

PUBLIC ISLAMIC BANK BERHAD
(14328 - V)
(Incorporated in Malaysia)
INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2010

	30 June 2010 RM'000	31 December 2009 RM'000
ASSETS		
Cash and balances with banks	8,045,654	6,727,664
Financial assets held-for-trading	477,605	79,988
Financial investments available-for-sale	1,427,369	1,274,512
Financial investments held-to-maturity	5,022	5,022
Financing and advances	15,724,660	14,348,330
Other assets	74,337	66,524
Statutory deposits with Bank Negara Malaysia	155,900	144,000
Deferred tax assets	66,304	84,102
Property and equipment	1,224	464
TOTAL ASSETS	25,978,075	22,730,606
LIABILITIES		
Deposits from customers	15,394,756	13,073,701
Deposits from banks	8,579,064	8,051,182
Other liabilities	241,712	48,915
Provision for zakat and taxation	79,718	50,921
TOTAL LIABILITIES	24,295,250	21,224,719
EQUITY		
Share capital	174,217	170,217
Reserves	1,508,608	1,335,670
TOTAL EQUITY	1,682,825	1,505,887
TOTAL LIABILITIES AND EQUITY	25,978,075	22,730,606
COMMITMENTS AND CONTINGENCIES	1,262,926	1,133,275
CAPITAL ADEQUACY		
<u>Before deducting interim dividend</u>		
Tier 1 Capital Ratio	11.8%	11.6%
Risk-Weighted Capital Ratio	13.6%	13.4%
<u>After deducting interim dividend</u>		
Tier 1 Capital Ratio	10.6%	10.5% *
Risk-Weighted Capital Ratio	12.3%	12.3% *
Net assets per share attributable to ordinary equity holder of the Bank (RM)	9.66	8.85

* After deducting second interim dividends

The Interim Financial Statements should be read in conjunction with the audited financial statements of the Bank for the year ended 31 December 2009.

PUBLIC ISLAMIC BANK BERHAD
(14328 - V)
(Incorporated in Malaysia)
INTERIM FINANCIAL STATEMENTS
UNAUDITED INCOME STATEMENTS
FOR THE FINANCIAL HALF YEAR ENDED 30 JUNE 2010

	2nd Quarter Ended		Half Year Ended	
	30 June 2010 RM'000	30 June 2009 RM'000	30 June 2010 RM'000	30 June 2009 RM'000
Income derived from investment of depositors' funds and others	290,361	213,835	558,101	421,659
Income derived from investment of shareholder's funds	19,744	14,300	37,402	29,086
Allowance for impairment on financing and advances	(18,844)	(15,485)	(38,791)	(25,180)
Profit equalisation reserve	(1,925)	4,994	(12,209)	(3,426)
Total distributable income	289,336	217,644	544,503	422,139
Income attributable to the depositors	(109,739)	(70,546)	(201,548)	(142,491)
Total net income	179,597	147,098	342,955	279,648
Personnel expenses	(4,221)	(3,345)	(8,449)	(6,803)
Other overheads and expenditures	(43,511)	(33,619)	(86,135)	(69,627)
Profit before zakat and taxation	131,865	110,134	248,371	203,218
Zakat	(64)	(49)	(128)	(98)
Taxation	(30,558)	(26,324)	(59,558)	(50,045)
Profit for the period	101,243	83,761	188,685	153,075
Earnings per RM1.00 share (sen)	59.4	52.6	110.8	96.1

The Interim Financial Statements should be read in conjunction with the audited financial statements of the Bank for the year ended 31 December 2009.

PUBLIC ISLAMIC BANK BERHAD
(14328 - V)
(Incorporated in Malaysia)
INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL HALF YEAR ENDED 30 JUNE 2010

	2nd Quarter Ended		Half Year Ended	
	30 June 2010 RM'000	30 June 2009 RM'000	30 June 2010 RM'000	30 June 2009 RM'000
Profit for the period	101,243	83,761	188,685	153,075
Other comprehensive income				
Net (loss) / gain on revaluation of investment available-for-sale	(22)	357	(1,206)	1,532
Income tax relating to components of other comprehensive income	5	(89)	301	(383)
Other comprehensive income for the period, net of tax	(17)	268	(905)	1,149
Total comprehensive income for the period	101,226	84,029	187,780	154,224

The Interim Financial Statements should be read in conjunction with the audited financial statements of the Bank for the year ended 31 December 2009.

PUBLIC ISLAMIC BANK BERHAD
(14328 - V)
(Incorporated in Malaysia)
INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL HALF YEAR ENDED 30 JUNE 2010

	<----- Non-distributable ----->				<----- Distributable ----->		Total Shareholder's Equity RM'000
	Share Capital RM'000	Share Premium RM'000	<u>Reserves</u> Statutory Reserve RM'000	Revaluation Reserve RM'000	<u>Reserves</u> General Reserve RM'000	Retained Profit RM'000	
At 1 January 2010							
- as previously stated	170,217	1,037,500	140,374	486	-	157,310	1,505,887
- effect of adopting FRS 139	-	-	-	-	-	25,332	25,332
At 1 January 2010, as restated	170,217	1,037,500	140,374	486	-	182,642	1,531,219
Profit for the period	-	-	-	-	-	188,685	188,685
Other comprehensive income	-	-	-	(905)	-	-	(905)
Total comprehensive income for the period	-	-	-	(905)	-	188,685	187,780
Transfer to statutory reserves	-	-	47,172	-	-	(47,172)	-
Increase in share capital	4,000	96,000	-	-	-	-	100,000
Dividend paid	-	-	-	-	-	(136,174)	(136,174)
At 30 June 2010	174,217	1,133,500	187,546	(419)	-	187,981	1,682,825
At 1 January 2009	159,217	773,500	23,819	341	2,000	25,555	984,432
Profit for the period	-	-	-	-	-	153,075	153,075
Other comprehensive income	-	-	-	1,149	-	-	1,149
Total comprehensive income for the period	-	-	-	1,149	-	153,075	154,224
Transfer to statutory reserves	-	-	68,163	-	-	(68,163)	-
Increase in share capital	8,000	192,000	-	-	-	-	200,000
At 30 June 2009	167,217	965,500	91,982	1,490	2,000	110,467	1,338,656

The Interim Financial Statements should be read in conjunction with the audited financial statements of the Bank for the year ended 31 December 2009.

PUBLIC ISLAMIC BANK BERHAD
(14328 - V)
(Incorporated in Malaysia)
INTERIM FINANCIAL STATEMENTS
UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL HALF YEAR ENDED 30 JUNE 2010

	30 June 2010 RM'000	30 June 2009 RM'000
Profit before zakat and taxation	248,371	203,218
Adjustments for non-cash items	61,802	33,772
Operating profit before working capital changes	310,173	236,990
Changes in working capital:		
Net changes in operating assets	(1,805,196)	(342,141)
Net changes in operating liabilities	3,029,599	4,556,079
Zakat and tax paid	(20,774)	(10,955)
Net cash generated from operating activities	1,513,802	4,439,973
Net cash used in investing activities	(159,638)	(312,313)
Net cash (used in) / generated from financing activities	(36,174)	200,000
Net change in cash and cash equivalents	1,317,990	4,327,660
Cash and cash equivalents at beginning of the period	6,727,664	3,323,580
Cash and cash equivalents at end of the period	8,045,654	7,651,240

The Interim Financial Statements should be read in conjunction with the audited financial statements of the Bank for the year ended 31 December 2009.

PUBLIC ISLAMIC BANK BERHAD
(14328-V)
(Incorporated in Malaysia)

Part A - Explanatory Notes Pursuant to Financial Reporting Standard 134 ("FRS 134") and Guidelines on Financial Reporting for Licensed Islamic Banks (BNM/GP8-i) Issued by Bank Negara Malaysia

A1. Basis of Preparation

The unaudited interim financial statements for the 2nd quarter and financial half year ended 30 June 2010 have been prepared under the historical cost convention except for the following assets and liabilities which are stated at fair values: held-for-trading financial assets and available-for-sale financial investments.

The unaudited interim financial statements have been prepared in accordance with FRS 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB"). The unaudited interim financial statements should be read in conjunction with the audited annual financial statements for the Bank for the financial year ended 31 December 2009. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Bank since the year ended 31 December 2009.

The significant accounting policies and methods of computation applied in the unaudited interim financial statements are consistent with those adopted in the most recent audited annual financial statements for the year ended 31 December 2009, except for the adoption of the following Financial Reporting Standards ("FRS"), amendments to FRSs, IC Interpretations and Technical Release ("TR"):

FRS 139	Financial Instruments: Recognition and Measurement
FRS 4	Insurance Contracts
FRS 7	Financial Instruments: Disclosures
FRS 101	Presentation of Financial Statements
IC Interpretation 9	Reassessment of Embedded Derivatives
Amendments to FRS 139	Financial Instruments: Recognition and Measurement, FRS 7 Financial Instruments: Disclosures and IC Interpretation 9 Reassessment of Embedded Derivatives
Amendments to FRS 139	Financial Instruments: Recognition and Measurement
TR i-3	Presentation of Financial Statements of Islamic Financial Institutions
Amendments to FRS 132	Financial Instruments: Presentation

The adoption of FRS 4 did not have any impact on the financial results of the Bank as the Bank does not engage in such transactions. The adoption of FRS 7, FRS 101, TR i-3 and Amendments to FRS 132 also did not impact the financial results of the Bank, as the changes introduced are presentational in nature. The principal effects of the changes in accounting policies arising from the adoption of FRS 139 and its related amendments to FRSs and IC Interpretations are disclosed in Note A29.

The Amendments to FRS 139 above included an additional transitional arrangement for entities in the financial sector, whereby BNM may prescribe the use of an alternative basis for collective assessment of impairment by banking institutions. This transitional arrangement, as prescribed in BNM's guidelines on Classification and Impairment Provisions for Loans/Financing, and its principal effects is also disclosed in Note A29.

PUBLIC ISLAMIC BANK BERHAD
(14328-V)
(Incorporated in Malaysia)

A1. Basis of Preparation (Continued)

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

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

A2. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the audited annual financial statements for the financial year ended 31 December 2009 was not qualified.

A3. Comments about Seasonal or Cyclical Factors

The operations of the Bank were not materially affected by any seasonal or cyclical factors in the 2nd quarter and the financial half year ended 30 June 2010.

A4. Unusual Items Due to Their Nature, Size or Incidence

There were no unusual items affecting the assets, liabilities, equity, net income or cash flows of the Bank in the 2nd quarter and the financial half year ended 30 June 2010.

A5. Changes in Estimates

There were no material changes in estimates of amounts reported in prior financial years that have a material effect in the 2nd quarter and the financial half year ended 30 June 2010.

PUBLIC ISLAMIC BANK BERHAD
(14328-V)
(Incorporated in Malaysia)

A6. Debt and Equity Securities

During the financial half year ended 30 June 2010, the issued and paid up share capital of the Bank was increased from RM170,217,000 to RM174,217,000 via the issuance of 4,000,000 ordinary shares of RM1.00 each to its holding company, Public Bank Berhad, with a related share premium of RM96,000,000.

There were no share buy-back and repayment of debt and equity securities by the Bank in the 2nd quarter and financial half year ended 30 June 2010.

A7. Dividends Paid, Distributed and Declared

During the financial half year ended 30 June 2010, the second interim single tier dividend of 80%, in respect of the financial year ended 31 December 2009, amounting to RM136,173,600 was paid on 22 January 2010.

The Directors have declared a first interim single tier dividend of 100% for the financial year ending 31 December 2010, amounting to RM174,217,000, based on the issued and paid up capital of RM174,217,000 ordinary shares of RM1.00 each as at 30 June 2010.

PUBLIC ISLAMIC BANK BERHAD
(14328-V)
(Incorporated in Malaysia)

A8. Financial Assets Held-for-Trading

	30 June 2010 RM'000	31 December 2009 RM'000
At fair value		
Money market instruments:		
Malaysian Government Investment Issue	-	30,305
Bank Negara Malaysia Monetary Notes	79,255	-
Negotiable instruments of deposit	398,350	49,683
	477,605	79,988
	477,605	79,988

A9. Financial Investments Available-for-Sale

	30 June 2010 RM'000	31 December 2009 RM'000
At fair value		
Money market instruments:		
Malaysian Government Investment Issue	797,287	866,287
Bank Negara Malaysia Monetary Notes	217,949	-
	1,015,236	866,287
Quoted securities:		
- Trust units in Malaysia	412,133	408,225
	1,427,369	1,274,512
	1,427,369	1,274,512

A10. Financial Investments Held-to-Maturity

	30 June 2010 RM'000	31 December 2009 RM'000
At amortised cost		
Unquoted securities:		
Private debt securities in Malaysia	5,022	5,022
	5,022	5,022
	5,022	5,022

PUBLIC ISLAMIC BANK BERHAD
(14328-V)
(Incorporated in Malaysia)

A11. Financing and Advances

	30 June 2010 RM'000	31 December 2009 RM'000
At amortised cost		
Cash line	151,107	140,651
Term financing		
- House financing	2,265,050	1,940,802
- Syndicated financing	372,191	366,469
- Hire purchase receivables	8,800,182	8,358,519
- Other term financing	4,370,684	3,778,150
Revolving credits	4,908	5,607
Gross financing and advances	<u>15,964,122</u>	<u>14,590,198</u>
Allowance for impaired financing and advances:		
- collective assessment allowance	(239,462)	-
- individual assessment allowance	-	-
- general allowance	-	(220,794)
- specific allowance	-	(21,074)
Net financing and advances	<u>15,724,660</u>	<u>14,348,330</u>

a. By contract

	30 June 2010 RM'000	31 December 2009 RM'000
Bai' Bithaman Ajil-i (deferred payment sale)	4,171,037	3,705,370
Ijarah Thamma Al-Bai'-i (leasing)	8,800,182	8,358,519
Ijarah Muntahia Bittamlik	71,544	66,105
Bai-Al-Einah-i	2,921,359	2,460,204
Gross financing and advances	<u>15,964,122</u>	<u>14,590,198</u>

PUBLIC ISLAMIC BANK BERHAD

(14328-V)

(Incorporated in Malaysia)

A11. Financing and Advances (continued)

b. By type of customer

	30 June 2010 RM'000	31 December 2009 RM'000
Domestic non-bank financial institutions		
- Others	127,073	9,241
Domestic business enterprises		
- Small and medium enterprises	989,450	981,848
- Others	425,988	511,278
Government and statutory bodies	325,707	315,819
Individuals	14,046,547	12,727,929
Other domestic entities	2,834	1,481
Foreign entities	46,523	42,602
Gross financing and advances	15,964,122	14,590,198

c. By profit rate sensitivity

	30 June 2010 RM'000	31 December 2009 RM'000
Fixed rate		
- House financing	949,634	978,799
- Hire purchase receivables	8,800,182	8,358,519
- Other fixed rate financing	3,862,603	3,137,463
Variable rate		
- BFR plus	2,130,093	1,656,297
- Cost plus	221,610	459,120
Gross financing and advances	15,964,122	14,590,198

d. By residual contractual maturity

	30 June 2010 RM'000	31 December 2009 RM'000
Maturity within one year	353,635	326,421
More than one year to three years	1,452,891	1,427,992
More than three years to five years	2,768,697	2,644,281
More than five years	11,388,899	10,191,504
Gross financing and advances	15,964,122	14,590,198

PUBLIC ISLAMIC BANK BERHAD

(14328-V)

(Incorporated in Malaysia)

A11. Financing and Advances (continued)

e. By economic purpose

	30 June 2010 RM'000	31 December 2009 RM'000
Purchase of securities	11	12
Purchase of transport vehicles	8,802,443	8,361,467
Purchase of landed properties	3,308,729	2,787,276
(of which: - residential	2,215,729	1,894,877
- non-residential)	1,093,000	892,399
Purchase of fixed assets (excluding landed properties)	77,659	72,249
Personal use	3,015,574	2,530,763
Purchase of consumer durables	4,075	3,851
Construction	28,759	19,452
Working capital	483,826	465,250
Other purpose	243,046	349,878
Gross financing and advances	15,964,122	14,590,198

f. By sectors

	30 June 2010 RM'000	31 December 2009 RM'000
Agriculture, hunting, forestry and fishing	193,656	218,135
Mining and quarrying	7,321	7,305
Manufacturing	108,395	113,938
Electricity, gas and water	847	898
Construction	252,361	228,921
Wholesale & retail trade and restaurants & hotels	286,884	278,203
Transport, storage and communication	59,396	60,758
Finance, insurance and business services	243,680	124,123
Real estate	305,852	375,410
Community, social and personal services	387,533	372,283
Households	14,093,068	12,770,301
(of which: - purchase of residential properties	2,191,388	1,872,742
- purchase of transport vehicles	8,337,839	7,872,414
- others)	3,563,841	3,025,145
Others	25,129	39,923
Gross financing and advances	15,964,122	14,590,198

PUBLIC ISLAMIC BANK BERHAD

(14328-V)

(Incorporated in Malaysia)

A11. Financing and Advances (continued)

g. Movements in impaired financing and advances ("impaired financing") are as follows:

	30 June 2010 RM'000	31 December 2009 RM'000
At 1 January		
- as previously stated	134,072	139,839
- effect of adopting FRS 139	3,666	-
At 1 January 2010, as restated	<u>137,738</u>	139,839
Impaired during the period	188,215	332,877
Reclassified as non-impaired	(131,015)	(259,624)
Recoveries	(14,474)	(28,773)
Amount written off	(24,375)	(49,268)
Financing converted to foreclosed properties	(1,130)	(979)
Closing balance	<u><u>154,959</u></u>	<u><u>134,072</u></u>
 Gross impaired financing as a percentage of gross financing and advances	 <u><u>0.97%</u></u>	 <u><u>0.92%</u></u>

h. Impaired financing and advances by economic purpose

	30 June 2010 RM'000	31 December 2009 RM'000
Purchase of transport vehicles	53,420	49,677
Purchase of landed properties	72,893	57,035
(of which: - residential	50,055	48,505
- non-residential)	22,838	8,530
Purchase of fixed assets (excluding landed properties)	174	178
Personal use	26,071	25,198
Purchase of consumer durables	1	20
Working capital	2,185	1,690
Other purpose	215	274
	<u><u>154,959</u></u>	<u><u>134,072</u></u>

PUBLIC ISLAMIC BANK BERHAD

(14328-V)

(Incorporated in Malaysia)

A11. Financing and Advances (continued)

i. Impaired financing and advances by sectors

	30 June 2010 RM'000	31 December 2009 RM'000
Agriculture, hunting, forestry and fishing	15,081	118
Mining and quarrying	129	-
Manufacturing	4,855	5,675
Construction	1,225	999
Wholesale & retail trade and restaurants & hotels	2,508	2,101
Transport, storage and communication	201	245
Finance, insurance and business services	1,090	1,214
Real estate	345	-
Community, social and personal services	-	51
Households	129,516	123,656
(of which: - purchase of residential properties	49,933	48,371
- purchase of transport vehicles	49,711	46,018
- others	29,872	29,267
Others	9	13
	154,959	134,072

j. Movements in the allowance for impaired financing and advances accounts are as follows:

	30 June 2010 RM'000	31 December 2009 RM'000
<u>Collective Assessment Allowance</u>		
At 1 January		
- as previously stated	-	-
- effect of adopting FRS 139	219,017	-
At 1 January, as restated	219,017	-
Allowance made during the period	44,820	-
Amount written off	(24,375)	-
Closing balance	239,462	-
As a percentage of total gross financing and advances less individual assessment allowance	1.50%	-

PUBLIC ISLAMIC BANK BERHAD

(14328-V)

(Incorporated in Malaysia)

A11. Financing and Advances (continued)

j. Movements in the allowance for impaired financing and advances accounts are as follows (cont.):

	30 June 2010 RM'000	31 December 2009 RM'000
<u>General Allowance</u>		
At 1 January		
- as previously stated	220,794	188,492
- effect of adopting FRS 139	(220,794)	-
At 1 January, as restated	-	188,492
Allowance made during the period	-	32,302
Closing balance	-	220,794
As % of gross financing and advances	-	1.52%
<u>Specific Allowance</u>		
At 1 January		
- as previously stated	21,074	23,981
- effect of adopting FRS 139	(21,074)	-
At 1 January, as restated	-	23,981
Allowance made during the period	-	61,740
Amount written back in respect of recoveries	-	(15,840)
Amount written off	-	(49,268)
Reinstatement of amount written off previously due to restructuring / rescheduling now reclassified as performing financing	-	541
Amount transferred to accumulated impairment losses in value of foreclosed properties	-	(80)
Closing balance	-	21,074

PUBLIC ISLAMIC BANK BERHAD
(14328-V)
(Incorporated in Malaysia)

A12. Other Assets

	30 June 2010 RM'000	31 December 2009 RM'000
Deferred handling fees	59,534	54,742
Income receivable	9,931	7,773
Other receivables, deposits and prepayments	3,068	3,110
Foreclosed properties	1,804	899
	74,337	66,524

A13. Deposits from Customers

a. By type of deposit

	30 June 2010 RM'000	31 December 2009 RM'000
<u>Non-Mudharabah Fund</u>		
Wadiah current deposits-i	2,046,350	1,999,422
Wadiah savings deposits-i	3,689,778	3,591,720
Negotiable instruments of deposit-i	2,310,380	1,326,084
	8,046,508	6,917,226
<u>Mudharabah Fund</u>		
Mudharabah savings deposits-i	76,017	78,626
Mudharabah general investment deposits-i	4,770,797	3,795,302
Mudharabah special investment deposits-i	2,501,434	2,282,547
	7,348,248	6,156,475
	15,394,756	13,073,701

PUBLIC ISLAMIC BANK BERHAD
(14328-V)
(Incorporated in Malaysia)

A13. Deposits from Customers (continued)

b. By type of customer

	30 June 2010 RM'000	31 December 2009 RM'000
Federal and state governments	788,708	486,214
Local government and statutory authorities	463,269	677,386
Business enterprises	3,985,658	3,413,567
Individuals	4,062,129	3,998,549
Foreign customers	91,558	89,632
Others	6,003,434	4,408,353
	15,394,756	13,073,701

The maturity structure of negotiable instruments of deposit-i and Mudharabah general and special investment deposits-i are as follows:

	30 June 2010 RM'000	31 December 2009 RM'000
Due within six months	9,044,321	6,673,520
More than six months to one year	524,264	609,714
More than one year to three years	11,709	118,568
More than three years to five years	2,317	2,131
	9,582,611	7,403,933

A14. Deposits from banks

	30 June 2010 RM'000	31 December 2009 RM'000
<u>Non-Mudharabah Fund</u>		
Licensed banks	5,482,721	3,924,019
Licensed Islamic banks	926,514	1,923,325
Licensed investment banks	1,461,897	508,496
Bank Negara Malaysia	2,675	3,651
Other financial institutions	224,257	306,713
	8,098,064	6,666,204
<u>Mudharabah Fund</u>		
Licensed banks	41,000	-
Licensed Islamic banks	240,000	-
Licensed investment banks	-	20
Other financial institutions	200,000	1,384,958
	481,000	1,384,978
	8,579,064	8,051,182

PUBLIC ISLAMIC BANK BERHAD
(14328-V)
(Incorporated in Malaysia)

A15. Other Liabilities

	30 June 2010 RM'000	31 December 2009 RM'000
Income payable	22,437	15,690
Other payables and accruals	196,571	22,656
Employee benefits	(1,381)	(1,307)
Profit equalisation reserve	24,085	11,876
	241,712	48,915

A16. Income Derived from Investment of Depositors' Funds and Others

	2nd Quarter Ended		Half Year Ended	
	30 June 2010 RM'000	30 June 2009 RM'000	30 June 2010 RM'000	30 June 2009 RM'000
Income derived from investment of:				
(a) General investment deposits	88,137	64,513	150,660	123,424
(b) Other deposits	202,224	149,322	407,441	298,235
	290,361	213,835	558,101	421,659

**a. Income derived from investment of
general investment deposits:**

Finance income and Hibah

Financing and advances	72,707	57,597	125,528	109,829
Financial investments available-for-sale	1,580	54	2,636	54
Financial investments held-to-maturity	12	-	22	-
Balances with banks	11,745	5,438	18,934	9,917
	86,044	63,089	147,120	119,800
Financial assets held-for-trading	564	255	664	1,169
Total finance income and Hibah	86,608	63,344	147,784	120,969

Other operating income

Fee income				
- Commissions	258	388	324	593
- Service charges and fees	680	570	1,578	1,186
- Other fee income	277	207	449	379
Net gain arising on financial investments available-for-sale	297	9	510	252
Others	17	(5)	15	45
Total other operating income	1,529	1,169	2,876	2,455
	88,137	64,513	150,660	123,424

Of which:

Financing income earned on impaired financing	579	-	997	-
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PUBLIC ISLAMIC BANK BERHAD
(14328-V)

(Incorporated in Malaysia)

A16. Income Derived from Investment of Depositors' Funds and Others (continued)

	2nd Quarter Ended		Half Year Ended	
	30 June 2010 RM'000	30 June 2009 RM'000	30 June 2010 RM'000	30 June 2009 RM'000
b. Income derived from investment of other deposits:				
<u>Finance income and Hibah</u>				
Financing and advances	166,098	133,355	339,473	265,385
Financial investments available-for-sale	3,663	129	7,129	129
Financial investments held-to-maturity	30	-	61	-
Balances with banks	27,609	12,640	51,205	23,963
	<u>197,400</u>	<u>146,124</u>	<u>397,868</u>	<u>289,477</u>
Financial assets held-for-trading	1,467	517	1,795	2,828
Total finance income and Hibah	<u>198,867</u>	<u>146,641</u>	<u>399,663</u>	<u>292,305</u>
<u>Other operating income</u>				
Fee income				
- Commissions	658	915	875	1,432
- Service charges and fees	1,321	1,309	4,268	2,865
- Other fee income	651	480	1,215	916
Net gain arising on financial investments available-for-sale	680	(7)	1,379	608
Others	47	(16)	41	109
Total other operating income	<u>3,357</u>	<u>2,681</u>	<u>7,778</u>	<u>5,930</u>
	<u>202,224</u>	<u>149,322</u>	<u>407,441</u>	<u>298,235</u>
Of which:				
Financing income earned on impaired financing	<u>1,325</u>	<u>-</u>	<u>2,697</u>	<u>-</u>

PUBLIC ISLAMIC BANK BERHAD
(14328-V)

(Incorporated in Malaysia)

A17. Income Derived from Investment of Shareholder's Funds

	2nd Quarter Ended		Half Year Ended	
	30 June 2010 RM'000	30 June 2009 RM'000	30 June 2010 RM'000	30 June 2009 RM'000
<u>Finance income and Hibah</u>				
Financing and advances	16,245	12,772	31,163	25,882
Financial investments available-for-sale	356	13	654	13
Financial investments held-to-maturity	3	-	6	-
Balances with banks	2,670	1,213	4,700	2,337
	<u>19,274</u>	<u>13,998</u>	<u>36,523</u>	<u>28,232</u>
Financial assets held-for-trading	137	45	165	275
Total finance income and Hibah	<u>19,411</u>	<u>14,043</u>	<u>36,688</u>	<u>28,507</u>
<u>Operating income</u>				
Fee income				
- Commissions	61	89	80	140
- Service charges and fees	138	125	392	280
- Other fee income	64	46	112	89
Net gain arising on financial investments available-for-sale	67	(2)	127	59
Others	3	(1)	3	11
Total other operating income	<u>333</u>	<u>257</u>	<u>714</u>	<u>579</u>
	<u>19,744</u>	<u>14,300</u>	<u>37,402</u>	<u>29,086</u>
Of which:				
Financing income earned on impaired financing	<u>130</u>	<u>-</u>	<u>248</u>	<u>-</u>

A18. Allowance for Impairment on Financing and Advances

	2nd Quarter Ended		Half Year Ended	
	30 June 2010 RM'000	30 June 2009 RM'000	30 June 2010 RM'000	30 June 2009 RM'000
Allowance for impaired financing:				
- Collective assessment allowance	22,533	-	44,820	-
- Individual assessment allowance	-	-	-	-
- General allowance	-	6,691	-	7,703
- Specific allowance	-	11,272	-	22,335
Impaired financing recovered	(3,720)	(2,528)	(6,091)	(4,933)
Impaired financing written off	31	50	62	75
	<u>18,844</u>	<u>15,485</u>	<u>38,791</u>	<u>25,180</u>

PUBLIC ISLAMIC BANK BERHAD**(14328-V)****(Incorporated in Malaysia)****A19. Income Attributable to the Depositors**

	2nd Quarter Ended		Half Year Ended	
	30 June 2010 RM'000	30 June 2009 RM'000	30 June 2010 RM'000	30 June 2009 RM'000
Deposits from customers				
- Mudharabah fund	24,791	22,060	48,391	46,681
- Non-Mudharabah fund	26,372	12,263	47,971	28,264
Deposits from banks				
- Mudharabah fund	19,550	4,998	33,106	10,479
- Non-Mudharabah fund	39,026	31,225	72,080	57,067
	<u>109,739</u>	<u>70,546</u>	<u>201,548</u>	<u>142,491</u>

A20. Personnel expenses

	2nd Quarter Ended		Half Year Ended	
	30 June 2010 RM'000	30 June 2009 RM'000	30 June 2010 RM'000	30 June 2009 RM'000
Salaries, allowances and bonuses	3,425	2,749	6,986	5,503
Pension costs	365	388	731	775
Others	431	208	732	525
	<u>4,221</u>	<u>3,345</u>	<u>8,449</u>	<u>6,803</u>

PUBLIC ISLAMIC BANK BERHAD

(14328-V)

(Incorporated in Malaysia)

A21. Other Overheads and Expenditures

	2nd Quarter Ended		Half Year Ended	
	30 June 2010 RM'000	30 June 2009 RM'000	30 June 2010 RM'000	30 June 2009 RM'000
Establishment costs				
- Depreciation	33	32	66	60
- Rental	149	66	297	132
- Insurance	658	85	654	73
- Water and electricity	24	23	45	44
- General repairs and maintenance	27	9	83	54
- Others	19	9	35	24
	910	224	1,180	387
Marketing expenses				
- Advertisement and publicity	401	436	700	776
- Others	1,798	1,860	4,313	3,181
	2,199	2,296	5,013	3,957
Administration and general expenses				
- Communication expenses	380	345	906	809
- Legal and professional fees	1,224	909	2,151	1,813
- Others	453	204	1,747	455
	2,057	1,458	4,804	3,077
Shared service costs paid/payable to Public Bank Berhad	41,433	32,671	81,428	67,513
Recovery of expenses	(3,088)	(3,030)	(6,290)	(5,307)
	43,511	33,619	86,135	69,627

PUBLIC ISLAMIC BANK BERHAD
(14328-V)
(Incorporated in Malaysia)

A22. Earnings Per Share (EPS)

The calculation of the basic earnings per share is based on the net profit attributable to the equity holder of the Bank divided by the weighted average number of ordinary shares of RM1.00 each in issue during the 2nd quarter and financial half year ended 30 June 2010.

	2nd Quarter Ended		Half Year Ended	
	30 June 2010 RM'000	30 June 2009 RM'000	30 June 2010 RM'000	30 June 2009 RM'000
Net profit attributable to equity holder of the Bank (RM'000)	101,243	83,761	188,685	153,075
Number of ordinary shares at beginning of the period / year ('000)	170,217	159,217	170,217	159,217
Effect of the issuance of shares ('000)	88	88	44	44
Weighted average number of PIBB Shares ('000)	170,305	159,305	170,261	159,261
Basic earnings per share (sen)	59.4	52.6	110.8	96.1

There are no dilutive potential ordinary shares in the 2nd quarter ended 30 June 2010 and 30 June 2009.

A23. Performance Review

The Bank achieved a pre-tax profit of RM248.4 million for the financial half year ended 30 June 2010. This profit represented an increase of 22.2% from the previous corresponding period. The profit improvement was primarily due to higher net financing income by RM74.5 million or 25.2%. These were partially offset by higher other operating expenses by RM18.1 million and higher allowance for impairment on financing and advances by RM13.6 million resulting from higher business volumes.

PUBLIC ISLAMIC BANK BERHAD
(14328-V)
(Incorporated in Malaysia)

A24. Prospects for 2010

The Malaysian economy is expected to further improve in 2010, on the back of the government's fiscal stimulus, accommodative monetary policy and the expected recovery in major developed economies. The improved consumer and business sentiment in recent months support the positive outlook for the economy in 2010. The banking industry is expected to remain healthy. However, competition will continue to intensify due to strong domestic players, liberal operating environment and the potential of new entrants. Domestic banks are expected to further build capacity and capability to compete, differentiate their business strategies and focus on new products and services. Product pricing will remain competitive.

Based on the positive economic outlook, the Bank will continue to grow its market share in its core business of consumer financing (mainly in home mortgages, passenger vehicle financing and personal financing) and financing to viable SMEs across economic sectors. The Bank will remain prudent and take proactive measures to ensure that its strong asset quality continues to be maintained. To sustain its strong business growth, the Bank will continue to focus on improving its superior delivery standards and infrastructure, cost efficiency, customer analytics and marketing strategy. In addition, the Bank will continue to tap on its extensive branch network and strong franchise, wide array of innovative products and packages and multiple delivery channels.

In its pursuit of business expansion, the Bank will continue to uphold strong corporate governance and implement sound risk management policies. Barring unforeseen circumstances, the Bank is expected to continue to record satisfactory performance in 2010.

A25. Subsequent Events

There were no material events subsequent to the end of the reporting period that require disclosure or adjustments to the unaudited interim financial statements.

PUBLIC ISLAMIC BANK BERHAD
(14328-V)
(Incorporated in Malaysia)

A26. Segment Information

	<----- Operating Segments ----->						Total RM'000
	Hire Purchase RM'000	Retail Operations RM'000	Corporate Banking RM'000	Treasury and Capital Market Operations RM'000	Head Office RM'000	Inter- segment Elimination RM'000	
2nd Quarter Ended 30 June 2010							
External revenue	128,970	124,909	6,462	48,116	1,638	-	310,095
Revenue from other segments	-	23,104	-	-	71,976	(95,080)	-
Total Revenue	128,970	148,013	6,462	48,116	73,614	(95,080)	310,095
Net financing income	62,425	114,453	2,879	(151)	13,616	-	193,222
Other operating income	(95)	4,342	-	(71)	1,043	-	5,219
Net income	62,330	118,795	2,879	(222)	14,659	-	198,441
Other operating expenses	(10,722)	(28,017)	(15)	(498)	(8,480)	-	(47,732)
Allowance for impairment on financing and advances	(7,262)	(11,258)	(324)	-	-	-	(18,844)
Profit by segments / Profit before zakat and taxation	44,346	79,520	2,540	(720)	6,179	-	131,865

PUBLIC ISLAMIC BANK BERHAD
(14328-V)
(Incorporated in Malaysia)

A26. Segment Information (continued)

	<----- Operating Segments ----->						Total RM'000
	Hire Purchase RM'000	Retail Operations RM'000	Corporate Banking RM'000	Treasury and Capital Market Operations RM'000	Head Office RM'000	Inter- segment Elimination RM'000	
2nd Quarter Ended 30 June 2009							
External revenue	111,067	96,941	1,275	17,948	938	-	228,169
Revenue from other segments	-	25,398	-	(1,096)	52,718	(77,020)	-
	111,067	122,339	1,275	16,852	53,656	(77,020)	228,169
Net financing income	62,157	98,501	610	(805)	(1,987)	-	158,476
Other operating income	(50)	4,193	-	68	(104)	-	4,107
Net income	62,107	102,694	610	(737)	(2,091)	-	162,583
Other operating expenses	(8,396)	(22,542)	-	(268)	(5,758)	-	(36,964)
Allowance for impairment on financing and advances	(4,901)	(9,794)	(790)	-	-	-	(15,485)
Profit by segments / Profit before zakat and taxation	48,810	70,358	(180)	(1,005)	(7,849)	-	110,134

PUBLIC ISLAMIC BANK BERHAD
(14328-V)
(Incorporated in Malaysia)

A26. Segment Information (continued)

Half Year Ended 30 June 2010	<----- Operating Segments ----->						Total RM'000
	Hire Purchase RM'000	Retail Operations RM'000	Corporate Banking RM'000	Treasury and Capital Market Operations RM'000	Head Office RM'000	Inter- segment Elimination RM'000	
External revenue	253,842	241,647	12,521	84,864	2,435	-	595,309
Revenue from other segments	-	46,792	-	-	136,030	(182,822)	-
Total Revenue	253,842	288,439	12,521	84,864	138,465	(182,822)	595,309
Net financing income	127,426	212,865	5,976	35	24,076	-	370,378
Other operating income	(195)	9,522	-	244	1,797	-	11,368
Net income	127,231	222,387	5,976	279	25,873	-	381,746
Other operating expenses	(21,588)	(55,135)	(15)	(915)	(16,931)	-	(94,584)
Allowance for impairment on financing and advances	(16,231)	(21,886)	(679)	-	5	-	(38,791)
Profit by segments / Profit before zakat and taxation	89,412	145,366	5,282	(636)	8,947	-	248,371
Cost income ratio	17.0%	24.8%	0.3%	328.0%	65.4%	-	24.8%
Gross financing and advances	8,800,182	6,577,392	586,548	-	-	-	15,964,122
Impaired financing and advances	53,472	101,487	-	-	-	-	154,959
Impaired financing (%)	0.6%	1.5%	-	-	-	-	1.0%
Deposits from customers	-	10,565,617	17,324	4,811,815	-	-	15,394,756
Segment assets	8,727,850	10,957,563	577,863	13,164,112	1,649,958	(9,169,487)	25,907,859
Recconciliation of segment assets to consolidated assets:							
Unallocated assets							70,216
Total assets							25,978,075

PUBLIC ISLAMIC BANK BERHAD
(14328-V)
(Incorporated in Malaysia)

A26. **Segment Information** (continued)

Financial Year Ended 30 June 2009	<----- Operating Segments ----->						Total RM'000
	Hire Purchase RM'000	Retail Operations RM'000	Corporate Banking RM'000	Treasury and Capital Market Operations RM'000	Head Office RM'000	Inter- segment Elimination RM'000	
External revenue	222,983	188,965	2,254	35,692	754	-	450,648
Revenue from other segments	-	55,704	-	-	113,643	(169,347)	-
Total Revenue	222,983	244,669	2,254	35,692	114,397	(169,347)	450,648
Net financing income	112,774	180,304	911	(909)	2,784	-	295,864
Other operating income	(86)	7,974	-	322	754	-	8,964
Net income	112,688	188,278	911	(587)	3,538	-	304,828
Other operating expenses	(18,223)	(45,518)	-	(645)	(12,044)	-	(76,430)
Allowance for impairment on financing and advances	(8,577)	(15,817)	(786)	-	-	-	(25,180)
Profit by segments / Profit before zakat and taxation	85,888	126,943	125	(1,232)	(8,506)	-	203,218
Cost income ratio	16.2%	24.2%	-	-109.9%	340.4%	-	25.1%
Gross financing and advances	7,926,753	4,879,377	143,852	-	-	-	12,949,982
Impaired financing and advances	49,585	75,131	-	-	-	-	124,716
Impaired financing (%)	0.6%	1.5%	-	-	-	-	1.0%
Deposits from customers	-	10,571,059	32,086	568,347	-	-	11,171,492
Segment assets	7,844,452	10,736,608	141,884	9,315,423	1,120,404	(7,830,843)	21,327,928
Recconciliation of segment assets to consolidated assets:							
Unallocated assets							79,125
Total assets							21,407,053

PUBLIC ISLAMIC BANK BERHAD
(14328-V)
(Incorporated in Malaysia)

A27. Capital Adequacy

The capital adequacy ratios of the Bank as at the following date:

	30 June 2010	31 December 2009
<u>Before deducting interim dividend:</u>		
Tier 1 capital ratio	11.8%	11.6%
Risk-weighted capital ratio	13.6%	13.4%
<u>After deducting interim dividend:</u>		
Tier 1 capital ratio	10.6%	10.5%
Risk-weighted capital ratio	12.3%	12.3%
	30 June 2010 RM'000	31 December 2009 RM'000

(a) Components of Tier I and Tier II capital:

<u>Tier I capital</u>		
Paid-up share capital	174,217	170,217
Share premium	1,133,500	1,037,500
Other reserves	187,546	140,374
Retained profits	187,981	157,310
Less: Deferred tax assets, net	(66,165)	(84,264)
Total Tier I capital	1,617,079	1,421,137
<u>Tier II capital</u>		
Collective assessment allowance	239,462	-
General allowance	-	220,794
Total Tier II capital	239,462	220,794
Capital base	1,856,541	1,641,931

The capital adequacy ratios of the Bank is computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Bank (CAFIB-Basel II). The Bank has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk. The minimum regulatory capital adequacy requirement is 8.0% (2009 - 8.0%) for the risk-weighted capital ratio.

The detailed disclosures on the capital base and risk-weighted assets, as set out in Note 27(b) - (e) are presented in accordance with para 4.4 of Bank Negara Malaysia's - Concept Paper - Risk-Weighted Capital Adequacy Framework (Basel II) and Capital Adequacy Framework for Islamic Banks (CAFIB) - Disclosure Requirements (Pillar 3).

PUBLIC ISLAMIC BANK BERHAD
(14328-V)
(Incorporated in Malaysia)

A27. Capital Adequacy (continued)

- (b) The breakdown of risk-weighted assets ("RWA") by exposures in each major risk category for the current financial period are as follows:

As At 30 June 2010 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
(i) <u>Credit Risk</u>				
On-Balance Sheet Exposures:				
Sovereigns / Central Banks	8,439,609	8,439,609	-	-
Public Sector Entities	325,707	325,707	5,012	401
Banks, Development Financial Institutions ("DFI") and Multilateral Development Banks ("MDB")	787,113	787,113	157,423	12,594
Insurance Companies, Securities Firms and Fund Managers	-	-	-	-
Corporates	831,350	830,770	829,846	66,388
Regulatory Retail	13,365,557	13,359,882	10,164,927	813,194
Residential Mortgages	1,436,097	1,433,080	603,923	48,314
Higher Risk Assets	10,432	10,397	15,596	1,248
Other Assets	65,630	65,630	65,234	5,219
Equity Exposures	412,133	412,133	412,133	32,971
Total On-Balance Sheet Exposures	<u>25,673,628</u>	<u>25,664,321</u>	<u>12,254,094</u>	<u>980,329</u>
Off-Balance Sheet Exposures:				
Credit-related Off-Balance Sheet Exposures	424,115	424,115	305,345	24,428
Total Off-Balance Sheet Exposures	<u>424,115</u>	<u>424,115</u>	<u>305,345</u>	<u>24,428</u>
Total On and Off-Balance Sheet Exposures	<u>26,097,743</u>	<u>26,088,436</u>	<u>12,559,439</u>	<u>1,004,757</u>
(ii) <u>Market Risk</u>				
Profit Rate Risk	477,605	-	27,361	2,189
Gold Position	397	-	397	32
Total	<u>478,002</u>	<u>-</u>	<u>27,758</u>	<u>2,221</u>
(iii) Operational Risk			1,081,750	86,540
Total RWA and Capital Requirements			<u>13,668,947</u>	<u>1,093,518</u>

PUBLIC ISLAMIC BANK BERHAD
(14328-V)
(Incorporated in Malaysia)

A27. Capital Adequacy (continued)

- (b) The breakdown of risk-weighted assets ("RWA") by exposures in each major risk category for the current financial period are as follows (continued):

As At 31 December 2009 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
(i) <u>Credit Risk</u>				
On-Balance Sheet Exposures:				
Sovereigns / Central Banks	7,131,951	7,131,951	-	-
Public Sector Entities	315,819	315,819	63,164	5,053
Banks, DFI and MDB	613,773	613,773	122,755	9,820
Insurance Companies, Securities Firms and Fund Managers	6	6	6	-
Corporates	734,745	733,474	723,338	57,867
Regulatory Retail	12,248,700	12,243,495	9,298,773	743,902
Residential Mortgages	1,264,112	1,261,792	538,540	43,083
Higher Risk Assets	10,764	10,729	16,093	1,288
Other Assets	59,215	59,215	58,841	4,707
Equity Exposures	408,225	408,225	408,225	32,658
Total On-Balance Sheet Exposures	<u>22,787,310</u>	<u>22,778,479</u>	<u>11,229,735</u>	<u>898,378</u>
Off-Balance Sheet Exposures:				
Credit-related Off-Balance Sheet Exposures	443,518	443,518	331,807	26,545
Total Off-Balance Sheet Exposures	<u>443,518</u>	<u>443,518</u>	<u>331,807</u>	<u>26,545</u>
Total On and Off-Balance Sheet Exposures	<u>23,230,828</u>	<u>23,221,997</u>	<u>11,561,542</u>	<u>924,923</u>
(ii) <u>Market Risk</u>				
	Long Position	Short Position		
Profit Rate Risk	79,988	-	11,855	948
Gold Position	373	-	373	30
Total	<u>80,361</u>	<u>-</u>	<u>12,228</u>	<u>978</u>
(iii) Operational Risk			714,569	57,166
Total RWA and Capital Requirements			<u>12,288,339</u>	<u>983,067</u>

The Bank do not have any issuances of Profit-Sharing Investment Account ("PSIA") used as a risk absorbent.

PUBLIC ISLAMIC BANK BERHAD
(14328-V)
(Incorporated in Malaysia)

A27. CAPITAL ADEQUACY (continued)

(c) The breakdown of credit risk exposures by risk weights for the current financial period are as follows:

<----- Exposures after Netting and Credit Risk Mitigation ----->													
As At 30 June 2010											Total Exposures	Total	
Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFI and MDB RM'000	Insurance Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	and Credit Risk Mitigation RM'000	RM'000	RWA RM'000
0%	8,439,609	300,647	-	-	-	-	-	-	397	-	8,740,653	-	
20%	-	25,060	787,113	-	5,022	-	-	-	-	-	817,195	163,439	
35%	-	-	-	-	-	-	824,801	-	-	-	824,801	288,680	
50%	-	-	-	-	-	658,038	-	-	-	-	658,038	329,019	
75%	-	-	-	-	-	13,508,333	-	-	-	-	13,508,333	10,131,250	
100%	-	-	-	-	831,397	15,384	-	65,233	412,133	-	1,324,147	1,324,147	
150%	-	-	-	-	6,188	197,475	-	11,606	-	-	215,269	322,904	
Total Exposures	8,439,609	325,707	787,113	-	842,607	13,705,808	1,498,223	11,606	65,630	412,133	26,088,436	12,559,439	
RWA by Exposures	-	5,012	157,423	-	841,683	10,427,462	633,084	17,409	65,233	412,133	12,559,439	-	
Average Risk Weight	0.0%	1.5%	20.0%	-	99.9%	76.1%	42.3%	150.0%	99.4%	100.0%	48.1%	-	
Deduction from Capital Base			-							-	-	-	

PUBLIC ISLAMIC BANK BERHAD
(14328-V)
(Incorporated in Malaysia)

A27. CAPITAL ADEQUACY (continued)

(c) The breakdown of credit risk exposures by risk weights for the current financial period are as follows (continued):

<----- Exposures after Netting and Credit Risk Mitigation ----->												
As At 31 December 2009											Total Exposures	Total
Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFI and MDB RM'000	Insurance Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Netting and Credit Risk Mitigation RM'000	Total RWA RM'000
0%	7,131,951	-	-	-	-	-	-	-	373	-	7,132,324	-
20%	-	315,819	613,773	-	5,022	-	-	-	-	-	934,614	186,923
35%	-	-	-	-	-	-	713,687	-	-	-	713,687	249,791
50%	-	-	-	-	15,000	5,498	583,975	-	-	-	604,473	302,237
75%	-	-	-	-	-	12,395,676	-	-	-	-	12,395,676	9,296,757
100%	-	-	-	6	767,676	14,269	22,983	-	58,842	408,225	1,272,001	1,272,001
150%	-	-	-	-	2,761	154,733	-	11,728	-	-	169,222	253,833
Total Exposures	7,131,951	315,819	613,773	6	790,459	12,570,176	1,320,645	11,728	59,215	408,225	23,221,997	11,561,542
RWA by Exposures	-	63,164	122,755	6	780,322	9,545,875	564,761	17,592	58,842	408,225	11,561,542	
Average Risk Weight	0.0%	20.0%	20.0%	100.0%	98.7%	75.9%	42.8%	150.0%	99.4%	100.0%	49.8%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-

PUBLIC ISLAMIC BANK BERHAD
(14328-V)
(Incorporated in Malaysia)

A27. Commitments and Contingencies

(d) The commitments and contingencies and their related counterparty credit risk of the Bank are as follows:

As At 30 June 2010	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
<u>Commitments and Contingent Liabilities</u>			
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:			
- exceeding one year	1,066,237	424,115	305,345
- not exceeding one year	196,689	-	-
	1,262,926	424,115	305,345
As At 31 December 2009	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
<u>Commitments and Contingent Liabilities</u>			
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:			
- exceeding one year	959,786	443,518	331,807
- not exceeding one year	173,489	-	-
	1,133,275	443,518	331,807

PUBLIC ISLAMIC BANK BERHAD
(14328-V)
(Incorporated in Malaysia)

A27. Capital Adequacy (continued)

(e) The risk-weighted assets and capital requirements for the various categories of risk under Market Risk are as follows:

As At 30 June 2010	Risk-weighted Assets Equivalent RM'000	Capital Required RM'000
Profit rate risk		
- General profit rate risk	14,911	1,193
- Specific profit rate risk	12,450	996
	<u>27,361</u>	<u>2,189</u>
 Gold Position	 397	 32
	<u>27,758</u>	<u>2,221</u>
As At 31 December 2009	Risk- Weighted Assets Equivalent RM'000	Capital Required RM'000
Profit rate risk		
- General profit rate risk	10,305	824
- Specific profit rate risk	1,550	124
	<u>11,855</u>	<u>948</u>
 Gold Position	 373	 30
	<u>12,228</u>	<u>978</u>

A28. Credit Exposures Arising From Credit Transactions With Connected Parties

	30 June 2010	31 December 2009
Outstanding credit exposures with connected parties (RM'000)	<u>12,353</u>	13,681
Percentage of outstanding credit exposures to connected parties:		
- as a proportion of total credit exposures	<u>0.08%</u>	0.09%
- as a proportion of capital base	<u>0.67%</u>	0.83%

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

PUBLIC ISLAMIC BANK BERHAD
(14328-v)
(Incorporated in Malaysia)

A29. Change in Accounting Policies and Prior Year Adjustments

(a) Change in Accounting Policies

The adoption of new FRSs, amendments to FRSs, IC Interpretations and TR during the financial period have resulted in the following changes in accounting policies:

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

FRS 139 establishes the principles for the recognition, derecognition and measurement of an entity's financial instruments and for hedge accounting. However, since the adoption of BNM's BNM/GP8-i - Guidelines on Financial Reporting for Licensed Islamic Banks, certain principles in connection with the recognition, derecognition and measurement of financial instruments, including derivative instruments, and hedge accounting which are similar to those prescribed by FRS 139 have already been adopted by the Bank. Therefore, the adoption of FRS 139 on 1 January 2010 has resulted in the following material changes in accounting policies as follows:

1) Impairment of Financing and Advances

The adoption of FRS 139 has resulted in a change in the accounting policy relating to the assessment for impairment of financial assets, particularly financing and advances. The existing accounting policies relating to the assessment of impairment of other financial assets of the Bank are already largely in line with those of FRS 139. Prior to the adoption of FRS 139, allowances for impaired financing and advances (previously referred to as non-performing financing) were computed in conformity with the BNM/GP3 Guidelines on Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts. Upon the adoption of FRS 139, the Bank assesses at the end of each reporting period whether there is any objective evidence that a financing or group of financing is impaired. The financing or group of 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 financing (an incurred 'loss event') and that the loss event has an impact on future estimated cash flows of the financing or group of financing that can be reliably estimated.

The Bank first assess individually whether objective evidence of impairment exists individually for financing which are individually significant, and collectively for financing which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financing, the financing is included in a group of financing with similar credit risk characteristics and collectively assessed for 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 financing's carrying amount and the present value of the estimated future cash flows. The carrying amount of the financing is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

PUBLIC ISLAMIC BANK BERHAD
(14328-v)
(Incorporated in Malaysia)

A29. Change in Accounting Policies and Prior Year Adjustments (continued)

(a) **Change in Accounting Policies ("continued")**

1) Impairment of Financing and Advances ("continued")

In the Amendments to FRS 139 listed above, 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, whereby banking institutions are required to maintain collective assessment impairment allowances of at least 1.5% of total outstanding loans/financing, net of individual impairment allowance. Subject to the written approval by BNM, banking institutions are allowed to maintain a lower collective assessment impairment allowance. The collective assessment impairment allowance of the Bank as at the reporting date have been arrived at based on this transitional arrangement issued by BNM.

The changes in accounting policy above have been accounted for prospectively, in line with the transitional arrangements under para 103AA of FRS 139, with adjustments to the carrying values of financial assets affecting the income statement as at the beginning of the current financial period being adjusted to opening retained profits. As a result of the adoption of the financing impairment basis under FRS 139 and the transitional arrangements under BNM's guidelines on Classification and Impairment Provisions for Loans/Financing, the Bank wrote back general allowance of RM220,794,000 and specific allowance of RM21,074,000 against opening retained profits as at 1 January 2010. In addition, the Bank has also recognised opening collective assessment allowance of RM219,017,000 against opening retained profits as at 1 January 2010. Any further collective assessment allowance and individual assessment allowance charged subsequent to the initial adoption of FRS 139 is recognised as allowance for impairment on financing and advances in the income statement.

2) Classification of Financing as Impaired

Prior to the adoption of FRS 139, financing were classified as non-performing when principal or profit or both are past due for three (3) months or more. Upon the adoption of FRS 139, financing are classified as impaired when principal or profit or both are past due for three (3) months or more or where financing in arrears for less than three months exhibit indications of credit weaknesses.

3) Financing Income Recognition

FRS 139 prescribes that financial assets classified as held-to-maturity and loans and receivables are measured at amortised cost using the effective interest method. Whilst the Bank's securities held-to-maturity are already measured on this basis under the requirements of BNM's BNM/GP8-i effective from 1 January 2005, financing income on its financing continued to be recognised based on contractual profit rates. Upon the adoption of FRS 139 on 1 January 2010, financing income is recognised using effective profit rates ("EPR"), which is the rate that exactly discounts estimated future cash receipts through the expected life of the financing or, when appropriate, a shorter period to the net carrying amount of the financing.

This change in accounting policy has been accounted for prospectively in line with the transitional arrangements under para 103AA of FRS 139, resulting in an adjustment of RM7,259,000 for the Bank to opening retained earnings.

PUBLIC ISLAMIC BANK BERHAD
(14328-v)
(Incorporated in Malaysia)

A29. Change in Accounting Policies and Prior Year Adjustments (continued)

(a) **Change in Accounting Policies** ("continued")

3) Financing Income Recognition ("continued")

Prior to the adoption of FRS 139, profit accrued and recognised as income prior to the date that a financing is classified as non-performing is reversed out of income and set-off against the profit receivable account in the statement of financial position. Thereafter, profit on the non-performing financing is recognised as income on a cash basis. Upon adoption of FRS 139, once a financing has been written down as a result of an impairment loss, financing income is thereafter recognised using the rate of profit used to discount the future cash flows for the purpose of measuring impairment loss. This change in accounting policy has resulted in the writeback of profit-in-suspense amounting to RM3,666,000 by the Bank to opening retained earnings.

4) 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 resulting derivative can be reliably measured.

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

(b) **Adjustments due to Change in Accounting Policies**

The changes in accounting policies as described above which resulted in adjustments to opening retained profits of the Bank are as follows:

	RM'000
Effects on retained profits:	
At 1 January 2010, as previously stated	157,310
Effects of adoption of FRS 139	<u>25,332</u>
At 1 January 2010, as restated	<u><u>182,642</u></u>

PUBLIC ISLAMIC BANK BERHAD
(14328-v)
(Incorporated in Malaysia)

A29. Change in Accounting Policies and Prior Year Adjustments (continued)

(c) **Comparative Figures**

(i) FRS 101 Presentation of Financial Statements

As a result of the adoption of the revised FRS 101, income statements of the Bank for the comparative financial period ended 30 June 2009 have been re-presented as two separate statements, ie. an income statement displaying components of profit or loss and a statement of comprehensive income. All non-owner changes in equity which were previously presented in the statement of changes in equity are now included in the statement of comprehensive income as other comprehensive income. Consequently, components of comprehensive income are not presented in the statement of changes in equity. Since these changes only affect presentation aspects, there is no impact on earnings per ordinary share.

(ii) FRS 7 Financial Instruments: Disclosures

The adoption of FRS 7 during the financial period has resulted in some changes to the disclosure of financial instruments, whereby the disclosures are now made by categories of financial assets and liabilities. The disclosure of comparative figures in the statement of financial position as at 31 December 2009 and the income statement for the financial period ended 30 June 2009 have been restated to conform with the current period's presentation. Since these changes only affect the presentation of disclosure items, there is no impact on the financial results of the Bank for the comparative period.