credit exposures are computed on a net basis only when there is a legally enforceable netting arrangements for loans and deposits. The Group uses the Comprehensive Approach for computation of the adjusted exposures.

The following table summarises the breakdown of CRM by exposure as follows:

Group 31 December 2010	Exposures before CRM RM'000	Exposures covered by guarantees/ credit derivatives RM'000	Exposures covered by eligible financial collateral RM'000
Exposure Class			
Credit Risk			
On-Balance Sheet Exposures			
Sovereigns/Central Banks	10,480,005	-	-
Public Sector Entities	176	-	-
Banks, DFIs and MDBs	3,492,050	-	-
Insurance Cos, SF and FM	15,618	-	-
Corporates	11,130,871	773	417,576
Regulatory Retail	22,573,149	1,000	238,253
Residential Mortgages	3,010,124	-	10,958
Higher Risk Assets	8,508	-	50
Other Assets	757,069	-	-
Equity Exposures	23,491	-	-
Defaulted Exposures	1,251,232	-	22,890
Total On-Balance Sheet Exposures	52,742,293	1,773	689,727
Off-Balance Sheet Exposures			
OTC Derivatives	169,778	-	-
Off-Balance Sheet Exposures Other Than OTC Derivatives or Credit Derivatives	4,405,941	-	-
Total Off-Balance Sheet Exposures	4,575,719	-	-
Total On and Off-Balance Sheet Exposures	57,318,012	1,773	689,727

Off-Balance Sheet exposures and counterparty credit risk

Credit limits are established to ensure that the Group is not duly exposed to unnecessary credit risk with parties who are unable to meet or honour their financial obligations with the Group.

The counterparty limits for the Group are established by taking into consideration the tenor of the obligation, rating assignment of the country, rating assignment of the counterparty, counterparty's shareholder's funds, the Group's shareholder's funds.

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Off-Balance Sheet exposures and counterparty credit risk (continued)

The credit exposure limit for derivative transactions is calculated based on the standardised approach by applying a specific percentage of risk factor i.e. the potential loss of the contract value to the counterparty limit for the Group, which in general is a fraction of the derivative contract or notional amount used to express the volume of instruments.

To mitigate the counterparty risk for the derivative transactions, the Group practices the cash margin call exercise to cover mark-to-market exposures on outstanding derivative positions. The collateral agreement typically includes a minimum threshold amount where additional collateral is required to be called by the Group if the mark-to-market exposures exceed the agreed threshold amount.

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

<u>Nature of commitments and contingencies</u>

Direct credit substitutes comprise guarantees undertaken by the Group to support the financial obligations of its customers to third parties.

Certain transactions related contingent items represent financial products whose crystallisations are dependent on specific events other than default payment by the customers. They include performance related contingencies and standby letter of credit.

Short term self liquidating trade-related contingencies relate to bills of exchange which have been endorsed by the Group and represent liabilities in the event of default by the acceptors and the drawers of the bills.

Assets sold with recourse and commitments with certain drawdown represents assets sold by the Group with recourse in the event of defects in the assets, and investment or purchase commitments entered into by the Group, where drawdown is certain to occur.

Obligations under underwriting agreements arise from underwriting agreements relating to the issuance of equity and debts securities, where the Group is obliged to subscribe for or purchase the securities in the event the securities are not taken up when issued.

Irrevocable commitments to extend credit include all obligations on the part of the Group to provide funding facilities or the undrawn portion of an approved credit facilities to customers.

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

Interest rate swaps involve the exchange of interest obligations with a counterparty for a specified period without the exchange of the underlying principal.

BASEL II PILLAR 3 DISCLOSURES (continued)

For the Financial Year ended 31 December 2010

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Off-Balance Sheet exposures and counterparty credit risk (continued)

The Off-Balance Sheet exposures and their related counterparty credit risk of the Group are as follows:

Group 31 December 2010	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount * RM'000	Risk Weighted Assets * RM'000
Commitments and Contingent Liabilities				
Direct credit substitutes	352,142	-	352,142	352,142
Transaction related contingent items	1,156,688	-	578,344	578,344
Short term self liquidating trade related contingencies	143,317	-	28,663	28,663
Forward asset purchases	24,300	-	-	
Obligations under ongoing underwriting agreements	125,940	-	-	
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
Over one year	5,535,686	-	2,767,844	2,414,320
Up to one year	7,338,907	-	-	-
Unutilised credit card lines	3,394,742	-	678,948	509,211
	18,071,722	-	4,405,941	3,882,680
Derivative Financial Contracts				
Foreign exchange related contracts:				
One year or less	1,931,736	12,327	35,027	8,135
Over one year to five years	31,525	219	1,164	582
Interest/profit rate related contracts:				
One year or less	900,000	2,057	2,404	481
Over one year to five years	4,685,000	12,333	131,183	26,237
	7,548,261	26,936	169,778	35,435
	25,619,983	26,936	4,575,719	3,918,115

* The credit equivalent amount and risk-weighted assets are arrived at using the credit conversion factors and risk-weights as defined in BNM's revised RWCAF and CAFIB.

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Off-Balance Sheet exposures and counterparty credit risk (continued)

The Off-Balance Sheet exposures and their related counterparty credit risk of the Group are as follows: (continued)

Group 31 December 2009	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount * RM'000	Risk Weighted Assets * RM'000
Commitments and Contingent Liabilities				
Direct credit substitutes	468,115	-	468,115	468,115
Transaction related contingent items	1,384,930	-	692,465	692,465
Short term self liquidating trade related contingencies	131,466	-	26,293	26,293
Obligations under ongoing underwriting agreements	64,200	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
Over one year	3,531,747	-	1,765,874	1,555,523
Up to one year	7,718,382	-	-	-
Unutilised credit card lines	3,710,027	-	742,005	556,504
	17,008,867	-	3,694,752	3,298,900
Derivative Financial Contracts				
Foreign exchange related contracts:				
One year or less	1,687,536	9,825	29,464	8,591
Interest/profit rate related contracts:				
One year or less	275,000	-	688	138
Over one year to five years	2,570,000	3,080	64,679	12,935
	4,532,536	12,905	94,831	21,664
	21,541,403	12,905	3,789,583	3,320,564

* The credit equivalent amount and risk-weighted assets are arrived at using the credit conversion factors and risk-weights as defined in BNM's revised RWCAF and CAFIB.

(B) Market risk

Market risk is defined as the risk of potential losses in earnings arising from changes in interest rates, foreign exchange rates, credit spreads, equity prices and commodity prices. This change can affect the value of financial instruments and may also affect proprietary trading revenues.

The main objectives of Market Risk Management is to ensure that losses from market risk can be promptly addressed without incurring a potential loss that is beyond the Group's risk appetite.

Management of market risk

The Group ALCO is the management level committee which supports the BGRMC in the oversight of market and liquidity risk. The Group ALCO is chaired by the Group CEO of EBB and includes senior representatives from both business and support units. It is primarily responsible for the development, implementation and review of frameworks, broad strategies and policies for managing the Group's balance sheet, funding management, market risk and liquidity risk.

BASEL II PILLAR 3 DISCLOSURES (continued)

For the Financial Year ended 31 December 2010

4. RISK MANAGEMENT (CONTINUED)

(B) Market risk (continued)

Management of market risk (continued)

The Market Risk Management Unit is responsible for the development, implementation and maintenance of consistent policies and methodologies to identify, measure, monitor, control and report market risk and liquidity risk.

Market risk is inherent in the ordinary course of the Group's business and is prevalent especially in treasury activities of the Group. The Group broadly classifies its financial instruments as Held- for- Trading ("HFT"), Available-For-Sale ("AFS") and Held-to-Maturity ("HTM") securities. The major differences between the classifications are the accounting treatment and intention of acquiring the financial instruments.

Market Risk Management Process

(i) Identification

- Identify market risks within existing and new products.
- Review market-related information e.g. market trends, economic data.

(ii) Assessment/ Measurement

- Sensitivity.
- Earnings-at-Risk.
- Capital-at-Risk.

(iii) Control/Mitigation

- Establish market risk limits e.g. stop loss, Earnings at-Risk, maturity gap analysis, sensitivity limits and economic value.
- Limits are set with reference to business profitability, budgets and aligned with the risk appetite approved by the Board.

(iv) Monitoring/Review

- Monitoring of limits.
- Periodical review and reporting.

Equity holdings in organisations which are set up for specific socio-economic reasons (i.e. equity interest in Cagamas, MEPS, RAM, IBBM and CGC) and loan/financing converted to equity holdings or equity instruments are classified as AFS securities.

(C) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risks.

An Operational Risk Management Framework, approved by the EBB's Board, has been implemented across the Group to all business and support units. The Framework consists of operational risk's tools including control self-assessment, loss event reporting, key risk indicators and risk catalogues, to assist these units to identify, assess, monitor and control their operational risks. The information is channeled to the central operational risk department to facilitate risk analysis, monitoring and reporting.

Related policies and procedures are in place to provide guidance to risk taking units in the areas of developing new products and services and outsourcing of operational functions. To further mitigate fraud activities, a whistle blowing policy is available for staff and stakeholders to confidentially report on misconduct by an employee of the Group. Reviews and periodic tests in the areas of business continuity are conducted to ensure business sustainability in event of business disruptions.

The GRMC oversees the Group's operational risk management infrastructure, including the Framework, policies, processes, information, methodologies and systems. This Committee performs regular reviews of the operational risk profiles of the Group, and endorses and recommends related operational risk policies to be approved at Board level.

5. EQUITY EXPOSURES IN BANKING BOOK

The Group's banking book's equity investments consist of equity holdings in organisations which are set up for specific socio-economic reasons (i.e. equity interest in Cagamas, MEPS, RAM, IBBM and CGC) and equity holdings and equity instruments received as a result of loan/financing restructuring or loan/financing conversion.

The Group's banking book's equity investments are classified and measured in accordance with FRS 139 and are categorised as AFS securities. Refer to Notes 2 (d) (iii) to the financial statements for the accounting policies of the Group.

5. EQUITY EXPOSURES IN BANKING BOOK (CONTINUED)

The following table summarises the Group's equity exposures in the banking book:

	2010 Exposures subject to risk-weighting RM'000	2010 Risk weights %
Group		
AFS Securities		
Unquoted equity securities	24,309	100%

Details of investments in AFS securities of the Group and the Bank are set out in Note 8 to the financial statements.

Realised gains arising from sales and liquidations of equity exposures are as follows:

	2010 Group RM'000
Net gains arising from sales of equity securities	3,291

There is no unrealised gains/(losses) for equity securities that have not been reflected in the income statements of the Group but have been recognised under "other comprehensive income" of the Group for the financial year ended 31 December 2010.

6. INTEREST RATE RISK/RATE OF RETURN RISK (IRR/RORR) IN THE BANKING BOOK

To evaluate the potential impact of interest/profit rate risk in the Banking Book, the Group considers the effect on both its earnings and underlying economic value. These two view points must be assessed to determine the full scope of the Group's interest/profit rate risk exposure.

The earnings perspective provides the impact of interest/profit rate changes on the Group's reported earnings i.e. a reduction in earnings caused by changes in interest/profit rates can reduce earnings, liquidity, and capital. This perspective focuses on risk to earnings in the short term i.e. one year and will be reported through changes in the Group's net interest income ("NII") i.e. the difference between total interest income and total interest expense. The changes in the Group's net interest income may vary depending on timing of repricing basis, and yield curve risks, and options position.

The application of earnings perspective solely may not be sufficient as the earnings perspective only take into account short- term positions.

The economic perspective provides a measurement of the underlying value of the Group's current position and seeks to evaluate the sensitivity of that value to changes in interest/profit rates. This perspective will allow the Group to evaluate the changes in economic value of assets, liabilities, and off-balance sheet instruments against the movement in interest/profit rate. The economic values of these instruments are equivalent to the instruments' present value of future cash flows.

By analyzing the impact of interest/profit rate changes on the value of all future cash flows, the economic perspective can provide a more comprehensive measurement of interest/profit rate risk than the earnings perspective. The future cash flow projections used to estimate the economic exposure provides a pro forma estimate of the future income generated by its current position. In general, the measurement of present value of the instrument will be able to give an overview of the Group's economic value of equity ("EVE") over a longer time period.

The increase or decline in earnings and economic value for upward and downward rate shocks which are consistent with shocks applied in the Group's stress test for measuring IRR/RORR in the banking book are as follows:

	Impact on positions as at 31 December 2010 100 basis points parallel shift	
Group	**Increase/ (Decline) in Earnings RM'000**	**Increase/ (Decline) in Economic Value RM'000**
100 bsp upward		
Ringgit Malaysia	33,606	(275,523)
100 bsp downward		
Ringgit Malaysia	(33,606)	299,201