

Company No. 295576-U

**Amlslamic Bank Berhad**

(Company No. 295576-U)

(Incorporated in Malaysia)

**Financial Statements  
For the Financial Year Ended**

**31 March 2008**

(In Ringgit Malaysia)

**FINANCIAL STATEMENTS**

<b>CONTENTS</b>	<b>PAGE(S)</b>
Directors' report	1 – 15
Statement by directors	16
Statutory declaration	17
Shariah Committee's Report	18
Report of the auditors	19
Balance sheet	20
Income statement	21
Statement of changes in equity	22
Cash flow statement	23 – 24
Notes to the financial statements	25 – 78

**AmIslamic Bank Berhad**  
(Incorporated in Malaysia)

**DIRECTORS' REPORT**

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

**PRINCIPAL ACTIVITIES**

The Bank is a licensed Islamic banking institution providing Islamic retail and commercial banking products and services in accordance with Shariah principles. There have been no significant changes in the nature of the activities of the Bank during the financial year.

**SUBSEQUENT EVENTS**

On 11 March 2008, AMMB Holdings Berhad ("AHB") announced a Proposed Group Internal Restructuring involving:

- (a) the transfer of the fund-based activities of AmInvestment Bank Berhad ("AmInvestment Bank"), a 100%-owned subsidiary of AmInvestment Group Berhad ("AIGB") to AmBank (M) Berhad ("AmBank") and the Bank (the "Proposed Business Transfer"); and
- (b) the re-alignment of the AHB shareholding structure of certain operating subsidiaries to fully constitute the Capital Market Group and Asset Management Group (the "Proposed Internal Transfer").

On 11 March 2008, AmInvestment Bank entered into separate Business Transfer Agreements with AmBank and AmIslamic Bank Berhad ("AmIslamic") respectively in respect of the Proposed Business Transfer.

Bank Negara Malaysia ("BNM") and the Minister of Finance ("MOF") have on 19 December 2007 approved the Proposed Business Transfer. It was implemented by way of a vesting order (the "Order") of the High Court of Malaya (the "Court") to be obtained by AmInvestment Bank, AmBank and AmIslamic pursuant to section 50 of the Banking and Financial Institutions Act 1989, whereby:-

- (i) Subject to exclusions as may be agreed between AmInvestment Bank and AmBank, AmBank will acquire the assets and assume the liabilities relating to AmInvestment Bank's conventional fund-based activity, based on the book value of the assets and liabilities which shall include AmInvestment Bank's 100% shareholding interest in AmInternational (L) Ltd, a licensed offshore bank; and
- (ii) Subject to exclusions as may be agreed between AmInvestment Bank and the Bank, the Bank will acquire the assets and assume the liabilities relating to AmInvestment Bank's Islamic fund-based activity, based on the book value of the assets and liabilities as at the date the Order comes into effect. The consideration for the Proposed Business Transfer, computed on the basis of the book value of the assets acquired less the book value of the liabilities assumed, will be settled in cash by AmBank and AmIslamic.

On 12 April 2008, the Bank completed the Business Transfer for a cash consideration of RM314.9 million based on the book value of the assets and liabilities as at 11 April 2008 pursuant to the Business Transfer Agreement entered into with AmInvestment Bank. Details of the proposed business transfer is disclosed in Note 41 to the financial statements.

## FINANCIAL RESULTS

	<b>The Bank RM'000</b>
Profit before zakat and taxation	152,556
Zakat	(601)
Taxation	<u>(65,859)</u>
Net profit for the year	<u><u>86,096</u></u>

## BUSINESS PLAN AND STRATEGY

The ultimate holding company, AMMB Holdings Berhad ("The Group") is committed to enhancing its status as the premier financial services group in Malaysia and the market leader in key products segments. Pivoting on the key themes of simplicity and service quality, the Group will provide a combination of quality products at competitive pricing and superior service to its customers. Investments are geared towards both enhancing infrastructure and developing new capabilities in operational processes, risk management, MIS, human capital and talent development, and building a world-class sales culture.

18 May 2007 marks a commemorative milestone in the history of the Group. The strategic partnership with Australia and New Zealand Banking Group Limited ("ANZ") was sealed, inscribing a journey of new beginnings, fresh horizons and novel frontiers. The Group will capitalize on ANZ's exposure to international businesses, banking systems and cross border capabilities in Asia and the Pacific to considerably elevate its brand equity. Revenue and balance sheet growth will be major focus areas across all divisions including retail, business banking, investment banking and insurance.

On the retail and commercial businesses, enhancements are underway to deliver more comprehensive customer service proposition. Initiatives include innovative new, repackaged and bundled products, including the housing and commercial property loan catered for refinancing sectors, the prepaid cards joint ventures with large external corporations, and micro financing schemes for the small-medium enterprises. Business processes have been reengineered with the assistance of ANZ's expertise in distribution channel management, product development and risk management.

A key strategic agenda is to grow transactional deposits (savings and current account). Deposits growth initiatives revolve around acquiring new main bank accounts, increasing activation, combating dormancy and closures, increasing cash management and trade services utilisation, and cross-selling to the Group's customer base. Retail and commercial divisions will also continue to expand branch network, electronic channels, internet banking, mobile banking and business relationships in order to grow deposits plus other fee income products and services.

The Bank will continue to be a significant player in the auto financing sector, but redirecting growth towards the more profitable business segments.

## **OUTLOOK FOR NEXT FINANCIAL YEAR**

Macroeconomic conditions are uncertain, with US economic downturn spiralling potential global recessionary impacts in the most economies worldwide. Nevertheless, strong commodity prices, domestic demand and more diversified export markets and products, will continue to benefit Malaysia, and the economy is expected to expand by 4% to 5% in 2008. The banking sector expects moderating demand for financing, by both households and businesses, particularly with the implementation of the Ninth Malaysia Plan ("9MP").

The equity markets will be impacted by the broad trends affecting most regional markets, nevertheless the debt markets are expected to remain robust in view of the strong domestic liquidity. Active promotion of Islamic financing by the Malaysian government and growing demand for Syariah compliant securities from local and international investors provide an impetus for the issuance of the capital market securities.

The Bank is well positioned to weather global and regional volatilities. Steps have been taken to strengthen its balance sheet and capital position, laying the foundation for assets growth initiatives moving forward. Building on its well-known brand and solid customer franchise, the Bank will leverage growth opportunities and strongly compete with leading local, regional and international banks in its home market.

## **ITEMS OF AN UNUSUAL NATURE**

In the opinion of the directors, the results of operations of the Bank for the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

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 operations of the Bank for the current financial year in which this report is made.

## **DIVIDENDS**

No dividend has been paid or declared by the Bank since the end of the previous financial year. The directors do not recommend the payment of any dividend in respect of the current financial year.

## **RESERVES AND ALLOWANCES**

There were no material transfers to or from reserves or allowances during the financial year other than those disclosed in the financial statements.

## **ISSUANCE OF SHARES AND DEBENTURES**

There were no issuance of shares and debentures during the financial year.

## **SHARE OPTIONS**

No options have been granted by the Bank to any parties during the financial year to take up unissued shares of the Bank.

No shares have been issued during the financial year by virtue of the exercise of any option to take up unissued shares of the Bank. As at the end of the financial year, there were no unissued shares of the Bank under options.

## **BAD AND DOUBTFUL DEBTS AND FINANCING**

Before the income statement and balance sheet of the Bank were made out, the directors took reasonable steps to ascertain that 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 have satisfied themselves that all known bad debts and financing had been written off and adequate allowances had been made for doubtful debts and financing.

At the date of this report, the directors are not aware of any circumstances that would render the amount written off for bad debts and financing or the amount of allowance for doubtful debts and financing in the financial statement of the Bank inadequate to any substantial extent.

## **CURRENT ASSETS**

Before the income statement and balance sheet of the Bank were made out, the directors took reasonable steps to ascertain that any current assets, other than debts and financing, which were unlikely to be realised in the ordinary course of business, their values as shown in the accounting records of the Bank, have been written down to their estimated realisable values.

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 Bank 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 Bank'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 Bank which has arisen since the end of the financial year and which secures the liability of any other person; or
- (b) any contingent liability in respect of the Bank that has arisen since the end of the financial year, other than those incurred in the normal course of business.

No contingent or other liability of the Bank 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 substantially affect the ability of the Bank to meet its 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 Bank that would render any amount stated in the financial statements misleading.

Company No. 295576-U

## **DIRECTORS**

The directors of the Bank who served on the Board since the date of the last report are:

Tan Sri Dato' Azman Hashim

Tun Mohammed Hanif Omar

Tan Sri Datuk Clifford Francis Herbert

Dato' Larry Gan Nyap Liou @ Gan Nyap Liow (appointed on 15 November 2007)

Cheah Tek Kuang

Anthony John Healy (appointed on 1 October 2007)

Mohamed Azmi Mahmood (resigned on 1 May 2008)

Dato' James Lim Cheng Poh (resigned on 1 May 2008)

In accordance with Article 87 of the Bank's Articles of Association, Tan Sri Datuk Clifford Francis Herbert retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Article 95 of the Bank's Articles of Association, Dato' Larry Gan Nyap Liou @ Gan Nyap Liow and Mr Anthony John Healy, who were appointed to the Board after the last Annual General Meeting, retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.



**DIRECTORS' INTERESTS**

The interests in shares and debentures in the ultimate holding company and related companies of those who were directors at the end of the financial year as recorded in the Register of Directors' Shareholdings kept by the Bank under Section 134 of the Companies Act, 1965, are as follows:

**DIRECT INTERESTS**

**In the ultimate holding company,  
AMMB Holdings Berhad**

Shares	No. of ordinary shares of RM1.00 each				Balance at 31.3.2008
	Balance at 1.4.2007	Exercise of Warrants/ Bought	Rights Issue	Sold	
Cheah Tek Kuang	23,800	46,189	8,811	–	78,800
Anthony John Healy	–	150,000	–	–	150,000
Mohamed Azmi Mahmood	170,024	105,000	30,076	–	305,100

Warrants 2003/2008	No. of Warrants of RM1.00 each			Balance at 31.3.2008
	Balance at 1.4.2007	Bought	Sold/ Exercised	
Cheah Tek Kuang	46,189	–	46,189	–
Mohamed Azmi Mahmood	16,083	350	16,433	–

**In a related company,  
AmInvestment Group Berhad**

Shares	No. of ordinary shares of RM1.00 each			Balance at 31.3.2008
	Balance at 1.4.2007	Bought	Sold	
Tan Sri Dato' Azman Hashim	94,554,848	–	94,554,848	–
Tun Mohammed Hanif Omar	200,000	–	200,000	–
Tan Sri Datuk Clifford Francis Herbert	50,000	–	50,000	–
Cheah Tek Kuang	370,100	–	370,100	–
Mohamed Azmi Mahmood	150,000	5,000	155,000	–
Dato' James Lim Cheng Poh	30,000	–	30,000	–

**DEEMED INTEREST****In the ultimate holding company,  
AMMB Holdings Berhad**

		No. of ordinary shares of RM1.00 each				
Shares	Name of Company	Balance at 1.4.2007	Exercise of Warrants/ Bought	Rights Issue	Sold	Balance at 31.3.2008
Tan Sri Dato' Azman Hashim	AmcorpGroup Berhad	700,742,421	41,572,771	53,350,147	315,514,006	480,151,333
	AMDB Equipment Trading Sdn Bhd	439,047	-	-	439,047	-

**In the ultimate holding company,  
AMMB Holdings Berhad**

		No. of Warrants of RM1.00 each			
Warrants 2003/2008	Name of Company	Balance at 1.4.2007	Bought	Sold/ Exercised	Balance at 31.3.2008
Tan Sri Dato' Azman Hashim	AmcorpGroup Berhad	40,602,771	-	40,602,771	-
	AMDB Equipment Trading Sdn Bhd	22,682	-	22,682	-

**In a related company,  
AmInvestment Group Berhad**

		No. of ordinary shares of RM1.00 each			
Shares	Name of Company	Balance at 1.4.2007	Bought	Sold*	Balance at 31.3.2008
Tan Sri Dato' Azman Hashim	AmcorpGroup Berhad	157,656,926	-	157,656,926	-
	AMDB Equipment Trading Sdn Bhd	100,646	-	100,646	-
	Azman Hashim Holdings Sdn Bhd	209,502	-	209,502	-
	AMMB Holdings Bhd	673,200,000	-	-	673,200,000

\* Pursuant to the privatisation of the related company, AmInvestment Group Berhad by the ultimate holding company, AMMB Holdings Berhad.

Company No. 295576–U

By virtue of the directors' shareholding in the ultimate holding company, these directors are deemed to have an interest in the shares of the Bank and its related companies.

## **DIRECTORS' BENEFITS**

Since the end of the previous financial year, no director of the Bank has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by directors as shown in Note 26 to the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest except for related party transactions as shown in Note 25 to the financial statements.

Neither during nor at the end of the financial year, did there subsist any arrangements to which the Bank is a party to any arrangements whose object is to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

## **CORPORATE GOVERNANCE**

### **(a) BOARD RESPONSIBILITY AND OVERSIGHT**

The Board of Directors (the "Board") remains fully committed in ensuring that the principles and best practices in corporate governance are applied consistently in the Bank. The Board complies with the best practices in corporate governance as set out in the Malaysian Code on Corporate Governance.

The Board supervises the management of the Bank's businesses, policies and affairs with the goal of enhancing shareholders' value. The Board meets monthly to carry out its duties and responsibilities, with additional Board meetings being convened, whenever required.

The Board addresses key matters concerning strategy, finance, organization structure, business developments (subject to matters reserved for shareholders' meetings by law), and establishes guidelines for overall business, risk and control policies, capital allocation and approves all key business developments.

The Board currently comprises six (6) directors with wide skills and experience, of which three (3) are Independent Non-Executive Directors. The Directors participate fully in decision making on key issues regarding the Bank. The Independent Non-Executive Directors ensure strategies proposed by the management are fully discussed and examined, as well as taking into account the long term interests of various stakeholders.

There is a clear division between the roles of Chairman and the Chief Executive Officer of the Bank. The Senior Management team of the Bank are invited to attend Board Meetings to provide presentations and detailed explanations on matters that have been tabled. The Company Secretary has been empowered by the Board to assist the Board in matters of governance and in complying with statutory duties.

**(b) COMMITTEES OF THE BOARD**

The Board delegates certain responsibilities to the Board Committees. The Committees, which were created to assist the Board in certain areas of deliberations, are:

1. Nomination Committee
2. Remuneration Committee
3. Audit and Examination Committee
4. Risk Management Committee
5. Executive Committee

The roles and responsibilities of each Committee are set out under the respective terms of reference, which have been approved by the Board. The minutes of the Committee meetings are tabled at the subsequent Board meetings for comment and notation.

The attendance of Board members at the meetings of the Board and the various Board Committees is set out below:-

Number of meetings attended in Financial Year 2008 ("FY2008")						
	Board of Directors	Nomination Committee	Remuneration Committee	Audit and Examination Committee	Risk Management Committee	Executive Committee
Tan Sri Dato' Azman Hashim	13 (Chairman)	1	1	N/A	N/A	15 (Chairman)
Tun Mohammed Hanif Omar	13	1 (Chairman)	N/A	7	N/A	15
Tan Sri Datuk Clifford Francis Herbert	13	1	1 (Chairman)	7 (Chairman)	6 (Chairman)	N/A
Dato' Larry Gan Nyap Liou @ Gan Nyap Liow	4 (Independent Non-Executive Director effective 15/11/2007)	N/A	N/A	2 (Member effective 15/11/2007)	3 (Member effective 15/11/2007)	N/A
Cheah Tek Kuang	13	1	1	N/A	6	N/A
Anthony John Healy	5 (Non-executive Director effective 1/10/2007)	# (Member effective 1/10/2007)	# (Member effective 1/10/2007)	3 (Member effective 1/10/2007)	N/A	5 (Member effective 1/10/2007)
Mohammed Azmi Mahmood	13	1 (Resigned as Member effective 1/10/2007)	N/A	N/A	N/A	13
Dato' James Lim Cheng Poh	12	N/A	N/A	2 (Resigned as Member effective 1/10/07)	N/A	13
Number of meetings held in FY2008	13	1	1	7	6	15

## Notes:

- All attendances reflect the number of meetings attended during Directors' duration of service.
- N/A represents "not a Member".
- # Appointed as Member on 1/10/2007 and no meeting was held during the period from 1/10/2007 to 31/3/2008.

### **Nomination Committee**

This Committee comprises five (5) members of which two (2) are independent directors. It is responsible for regularly reviewing the board structure, size and composition, as well as making recommendation to the Board with regard to any changes that are deemed necessary. It also recommends the appointment of Directors to the Board and Committees of the Board as well as annually reviews the performance of the Board, Committees of the Board and of individual Directors, the mix of skills and experience and other qualities and competencies that Non-Executive Directors should bring to the Board.

During the financial year, one (1) meeting was held to consider nominations and to review the membership of the Board and Board Committees. In addition, the Nomination Committee also reviewed the performance of the Committees' and Board's effectiveness as a whole and the contribution of each Director to the effectiveness of the Board.

### **Remuneration Committee**

All members of this Committee are Non-Executive Directors. The Committee is responsible for determining and recommending to the Board the framework or broad policy for the remuneration of the Directors, the Chief Executive Officer and other Senior Management staff.

Remuneration is determined at levels which enable the Bank to attract and retain the Directors, the Chief Executive Officer and Senior Management staff with the relevant experience and expertise in managing the Bank effectively.

### **Audit and Examination Committee**

The Board has appointed the Audit and Examination Committee ("AEC") to assist in discharging its duties of maintaining a sound system of internal control to safeguard the Bank's assets and shareholder's investments.

The financial statements, accounting policies and system of internal accounting controls are the responsibility of the Board acting through the AEC. The AEC met during the year to review the scope of both the internal audit functions and the statutory auditors, the results arising thereafter as well as their evaluation of the system of internal controls. The financial statements were reviewed by the AEC prior to their submission to the directors of the Bank for adoption.

In addition, the AEC has reviewed the requirements for approval and disclosure of related party transactions, reviewed the procedures set up by the Bank to identify and report, and where necessary, seek approval for related party transactions and, with the assistance of the internal auditors, reviewed related party transactions.

### **Risk Management Committee**

Risk management is an integral part of the Bank's strategic decision-making process which ensures that the corporate objectives are consistent with the appropriate risk-return trade-off. The Board approves the risk management strategy and sets the broad risk tolerance level and also approves the engagement of new products or activities after considering the risk bearing capacity and readiness of the Bank.

The Risk Management Committee oversees the overall management of credit, market, liquidity, operational, legal, capital and strategic risks impacting the Bank, and to ensure that the risk management process is in place and functioning.

The Committee is independent from management and comprises only Non-Executive Directors. The Committee ensures that the Board's risk tolerance level is effectively enforced and reviews high-level risk exposures, and capital allocation decisions to ensure that they are within the overall interests of the Bank. It also assesses the Bank's ability to accommodate risks under normal and stress scenarios.

The Risk Management Department is independent of the various business units and acts as the catalyst for the development and maintenance of comprehensive and sound risk management policies, strategies and procedures within the Bank. The functions encompass research and analysis, portfolio risk exposure reporting, compliance monitoring, formulation of policies and risk assessment methodology, and formulation of risk strategies.

### **Internal Audit and Internal Control Activities**

The Internal Audit Department reports to the AEC and to the Group Chief Internal Auditor. It assists the Board in assessing and reporting on business risks and internal controls, and operates within the framework defined in the Audit Charter.

The AEC approves the Internal Audit's annual audit plan each year, which covers the audit of all major business units and operations within the Bank. The results of each audit are submitted to the AEC and significant findings are discussed during the AEC meeting. The results of the AEC meetings are formally tabled to the Board for noting and action, where necessary. The Group Chief Internal Auditor and the external auditors also attend the AEC meetings by invitation and the AEC holds separately meetings with the Chief Internal Auditor and external auditors whenever necessary.

The scope of internal audit covers reviews of adequacy of the risk management processes, operational controls, financial controls, compliance with laws and regulations as well as management directives, lending practices and information technology, including the various application systems in production, data centres and network security.

The Internal Audit focuses its efforts on performing audits in accordance with the audit plan, which is prioritised based on a comprehensive audit risk assessment of all significant auditable areas identified in the Bank. The structured audit risk assessment approach ensures that all risk-rated auditable areas are kept in view to ensure appropriate audit coverage and audit frequency. The risk based audit plan is reviewed annually taking into account the changing financial significance of the business and risk environment.

The Internal Audit also participates actively in major system development activities and project committees to advise on risk management and internal control measures.

### **Executive Committee**

The Executive Committee (“EXCO”) comprises the Chairman of the Bank, three (3) Non-Executive Directors and one Independent Non-Executive Director of the Board. The EXCO is authorised to consider and approve financing, guarantees and other facilities, interbank deposits, participation in syndicated facilities, bonds, share issues, purchase and sale of securities, other transactions involving the granting of credit facilities or utilization of the Bank’s resources and generally transact and do and decide on all matters and things relating to the Bank including matters which may be usual in connection with the business of a licensed Islamic Banking Institution and all matters and things incidental thereto and additionally determine the lending and business policies of the Bank and:

- i) To consider and approve credit facilities and commitments that are not in accordance with the policies approved by the Board for which EXCO has been granted powers to exempt.
- ii) To consider credit facilities and commitments either individually or in aggregate approved by the Credit and Commitments Committee, with the powers to, in the interest of the Bank, cause the facilities and commitments approved to be rejected or the terms and conditions of the facilities to be varied.

### **MANAGEMENT INFORMATION**

All Directors review Board papers and reports prior to the Board meeting. Information and materials, relating to the operations of the Bank that are important to the Directors’ understanding of the agenda items and related topics, are distributed in advance of the meeting. The Board reports include among others, minutes of meetings of all Committees of the Board, monthly performance of the Bank, credit risk management, asset liability and market risk management and industry benchmarking as well as prevailing regulatory developments and the economic and business environment.

These reports are issued in sufficient time to enable the Directors to obtain further explanations, where necessary, in order to be briefed properly before the meeting. The Board provides input on Bank policies.

### **HOLDING AND ULTIMATE HOLDING COMPANY**

The directors regard AmBank (M) Berhad and AMMB Holdings Berhad, both of which are incorporated in Malaysia, as the holding company and the ultimate holding company respectively.

### **RATING BY EXTERNAL AGENCIES**

Rating Agency Malaysia Berhad (“RAM”) had upgraded the long-term financial institution rating of the Bank from A2 (Stable) to A1 (Stable), while re-affirming the short term rating at P1.

The RM400.0 million Subordinated Sukuk Musyarakah also had been upgraded from a long term rating of A3 (Stable) to A2 (Stable) by RAM.



Company No. 295576–U

## **SHARIAH COMMITTEE**

The Shariah Committee was established under Bank Negara Malaysia's "Guidelines on the Governance of Shariah Committee for Islamic Financial Institutions" (BNM/GPS1) to advise and provide guidance to the Board of Directors on all matters pertaining to Shariah principles including product development, marketing and implementation activities. The Shariah advisors also assisted in the setting up of business and operational procedures with respect to compliance with Shariah principles.

## **AUDITORS**

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

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

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**TAN SRI DATO' AZMAN HASHIM**  
Chairman

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**CHEAH TEK KUANG**  
Director

Kuala Lumpur, Malaysia  
13 May 2008

Company No. 295576-U

**AmIslamic Bank Berhad**  
(Incorporated in Malaysia)

**STATEMENT BY DIRECTORS  
PURSUANT TO SECTION 169 (15) OF THE COMPANIES ACT, 1965**

We, **TAN SRI DATO' AZMAN HASHIM** and **CHEAH TEK KUANG**, being two of the directors of **AmIslamic Bank Berhad**, do hereby state that, in the opinion of the directors, the accompanying financial statements as set on pages 20 to 78 are drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia guidelines so as to give a true and fair view of the financial position of the Bank as at 31 March 2008 and of the results and the cash flows of the Bank for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors

\_\_\_\_\_  
**TAN SRI DATO' AZMAN HASHIM**  
Chairman

\_\_\_\_\_  
**CHEAH TEK KUANG**  
Director

Kuala Lumpur, Malaysia  
13 May 2008

Company No. 295576-U

**AmIslamic Bank Berhad**  
(Incorporated in Malaysia)

**STATUTORY DECLARATION  
PURSUANT TO SECTION 169 (16) OF THE COMPANIES ACT, 1965**

I, **LIM HOCK AUN**, being the Officer primarily responsible for the financial management of **AmIslamic Bank Berhad**, do solemnly and sincerely declare that the accompanying financial statements as set out on pages 20 to 78 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.

Subscribed and solemnly declared by the  
abovenamed **LIM HOCK AUN** at KUALA  
LUMPUR this 13 day of May 2008

**LIM HOCK AUN**

Before me,

**COMMISSIONER FOR OATHS**

Lodged on behalf by:  
Address: 22<sup>nd</sup> Floor, Bangunan AmBank Group,  
No. 55 Jalan Raja Chulan,  
50200 Kuala Lumpur.  
Telephone Number: 03-20362633

Company No. 295576-U

**AmIslamic Bank Berhad**  
(Incorporated in Malaysia)

## **SHARIAH COMMITTEE'S REPORT TO THE MEMBER OF AMISLAMIC BANK BERHAD**

In the Name of Allah, The Compassionate, The Most Merciful

All Praise is due to Allah, the Cherisher of the World, and the Peace and Blessing be upon the Prophet of Allah, on his Family and all his Companions

We, Dr. Amir Husin Mohd Nor, Prof. Madya Dr. Noor Naemah Abd. Rahman and Encik Adnan Yusoff, being members of Shariah Committee of AmIslamic Bank Berhad, do hereby confirm that we have reviewed the principles and the contracts relating to the transactions and applications introduced by the Bank during the year ended March 31, 2008.

We have provided the Shariah advisory services on various aspects to the Bank in order to ensure compliance with applicable Shariah principles as well as the relevant resolutions and rulings made by the Shariah Advisory Councils of the regulatory bodies.

The Bank's management is responsible for ensuring that the Bank conducts its business in accordance with Shariah rules and principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank and to report to you.

We are of the opinion that: -

- a) The contracts, transactions and dealings entered into by the Bank during the year ended March 31, 2008, that we have reviewed are in compliance with the Shariah rules and principles.
- b) The main sources and investments of the Bank disclosed to us conform to the basis that had been approved by us in accordance with the Shariah rules and principles.

We beg Allah the Almighty to Grant us all the Success and Straight-Forwardness And Allah Knows Best

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**DR. AMIR HUSIN MOHD NOR**  
Chairman of the Committee

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**PROF. MADYA DR. NOOR NAEMAH  
ABD. RAHMAN**  
Member of the Committee

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**ENCIK ADNAN YUSOFF**  
Member of the Committee

Kuala Lumpur, Malaysia  
13 May 2008

**REPORT OF THE AUDITORS TO THE MEMBER OF**  
**AmIslamic Bank Berhad**  
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 20 to 78. These financial statements are the responsibility of the Bank's directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia so as to give a true and fair view of:
  - (i) the financial position of the Bank as at 31 March 2008 and of the results and the cash flows of the Bank for the financial year ended on that date; and
  - (ii) the matters required by Section 169 of the Act to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

ERNST & YOUNG  
AF 0039  
Chartered Accountants

GLADYS LEONG  
No. 1902/04/10 (J)  
Partner

Kuala Lumpur, Malaysia  
13 May 2008

**AmIslamic Bank Berhad**  
(Incorporated in Malaysia)

**BALANCE SHEET**  
**AS AT 31 MARCH 2008**

	<b>Note</b>	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
<b>ASSETS</b>			
Cash and short-term funds	5	1,521,441	1,849,370
Deposits and placements with banks and other financial institutions	6	–	415,200
Securities held-for-trading	7	99,699	144,587
Financing, advances and other loans	8	8,000,798	6,369,970
Other assets	9	124,678	87,964
Statutory deposit with Bank Negara Malaysia	10	257,200	249,000
Deferred tax asset	30	157,699	223,558
Property and equipment	11	443	913
Intangible assets	12	608	65
<b>TOTAL ASSETS</b>		<u>10,162,566</u>	<u>9,340,627</u>
<b>LIABILITIES AND EQUITY</b>			
Deposits from customers	13	5,446,331	4,671,054
Deposits and placements of banks and other financial institutions	14	2,508,781	2,553,567
Bills and acceptances payable	15	547,347	446,614
Other liabilities	16	141,525	236,721
Provision for zakat		601	786
Subordinated Sukuk Musyarakah	17	400,000	400,000
Total Liabilities		<u>9,044,585</u>	<u>8,308,742</u>
Share capital	18	403,038	403,038
Reserves	19	714,943	628,847
Equity		<u>1,117,981</u>	<u>1,031,885</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>10,162,566</u>	<u>9,340,627</u>
<b>COMMITMENTS AND CONTINGENCIES</b>	32	<u>4,265,155</u>	<u>4,038,931</u>
<b>NET ASSETS PER SHARE (RM)</b>	33	<u>2.77</u>	<u>2.56</u>

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

Company No. 295576-U

**AmIslamic Bank Berhad**  
(Incorporated in Malaysia)

**INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 MARCH 2008**

	<b>Note</b>	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
Income derived from investment of depositors' funds and others	20	676,930	618,218
Income derived from investment of shareholder's funds	21	155,463	128,375
Allowances for losses on financing	22	(139,666)	(197,883)
Transfer from profit equalisation reserve	16	<u>18,320</u>	<u>59,148</u>
Total distributable income		711,047	607,858
Income attributable to the depositors	23	<u>(338,432)</u>	<u>(319,537)</u>
Total net income		372,615	288,321
Other operating expenses	24	(200,806)	(143,065)
Finance cost	28	<u>(19,253)</u>	<u>(5,313)</u>
<b>Profit before zakat and taxation</b>		<b>152,556</b>	<b>139,943</b>
Zakat		(601)	(786)
Taxation	29	<u>(65,859)</u>	<u>(44,378)</u>
<b>Profit after zakat and taxation</b>		<b><u>86,096</u></b>	<b><u>94,779</u></b>
<b>Earnings per share (sen):</b>	31		
Basic/Diluted earnings per ordinary share		<u>21.36</u>	<u>24.78</u>

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

Company No. 295576-U

**AmIslamic Bank Berhad**  
(Incorporated in Malaysia)

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 MARCH 2008**

	<u>Non-distributable reserves</u>			<u>Distributable reserve</u>	<b>Total RM'000</b>
	<b>Share Capital RM'000</b>	<b>Share Premium RM'000</b>	<b>Statutory Reserve RM'000</b>	<b>Unappropriated Profit RM'000</b>	
Balance as at 1 April 2006	153,038	–	–	–	153,038
Issued during the year	250,000	534,068	–	–	784,068
Profit for the year	–	–	–	94,779	94,779
Transfer to statutory reserve	–	–	47,390	(47,390)	–
<b>Balance as at 31 March 2007</b>	<b>403,038</b>	<b>534,068</b>	<b>47,390</b>	<b>47,389</b>	<b>1,031,885</b>
Balance as at 1 April 2007	403,038	534,068	47,390	47,389	1,031,885
Profit for the year	–	–	–	86,096	86,096
Transfer to statutory reserve	–	–	43,049	(43,049)	–
<b>Balance as at 31 March 2008</b>	<b>403,038</b>	<b>534,068</b>	<b>90,439</b>	<b>90,436</b>	<b>1,117,981</b>

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



**AmIslamic Bank Berhad**

(Incorporated in Malaysia)

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 MARCH 2008**

	<b>2008 RM'000</b>	<b>2007 RM'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before zakat and taxation	152,556	139,943
Adjustments for:		
Allowances for losses on financing	139,666	197,883
Depreciation of property and equipment	107	43
Amortisation of intangible assets	92	8
Transfer from profit equalisation reserve	(18,320)	(59,148)
Accretion of discount	(696)	(3,311)
Gain on disposal of securities held-for-trading	(321)	(658)
Loss/(Gain) on revaluation of securities held-for-trading	945	(1,944)
Operating Profit Before Working Capital Changes	274,029	272,816
(Increase)/Decrease In Operating Assets:		
Deposits and placements with banks and other financial institutions	415,200	(413,074)
Securities held-for-trading	44,960	363,545
Financing, advances and other loans	(1,770,494)	(55,664)
Other assets	(36,714)	751
Statutory deposit with Bank Negara Malaysia	(8,200)	19,794
Increase/(Decrease) In Operating Liabilities:		
Deposits from customers	775,277	347,811
Deposits and placements of banks and other financial institutions	(44,786)	(398,640)
Bills and acceptances payable	100,733	221,250
Other liabilities	(76,876)	(75,781)
Cash (Used in)/Generated From Operations	(326,871)	282,808
Zakat paid	(786)	-
Tax refund	-	7,452
Net Cash (Used in)/Generated From Operating Activities	(327,657)	290,260

	<b>2008</b>	<b>2007</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(117)	(956)
Purchase of intangible assets	(155)	(73)
Transfer of cash and cash equivalent from holding company	–	1,160,139
Net assets transferred from holding company	–	(784,068)
	<u>(272)</u>	<u>375,042</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of shares	–	784,068
Proceeds received from Subordinated Sukuk Musyarakah	–	400,000
	<u>–</u>	<u>1,184,068</u>
Net Cash Generated From Financing Activities	<u>–</u>	<u>1,184,068</u>
Net (Decrease)/Increase In Cash and Cash Equivalents	(327,929)	1,849,370
Cash and Cash Equivalents At Beginning Of Year	<u>1,849,370</u>	<u>–</u>
Cash and Cash Equivalents At End Of Year	<u><u>1,521,441</u></u>	<u><u>1,849,370</u></u>

Note:

Cash and cash equivalents consist of cash and short-term funds as shown in Note 5 to the financial statements.

**AmIslamic Bank Berhad**

(Incorporated in Malaysia)

**Notes To The Financial Statements**

**For the year ended 31 March 2008**

**1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION**

The Bank is a licensed Islamic banking institution providing Islamic retail and commercial banking products and services in accordance with Shariah principle. There have been no significant changes in the nature of the activities of the Bank during the financial year.

The Bank is a licensed Islamic Bank under the Islamic Banking Act 1983, incorporated and domiciled in Malaysia. The registered office of the Bank is located at 22<sup>nd</sup> Floor, Bangunan AmBank Group, 50200 Kuala Lumpur. The principal place of business for the Retail and Business Banking Divisions are located at Menara AmBank, Jalan Yap Kwan Seng, 50450 Kuala Lumpur and Menara Dion, Jalan Sultan Ismail, 50250 Kuala Lumpur respectively.

The financial statements of the Bank have been approved by the Board of Directors for issuance on 29 April 2008.

**2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

The financial statements of the Bank have been prepared under the historical cost convention unless otherwise indicated and in accordance with the provisions of the Companies Act, 1965, the Banking and Financial Institutions Act, 1989, Shariah principles and the applicable Financial Reporting Standards ("FRS") in Malaysia as modified by Bank Negara Malaysia ("BNM") Guidelines.

The Bank has adopted BNM Guidelines on Financial Reporting for Licensed Islamic Banks (BNM/GP8-i).

The financial statements are presented in Ringgit Malaysia ("RM") and rounded to the nearest thousand, (RM'000) unless otherwise stated.

The preparation of financial statements in conformity with FRS requires management to exercise judgement, use of estimates and make assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving higher degree of judgement and complexity, are disclosed in Note 4.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies are consistent with those adopted in the previous audited annual financial statements except for the adoption of the following:

- (i) The new and revised FRSs that are applicable to the Bank with effect from the period beginning on or after 1 April 2007:
  - FRS 117 Leases
  - FRS 124 Related Party Disclosures
- (ii) The Bank has not early adopted the followings FRSs, amendments to FRS and IC Interpretations, which are effective for the financial years beginning 1 July 2007:

#### FRS

- FRS 107 : Cash Flow Statements
- FRS 111 : Construction Contracts
- FRS 112 : Income Taxes
- FRS 118 : Revenue
- FRS 119 : Employees Benefit
- FRS 120 : Accounting for Government Grants and Disclosure of Government Assistance
- FRS 134 : Interim Financial Reporting
- FRS 137 : Provisions, Contingent Liabilities and Contingent Assets
- Amendment to FRS 121 : The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation
- IC Interpretation 1 : Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IC Interpretation 2 : Members' Shares in Co-operative Entities and Similar Instruments
- IC Interpretation 5 : Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IC Interpretation 6 : Liabilities arising from Participating In a Specific Market – Waste Electrical and Electronic Equipment
- IC Interpretation 7: Applying the Restatement Approach to FRS 129 Financial Accounting in Hyperinflationary Economies
- IC Interpretation 8 : Scope of FRS 2 Share-based Payments

In the previous financial year, the Malaysian Accounting Standards Board (“MASB”) had also issued FRS 139 Financial Instruments: Recognition and Measurement for which the MASB has yet to announce the effective date. The Bank has not early adopted this standard.

The adoption of FRS 117, FRS 124 and BNM Revised Guidelines on Financial Reporting for Licensed Institution dated 5 October 2004 on the accounting treatment of derivative financial instruments which are transacted for the purpose of hedging does not result in significant changes in accounting policies of the Bank.

(a) **Basis Of Accounting**

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

(b) **Operating Revenue**

Operating revenue of the Bank comprises financing income and other operating income.

(c) **Financing Income and Expense Recognition**

Financing income is recognised in the income statement for all profit bearing assets on an accrual basis. Financing income includes the amortisation of premium or accretion of discount. Financing income on investments are recognised on an effective yield basis.

Financing income on cash line, housing and other term financing is accounted for on an accrual basis by reference to the rest periods as stipulated in the financing agreements. Financing income from hire purchase and lease financing of the Bank is recognised using the 'sum-of-digits' method.

Handling fees paid to motor vehicle dealers for hire purchase financing are amortised in the income statement over the tenure of the financing in accordance with BNM Circular on Handling Fees dated 16 October 2006 and is set off against income recognised on the hire purchase financing.

When a financing becomes non-performing, profit accrued and recognised as income prior to the date the financing is classified as non-performing is reversed out of income and set-off against the accrued profit receivable account in the balance sheet. Thereafter, profit on the non-performing financing shall be recognised as income on a cash basis.

Customers' accounts are deemed to be non-performing where repayments are in arrears for more than three (3) months from first day of default or after maturity date for trade bills, bankers' acceptances and trust receipts.

The Bank's policy on recognition of interest income on financing, advances and other loans is in conformity with BNM's "Guideline on Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts" ("BNM/GP3") and revised Guidelines on Financial Reporting for Licensed Institutions (BNM/GP8-i).

Income attributable to the depositors of the Bank are recognised on an accrual basis.

(d) **Recognition of Fees and Other Income**

Financing arrangement fees, participation fees and commissions are recognised as income when all conditions precedent are fulfilled.

Guarantee fees are recognised as income upon issuance and where the guarantee period is longer than one year, over the duration of the guarantee period.

Other fees on a variety of services and facilities extended to customers are recognised on inception of such transactions.

(e) **Employee Benefits**

(i) Short-term Benefits

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

(ii) Defined Contribution Plan

As required by law, companies in Malaysia make contributions to the state pension scheme. Such contributions are recognised as an expense in the income statement as incurred. Once the contributions have been paid, the Bank has no further payment obligations.

(iii) Termination Benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(f) **Allowance for Bad and Doubtful Financing**

Based on management's evaluation of the portfolio of financing, advances and other loans, specific allowances for doubtful financing are made when the collectibility of receivables becomes uncertain. In evaluating collectibility, management considers several factors such as the customer's financial position, cash flow projections, management, quality of collateral or guarantee supporting the receivables as well as prevailing and anticipated economic conditions.

A general allowance based on set percentages of the net increase in receivables is also made. These percentages are reviewed annually in the light of past experiences and prevailing circumstances and an adjustment is made to the overall general allowance, if necessary.

An uncollectible financing or portion of a financing classified as bad is written off after taking into consideration the realisable value of collateral, if any, when in the judgement of management, there is no prospect of recovery.

The specific and general allowances for financing, advances and other loans of the Bank are computed based on BNM's guidelines on the "Classification of Non-Performing Loans and Provisions for Substandard, Bad and Doubtful Debts" ("BNM/GP3") requirements. However, the Bank has adopted a more stringent classification policy on non-performing financing, whereby financing are classified as non-performing and sub-standard when repayments are in arrears for more than three (3) months from the first day of default or after maturity date.

The Bank adopted a more stringent basis for specific allowances on non-performing financing, advances and other loans and are as follows:

- (i) Values assigned to collateral held for non-performing financing secured by properties is determined based on the realisable values of the properties on the following basis:
  - (a) assigning only fifty percent (50%) of the realisable value of the properties held as collateral for non-performing financing which are in arrears for more than five (5) years but less than seven (7) years; and
  - (b) no value assigned to the realisable value of the properties held as collateral for non-performing financing which are in arrears for more than seven (7) years.
- (ii) Specific allowance of 20.0% is provided on non-performing financing which are four (4) to less than six (6) months-in-arrears.

The Directors are of the view that such treatment will reflect a more prudent provisioning policy for financing, advances and other loans.

**(g) Provisions**

Provisions are recognised when the Bank has a present legal obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount can be made.

**(h) Profit Equalisation Reserve ("PER")**

PER is a mechanism to reduce the fluctuation in the profit rates payable to depositors under the Islamic banking business. It is provided based on the Framework of the Rate of Return issued by BNM. The account of PER is appropriated from and written back to the total Islamic banking gross income. PER is reflected under "other liabilities" of the Bank.

**(i) Impairment of Assets**

The carrying values of assets are reviewed for impairment when there is an indication that the asset might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of net realisable value and value in use, which is measured by reference to discounted future cash flows. An impairment loss is charged to the income statement immediately.

Subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately.

(j) **Income Tax**

Income tax on profit or loss for the financial year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is determined according to the tax laws of each jurisdiction in which the Bank operates and includes all taxes based on the taxable profits.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unutilised tax losses to the extent it is probable that taxable profit will be available against which the deductible temporary differences and unutilised tax losses can be utilised. Temporary differences are not recognised for goodwill or from the initial recognition of assets and liabilities that at the time of transaction, affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

(k) **Zakat**

This represents business zakat. It is an obligatory amount payable by the Bank to comply with the principles of Shariah. Zakat provision is calculated based on 2.5% of net profit after tax.

(l) **Securities Held-For-Trading**

Securities are classified as held-for-trading if they are acquired principally for the purpose of benefiting from actual or expected short-term price movement or to lock in arbitrage profits. The securities held-for-trading are stated at fair value and any gain or loss arising from a change in their fair values or the derecognition of securities held-for-trading are recognised in the income statement.

(m) **Trade and Other Receivables**

Trade and other receivables are stated at book value as reduced by the appropriate allowances for estimated irrecoverable amounts. Allowance for doubtful debts is made based on estimates of possible losses which may arise from non-collection of certain receivable accounts.



(n) **Property and Equipment and Depreciation**

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

Subsequent to initial recognition, property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with the policy on impairment of assets.

Depreciation of property and equipment, except for work-in-progress which is not depreciated, is calculated using the straight-line method at rates based on the estimated useful lives of the various assets.

The annual depreciation rates for the various classes of property and equipment are as follows:

Leasehold improvements	12.5%
Office equipment, furniture and fittings	10.0% – 25.0%
Computer equipment	20.0%

The residual values, useful lives and depreciation methods of assets are reviewed, and adjusted if appropriate, at each balance sheet date, to ensure that they reflect the expected economic benefits derived from these assets.

Gain or loss arising from disposal of an asset is determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset, and is recognised in the income statement.

(o) **Intangible Assets**

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight line method over their expected useful lives of three to five years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense when incurred. Costs that are directly associated with the identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives of three to five years.

(p) **Assets Purchased under lease**

Assets purchased under finance leases which in substance transfer the risks and benefits of ownership of the assets to the Bank are capitalised under property and equipment.

The assets and the corresponding lease obligations are recorded at the lower of the present value of the minimum lease payments or the fair value of the leased assets at the beginning of the lease terms, less accumulated depreciation and impairment losses.

In calculating the present value of the minimum lease payments, the discount factor used is the profit rate implicit in the lease, when it is practicable to determine, otherwise the Bank's incremental borrowing rate is used.

Leases which do not meet such criteria are classified as operating leases and the related rentals are charged to the income statement as incurred.

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.

As at 31 March 2008, the Bank does not have any assets purchased under lease.

(q) **Non-current Assets (Or Disposal Groups) Held For Sale And Discontinued Operations**

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

A component of the Bank is classified as a discontinued operation when the criteria to be classified as held for sale have been met or it has been disposed of and such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated major line of business or geographical area of operations, or is a subsidiary company acquired exclusively with a view to resale.

(r) **Bills and Acceptances Payable**

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

(s) **Liabilities**

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

Deposits from customers and deposits and placement of banks and other financial institutions are stated at placement values.

(t) **Provision for Commitments and Contingencies**

Based on management's evaluation of the guarantees given on behalf of customers, specific provisions for commitments and contingencies are made when in the event of call or potential liability and there is a shortfall in the security value supporting these guarantees.

(u) **Redeemable Unsecured Subordinated Bond - Subordinated Sukuk Musyarakah**

This is a long-term financing with remaining maturity of more than one year. The issue proceeds are recognised at cost and use to fund the growth of its Islamic financial services business. The income distribution is recognised on an effective rate method.

(v) **Equity Instruments**

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

The transaction costs of equity are accounted for as deduction from equity, net of tax.

Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

(w) **Foreign Currency Transactions**

In preparing the financial statements of the Bank, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at the exchange rate prevailing at the date of the initial transaction.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in the income statement for the year. Exchange differences arising on the translation of non-monetary items carried at fair value are included in the income statement for the year except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

(x) **Financial Instruments**

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

(y) **Cash Flow Statement**

The Bank adopts the indirect method in the preparation of the cash flow statement.

(z) **Cash and Cash Equivalents**

For the purpose of the cash flow statements, cash and cash equivalents consist of cash on hand and at bank, deposit at call and short term highly liquid investments, which have an insignificant risk of changes in value, net of outstanding overdrafts.

4. **CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

Preparation of the financial statements involved making certain estimates, assumptions concerning the future and judgments. They affect the accounting policies applied, amounts of assets, liabilities, income and expenses reported and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

a) **Fair value estimation**

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Bank uses a variety of methods and makes assumptions that are based on market conditions existing at the balance sheet date. Quoted market prices or dealer quotes for similar instruments and discounted cash flows are some of the common techniques used to calculate the fair value of these instruments.

**b) Deferred tax assets**

Deferred tax assets are recognised for all unutilised tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

**5. CASH AND SHORT-TERM FUNDS**

	<b>2008 RM'000</b>	<b>2007 RM'000</b>
Cash and balances with banks and other financial institutions	2,581	5,870
Money at call and deposits placements maturing within one month	<u>1,518,860</u>	<u>1,843,500</u>
	<u><u>1,521,441</u></u>	<u><u>1,849,370</u></u>

The net interbank lending position of the Bank is detailed as follows:

	<b>2008 RM'000</b>	<b>2007 RM'000</b>
Interbank lending:		
Cash and short term funds	1,518,860	1,843,500
Deposits with financial institutions (Note 6)	<u>–</u>	<u>415,000</u>
	1,518,860	2,258,500
Interbank borrowing (Note 14)	<u>(121,650)</u>	<u>(30,000)</u>
Net interbank lending	<u><u>1,397,210</u></u>	<u><u>2,228,500</u></u>

**6. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
Licensed Islamic Banks	–	40,000
Licensed Merchant Banks	–	50,000
Bank Negara Malaysia	–	325,200
	<u>–</u>	<u>415,200</u>
	<u>–</u>	<u>415,200</u>

**7. SECURITIES HELD-FOR-TRADING**

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
<b>At fair value:</b>		
Money Market Securities:		
Malaysian Government Investment Certificates	35,221	39,736
Islamic Treasury Bills	34,544	48,442
	<u>69,765</u>	<u>88,178</u>
Unquoted Securities In Malaysia:		
Private debt securities	29,934	56,409
	<u>99,699</u>	<u>144,587</u>

**8. FINANCING, ADVANCES AND OTHER LOANS**

i) Financing, advances and other loans analysed by type are as follows:

	<b>2008 RM'000</b>	<b>2007 RM'000</b>
Cash lines	140,936	22,420
Term financing		
- House financing	812,203	856,314
- Hire purchase receivables	7,700,510	7,887,080
- Other financing	3,285,687	2,384,838
Cards receivable	268,053	318,470
Bills receivable	3,763	6,860
Trust receipts	46,074	25,584
Claims on customers under acceptance credit	686,376	475,119
Revolving credit	122,466	70,755
	<hr/>	<hr/>
Total	13,066,068	12,047,440
Unearned income	(2,824,335)	(2,589,479)
	<hr/>	<hr/>
	10,241,733	9,457,961
Less: Islamic financing sold to Cagamas Berhad	(1,956,022)	(2,718,833)
	<hr/>	<hr/>
Gross financing, advances and other loans	8,285,711	6,739,128
Allowances for bad and doubtful financing		
- General	(154,666)	(138,998)
- Specific	(130,247)	(230,160)
	<hr/>	<hr/>
Net financing, advances and other loans	<u>8,000,798</u>	<u>6,369,970</u>

(ii) Financing, advances and other loans analysed by contract are as follows:

	<b>2008 RM'000</b>	<b>2007 RM'000</b>
Al-Bai' Bithaman Ajil	1,167,728	869,887
Al-Istisna	1,398	623
Al-Ijarah/Al-Ijarah Thumma Al-Bai'	4,326,729	3,632,182
Al-Musyarakah	17,418	18,796
Al-Murabahah	815,360	571,210
Other Islamic contracts	1,957,078	1,646,430
	<hr/>	<hr/>
Gross financing, advances and other loans	<u>8,285,711</u>	<u>6,739,128</u>

(iii) Financing, advances and other loans analysed by type of customer are as follows:

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
Domestic non-bank financial institutions		
– Others	661	653
Domestic business enterprises		
– Small medium enterprises	707,024	518,641
– Others	988,733	590,153
Government and statutory bodies	21,311	21,179
Individuals	6,561,203	5,603,789
Other domestic entities	3,182	2,371
Foreign entities	3,597	2,342
	<u>8,285,711</u>	<u>6,739,128</u>

(iv) Financing, advances and other loans analysed by profit rate sensitivity are as follows:

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
Fixed rate		
- House financing	418,918	430,406
- Hire purchase receivables	4,455,609	3,807,196
- Other fixed rate financing	3,364,425	2,484,411
Variable rate		
- Base lending rate plus	1,167	–
- Cost plus	45,592	17,115
	<u>8,285,711</u>	<u>6,739,128</u>

(v) Financing, advances and other loans analysed by financing purposes are as follows:

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
Purchase of securities	9,416	2,700
Purchase of transport vehicles	6,368,163	6,363,353
Purchase of landed property		
– Residential	420,105	432,115
– Non-residential	141,550	54,340
Purchase of fixed assets other than land and building	126,277	168,142
Personal use	1,702,103	1,330,785
Credit card	267,738	318,471
Purchase of consumer durables	1,184	1,359
Construction	8,093	2,504
Working capital	1,073,726	721,750
Other purposes	123,378	62,442
	<u>10,241,733</u>	<u>9,457,961</u>
Less : Islamic financing sold to Cagamas Berhad	<u>(1,956,022)</u>	<u>(2,718,833)</u>
Gross financing, advances and other loans	<u>8,285,711</u>	<u>6,739,128</u>



(vi) Movements in non-performing financing, advances and other loans ("NPF") are as follows:

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
Balance at 1 April	479,547	–
Non-performing during the year	206,031	223,492
Reclassified as performing	(103,518)	(42,755)
Amount recovered	(70,492)	(79,182)
Amount written off	(229,436)	(132,984)
Amount vested from holding company	–	510,976
	<hr/>	<hr/>
Balance at end of year	282,132	479,547
Less:		
Specific allowance	<u>(130,247)</u>	<u>(230,160)</u>
Non-performing financing, advances and other loans – net	<u>151,885</u>	<u>249,387</u>
Gross financing, advances and other loans	8,285,711	6,739,128
Add: Islamic financing sold to Cagamas Berhad	<u>1,956,022</u>	<u>2,718,833</u>
	10,241,733	9,457,961
Less:		
Specific allowance	<u>(130,247)</u>	<u>(230,160)</u>
Net financing, advances and other loans (including Islamic financing sold to Cagamas Berhad)	<u>10,111,486</u>	<u>9,227,801</u>
Ratio of non-performing financing, advances and other loans to total financing, advances and other loans (including Islamic financing sold to Cagamas Berhad) – net	<u>1.50%</u>	<u>2.70%</u>

(vii) Movements in the allowance for bad and doubtful financing accounts are as follows:

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
<b>General Allowance</b>		
Balance at 1 April	138,998	–
Allowance made during the year (Note 22)	15,668	6,690
Amount vested from holding company	–	132,308
Balance at end of year	<u>154,666</u>	<u>138,998</u>
% of net financing, advances and other loans (including Islamic financing sold to Cagamas Berhad)	<u>1.53%</u>	<u>1.51%</u>
<b>Specific Allowance</b>		
Balance at 1 April	<u>230,160</u>	–
Allowance made during the year (Note 22)	217,626	282,142
Amount written back in respect of recoveries (Note 22)	<u>(78,514)</u>	<u>(81,056)</u>
Net charge to income statement	139,112	201,086
Amount written off/ Adjustment to Asset Deficiency Account	(239,025)	(124,973)
Amount vested from holding company	–	154,047
Balance at end of year	<u>130,247</u>	<u>230,160</u>

(viii) Non-performing financing analysed by financing purposes are as follows:

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
Purchase of securities	913	1,241
Purchase of transport vehicles	124,907	252,031
Purchase of landed property		
– Residential	81,367	98,215
– Non-residential	25,223	36,086
Purchase of fixed assets other than land and building	7,203	9,886
Personal use	452	975
Credit card	10,580	54,612
Construction	2,504	2,504
Working capital	24,847	18,344
Other purposes	4,136	5,653
	<u>282,132</u>	<u>479,547</u>

**9. OTHER ASSETS**

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
Other receivables and prepayments	53,196	31,125
Profit receivable	3,253	4,975
Deferred charges	56,049	51,864
Amount due from holding company	12,180	–
	<u>124,678</u>	<u>87,964</u>

**10. STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA**

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

Company No. 295576-U

**11. PROPERTY AND EQUIPMENT**

	<b>Leasehold improvements RM'000</b>	<b>Office equipment, furniture and fittings RM'000</b>	<b>Computer equipment RM'000</b>	<b>Total RM'000</b>
<b>Cost</b>				
As at 1 April 2007	207	170	579	956
Additions	–	45	72	117
Reclassified to intangible assets (Note 12)	–	–	(480)	(480)
As at 31 March 2008	<u>207</u>	<u>215</u>	<u>171</u>	<u>593</u>
<b>Accumulated Depreciation</b>				
As at 1 April 2007	18	22	3	43
Current depreciation	41	40	26	107
As at 31 March 2008	<u>59</u>	<u>62</u>	<u>29</u>	<u>150</u>
<b>Net Book Value</b>				
As at 31 March 2008	<u><u>148</u></u>	<u><u>153</u></u>	<u><u>142</u></u>	<u><u>443</u></u>

Company No. 295576-U

## 11. PROPERTY AND EQUIPMENT

	<b>Leasehold improvements RM'000</b>	<b>Office equipment, furniture and fittings RM'000</b>	<b>Computer equipment RM'000</b>	<b>Total RM'000</b>
<b>Cost</b>				
As at 1 April 2006	–	–	–	–
Additions	207	170	579	956
As at 31 March 2007	207	170	579	956
<b>Accumulated Depreciation</b>				
As at 1 April 2006	–	–	–	–
Current depreciation	18	22	3	43
As at 31 March 2007	18	22	3	43
<b>Net Book Value</b>				
As at 31 March 2007	189	148	576	913

**12. INTANGIBLE ASSETS**

The net carrying amount of intangible assets are as follows:

	<b>2008 RM'000</b>	<b>2007 RM'000</b>
<b>Computer Software</b>		
<b>Cost</b>		
At the beginning of the year	73	–
Additions	155	73
Reclassified from property and equipment (Note 11)	480	–
At the end of the year	<u>708</u>	<u>73</u>
<b>Accumulated Amortisation</b>		
At the beginning of the year	8	–
Amortisation for the year	92	8
At the end of the year	<u>100</u>	<u>8</u>
	<u>608</u>	<u>65</u>

**13. DEPOSITS FROM CUSTOMERS**

	<b>2008 RM'000</b>	<b>2007 RM'000</b>
i) By type of deposit:		
<u>Non-Mudharabah</u>		
Demand deposits	520,564	354,020
Savings deposits	801,032	667,730
Negotiable instruments of deposits	6,549	6,548
	<u>1,328,145</u>	<u>1,028,298</u>
<u>Mudharabah</u>		
General investment deposits	4,118,186	3,642,756
	<u>5,446,331</u>	<u>4,671,054</u>
(ii) The deposits are sourced from the following types of customers:		
Government and other statutory bodies	1,389,789	1,427,990
Business enterprises	2,212,679	1,619,155
Individuals	1,622,378	1,419,897
Others	221,485	204,012
	<u>5,446,331</u>	<u>4,671,054</u>

**14. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
<u>Non-Mudharabah</u>		
Licensed Islamic banks	392,984	78,103
Licensed banks	107,466	92,909
Licensed merchant banks	662,466	993,241
Other financial institutions	435,103	418,005
Bank Negara Malaysia	2,423	8,085
	<u>1,600,442</u>	<u>1,590,343</u>
<u>Mudharabah</u>		
Licensed merchant banks	31,413	50,538
Other financial institutions	876,926	912,686
	<u>908,339</u>	<u>963,224</u>
	<u><u>2,508,781</u></u>	<u><u>2,553,567</u></u>
Included under deposits and placements of other financial institutions of the Bank are the following:		
Negotiable instruments of deposits	1,462,393	1,540,617
Interbank borrowings (Note 5)	<u>121,650</u>	<u>30,000</u>

**15. BILLS AND ACCEPTANCES PAYABLE**

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

**16. OTHER LIABILITIES**

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
Income payable	44,569	39,698
Other creditors and accruals	54,815	42,853
Lease deposits and advance rentals	4,869	7,251
Profit equalisation reserve	37,272	55,592
Amount due to holding company	–	91,327
	<u>141,525</u>	<u>236,721</u>

**Profit equalisation reserve**

The movements in profit equalisation reserve are as follows:

	<b>2008 RM'000</b>	<b>2007 RM'000</b>
Balance at beginning of year	55,592	–
Transfer from holding company	–	114,740
Writeback in the financial year	<u>(18,320)</u>	<u>(59,148)</u>
Balance at end of year	<u><u>37,272</u></u>	<u><u>55,592</u></u>

**17. SUBORDINATED SUKUK MUSYARAKAH**

On 21 December 2006, the Bank issued the RM400 million Subordinated Sukuk Musyarakah in one lump sum in the format of a 10 year Non-Call 5 year. Subject to the prior approval of Bank Negara Malaysia (“BNM”), the Bank may exercise its call option and redeem in whole (but not in part) the Subordinated Sukuk Musyarakah on the 5<sup>th</sup> anniversary of the issue date or on any anniversary date thereafter at 100% of the principal amount together with the expected profit payments.

The Subordinated Sukuk Musyarakah bear an expected profit rate of 4.80% per annum for the first 5 years and commencing from the beginning of the 6<sup>th</sup> year from the issue date and at the beginning of every subsequent year thereafter, the expected profit rate shall be stepped up by 0.50% per annum to legal maturity date.

The Subordinated Sukuk Musyarakah which has been awarded a long term rating of A2 by Rating Agency Malaysia is not listed on Bursa Securities Malaysia Berhad or on any other stock exchange but is traded and prescribed under the Scripless Securities Trading System maintained by BNM.

The Subordinated Sukuk Musyarakah qualifies as Tier 2 capital of the Bank.



18. **SHARE CAPITAL**

	<b>2008 RM'000</b>	<b>2007 RM'000</b>
<b>Authorised:</b>		
Balance at beginning and end of year		
Ordinary shares of RM1.00 each	<u>2,000,000</u>	<u>2,000,000</u>
<b>Issued and fully paid:</b>		
Ordinary shares of RM1.00 each:		
Balance at beginning of year	403,038	153,038
Issued during the year	<u>—</u>	<u>250,000</u>
Balance at end of year	<u>403,038</u>	<u>403,038</u>

19. **RESERVES**

	<b>2008 RM'000</b>	<b>2007 RM'000</b>
<b>Non-distributable Reserves:</b>		
Share premium	534,068	534,068
Statutory reserve	<u>90,439</u>	<u>47,390</u>
Total non-distributable reserves	<u>624,507</u>	<u>581,458</u>
<b>Distributable Reserves:</b>		
Unappropriated profit	<u>90,436</u>	<u>47,389</u>
Total reserves	<u>714,943</u>	<u>628,847</u>

Movement in reserves are shown in the Statement of Changes in Equity in page 22.

The statutory reserve is maintained in compliance with Section 15 of the Islamic Banking Act, 1983 and is not distributable as cash dividends.

Distributable reserves are those available for distribution by way of dividends. There is sufficient tax credit available under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends out of the Bank's distributable reserves as at 31 March 2008.

## 20. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	2008 RM'000	2007 RM'000
Income derived from investment of:		
(i) General investment deposits	321,638	262,257
(ii) Specific investment deposits	–	1,237
(ii) Other deposits	<u>355,292</u>	<u>354,724</u>
	<u>676,930</u>	<u>618,218</u>
<b>(i) Income derived from investment of general investment deposits</b>		
<u>Finance income and hibah:</u>		
Financing, advances and other loans	278,125	226,371
Securities held-for-trading	2,999	1,593
Money at call and deposits with financial institutions	<u>24,504</u>	<u>20,902</u>
	305,628	248,866
Accretion of discount	<u>269</u>	<u>1,165</u>
	<u>305,897</u>	<u>250,031</u>
<u>Fee and commission income:</u>		
Commission	2,379	2,255
Other fee income	<u>13,653</u>	<u>9,058</u>
	<u>16,032</u>	<u>11,313</u>
<u>Gain/(Loss) arising from sale of securities:</u>		
Net gain from disposal of securities held-for-trading	124	232
<u>Others:</u>		
(Loss)/gain on revaluation of securities held-for-trading	(365)	684
Others	<u>(50)</u>	<u>(3)</u>
	<u>(415)</u>	<u>681</u>
<b>Total</b>	<u>321,638</u>	<u>262,257</u>

(ii) **Income derived from investment of specific investment deposits**

Finance income and hibah:

Financing, advances and other loans	—	1,237
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(iii) **Income derived from investment of other deposits**

	<b>2008 RM'000</b>	<b>2007 RM'000</b>
<u>Finance income and hibah:</u>		
Financing, advances and other loans	307,226	306,185
Securities held-for-trading	3,312	2,156
Money at call and deposits with financial institutions	27,068	28,271
	<u>337,606</u>	<u>336,612</u>
Accretion of discount	297	1,576
	<u>337,903</u>	<u>338,188</u>
<u>Fee and commission income:</u>		
Commission	2,628	3,050
Other fee income	15,082	12,252
	<u>17,710</u>	<u>15,302</u>
<u>Gain/(Loss) arising from sale of securities:</u>		
Net gain from disposal of securities held-for-trading	137	313
<u>Others:</u>		
(Loss)/gain on revaluation of securities held-for-trading	(403)	925
Others	(55)	(4)
	<u>(458)</u>	<u>921</u>
<b>Total</b>	<u><u>355,292</u></u>	<u><u>354,724</u></u>

## 21. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
<u>Finance income and hibah:</u>		
Financing, advances and other loans	134,431	110,809
Securities held-for-trading	1,450	780
Money at call and deposits with financial institutions	<u>11,844</u>	<u>10,231</u>
	147,725	121,820
Accretion of discount	<u>130</u>	<u>570</u>
	<u>147,855</u>	<u>122,390</u>
<u>Fee and commission income:</u>		
Commission	1,150	1,104
Other fee income	<u>6,599</u>	<u>4,434</u>
	<u>7,749</u>	<u>5,538</u>
<u>Gain/Loss) arising from sale of securities:</u>		
Net gain from disposal of securities held-for-trading	60	113
<u>Others:</u>		
(Loss)/gain on revaluation of securities held-for-trading	(177)	335
Others	<u>(24)</u>	<u>(1)</u>
	<u>(201)</u>	<u>334</u>
 Total	 <u><u>155,463</u></u>	 <u><u>128,375</u></u>

**22. ALLOWANCE FOR LOSSES ON FINANCING, ADVANCES AND OTHER LOANS**

	<b>2008 RM'000</b>	<b>2007 RM'000</b>
Allowance for bad and doubtful financing:		
Specific allowance (net)		
– made in the financial year	217,626	282,142
– written back	(78,514)	(81,056)
General allowance made in the financial year	15,668	6,690
Bad debts and financing recovered - net	<u>(15,114)</u>	<u>(9,893)</u>
	<u>139,666</u>	<u>197,883</u>

**23. INCOME ATTRIBUTABLE TO DEPOSITORS**

	<b>2008 RM'000</b>	<b>2007 RM'000</b>
Deposit from customers		
- Mudharabah fund	136,439	106,797
- Non-Mudharabah fund	<u>13,355</u>	<u>10,463</u>
	<u>149,794</u>	<u>117,260</u>
Deposit and placements of banks and other financial institutions		
- Mudharabah fund	31,512	28,240
- Non-Mudharabah fund	<u>54,501</u>	<u>72,262</u>
	<u>86,013</u>	<u>100,502</u>
Others	<u>102,625</u>	<u>101,775</u>
	<u>338,432</u>	<u>319,537</u>

**24. OTHER OPERATING EXPENSES**

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
Personnel/Staff costs		
Salaries, allowances and bonuses	5,859	4,557
Others	314	289
Establishment costs		
Depreciation of property and equipment	107	43
Amortisation of intangible assets	92	8
Rental	816	289
Cleaning, maintenance and security	23	43
Computerisation cost	391	264
Others	106	81
Marketing and communication expenses		
Communication	1,202	247
Advertising and marketing expenses	5,422	4,587
Others	67	45
Administration and general expenses		
Professional services	2,781	1,867
Others	987	292
Shared service cost	182,639	130,453
	<u>200,806</u>	<u>143,065</u>

The above expenditure includes the following statutory disclosures:

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
Directors' remuneration (Note 26)	444	369
Rental of premises	816	289
Depreciation of property and equipment (Note 11)	107	43
Amortisation of intangible assets (Note 12)	92	8
Auditors' remuneration		
– Statutory audit	50	50
– Half yearly review	20	20
	<u>20</u>	<u>20</u>

The total number of employees of the Bank as at 31 March 2008 was 57 (2007: 47).

Staff cost includes salaries, bonuses, contributions to EPF and all other staff related expenses. Contributions to EPF of the Bank amounted to RM796,000 (2007: RM629,000).

## 25. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

The directors regard AmBank (M) Berhad and AMMB Holdings Berhad as the holding company and the ultimate holding company respectively.

Key management personnel are the persons who have authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly. Key management personnel of the Bank are the directors (Executive and Non-Executive) and certain members of senior management of the Bank including close members of their families.

Whenever exists, related party transactions also includes transactions with entities that are controlled, jointly controlled or significantly influenced directly or indirectly by any key management personnel or their close family members.

In addition to the transactions detailed elsewhere in the financial statements, the Bank had the following transactions with related parties during the financial year:

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
<b>Income</b>		
<u>Related Company</u>		
Profit on deposits and placements	799	1,975
<u>Key management personnel</u>		
Profit on financing	5	4
<b>Expenditure</b>		
<u>Holding company</u>		
Profit on deposits and placements	49	1,041
Shared service cost	182,639	130,453
<u>Related companies</u>		
Profit on deposits and placements	3,581	2,179
<u>Key management personnel</u>		
Salary and other remuneration including meeting allowances	679	-
Estimated money value of benefits	16	-
Profit on deposits and placements	6	-

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
<b>Amount due from</b>		
<u>Holding company</u>		
Other receivable	12,180	–
<u>Related company</u>		
Cash and short-term funds	–	230,000
Deposits and placements	50,000	50,000
Profit receivable	24	63
<u>Key management personnel</u>		
Financing (credit card and housing financing)	48	45
<b>Amount due to</b>		
<u>Holding company</u>		
Deposits and placements	8,593	8,593
Other payable	–	91,327
<u>Related companies</u>		
Deposits and placements	633,246	967,708
Profit payable	216	6
<u>Key management personnel</u>		
Deposits and placements	163	1,550

The above transactions have been entered into in the normal course of business and have been established under terms and conditions that are no less favourable than those arranged with independent parties.



**26. DIRECTORS' REMUNERATION**

Details of remuneration in aggregate for all the Bank's directors charged to the income statement for the year are as follows:

	<b>2008 RM'000</b>	<b>2007 RM'000</b>
Non-executive directors:		
Fees	176	146
Other remuneration	268	223
Total director's remuneration	444	369

Directors' fees for directors who are executives of related companies are paid to their respective companies.

The number of directors of the Bank whose total remuneration for the financial year which fall within the required disclosure bands are as follows:

	<b>Number of Directors</b>	
	<b>2008</b>	<b>2007</b>
Non-executive director		
Below RM50,000	5	3
RM50,001 to RM100,000	2	2
RM100,001 to RM150,000	1	1

**27. SHARIAH COMMITTEE MEMBERS' REMUNERATION**

Shariah committee members' remuneration charged to the income statement for the year was RM38,250 (2007:RM37,000).

**28. FINANCE COST**

Finance cost is in respect of income attributable to investors of the Subordinated Sukuk Musyarakah.

**29. TAXATION**

Taxation consists of the following:

	<b>2008 RM'000</b>	<b>2007 RM'000</b>
Net transfer from deferred taxation (Note 30)	<u>65,859</u>	<u>44,378</u>

No provision for estimated tax payable is made in the financial statements of the Bank for the current year due to the utilisation of unabsorbed tax losses of approximately RM146.2 million and no provision for estimated tax payable was made in the prior year due to losses incurred.

As at 31 March 2008, the Bank has unabsorbed tax losses amounting to approximately RM492.3 million (2007: RM638.5 million) which can be used to offset against future taxable income subject to the agreement by the Inland Revenue Board.

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Bank is as follows:

	<b>2008 RM'000</b>	<b>2007 RM'000</b>
Profit before taxation	<u>152,556</u>	<u>139,943</u>
Taxation at Malaysian statutory tax rate of 26% (2007 : 27%)	39,664	37,785
Changes in tax rates on opening deferred tax	16,250	9,593
Utilisation of previously unrecognised unutilised capital allowances	–	(3,124)
Expenses not deductible for tax purposes	5,884	124
Over recognition of deferred tax in prior years	<u>4,061</u>	<u>–</u>
Tax expense for the year	<u>65,859</u>	<u>44,378</u>

**30. DEFERRED TAX ASSETS**

	<b>2008 RM'000</b>	<b>2007 RM'000</b>
Balance at beginning of year	223,558	153,038
Transfer to income statement (Note 29)	<u>(65,859)</u>	<u>(44,378)</u>
	157,699	108,660
Amount vested from holding company	–	68,501
Amount due from holding company	–	53,849
Tax recovered	<u>–</u>	<u>(7,452)</u>
Balance at end of year	<u>157,699</u>	<u>223,558</u>

Deferred tax assets/(liabilities) are in respect of the following temporary differences:

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
Unabsorbed tax losses	123,082	185,028
Temporary differences between depreciation and tax allowances on property and equipment	(128)	(28)
Temporary differences arising from general allowance for bad and doubtful debts and financing	38,667	37,530
Temporary differences arising from profit equalisation reserve	9,318	15,010
Others	<u>(13,240)</u>	<u>(13,982)</u>
	<u><u>157,699</u></u>	<u><u>223,558</u></u>

### 31. EARNINGS PER SHARE (EPS)

Basic earnings per share is calculated by dividing the net profit for the financial year attributable to shareholder of the Bank by the weighted average number of ordinary shares in issue during the financial year.

Diluted earnings per share is calculated by dividing the adjusted net profit attributable to equity holder of the Bank by the adjusted weighted average number of ordinary shares in issue and issuable during the financial year.

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
<b>Basic/Diluted, for profit from operations</b>		
Net profit attributable to shareholder of the Bank	<u>86,096</u>	<u>94,779</u>
Number of ordinary shares at beginning of year	403,038	153,038
Effect of the issuance of shares	<u>–</u>	<u>229,452</u>
Weighted average number of ordinary shares in issue	<u><u>403,038</u></u>	<u><u>382,490</u></u>
Basic/Diluted earnings per share (sen)	<u><u>21.36</u></u>	<u><u>24.78</u></u>

**32. COMMITMENTS AND CONTINGENCIES**

In the normal course of business, the Bank made various commitments and incurred certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. The commitments and contingencies are not secured against the Bank's assets.

The risk-weighted exposures of the Bank are as follows:

	2008			2007		
	Principal	Credit	Risk	Principal	Credit	Risk
	Amount	Equivalent	Weighted	Amount	Equivalent	Weighted
	RM'000	Amount*	Amount	RM'000	Amount*	Amount
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	172,734	172,734	172,734	119,948	119,948	102,537
Certain transaction-related contingent items	75,844	37,922	37,922	45,018	22,509	22,509
Irrevocable commitments to extend credit:						
– maturing less than one year	1,192,700	238,540	235,039	1,021,949	–	–
– maturing more than one year	331,014	165,507	136,579	15,088	7,544	7,544
– unutilised credit card lines	551,454	110,291	82,365	–	–	–
Short-term self-liquidating trade-related contingencies	72,577	14,515	14,497	74,177	14,835	14,835
Islamic financing sold to Cagamas Berhad with recourse	1,863,857	1,863,857	1,404,403	2,718,833	2,718,833	2,718,833
Others	4,975	–	–	43,918	–	–
	<u>4,265,155</u>	<u>2,603,366</u>	<u>2,083,539</u>	<u>4,038,931</u>	<u>2,883,669</u>	<u>2,866,258</u>

\* The credit equivalent amount was arrived at using the credit conversion factor as per BNM Guidelines.

As at 31 March 2008, the amounts stated for the commitments and contingencies are based on Basel II guidelines which take effect in January 2008. The commitments and contingencies for 31 March 2007, however, has not been adjusted for Basel II guidelines.

### 33. NET ASSETS PER SHARE (RM)

Net assets per share represent the balance sheet's total assets value less total liabilities expressed as an amount per ordinary share.

Net assets per share is calculated as follows:

	<b>2008 RM'000</b>	<b>2007 RM'000</b>
Total assets	10,162,566	9,340,627
Less:		
Total liabilities	<u>(9,044,585)</u>	<u>(8,308,742)</u>
Net assets	<u>1,117,981</u>	<u>1,031,885</u>
Issued and fully paid-up ordinary shares of RM1.00 each	<u>403,038</u>	<u>403,038</u>
Net assets per share (RM)	<u>2.77</u>	<u>2.56</u>

### 34. CAPITAL COMMITMENTS

	<b>2008 RM'000</b>	<b>2007 RM'000</b>
Authorised and contracted for:		
Purchase of computer equipment and software	36	192
Leasehold improvements	15	-
Authorised but not contracted for:		
Purchase of computer equipment and software	<u>145</u>	<u>113</u>
	<u>196</u>	<u>305</u>

### 35. LEASE COMMITMENTS

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

	<b>The Bank</b>	
	<b>2008 RM'000</b>	<b>2007 RM'000</b>
Year ending		
2009	1,113	-
2010	951	-
2011	448	-
2012 and thereafter	<u>2,064</u>	<u>-</u>
	<u>4,576</u>	<u>-</u>

The lease commitments represent minimum rentals not adjusted for operating expenses which the Bank is obligated to pay. These amounts are insignificant in relation to the minimum lease obligations. In the normal course of business, leases that expire will be renewed or replaced by leases on other properties, thus it is anticipated that future annual minimum lease commitments will not be less than rental expenses for the financial year.

### 36. CAPITAL ADEQUACY RATIO

BNM guideline on capital adequacy requires the Bank to maintain an adequate level of capital to withstand any losses which may result from credit and other risks associated with financing operations. The capital adequacy ratio is computed based on the eligible capital in relation to the total risk-weighted assets as determined by BNM.

With effect from 1 January 2008, the capital adequacy ratios of the Bank is computed in accordance with Bank Negara Malaysia's revised Risk-Weighted Capital Adequacy Framework: Standardised Approach for Credit Risk and Market Risk and Basic Indicator Approach for Operational Risk (Basel II). The risk-weighted capital adequacy ratio as at 31 March 2007, however, has not been adjusted for Basel II guidelines.

The risk weighted capital adequacy ratio of the Bank of 16.28% exceeds the minimum requirements of BNM.

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
<u>Tier 1 capital</u>		
Paid-up ordinary share capital	403,038	403,038
Share premium	534,068	534,068
Statutory reserve	90,439	47,390
Unappropriated profit	90,436	47,389
	<hr/>	<hr/>
	1,117,981	1,031,885
Less: Deferred tax asset	(157,699)	(223,558)
	<hr/>	<hr/>
Total Tier 1 capital	960,282	808,327
	<hr/>	<hr/>
<u>Tier 2 capital</u>		
Subordinated Sukuk Musyarakah	400,000	400,000
General allowances for bad and doubtful debts and financing	154,666	138,998
	<hr/>	<hr/>
Total Tier 2 capital	554,666	538,998
	<hr/>	<hr/>
Capital base	1,514,948	1,347,325
	<hr/>	<hr/>
Risk-weighted assets:	9,303,783	9,320,852
	<hr/>	<hr/>
<b>Capital Ratios:</b>		
Core capital ratio	10.32%	8.67%
Risk-weighted capital ratio	16.28%	14.45%

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

	2008		2007	
	Principal RM'000	Risk - Weighted RM'000	Principal RM'000	Risk - Weighted RM'000
0%	1,729,684	—	2,018,817	—
10%	—	—	—	—
20%	65,748	13,150	555,611	111,122
35%	167,616	58,664	—	—
50%	101,735	50,868	330,764	165,382
75%	8,327,038	6,245,279	—	—
100%	1,970,568	1,970,568	9,002,290	9,002,290
150%	92,301	138,451	—	—
	<u>12,454,690</u>	<u>8,476,980</u>	<u>11,907,482</u>	<u>9,278,794</u>
Add: Total risk weighted assets equivalent for market risks		37,561		42,058
Add: Total risk weighted assets equivalent for operational risks		<u>789,242</u>		<u>—</u>
		<u>9,303,783</u>		<u>9,320,852</u>

As mentioned in Note 40, the Bank had completed the Business Transfer pursuant to the Proposed Business Transfer Agreement dated 11 March 2008 entered into with AmInvestment Bank. Had the Business Transfer been completed as at 31 March 2008, the Capital Adequacy Ratio of the Bank would be as follows:

### PROFORMA CAPITAL ADEQUACY RATIO

The proforma risk-weighted capital adequacy ratios of the Bank of 14.41%, exceeds the minimum requirement of BNM.

	<b>Proforma RM'000</b>	<b>2008 RM'000</b>
<u>Tier 1 capital</u>		
Paid-up ordinary share capital	403,038	403,038
Share premium	534,068	534,068
Statutory reserve	90,439	90,439
Unappropriated profit	<u>90,436</u>	<u>90,436</u>
	1,117,981	1,117,981
Less: Deferred tax asset	<u>(157,794)</u>	<u>(157,699)</u>
Total Tier 1 capital	<u>960,187</u>	<u>960,282</u>
<u>Tier 2 capital</u>		
Subordinated Sukuk Musyarakah	400,000	400,000
General allowances for bad and doubtful debts and financing	154,953	154,666
Total Tier 2 capital	<u>554,953</u>	<u>554,666</u>
Capital base	<u>1,515,140</u>	<u>1,514,948</u>
Risk-weighted assets:	<u>10,514,481</u>	<u>9,303,783</u>
<b>Capital Ratios:</b>		
Core capital ratio	9.13%	10.32%
Risk-weighted capital ratio	14.41%	16.28%



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

	Proforma		2008	
	Principal RM'000	Risk - Weighted RM'000	Principal RM'000	Risk - Weighted RM'000
0%	2,145,319	—	1,729,684	—
10%	—	—	—	—
20%	154,240	30,848	65,748	13,150
35%	167,616	58,665	167,616	58,664
50%	104,054	52,027	101,735	50,868
75%	8,327,038	6,245,279	8,327,038	6,245,279
100%	2,207,291	2,207,291	1,970,568	1,970,568
150%	92,305	138,457	92,301	138,451
	<u>13,197,863</u>	<u>8,732,567</u>	<u>12,454,690</u>	<u>8,476,980</u>
Add: Total risk weighted assets equivalent for market risks		901,704		37,561
Add: Total risk weighted assets equivalent for operational risks		<u>880,210</u>		<u>789,242</u>
		<u>10,514,481</u>		<u>9,303,783</u>

Company No. 295576-U

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

	31 March 2008		Proposed Business Transfer Adjustment		After Proposed Business Transfer Adjustment	
	Principal RM'000	Risk - Weighted RM'000	Principal RM'000	Risk - Weighted RM'000	Principal RM'000	Risk - Weighted RM'000
0%	1,729,684	—	415,635	—	2,145,319	—
10%	—	—	—	—	—	—
20%	65,748	13,150	88,492	17,698	154,240	30,848
35%	167,616	58,664	—	—	167,616	58,665
50%	101,735	50,868	2,319	1,160	104,054	52,027
75%	8,327,038	6,245,279	—	—	8,327,038	6,245,279
100%	1,970,568	1,970,568	236,723	236,723	2,207,291	2,207,291
150%	92,301	138,451	4	6	92,305	138,457
	<u>12,454,690</u>	<u>8,476,980</u>	<u>743,173</u>	<u>255,587</u>	<u>13,197,863</u>	<u>8,732,567</u>
Add: Total risk weighted assets equivalent for market risks		37,561		864,143		901,704
Add: Total risk weighted assets equivalent for operational risks		<u>789,242</u>		<u>90,968</u>		<u>880,210</u>
		<u>9,303,783</u>		<u>1,210,698</u>		<u>10,514,481</u>

### 37. **RISK MANAGEMENT POLICY**

Risk management is about managing uncertainties such that deviations from the Bank's intended objectives are kept within acceptable levels. Sustainable profitability forms the core objectives of the Bank's risk management strategy.

Every risk assumed by the Bank carries with it potential for gains as well as potential to erode shareholders' value. The Bank's risk management policy is to identify, capture and analyse these risks at an early stage, continuously measure and monitor these risks and to set limits, policies and procedures to control them to ensure sustainable risk-taking and sufficient returns.

The management approach towards the significant risks of the Bank are enumerated below.

#### **MARKET RISK MANAGEMENT**

Market risk is the risk of loss from changes in the value of portfolios and financial instruments caused by movements in market variables, such as profit rates, foreign exchange rates and equity prices.

The primary objective of market risk management is to ensure that losses from market risk can be promptly arrested and risk positions are sufficiently liquid so as to enable the Bank to reduce its position without incurring potential loss that is beyond the sustainability of the Bank.

The market risk of the Bank's trading and non-trading portfolio is managed separately using value at risk approach to compute the market risk exposure of non-trading portfolio and trading portfolio. Value at risk is a statistical measure that estimates the potential changes in portfolio value that may occur brought about by daily changes in market rates over a specified holding period at a specified confidence level under normal market condition. For the Bank's trading portfolio, the Bank's value at risk measurement takes a more sophisticated form by taking into account the correlation effects of various instruments in the portfolio.

To complement value at risk measurement, the Bank also institutes a set of scenario analysis under various potential market conditions such as shifts in currency rates, general equity prices and profit rate movements to assess the changes in portfolio value.

The Bank controls the market risk exposure of its trading and non-trading activities primarily through a series of Risk Threshold. Risk thresholds are approved by the Board of Directors. These risk thresholds structure aligns specific risk-taking activities with the overall risk appetite of the Bank.

Company No. 295576-U

38. The following table shows the profit rate sensitivity gap, by time bands, on which profit rates of instruments are next repriced on a contractual basis or, if earlier, the dates on which the instruments mature.

2008	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	1 to 5 years	Over 5 years	Non- profit sensitive	Trading Book	Total	Effective profit rate
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
<b>ASSETS</b>										
Cash and short-term funds	1,518,860	–	–	–	–	–	2,581	–	1,521,441	3.57
Securities held-for-trading	–	–	–	–	–	–	–	99,699	99,699	3.71
Financing, advances and other loans										
– Performing	484,975	330,987	19,620	(374,470)	1,562,349	5,980,118	–	–	8,003,579	7.85
– Non-performing *	–	–	–	–	–	–	(2,781)	–	(2,781)	–
Other non-profit sensitive balances	–	–	–	–	–	–	540,628	–	540,628	–
<b>TOTAL ASSETS</b>	<b>2,003,835</b>	<b>330,987</b>	<b>19,620</b>	<b>(374,470)</b>	<b>1,562,349</b>	<b>5,980,118</b>	<b>540,428</b>	<b>99,699</b>	<b>10,162,566</b>	
<b>LIABILITIES AND EQUITY</b>										
Deposits from customers	2,831,760	873,810	665,022	422,611	132,564	–	520,564	–	5,446,331	2.92
Deposits and placements of banks and other financial institutions	593,938	448,972	307,615	736,486	417,666	–	4,104	–	2,508,781	3.63
Bills and acceptances payable	178,556	258,988	109,803	–	–	–	–	–	547,347	3.58
Subordinated Sukuk Musyarakah	–	–	–	–	400,000	–	–	–	400,000	4.80
Other non-profit sensitive balances	–	–	–	–	–	–	142,126	–	142,126	–
Total Liabilities	3,604,254	1,581,770	1,082,440	1,159,097	950,230	–	666,794	–	9,044,585	
Equity	–	–	–	–	–	–	1,117,981	–	1,117,981	
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>3,604,254</b>	<b>1,581,770</b>	<b>1,082,440</b>	<b>1,159,097</b>	<b>950,230</b>	<b>–</b>	<b>1,784,775</b>	<b>–</b>	<b>10,162,566</b>	
On-balance sheet profit sensitivity gap	(1,600,419)	(1,250,783)	(1,062,820)	(1,533,567)	612,119	5,980,118	(1,244,347)	99,699	–	
Off-balance sheet profit sensitivity gap	–	–	–	–	–	–	–	–	–	
Total profit sensitivity gap	<u>(1,600,419)</u>	<u>(1,250,783)</u>	<u>(1,062,820)</u>	<u>(1,533,567)</u>	<u>612,119</u>	<u>5,980,118</u>	<u>(1,244,347)</u>	<u>99,699</u>	<u>–</u>	

Company No. 295576-U

2007	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	1 to 5 years	Over 5 years	Non- profit sensitive	Trading Book	Total	Effective profit rate
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
<b>ASSETS</b>										
Cash and short-term funds	1,843,500	–	–	–	–	–	5,870	–	1,849,370	3.54
Deposits and placements with banks and other financial institutions	–	415,000	200	–	–	–	–	–	415,200	3.57
Securities held-for-trading	–	–	–	–	–	–	–	144,587	144,587	3.61
Financing, advances and other loans										
– Performing	403,685	225,904	169,586	71,952	333,328	5,055,127	–	–	6,259,582	7.34
– Non-performing *	–	–	–	–	–	–	110,388	–	110,388	–
Other non-profit sensitive balances	–	–	–	–	–	–	561,500	–	561,500	–
<b>TOTAL ASSETS</b>	<b>2,247,185</b>	<b>640,904</b>	<b>169,786</b>	<b>71,952</b>	<b>333,328</b>	<b>5,055,127</b>	<b>677,758</b>	<b>144,587</b>	<b>9,340,627</b>	
<b>LIABILITIES AND EQUITY</b>										
Deposits from customers	2,539,267	893,897	418,918	345,618	119,334	–	354,020	–	4,671,054	3.03
Deposits and placements of banks and other financial institutions	445,939	525,741	342,795	412,446	824,837	–	1,809	–	2,553,567	3.69
Bills and acceptances payable	171,245	200,038	75,331	–	–	–	–	–	446,614	3.57
Subordinated Sukuk Musyarakah	–	–	–	–	400,000	–	–	–	400,000	4.80
Other non-profit sensitive balances	–	–	–	–	–	–	237,507	–	237,507	–
Total Liabilities	3,156,451	1,619,676	837,044	758,064	1,344,171	–	593,336	–	8,308,742	
Equity	–	–	–	–	–	–	1,031,885	–	1,031,885	
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>3,156,451</b>	<b>1,619,676</b>	<b>837,044</b>	<b>758,064</b>	<b>1,344,171</b>	<b>–</b>	<b>1,625,221</b>	<b>–</b>	<b>9,340,627</b>	
On-balance sheet profit sensitivity gap	(909,266)	(978,772)	(667,258)	(686,112)	(1,010,843)	5,055,127	(947,463)	144,587	–	
Off-balance sheet profit sensitivity gap	–	–	–	–	–	–	–	–	–	
Total profit sensitivity gap	(909,266)	(978,772)	(667,258)	(686,112)	(1,010,843)	5,055,127	(947,463)	144,587	–	

\* This is arrived at after deducting the general allowance, specific allowance and income-in-suspense from gross non-performing financing, advances and other loans outstanding.

## **LIQUIDITY RISK**

Liquidity risk is the risk that the organisation will not be able to fund its day-to-day operations at a reasonable cost. Liquidity risk exposure arises mainly from deposit taking and borrowing activities, and to a lesser extent, significant drawdown of funds from previously contracted financing and purchase commitments.

The primary objective of liquidity risk management framework is to ensure the availability of sufficient funds at a reasonable cost to honour all financial commitments as they fall due.

The secondary objective is to ensure an optimal funding structure and to balance the key liquidity risk management objectives, which includes diversification of funding sources, customer base and maturity period.

The ongoing liquidity risk management at the Bank is based on the following key strategies:

- Management of cash flow; an assessment of potential cash flow mismatches that may arise over a period of one-year ahead and the maintenance of adequate cash and liquefiable assets over and above the standard requirements of Bank Negara Malaysia.
- Scenario analysis; a simulation on liquidity demands of new business, changes in portfolio as well as stress scenarios based on historical experience of large withdrawals.
- Diversification and stabilisation of liabilities through management of funding sources, diversification of customer depositor base and inter-bank exposures.

In the event of actual liquidity crisis occurring, a Contingency Funding Plan provides a formal process to identify a liquidity crisis and detailing responsibilities among the relevant departments to ensure orderly execution of procedures to restore the liquidity position and confidence in the Bank.

Company No. 29576-U

The following table shows the maturity analysis of the Bank's assets and liabilities based on contractual terms:

2008	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	>1 to 5 years	Over 5 years	Non-specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>ASSETS</b>								
Cash and short-term funds	1,521,441	-	-	-	-	-	-	1,521,441
Securities held-for-trading	-	-	34,544	-	65,155	-	-	99,699
Financing, advances and other loans	718,444	711,192	557,876	345,154	3,510,934	2,157,198	-	8,000,798
Other assets	-	-	-	-	-	-	124,678	124,678
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	257,200	257,200
Deferred tax asset	-	-	-	-	-	-	157,699	157,699
Property and equipment	-	-	-	-	-	-	443	443
Intangible assets	-	-	-	-	-	-	608	608
<b>TOTAL ASSETS</b>	<b>2,239,885</b>	<b>711,192</b>	<b>592,420</b>	<b>345,154</b>	<b>3,576,089</b>	<b>2,157,198</b>	<b>540,628</b>	<b>10,162,566</b>
<b>LIABILITIES AND EQUITY</b>								
Deposits from customers	3,352,324	873,810	665,022	422,611	132,564	-	-	5,446,331
Deposits and placements of banks and other financial institutions	598,042	448,972	307,615	736,486	417,666	-	-	2,508,781
Bills and acceptances payable	178,556	258,988	109,803	-	-	-	-	547,347
Other liabilities	-	-	-	-	-	-	142,126	142,126
Subordinated Sukuk Musyarakah	-	-	-	-	-	400,000	-	400,000
Total Liabilities	4,128,922	1,581,770	1,082,440	1,159,097	550,230	400,000	142,126	9,044,585
Equity	-	-	-	-	-	-	1,117,981	1,117,981
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>4,128,922</b>	<b>1,581,770</b>	<b>1,082,440</b>	<b>1,159,097</b>	<b>550,230</b>	<b>400,000</b>	<b>1,260,107</b>	<b>10,162,566</b>
Net maturity mismatch	(1,889,037)	(870,578)	(490,020)	(813,943)	3,025,859	1,757,198	(719,479)	-

Company No. 295576–U

2007	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	>1 to 5 years	Over 5 years	Non-specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>ASSETS</b>								
Cash and short-term funds	1,849,370	–	–	–	–	–	–	1,849,370
Deposits and placements with banks and other financial institutions	–	415,000	200	–	–	–	–	415,200
Securities held-for-trading	–	39,736	–	48,442	56,409	–	–	144,587
Financing, advances and other loans	526,187	594,035	624,172	782,304	1,204,975	2,638,297	–	6,369,970
Other assets	–	–	–	–	–	–	87,964	87,964
Statutory deposit with Bank Negara Malaysia	–	–	–	–	–	–	249,000	249,000
Deferred tax asset	–	–	–	–	–	–	223,558	223,558
Property and equipment	–	–	–	–	–	–	913	913
Intangible assets	–	–	–	–	–	–	65	65
<b>TOTAL ASSETS</b>	<b>2,375,557</b>	<b>1,048,771</b>	<b>624,372</b>	<b>830,746</b>	<b>1,261,384</b>	<b>2,638,297</b>	<b>561,500</b>	<b>9,340,627</b>
<b>LIABILITIES AND EQUITY</b>								
Deposits from customers	2,893,287	893,897	418,918	345,618	119,334	–	–	4,671,054
Deposits and placements of banks and other financial institutions	447,748	525,741	342,795	412,446	824,837	–	–	2,553,567
Bills and acceptances payable	171,245	200,038	75,331	–	–	–	–	446,614
Other liabilities	–	–	–	–	–	–	236,721	236,721
Provision for zakat	–	–	–	–	–	–	786	786
Subordinated Sukuk Musyarakah	–	–	–	–	–	400,000	–	400,000
Total Liabilities	3,512,280	1,619,676	837,044	758,064	944,171	400,000	237,507	8,308,742
Equity	–	–	–	–	–	–	1,031,885	1,031,885
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>3,512,280</b>	<b>1,619,676</b>	<b>837,044</b>	<b>758,064</b>	<b>944,171</b>	<b>400,000</b>	<b>1,269,392</b>	<b>9,340,627</b>
Net maturity mismatch	(1,136,723)	(570,905)	(212,672)	72,682	317,213	2,238,297	(707,892)	–



## **CREDIT RISK MANAGEMENT**

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its payment obligations. Exposure to credit risk arises primarily from lending and guarantee activities and, to a lesser extent, pre-settlement and settlement exposures of sales and trading activities.

The primary objective of the credit risk management framework is to ensure that exposure to credit risk is always kept within its capability and financial capacity to withstand potential future losses.

Lending activities are guided by internal group credit policies and guidelines that are approved by the Board or risk committee. Specific procedures for managing credit risks are determined at business levels in specific policies and procedures based on risk environment and business goals.

Credit portfolio management strategies and significant exposures are reviewed and/or approved by the Board. These portfolio management strategies are designed to achieve a desired ideal portfolio risk tolerance level and sector distribution over the next few years. These portfolio management strategies include minimum credit rating targets from new facilities, a more aggressive approach towards reducing existing high-risk exposures and exposures to certain sectors.

For non-retail credits, risk management begins with an assessment of the financial standing of the borrower or counterparty using a credit rating model. The model consists of quantitative and qualitative scores which are then translated into a rating grade. Credit risk is quantified based on Expected Default Frequencies and Expected Losses on default from its portfolio of loans and off-balance sheet credit commitments. Expected Default Frequencies are calibrated to the internal rating model.

For retail credits, a credit-scoring system to support the housing and hire purchase applications is being used to complement the credit assessment process.

## **OPERATIONAL RISK MANAGEMENT**

Operational risk is the potential loss from a breakdown in internal process, systems, deficiencies in people and management or operational failure arising from external events. It is increasingly recognised that operational risk is the single most widespread risk facing financial institutions today.

Operational risk management is the discipline of systematically identifying the critical potential risk and causes of failure, assess the relevant controls to minimise the impact of such risk through the initiation of risk mitigating measures and policies.

The Bank minimises operational risk by putting in place appropriate policies, internal controls and procedures as well as maintaining back-up procedures for key activities and undertaking business continuity planning. These are supported by independent reviews by the Group's Internal Audit team.

## **LEGAL AND REGULATORY RISK**

The Bank manages legal and regulatory risks to its business. Legal risk arises from the potential breaches of applicable laws and regulatory requirements, unenforceability of contracts, lawsuits, or adverse judgement, may lead to the incurrence of losses, disrupt or otherwise resulting in financial and reputational risk.

Legal risk is managed by internal legal counsel and where necessary, in consultation with external legal counsel to ensure that legal risk is minimised.

Regulatory risk is managed through the implementation of measures and procedures within the organisation to facilitate compliance with regulations. These include a compliance monitoring and reporting process that requires identification of risk areas, prescription of controls to minimise these risks, staff training and assessments, provision of advice and dissemination of information.

## **RISK MANAGEMENT POLICY ON FINANCIAL DERIVATIVES**

### **Purpose of engaging in financial derivatives**

Financial derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices. They include swaps, forward rate agreements, futures, options and combinations of these instruments. Derivatives are contracts that transfer risks, mainly market risks. Financial derivatives is one of the financial instruments engaged by the Bank both for revenue purposes as well as to manage the Bank's own market risk exposure. The Bank's involvement in financial derivatives is currently focused on foreign exchange rate derivatives.

The principal exchange rate contracts used are forward foreign exchange contracts. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency on a specified future date at an agreed rate.

For revenue purposes, the Bank maintains trading positions in these instruments and engages in transactions with customers to satisfy their needs in managing their foreign exchange rate exposures. Derivative transactions generate income for the Bank from the buy-sell spreads. The Bank also takes conservative exposures, within acceptable limits, to carry an inventory of these instruments in order to provide market liquidity and to earn potential gains on fluctuations in the value of these instruments.

As part of the asset and liability exposure management, the Bank uses derivatives to manage the Bank's market risk exposure. As the value of these financial derivatives are principally driven by foreign exchange rate factors, the Bank uses them to reduce the overall foreign exchange rate exposures of the Bank. These are performed by entering into an exposure in derivatives that produces opposite value movements vis-à-vis exposures generated by other non-derivative activities of the Bank. The Bank manages these risks on a portfolio basis. Hence, exposures on derivatives are aggregated or netted against similar exposures arising from other financial instruments engaged by the Bank.

### **Risk associated with financial derivatives**

As derivatives are contracts that transfer risks, they expose the holder to the same types of market and credit risks as other financial instruments, and the Bank manages these risks in a consistent manner under the overall risk management framework.

### **Market risk of derivatives used for trading purposes**

Market risk arising from the above foreign exchange-related derivatives contracts measures the potential losses to the value of these contracts due to changes in market rates/prices. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions.

### **Credit risk of derivatives**

Counterparty credit risk arises from the possibility that a counterparty may be unable to meet the terms of the derivatives contract. Unlike conventional asset instruments, the Bank's financial loss is not the entire contracted principal value of the derivatives, but rather a fraction equivalent to the cost to replace the defaulted contract with another in the market. The cost of replacement is equivalent to the difference between the original value of the derivatives at time of contract with the defaulted counterparty and the current fair value of a similar substitute at current market prices. The Bank will only suffer a replacement cost if the contract carries a fair value gain at time of default.

As at 31 March 2008, the amounts of counterparty credit risk, measured in terms of the cost to replace the positive value contracts of the Bank, was Nil (2007: Nil). This amount will increase or decrease over the life of the contracts, mainly as a function of movement in market rates and time.

The Bank limits its credit risk within a conservative framework by dealing with creditworthy counterparties, setting credit limits on exposures to counterparties, and obtaining collateral where appropriate.

## **39. FAIR VALUES OF FINANCIAL INSTRUMENTS**

Financial instruments are contracts that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than a forced or liquidated sale. The information presented herein represents best estimates of fair values of financial instruments 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 number of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the assumptions could materially affect these estimates and the corresponding fair values.

In addition, fair value information for non-financial assets and liabilities such as taxation are excluded, as they do not fall within the scope of FRS132 (Financial Instruments: Disclosure and Presentation), which requires the fair value information to be disclosed.

The estimated fair values of the Bank's financial instruments are as follows:

	2008		2007	
	Carrying Value RM'000	Fair Value RM'000	Carrying Value RM'000	Fair Value RM'000
<b>Financial Assets</b>				
Cash and short-term funds	1,521,441	1,521,441	1,849,370	1,849,370
Deposits and placements with financial institutions	-	-	415,200	415,200
Securities held-for-trading	99,699	99,699	144,587	144,587
Financing, advances and other loans *	8,155,464	8,362,942	6,508,968	6,723,431
Other financial assets	325,830	325,830	336,964	336,964
	10,102,434	10,309,912	9,255,089	9,469,552
<b>Non-financial assets</b>	60,132		85,538	
<b>TOTAL ASSETS</b>	10,162,566		9,340,627	
	2008		2007	
	Carrying Value RM'000	Fair Value RM'000	Carrying Value RM'000	Fair Value RM'000
<b>Financial Liabilities</b>				
Deposits from customers	5,446,331	5,444,841	4,671,054	4,680,532
Deposits and placements of banks and other financial institutions	2,508,781	2,506,031	2,553,567	2,558,898
Subordinated Sukuk Musyarakah	400,000	432,061	400,000	422,607
Other financial liabilities	652,201	652,201	628,529	628,529
	9,007,313	9,035,134	8,253,150	8,290,566
<b>Non-Financial Liabilities</b>				
Other non-financial liabilities	37,272		55,592	
Equity	1,117,981		1,031,885	
<b>TOTAL LIABILITIES AND EQUITY</b>	10,162,566		9,340,627	

\* The general allowance for the Bank amounting to RM154,666,000 (2007:RM138,998,000) has been included under non-financial assets.

The fair value of the other financial assets and other financial liabilities, which are considered short term in nature, are estimated to be approximately their carrying value.

The fair value of contingent liabilities and undrawn credit facilities are not readily ascertainable. These financial instruments are presently not sold or traded. They generate fees that are in line with market prices for similar arrangements. The estimated fair value may be represented by the present value of the fees expected to be received, less associated costs and potential loss that may arise should these commitments crystallise. The Bank assess that their respective fair values are unlikely to be significant given that the overall level of fees involved is not significant and no allowance is necessary to be made.

The following methods and assumptions were used to estimate the fair value of assets and liabilities :

**(a) Cash And Short-Term Funds**

The carrying values are a reasonable estimate of the fair values because of negligible credit risk, short-term nature or frequent repricing.

**(b) Deposits With Banks And Other Financial Institutions**

The fair values of deposits with banks and other financial institutions with remaining maturities less than six months are estimated to approximate their carrying values. For deposits with banks and other financial institutions with maturities of more than six months, the fair value are estimated based on discounted cash flows using the prevailing KLIBOR rates.

**(c) Securities Held-For-Trading**

The estimated fair value is based on quoted or observable market prices at the balance sheet date. Where such quoted or observable market prices are not available, the fair value is estimated using net tangible assets techniques.

**(d) Financing, Advances And Other Loans (“Financing”)**

The fair value of variable rate financing are estimated to approximate their carrying values. For fixed rate financing, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at prevailing indicative rates adjusted for credit risk. In respect of non-performing financing, the fair values are deemed to approximate the carrying values, net of specific allowance for bad and doubtful financing.

**(e) Deposits From Customers, Deposits And Placements Of Banks And Other Financial Institutions**

The fair value of deposit liabilities payable on demand (“demand and savings deposits”) or with remaining maturities of less than six months are estimated to approximate their carrying values at balance sheet date. The fair values of term deposits, negotiable instrument of deposits with remaining maturities of more than six months are estimated based on discounted cash flows using KLIBOR rates.

**(f) Bills And Acceptances Payable**

The carrying values are a reasonable estimate of their fair values because of their short-term nature.

**(g) Redeemable Unsecured Subordinated Bond – Subordinated Sukuk Musyarakah**

The fair value of financing with remaining maturities of less than six months are estimated to approximate their carrying values at balance sheet date. The fair value of financing with remaining maturities of more than six months are estimated based on discounted cash flows using market indicative rates of instruments with similar risk profile at balance sheet date.

#### 40. **SUBSEQUENT EVENTS**

On 11 March 2008, AHB announced a Proposed Group Internal Restructuring involving:

- (c) the transfer of the fund-based activities of AmInvestment Bank, a 100%-owned subsidiary of AIGB to AmBank and the Bank (the "Proposed Business Transfer"); and
- (d) the re-alignment of the AHB shareholding structure of certain operating subsidiaries to fully constitute the Capital Market Group and Asset Management Group (the "Proposed Internal Transfer").

On 11 March 2008, AmInvestment Bank entered into separate Business Transfer Agreements with AmBank and AmIslamic respectively in respect of the Proposed Business Transfer.

BNM and the MOF have on 19 December 2007 approved the Proposed Business Transfer. It was implemented by way of a vesting order (the "Order") of the High Court of Malaya (the "Court") to be obtained by AmInvestment Bank, AmBank and AmIslamic pursuant to section 50 of the Banking and Financial Institutions Act 1989, whereby:-

- (j) Subject to exclusions as may be agreed between AmInvestment Bank and AmBank, AmBank will acquire the assets and assume the liabilities relating to AmInvestment Bank's conventional fund-based activity, based on the book value of the assets and liabilities which shall include AmInvestment Bank's 100% shareholding interest in AmInternational (L) Ltd, a licensed offshore bank; and
- (ii) Subject to exclusions as may be agreed between AmInvestment Bank and the Bank, the Bank will acquire the assets and assume the liabilities relating to AmInvestment Bank's Islamic fund-based activity, based on the book value of the assets and liabilities as at the date the Order comes into effect. The consideration for the Proposed Business Transfer, computed on the basis of the book value of the assets acquired less the book value of the liabilities assumed, will be settled in cash by AmBank and AmIslamic.

On 12 April 2008, the Bank completed the Business Transfer for a cash consideration of RM314.9 million based on the book value of the assets and liabilities as at 11 April 2008 pursuant to the Business Transfer Agreement entered into with AmInvestment. Details of the proposed business transfer is disclosed in Note 41 to the financial statements.

**41. PROPOSED BUSINESS TRANSFER**

Pursuant to the Proposed Business Transfer as mentioned in Note 40 to the financial statements had the Bank completed the Business Transfer based on the net book value for AmInvestment Bank's fund-based activity as at 31 March 2008, the balance sheet of the Bank would be as follows:

**PROFORMA BALANCE SHEET AS AT 31 MARCH 2008**

	<b>As at 31 March 2008 RM'000</b>	<b>Proposed Business Transfer Adjustment RM'000</b>	<b>After Proposed Business Transfer RM'000 Note 1</b>
<b>ASSETS</b>			
Cash and short-term funds	1,521,441	188,748	1,710,189
Deposits and placements with banks and other financial institutions	–	–	–
Securities held-for-trading	99,699	459,712	559,411
Financing, advances and other loans	8,000,798	18,848	8,019,646
Other assets	124,678	2,789	127,467
Statutory deposit with Bank Negara Malaysia	257,200	14,500	271,700
Deferred tax asset	157,699	95	157,794
Property and equipment	443	–	443
Intangible assets	608	–	608
<b>TOTAL ASSETS</b>	<b>10,162,566</b>	<b>684,692</b>	<b>10,847,258</b>
<b>LIABILITIES AND EQUITY</b>			
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Deposits from customers	5,446,331	424,785	5,871,116
Deposits and placements of banks and other financial institutions	2,508,781	255,159	2,763,940
Bills and acceptances payable	547,347	–	547,347
Other liabilities	141,525	4,748	146,273
Provision for zakat	601	–	601
Subordinated Sukuk Musyarakah	400,000	–	400,000
Total Liabilities	9,044,585	684,692	9,729,277
Share capital	403,038	–	403,038
Reserves	714,943	–	714,943
Equity	1,117,981	–	1,117,981
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>10,162,566</b>	<b>684,692</b>	<b>10,847,258</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	<b>4,265,155</b>	<b>1,652,157</b>	<b>5,917,312</b>

Note 1:

After adjusting for transfer of the assets and liabilities relating to AmInvestment Bank's fund based activity via vesting order under Section 50 of the BAFIA for an aggregate cash consideration of RM317.9 million.

**42. RESTATEMENT OF COMPARATIVES**

During the year, the Bank had reviewed and changed the presentation of Non-recoverable expenses for financing accounts for the year ended 31 March 2007. These expenditure items which were previously included in other operating expenses are now presented within Allowances of losses on financing. The classification is to conform with current year's presentation which better reflects the nature of expenses.

The comparative amounts which have been reclassified to conform with the current year's presentation are as follow:

	<b>As previously stated RM'000</b>	<b>Effect of change RM'000</b>	<b>As restated RM'000</b>
<b>At 31 March 2007</b>			
<b>Income Statement</b>			
Other operating expenses	146,171	(3,106)	143,065
Allowance for losses on loan and financing	194,777	3,106	197,883