

STRICTLY PRIVATE AND CONFIDENTIAL



AmIslamic Bank

AMISLAMIC BANK BERHAD

(Company No: 295576-U)
(Incorporated in Malaysia under the Companies Act, 1965)

INFORMATION MEMORANDUM

**IN RELATION TO THE PROPOSED ISSUE OF, OFFER FOR
SUBSCRIPTION OR PURCHASE OF, OR INVITATION TO
SUBSCRIBE FOR OR PURCHASE OF SENIOR SUKUK
PURSUANT TO A
SENIOR SUKUK ISSUANCE PROGRAMME
OF UP TO RM3.0 BILLION NOMINAL VALUE BASED ON
THE SHARIAH PRINCIPLES OF MUSYARAKAH**

Principal Adviser, Lead Arranger and Lead Manager



AmInvestment Bank
Group

AmInvestment Bank Berhad

(Company No. 23742-V)
(a member of AmInvestment Bank Group)

IMPORTANT NOTICE

Amlslamic Bank Berhad ("**Amlslamic**") has prepared this Information Memorandum ("**IM**"), which is being provided on a confidential basis to potential investors in relation to the issuance of senior Islamic securities ("**Senior Sukuk**") pursuant to a Senior Sukuk issuance programme of up to RM3.0 billion in nominal value based on the Shariah principles of Musyarakah ("**Senior Sukuk Musyarakah Programme**").

The Securities Commission ("**SC**") has approved the issuance of the Senior Sukuk vide its letter dated 2 July 2010 pursuant to Section 212 of the Capital Markets and Services Act, 2007, as amended from time to time ("**CMSA**"). Such approval shall not be taken to indicate that the SC recommends the subscription or purchase of the Senior Sukuk.

The Senior Sukuk may not be issued, offered, sold, transferred or otherwise disposed of, directly or indirectly, nor may any document or other material in connection therewith including this IM be distributed, in Malaysia other than to persons, whether as principal or agent, at the point of issuance of the Senior Sukuk, falls within one or more of the categories of persons to whom an offer or invitation to subscribe for or purchase the Senior Sukuk would constitute an excluded issue, excluded offer or excluded invitation pursuant to Schedule 6 or Section 229(1)(b) or Schedule 7 or, Section 230(1)(b) and Schedule 9 or Section 257(3) of the CMSA (subject to any law, order, regulation or official directive of Bank Negara Malaysia ("**BNM**"), the SC and/or any other regulatory authority from time to time), and after the point of issuance of the Senior Sukuk, falls within one or more of the categories of persons to whom an offer or invitation to subscribe for or purchase the Senior Sukuk would constitute an excluded offer or excluded invitation pursuant to Schedule 6 or Section 229(1)(b) and Schedule 9 or Section 257(3) of the CMSA (subject to any law, order, regulation or official directive of BNM, the SC and/or any other regulatory authority from time to time).

It is a condition to the first issuance that the Senior Sukuk Musyarakah Programme is assigned a rating of AA3 by RAM Rating Services Berhad. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the rating agency.

This IM may not be, in whole or in part, reproduced or used for any other purpose, or shown, given, copied to or filed with any other person including, without limitation, any government or regulatory authority except with the prior written consent of Amlslamic or as required under Malaysian laws, regulations or guidelines.

The persons preparing this IM have made all enquiries as were reasonable in the circumstances and after making such enquiries have reasonable grounds to believe and do believe up to the time of the issue of this IM that the information herein is true and not misleading and there is no material omission therein. This IM or any document delivered under or in relation to the Senior Sukuk Musyarakah Programme is not, and should not be construed as a recommendation by Amlslamic, AmlInvestment Bank Berhad ("**AmlInvestment Bank**" or "**Lead Arranger/Lead Manager**") and/or any other party to subscribe for or purchase the Senior Sukuk. Further, the information contained herein should not be read as a representation or warranty, express or implied, as to the merits of the Senior Sukuk or the purchase thereof. This IM is not a substitute for, and should not be regarded as, an independent evaluation and analysis. Each recipient should perform and is deemed to have made his/its own independent investigation and analysis of Amlslamic, the Senior Sukuk and all other relevant matters, including but not limited to the information and data set out in this IM, and each recipient should consult its own professional advisers.

Amlslamic confirms that, to the best of its knowledge and belief: (a) this IM contains all information with respect to Amlslamic that is material in the context of the purpose for which this IM is issued, (b) the information and data contained in this IM are true, accurate and not misleading in all material respects, and (c) there is no material omission of any information and data from this IM.

No representation, warranty or undertaking, express or implied, is given or assumed by the Lead Arranger/Lead Manager as to the authenticity, origin, validity, accuracy or completeness of such information and data or that the information or data remains unchanged in any respect after the relevant date shown in this IM. The Lead Arranger/Lead Manager have not accepted and will not accept any responsibility for the information and data contained in this IM or otherwise in relation to

the Senior Sukuk Musyarakah Programme and shall not be liable for any consequences of reliance on any of the information or data in this IM, except as provided by Malaysian laws.

This IM has not been and will not be made to comply with the laws of any jurisdiction outside Malaysia ("**Foreign Jurisdiction**"), and has not been and will not be lodged, registered or approved pursuant to or under any legislation of (or with or by any regulatory authority or other relevant body of) any Foreign Jurisdiction and it does not constitute an offer of, or an invitation to subscribe for or purchase the Senior Sukuk or any other securities of any kind by any party in any Foreign Jurisdiction. This IM is not and is not intended to be a prospectus.

By accepting delivery of this IM, each recipient agrees to the terms upon which this IM is provided to such recipient as set out in this IM, and further agrees and confirms that: (a) it will keep confidential all of such information and data contained in this IM, (b) it is lawful for the recipient to receive this IM and to subscribe for, purchase or in any other way to receive the Senior Sukuk under all jurisdictions to which the recipient is subject, (c) it will comply with all the applicable laws in connection with such subscription, purchase or acceptance of the Senior Sukuk, (d) Amlslamic and all other parties involved in the preparation of this IM and their respective directors, officers, employees, agents and professional advisers are not and will not be in breach of the laws of any jurisdiction to which the recipient is subject to as a result of such subscription, purchase or acceptance of the Senior Sukuk and they shall not have any responsibility or liability in the event that such subscription or acceptance of the Senior Sukuk is or shall become unlawful, unenforceable, voidable or void, (e) it is aware that the Senior Sukuk can only be transferred or otherwise disposed of in accordance with the relevant selling restrictions and all applicable laws, (f) it has sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of subscribing for or purchasing the Senior Sukuk and is able and prepared to bear the economic and financial risks of investing in or holding the Senior Sukuk, (g) it is subscribing for, purchasing or accepting the Senior Sukuk for its own account, and (h) it, at the point of issuance of the Senior Sukuk, falls within one or more of the categories of persons to whom an offer or invitation to subscribe for or purchase the Senior Sukuk would constitute an excluded issue, excluded offer or excluded invitation pursuant to Schedule 6 or Section 229(1)(b) or Schedule 7 or Section 230(1)(b) and Schedule 9 or Section 257(3) of the CMSA (subject to any law, order, regulation or official directive of BNM, the SC and/or any other regulatory authority from time to time), and after the point of issuance of the Senior Sukuk, falls within one or more of the categories of persons to whom an offer or invitation to subscribe for or purchase the Senior Sukuk would constitute an excluded offer or excluded invitation pursuant to Schedule 6 or Section 229(1)(b) and Schedule 9 or Section 257(3) of the CMSA (subject to any law, order, regulation or official directive of BNM, the SC and/or any other regulatory authority from time to time). For the avoidance of doubt, this IM shall not constitute an offer or invitation to subscribe or purchase the Senior Sukuk in relation to any recipient who does not fall within item (h) above.

Each recipient is solely responsible for seeking all appropriate expert advice as to the laws of all jurisdictions to which it is subject at its own cost and expenses.

Neither the delivery of this IM nor the offering, sale or delivery of any Senior Sukuk shall in any circumstance imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Senior Sukuk is correct as of any time subsequent to the date indicated in the document containing the same. The Lead Arranger/Lead Manager expressly does not undertake to advise any investor of the Senior Sukuk of any information coming to their attention. The recipient of this IM or the potential investors should review, inter-alia, the most recently published documents incorporated by reference into this IM when deciding whether or not to purchase any Senior Sukuk.

This IM includes certain historical information and reports thereon derived from sources believed to be reliable and other publicly available information. Such information and reports have been included solely for illustrative purposes. No representation or warranty is made as to the accuracy of any information and report thereon derived from such and other third party sources.

This IM includes "forward looking statements". These statements include, among other things, disclosure of Amlslamic's business strategy and expectation concerning its position in the Malaysian economy, future operations, liquidity, financial position and settlement of indebtedness. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may

affect actual outcomes, many of which are outside the control of Amlslamic. All these statements are based on assumptions made by Amlslamic that, although believed to be reasonable, are subject to risks and uncertainties that may cause actual events and the future results of Amlslamic to be materially different from that expected or indicated by such statements and no assurance is given that any of such statements will be realised. Therefore, the contingencies and inherent uncertainties underlying such information should be carefully considered by investors and the inclusion of a forward looking statement in this IM is not a representation or warranty by Amlslamic or any other person that the plans and objectives of Amlslamic will be achieved. Further, such parties are not under any obligation to update or revise such forward-looking statements to reflect any change in expectations or circumstances. Any difference in the expectations of Amlslamic and its actual performance may result in Amlslamic's financial and operating performance and plans being materially different from those anticipated.

The information in this IM supersedes all other information and materials previously supplied (if any) to the recipients. By taking possession of this IM, the recipients are acknowledging and agreeing and are deemed to have acknowledged and agreed that they will not rely on any previous information supplied. No person is authorised to give any information or data or to make any representation or warranty other than as contained in this IM and, if given or made, any such information, data, representation or warranty must not be relied upon as having been authorised by the Issuer, the Lead Arranger / Lead Manager or any other persons.

All discrepancies (if any) in the tables included in this IM between the listed amounts and totals thereof are due to, and certain numbers appearing in this IM are shown after rounding off.

DOCUMENTS INCORPORATED BY REFERENCE

All information and statements herein are subject to the detailed provisions of the respective agreements referred to herein and are qualified in their entirety by reference to such documents.

ACKNOWLEDGEMENT

Amlslamic hereby acknowledges that it has authorised the Lead Arranger/Lead Manager to circulate or distribute this IM on its behalf in respect of the Senior Sukuk Musyarakah Programme to prospective investors and that no further evidence of authorisation is required.

STATEMENTS OF DISCLAIMER – SECURITIES COMMISSION

This IM will be lodged with the SC who takes no responsibility for its contents. Such lodgement shall not be taken to indicate that the SC recommends the Senior Sukuk. The SC shall not be liable for any non-disclosure on the part of the Issuer and assumes no responsibility for the correctness of any statement, opinion or report contained in this IM.

EACH ISSUE OF ISLAMIC SECURITIES (IN THIS CASE, THE ISSUE OF THE SENIOR SUKUK) WILL CARRY DIFFERENT RISKS. INVESTORS MUST RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF AN INVESTMENT IN ANY ISSUE OF THE SENIOR SUKUK. IT IS RECOMMENDED THAT PROSPECTIVE INVESTORS CONSULT THEIR OWN LEGAL, FINANCIAL AND OTHER ADVISERS BEFORE PURCHASING OR ACQUIRING THE SENIOR SUKUK.

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DEFINITIONS

For the purpose of this IM, unless otherwise indicated, the following definitions shall apply:

| | | |
|--|---|---|
| Act | : | The Companies Act, 1965 or any statutory modification, amendment or re-enactment thereof for the time being in force |
| AHB | : | AMMB Holdings Berhad (Company No. 223035-V) |
| AHB Group | : | AHB and its subsidiaries |
| AIGB | : | AmInvestment Group Berhad (Company No. 657000-X) |
| AIGB Group | : | AIGB and its subsidiaries |
| AmBank | : | AmBank (M) Berhad (8515-D) |
| AmBank Group | : | AmBank and its subsidiaries |
| Amcorp | : | Amcorp Group Berhad (formerly known as AmcorpGroup Berhad) (Company No. 1166-T) |
| AMFB | : | AMFB Holdings Berhad (Company No. 5493-X) |
| AmIslamic or the Bank or the Issuer | : | AmIslamic Bank Berhad (Company No. 295576-U) |
| AmInvestment Bank | : | AmInvestment Bank Berhad (23742-V) |
| ANZ | : | Australia and New Zealand Banking Group Limited (Company No. 005 357 522) |
| ANZ Funds | : | ANZ Funds Pty Ltd (Company No. 004 594 343), a wholly-owned subsidiary of ANZ |
| ATMs | : | Automated Teller Machines |
| BAFIA | : | The Banking and Financial Institutions Act, 1989 or any statutory modification, amendment or re-enactment thereof for the time being in force |
| BNM | : | Bank Negara Malaysia |
| Board | : | Board of Directors of AmIslamic |
| Bursa Securities | : | Bursa Malaysia Securities Berhad (Company No. 635998-W) |
| CMSA | : | The Capital Markets and Services Act, 2007 or any statutory modification, amendment or re-enactment thereof for the time being in force |
| EBCs | : | Electronic Banking Channels |
| EGM | : | Extraordinary General Meeting |
| FYE | : | Financial Year Ended |
| IBA | : | The Islamic Banking Act, 1983 or any statutory modification, amendment or re-enactment thereof for the time being in force |
| IT | : | Information Technology |

DEFINITIONS

| | | |
|--|---|---|
| MDIC | : | Malaysia Deposit Insurance Corporation (Perbadanan Insurans Deposit Malaysia) |
| NPF | : | Non-Performing Financing |
| RAM Ratings | : | RAM Rating Services Berhad (Company No. 763588-T) |
| RM | : | Ringgit |
| SC | : | The Securities Commission of Malaysia |
| Senior Sukuk | : | Senior Sukuk issued pursuant to the Senior Sukuk Musyarakah Programme |
| Senior Sukukholders | : | The holders of the Senior Sukuk |
| Senior Sukuk Musyarakah Programme | : | Proposed Senior Sukuk issuance programme of up to RM3.0 billion in nominal value based on the Shariah principles of Musyarakah by Amlslamic |
| Share(s) | : | Ordinary share(s) of RM1.00 each in Amlslamic |
| SMEs | : | Small Medium Enterprises |
| Trust Deed | : | The trust deed entered or to be entered into between the Issuer and the Trustee constituting the Senior Sukuk |
| Trustee | : | Pacific Trustees Berhad (Company No. 317001-A) |
| TSAH | : | Tan Sri Azman Hashim |

All references to, “we”, “us”, “our” and any derivative thereof in this IM refer to Amlslamic.

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1. EXECUTIVE SUMMARY

The executive summary is a summary of information on the Senior Sukuk Musyarakah Programme. Investors should read and understand the whole IM prior to deciding whether or not to invest in the Senior Sukuk. The executive summary should be read in conjunction with the full text of this IM.

1.1 Background Information on Amlslamic

Amlslamic is a public limited company incorporated under the Act on 14 April 1994. Amlslamic is a wholly-owned subsidiary of AmBank which in turn is a wholly-owned subsidiary of AMFB. AMFB is wholly-owned by AHB.

Amlslamic was incorporated as Arab-Malaysian Bank Berhad to acquire the commercial banking business of the Malaysian branch of the Bank of America (Asia) Limited, then operating under the name of Security Pacific Asian Bank Limited, Kuala Lumpur Branch (“**SPABL**”).

On 1 August 1994, Arab-Malaysian Bank Berhad completed the acquisition of the business of SPABL and commenced operations as a locally incorporated commercial bank before changing its name to AmBank Berhad on 14 June 2002.

On 1 June 2005, the banking business of AmBank Berhad was vested in AmFinance Berhad (now known as AmBank (M) Berhad) pursuant to the vesting order of the High Court of Malaya dated 18 May 2005 issued under section 50 of the BAFIA. Thereafter, AmBank Berhad surrendered its commercial banking licence to the Ministry of Finance and ceased to be a commercial banking institution.

On 16 September 2005, AmBank Berhad was renamed AMBB Capital Berhad.

On 21 February 2006, AMBB Capital Berhad was renamed Amlslamic Bank Berhad.

On 1 May 2006, Amlslamic commenced operations as an Islamic banking institution under the IBA after AmBank transferred all of its Islamic banking and financial businesses to Amlslamic pursuant to the vesting order of the High Court of Malaya dated 18 April 2006 issued under section 50 of the BAFIA.

On 12 April 2008, the integration of the Islamic fund-based business activities of AmInvestment Bank and Amlslamic (“**Business Transfer**”) was completed. This has enabled AmInvestment Bank to leverage on Amlslamic’s balance sheet to provide for larger and more structured investment banking deal flow. This is crucial following the completion of the framework for investment banking whereby BNM introduced more stringent limits on lending, underwriting of both debt instruments and equities as well as proprietary trading by investment banks.

Amlslamic provides a range of retail, commercial banking, corporate banking and treasury products and services which are Shariah compliant in nature.

As at 30 June 2010, the authorised share capital of Amlslamic is RM2,000,000,000 comprising 2,000,000,000 ordinary shares of RM1.00 each, of which 403,038,000 ordinary shares of RM1.00 each were issued and fully paid-up.

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1.2 Description of the Transaction and Structure of the Senior Sukuk Musyarakah Programme

The Issuer has the flexibility to issue Senior Sukuk at any time during the tenor of the Senior Sukuk Musyarakah Programme, provided that the outstanding aggregate nominal value of Senior Sukuk shall not exceed the limit of RM3.0 billion at any one time.

Under the Senior Sukuk Musyarakah Programme transaction, the investors (known as the “**Senior Sukukholders**”) shall from time to time, form a partnership amongst themselves for the purpose of investing in Shariah compliant financial services business of Amlslamic (“**Musyarakah Venture**”). Each tranche of the Senior Sukuk which comprises at least two Senior Sukukholders shall constitute a Musyarakah Venture. Any profit derived from the Musyarakah Venture will be distributed based on a pre-agreed profit sharing ratio among the Senior Sukukholders, but a loss will be shared based on their capital contribution.

Amlslamic shall issue Senior Sukuk to the Senior Sukukholders, in consideration of their capital contribution (“**Musyarakah Capital**”). The Senior Sukuk represents their proportionate participation in the Musyarakah Venture. For the avoidance of doubt, the profit sharing ratio under the Senior Sukuk Musyarakah Programme shall be equivalent to the ratio of capital contribution by the respective Senior Sukukholders.

The Issuer shall declare trust over the Trust Assets (as defined below). The Trust Assets of each tranche would be the Shariah compliant financial services business of the Issuer (including the Profit Reserve Account (as defined in Section 2.0 of this IM)) (“**Trust Assets**”). The Trustee (acting on behalf of the Senior Sukukholders) shall appoint the Issuer as its agent (the “**Manager**”) to manage the Musyarakah Venture on behalf of the Senior Sukukholders upon the terms and subject to the conditions therein contained.

For the avoidance of doubt, the Profit Reserve Account shall be a Shariah compliant account to be opened and maintained by the Issuer with Amlslamic Bank Berhad and which account shall be a trust account belonging beneficially to the Senior Sukukholders and shall be operated solely by the Issuer in accordance with the terms as set out in the Trust Deed and such account may be opened by way of a book-entry.

The Senior Sukuk shall entitle the Senior Sukukholders the right to share the income generated from the Musyarakah Venture in proportion to each Senior Sukukholder's respective contribution of the Musyarakah Capital (“**Periodic Distribution**”), which shall be distributed monthly, quarterly or semi-annually at the option of the Issuer (“**Periodic Distribution Date**”) to the Senior Sukukholders.

The return expected (“**Expected Return**”) by the Senior Sukukholders from the Musyarakah Venture shall be the yield from the respective tranches of the Senior Sukuk up to the respective maturity dates of the Senior Sukuk (“**Maturity Dates**”) or the date of declaration of an event being an event which dissolves the Musyarakah Venture (“**Dissolution Event**”), whichever is applicable.

The Senior Sukukholders shall have also agreed upfront that they shall receive returns, if any, up to the Expected Return. Any amounts in excess of the Expected Return shall be credited by the Manager to a Profit Reserve Account which may be used to fund future payments of Periodic Distribution. Any amount standing to the credit of the Profit Reserve Account on the Maturity Dates or on the date of declaration of a Dissolution Event (both referred to as “**Dissolution Date**”) will be due and payable to the Manager as an incentive fee for managing the Musyarakah Venture.

The Manager may at any time prior to the Dissolution Date utilise the amounts standing to the credit of the Profit Reserve Account (“**Advance Incentive Fee**”) so long as any amounts deducted from the Profit Reserve Account prior to the Dissolution Date are re-credited to fund any shortfall in the amount of the Periodic Distribution. If, on any Periodic Distribution Date, the income generated from the Trust Assets and the amounts re-credited to the Profit Reserve Account are insufficient to meet the expected Periodic Distribution(s) on any

Periodic Distribution Date in full, the Issuer shall make advance payments during the tenor of the Senior Sukuk ("**Advance Payment**") equal to such deficiency. For the avoidance of doubt, any Advance Payment made by the Issuer shall be set-off against the Exercise Price (as defined in Section 2.0 of the IM).

The Issuer (as "**Obligor**") shall also grant to the Trustee (acting on behalf of the Senior Sukukholders) a Purchase Undertaking whereby the Obligor shall undertake to purchase the Trust Assets from the Trustee at the Exercise Price, subject always to the terms of Purchase Undertaking (as defined in Section 2.0 of the IM).

If any of the Dissolution Events occur, the Trustee may at the Trustee's discretion, or if so directed by a special resolution of the Senior Sukukholders shall, declare (by giving notice thereof to the Issuer) that a Dissolution Event has occurred whereupon the Exercise Price under the Purchase Undertaking shall become immediately due and payable and the Senior Sukukholders' interest in the Trust Assets shall be immediately purchased in full by the Obligor. Upon the declaration of a Dissolution Event by the Trustee, the proportionate undivided beneficial ownership in the Trust Assets conferred by the Senior Sukuk shall be deemed purchased by the Obligor in accordance with the Purchase Undertaking and the Obligor shall be immediately obliged to pay the Exercise Price and complete the purchase of the Trust Assets.

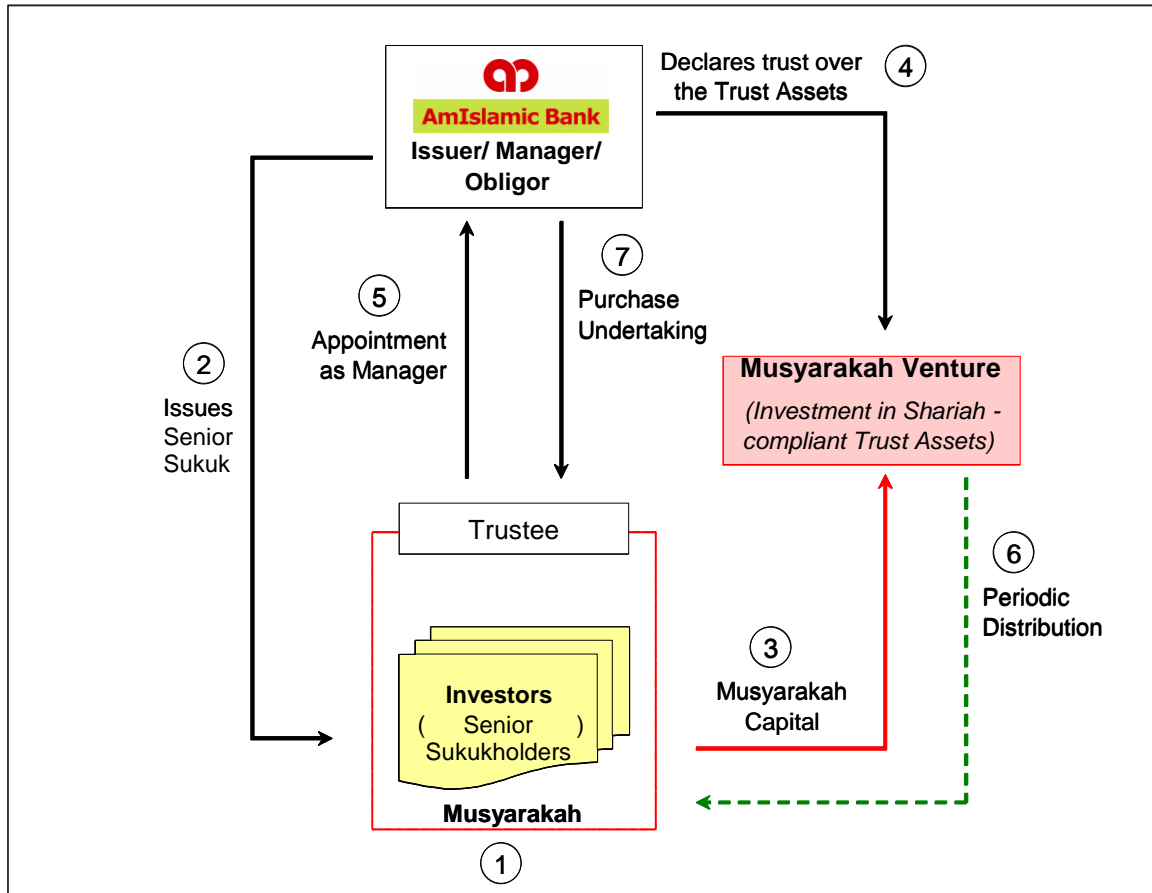
The Senior Sukuk (regardless of whichever tranche of Senior Sukuk) shall at all times rank pari passu without discrimination, preference or priority amongst themselves and, subject to such exceptions as may from time to time exist under applicable laws and the transaction documents, rank as trust obligations of the Issuer in relation to, and represent beneficial ownership of the Senior Sukukholders in the Trust Assets.

It is to be noted that whilst a trust is created for the benefit of the Senior Sukukholders in respect of the Trust Assets (which includes the Profit Reserve Account), the Senior Sukukholders agree that they rank pari passu with other unsecured creditors in respect of the Trust Assets (which includes the Profit Reserve Account).

The obligations of the Issuer as the Obligor pursuant to the Purchase Undertaking in respect of the Senior Sukuk shall constitute direct, unconditional, unsubordinated and unsecured obligations of the Obligor and shall at all times rank pari passu, without discrimination, preference or priority amongst themselves and at least pari passu with all other present and future unsecured and unsubordinated obligations of the Obligor (excluding deposits), except those obligations preferred by law, liens or rights of set-off arising from the normal course of business.

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A diagrammatical structure of the Senior Sukuk Musyarakah Programme transaction is as set out below:-



- (1) The investors shall from time to time, form a partnership amongst themselves for the purpose of investing in Shariah compliant financial services business of AmIslamic (“**Musyarakah Venture**”).
- (2) & (3) AmIslamic (the “**Issuer**”) shall issue Senior Sukuk to the Senior Sukukholders, in consideration of their capital contribution. The Senior Sukuk represents their proportionate participation in the said Musyarakah Venture.
- (4) The Issuer shall declare trust over the Trust Assets for the benefit of the Trustee (acting on behalf of the Senior Sukukholders).
- (5) The Trustee (acting on behalf of the Senior Sukukholders) shall appoint the Issuer as its agent (the “**Manager**”) to manage the Musyarakah Venture.
- (6) Income generated from the Musyarakah Venture will be shared and distributed periodically amongst the Senior Sukukholders according to the ratio of capital contribution. Any losses will also be shared amongst the Senior Sukukholders in proportion to their capital contribution.
- (7) The Issuer (as “**Obligor**”) shall also grant to the Trustee (acting on behalf of the Senior Sukukholders) a Purchase Undertaking whereby the Obligor shall undertake to purchase the Trust Assets from the Trustee upon maturity or declaration of a Dissolution Event.

The Senior Sukuk Musyarakah Programme has a tenure of up to 30 years from the date of the first issuance under the Senior Sukuk Musyarakah Programme. Under the Senior Sukuk Musyarakah Programme, the Issuer may issue Senior Sukuk with a tenure of more than one (1) year and up to ten (10) years provided that the Senior Sukuk mature at or prior to the expiry of the Senior Sukuk Musyarakah Programme. The date of the first issuance under the Senior Sukuk Musyarakah Programme shall not be later than twenty four (24) months from the date of approval by the SC.

The Senior Sukuk may be issued at a premium, discount or at par and the profit rates shall be determined prior to issuance. Subsequent to issuance, the Senior Sukuk may not be offered, sold or delivered, directly or indirectly, nor may any document or other materials in connection therewith be distributed in Malaysia other than to persons falling within Schedule 6 or Section 229(1)(b) or Schedule 7 or Section 230(1)(b), and Schedule 9 or Section 257(3) of the CMSA.

The summary of the principal terms and conditions of the Senior Sukuk Musyarakah Programme is as set out in Section 2.0 of this IM.

1.3 Details of Utilisation of Proceeds

The proceeds of the Senior Sukuk shall be utilised for the following purposes:-

| Utilisation of Proceeds | Up to RM |
|---|-----------------|
| (i) To defray issuance expenses for the establishment of the Senior Sukuk Musyarakah Programme | 1.6 Million |
| (ii) For the Issuer's general working capital requirements which shall be Shariah-compliant and to fund the growth of its Islamic financial services business | Balance amount |
| Total | 3,000.0 Million |

1.4 Rating of the Senior Sukuk Musyarakah Programme

As at the date of this IM, RAM Ratings has assigned a long-term rating of AA3 to the Senior Sukuk Musyarakah Programme.

1.5 Selling Restrictions

At issuance

The Senior Sukuk may not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia other than to persons falling within Schedule 6 or Section 229(1)(b) or Schedule 7 or Section 230(1)(b), and Schedule 9 or Section 257(3) of the CMSA.

After issuance

The Senior Sukuk may not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia other than to persons falling within Schedule 6 or Section 229(1)(b) and Schedule 9 or Section 257(3) of the CMSA.

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1.6 Approvals Required

The Senior Sukuk Musyarakah Programme has been approved by the SC vide its letter dated 2 July 2010.

The SC has also vide the said letter, waived the inclusion or amendment of the following provisions of the SC's Guidelines on the Minimum Contents Requirements for Trust Deeds in the Trust Deed ("**SC's Trust Deed Guidelines**").

| Waivers sought in relation to the SC's Trust Deed Guidelines | | |
|---|---|--|
| <i>Item references relate to paragraphs in the SC's Trust Deed Guidelines</i> | | |
| Item | Clause as provided in the SC's Trust Deed Guidelines | Revised clause as approved by the SC |
| 14.1 Covenants by Borrowers | <p>As a minimum, the trust deed must provide for the following covenants of the borrower:</p> <p>(iii) that the borrower will not enter into a transaction, whether directly or indirectly with interested persons (including a director, substantial shareholder or persons connected with them) unless:-</p> <p>(a) such transaction shall be on terms that are no less favourable to the borrower than those which could have been obtained in a comparable transaction from persons who are not interested persons; and</p> <p>(b) with respect to transactions involving an aggregate payment or value equal to or greater than an agreed sum, the borrower obtains certification from an independent adviser that the transaction is carried out on fair and reasonable terms; PROVIDED</p> <p>that the borrower certifies to the trustee that the transaction complies with paragraph (a), that the borrower has received the certification referred to in paragraph (b) (where applicable) and that the</p> | <p>Save and except for transactions lawfully entered into by the Issuer in the ordinary course of its banking and/or financial services business or such other incidental business(es) with its or its related corporations' directors, substantial shareholders or persons connected with any of them ("Interested Persons") and recurring transactions with Interested Persons approved by the shareholders of the Issuer, the Issuer will not enter into any transaction, whether directly or indirectly with any of the Interested Persons unless:-</p> <p>(i) such transaction shall be on terms that are no less favourable to the Issuer than those which could have been obtained in a comparable transaction from persons who are not Interested Persons, provided that the transaction has been approved by the majority of its board of directors and, where applicable, shareholders at a general meeting; and</p> <p>(ii) with respect to transactions involving an aggregate payment or value equal to or greater than 25% of the Issuer's total shareholders' funds as reflected in the latest audited financial statements, the Issuer shall obtain certification from an independent adviser that the transaction is carried out on fair and reasonable terms, provided that the Issuer certifies to the Trustee that,</p> |

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| | transaction has been approved by the majority of the board of directors or shareholders in a general meeting as the case may require. | where applicable, the Issuer has received the certification referred to in this subparagraph (ii), and that the transaction has been approved by the majority of its board of directors and, where applicable, shareholders at a general meeting; |
| | (vi) to keep proper books and accounts at all times and to provide the trustee and any person appointed by it (e.g. auditors) access to such books and accounts. | The Issuer shall at all times keep proper books and accounts on a basis consistently applied in accordance with the laws of Malaysia and generally accepted accounting principles and standards in Malaysia; |

1.7 Conflict of Interest and Appropriate Mitigating Measures

AmInvestment Bank

Save as disclosed below, AmInvestment Bank is not aware of any circumstances that would give rise to a conflict of interest in its capacity as the Principal Adviser, Lead Arranger, Lead Manager and Facility Agent for the Senior Sukuk Musyarakah Programme.

AmInvestment Bank is a wholly-owned subsidiary of AHB whilst AmIslamic is a wholly-owned subsidiary of AmBank which in turn is a wholly-owned subsidiary of AMFB, a wholly-owned subsidiary of AHB. As such, AHB, AmInvestment Bank, AMFB and AmIslamic are deemed to be related corporations.

The potential conflict of interest may arise on the part of AmInvestment Bank in terms of duties owed to potential investors on the one hand and its relationship with AmIslamic on the other.

As mitigating measures and to address the potential conflict of interest set out above, the following measures have been taken:

- the potential conflict of interest situation has been brought to the attention of the Board and hence the Board is fully aware of the same. The Board has confirmed that having considered the above situation, they are agreeable to proceed with the appointment of AmInvestment Bank as the Principal Adviser, Lead Arranger, Lead Manager and Facility Agent;
- Messrs. Adnan Sundra & Low acting as an external independent legal counsel for AmInvestment Bank, has been appointed to conduct a legal due diligence inquiry on AmIslamic;
- Pacific Trustees Berhad has been appointed as trustee in respect of the Senior Sukuk Musyarakah Programme; and
- the Senior Sukuk will be issued by way of book-building and/or private placement and/or bought-deal whereby pricing of the Senior Sukuk will be market driven.

Notwithstanding the aforementioned, AmInvestment Bank, in relation to all its appointed roles in respect of the Senior Sukuk Musyarakah Programme, has considered the factors involved and believes that objectivity and independence in carrying out its role has been/will be maintained at all times for the following reasons:

- AmInvestment Bank is a licensed investment bank and its appointment as the Principal Adviser, Lead Arranger, Lead Manager and Facility Agent in respect of the Senior Sukuk Musyarakah Programme is in the ordinary course of its business;
- The conduct of AmInvestment Bank is regulated strictly by BAFIA and CMSA, and AmInvestment Bank has in place its own internal policies, controls and checks with regard to transactions involving its related corporations; and
- Save for the professional fees charged in relation to its role as the Principal Adviser, Lead Arranger, Lead Manager and Facility Agent for the Senior Sukuk Musyarakah Programme, AmInvestment Bank will not be deriving any monetary benefit from the Senior Sukuk Musyarakah Programme outside of its aforesaid capacities.

Messrs Adnan Sundra & Low

After making enquiries as were reasonable in the circumstances, Messrs Adnan Sundra & Low has confirmed that it is not aware of any circumstances that would give rise to a conflict of interest or potential conflict of interest situation in its capacity as the solicitors in relation to the Senior Sukuk Musyarakah Programme.

Pacific Trustees Berhad

After making enquiries as were reasonable in the circumstances, Pacific Trustees Berhad has confirmed that it is not aware of any circumstances that would give rise to a conflict of interest or potential conflict of interest situation in its capacity as the trustee in relation to the Senior Sukuk Musyarakah Programme.

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2. SUMMARY OF THE PRINCIPAL TERMS AND CONDITIONS OF THE SENIOR SUKUK MUSYARAKAH PROGRAMME

Words and expressions used and defined in this section shall, in the event of inconsistency with the definitions section of this IM, only be applicable for this section.

Note: This section is an extraction from the submission made to the SC for approval for the issuance of the Senior Sukuk which was approved by the SC vide its letter dated 2 July 2010.

| BACKGROUND INFORMATION | | | | | | | | | | | | | | | | | | |
|--|--|---|--------------------------|--------------------|--|-----------|-----------------------------|-----------|--|-----------|-------------------------------------|-----------|-------------------------------------|-----------|-----------------|-----------|------------------|------------|
| 1. | Issuer | | | | | | | | | | | | | | | | | |
| | (i) Name | Amlslamic Bank Berhad (" Amlslamic ") | | | | | | | | | | | | | | | | |
| | (ii) Address | 22 nd Floor, Bangunan AmBank Group No. 55, Jalan Raja Chulan 50200 Kuala Lumpur | | | | | | | | | | | | | | | | |
| | (iii) Business Registration No. | 295576-U | | | | | | | | | | | | | | | | |
| | (iv) Date/Place of Incorporation | 14 April 1994 / Malaysia | | | | | | | | | | | | | | | | |
| | (v) Date of listing (in case of a public listed company) | Not listed on any exchange | | | | | | | | | | | | | | | | |
| | (vi) Status Resident/non-resident controlled company (where applicable) (as at 31 March 2010) | Resident controlled company <i>Note:</i> Although foreign shareholders may hold more than 50% equity in AMMB Holdings Berhad (" AHB "), Amlslamic is deemed resident controlled company by virtue of Amlslamic's Board of Directors and management composition. This shareholding structure is a reflection of AHB's shareholding being a listed company. | | | | | | | | | | | | | | | | |
| | Bumiputera/non-Bumiputera controlled company (where applicable) | Non-Bumiputera controlled company | | | | | | | | | | | | | | | | |
| | (vii) Principal Activities | Amlslamic provides a range of retail, commercial banking, corporate banking and treasury products and services that are Shariah-compliant in nature. | | | | | | | | | | | | | | | | |
| | (viii) Board of Directors (as at 30 April 2010) | <table border="1"> <thead> <tr> <th>Name of Directors</th> <th>Nationality</th> </tr> </thead> <tbody> <tr> <td>Tan Sri Azman Hashim ("TSAH")</td> <td>Malaysian</td> </tr> <tr> <td>Tun Mohammed Hanif bin Omar</td> <td>Malaysian</td> </tr> <tr> <td>Tan Sri Datuk Clifford Francis Herbert</td> <td>Malaysian</td> </tr> <tr> <td>Dato' Gan Nyap Liou @ Gan Nyap Liow</td> <td>Malaysian</td> </tr> <tr> <td>Dato' Dr Mahani binti Zainal Abidin</td> <td>Malaysian</td> </tr> <tr> <td>Cheah Tek Kuang</td> <td>Malaysian</td> </tr> <tr> <td>Ashok Ramamurthy</td> <td>Australian</td> </tr> </tbody> </table> | Name of Directors | Nationality | Tan Sri Azman Hashim (" TSAH ") | Malaysian | Tun Mohammed Hanif bin Omar | Malaysian | Tan Sri Datuk Clifford Francis Herbert | Malaysian | Dato' Gan Nyap Liou @ Gan Nyap Liow | Malaysian | Dato' Dr Mahani binti Zainal Abidin | Malaysian | Cheah Tek Kuang | Malaysian | Ashok Ramamurthy | Australian |
| Name of Directors | Nationality | | | | | | | | | | | | | | | | | |
| Tan Sri Azman Hashim (" TSAH ") | Malaysian | | | | | | | | | | | | | | | | | |
| Tun Mohammed Hanif bin Omar | Malaysian | | | | | | | | | | | | | | | | | |
| Tan Sri Datuk Clifford Francis Herbert | Malaysian | | | | | | | | | | | | | | | | | |
| Dato' Gan Nyap Liou @ Gan Nyap Liow | Malaysian | | | | | | | | | | | | | | | | | |
| Dato' Dr Mahani binti Zainal Abidin | Malaysian | | | | | | | | | | | | | | | | | |
| Cheah Tek Kuang | Malaysian | | | | | | | | | | | | | | | | | |
| Ashok Ramamurthy | Australian | | | | | | | | | | | | | | | | | |

| | <p>(ix) Structure of shareholdings and names of shareholders or, in the case of public company, names of all substantial shareholders (as at 30 April 2010)</p> | <p>AmIslamic is a wholly-owned subsidiary of AmBank (M) Berhad (“AmBank”) which in turn is a wholly-owned subsidiary of AMFB Holdings Berhad (“AMFB”). AMFB is wholly-owned by AMMB Holdings Berhad (“AHB”).</p> <p>The substantial shareholders of AmIslamic as at 30 April 2010 are as follows:</p> <table border="1" data-bbox="715 353 1391 1048"> <thead> <tr> <th rowspan="2">Name</th> <th colspan="2">No. of AmBank shares / %</th> </tr> <tr> <th>Direct</th> <th>Indirect</th> </tr> </thead> <tbody> <tr> <td>AmBank</td> <td>403,038,000 / 100%</td> <td></td> </tr> <tr> <td>AMFB</td> <td>-</td> <td>403,038,000[#]</td> </tr> <tr> <td>AHB</td> <td>-</td> <td>403,038,000[^] / 100%</td> </tr> <tr> <td>TSAH</td> <td>-</td> <td>403,038,000[*] / 100%</td> </tr> <tr> <td>Amcorp Group Berhad (formerly known as AmcorpGroup Berhad)</td> <td>-</td> <td>403,038,000[*] / 100%</td> </tr> <tr> <td>Clear Goal Sdn Bhd</td> <td>-</td> <td>403,038,000[*] / 100%</td> </tr> <tr> <td>ANZ Funds Pty Ltd</td> <td>-</td> <td>403,038,000[*] / 100%</td> </tr> <tr> <td>Australia and New Zealand Banking Group Limited</td> <td>-</td> <td>403,038,000[*] / 100%</td> </tr> </tbody> </table> <p><i>Notes:</i> [#] Deemed interested by virtue of its interests in AmBank [^] Deemed interested by virtue of its interests in AmBank via AMFB [*] Deemed interested by virtue of his/its interests in AmBank via AMFB arising from his/its substantial interests in AHB</p> | Name | No. of AmBank shares / % | | Direct | Indirect | AmBank | 403,038,000 / 100% | | AMFB | - | 403,038,000 [#] | AHB | - | 403,038,000 [^] / 100% | TSAH | - | 403,038,000 [*] / 100% | Amcorp Group Berhad (formerly known as AmcorpGroup Berhad) | - | 403,038,000 [*] / 100% | Clear Goal Sdn Bhd | - | 403,038,000 [*] / 100% | ANZ Funds Pty Ltd | - | 403,038,000 [*] / 100% | Australia and New Zealand Banking Group Limited | - | 403,038,000 [*] / 100% |
|---|--|---|------|--------------------------|--|--------|----------|--------|--------------------|--|------|---|--------------------------|-----|---|---------------------------------|------|---|---------------------------------|--|---|---------------------------------|--------------------|---|---------------------------------|-------------------|---|---------------------------------|---|---|---------------------------------|
| Name | No. of AmBank shares / % | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Direct | Indirect | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| AmBank | 403,038,000 / 100% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| AMFB | - | 403,038,000 [#] | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| AHB | - | 403,038,000 [^] / 100% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| TSAH | - | 403,038,000 [*] / 100% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Amcorp Group Berhad (formerly known as AmcorpGroup Berhad) | - | 403,038,000 [*] / 100% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Clear Goal Sdn Bhd | - | 403,038,000 [*] / 100% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ANZ Funds Pty Ltd | - | 403,038,000 [*] / 100% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Australia and New Zealand Banking Group Limited | - | 403,038,000 [*] / 100% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <p>(x) Authorised and paid-up capital (as at 30 April 2010)</p> | <p><u>Authorised share capital</u> RM2,000,000,000 comprising 2,000,000,000 ordinary shares of RM1.00 each</p> <p><u>Paid-up share capital</u> RM403,038,000 comprising 403,038,000 ordinary shares of RM1.00 each</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>2. PRINCIPAL TERMS AND CONDITIONS</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>(a) Names of parties involved in the proposed transaction</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <p>(i) Principal Adviser(s)/ Lead Arranger(s)</p> | <p>AmInvestment Bank Berhad (“AmInvestment Bank”)</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <p>(ii) Arranger(s)</p> | <p>Not applicable</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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| | (iii) | Valuer(s) | Not applicable |
| | (iv) | Solicitors | Messrs Adnan Sundra & Low |
| | (v) | Financial Adviser | Not applicable |
| | (vi) | Technical Adviser | Not applicable |
| | (vii) | Guarantor | Not applicable |
| | (viii) | Trustee | Pacific Trustees Berhad |
| | (ix) | Facility Agent | AmInvestment Bank |
| | (x) | Primary Subscriber(s) and Amount subscribed (where applicable) | At least two (2) Primary Subscribers to be determined prior to the issuance in respect of issuance on a bought-deal basis. Not applicable for issuance via book building or direct placement. |
| | (xi) | Underwriter(s) and amount underwritten | Not applicable |
| | (xii) | Shariah Adviser | Dr Mohd Daud Bakar |
| | (xiii) | Central Depository | Bank Negara Malaysia (“ BNM ”) |
| | (xiv) | Paying Agent | BNM |
| | (xv) | Reporting Accountant | Not applicable |
| | (xvi) | Others | <p><u>Lead Manager</u> AmInvestment Bank</p> <p><u>Rating Agency</u> RAM Rating Services Berhad (“RAM Ratings”)</p> <p><u>Roles undertaken by AmIslamic in respect of the Musyarakah transaction:</u></p> <p>(i) <u>Issuer</u> As the Issuer of the Senior Sukuk (as defined hereinafter)</p> <p>(ii) <u>Manager</u> As the manager who will manage the Musyarakah Venture for the benefit of Senior Sukukholders, upon the issuance of the Senior Sukuk</p> <p>(iii) <u>Obligor</u> As the Obligor, who undertakes to purchase the Trust Assets from the Trustee at the Exercise Price (as defined herein).</p> |

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| (b) | Islamic Principle Used | Musyarakah |
| (c) | Facility Description | <p>A senior Islamic securities ("Senior Sukuk") issuance programme based on the Shariah principles of Musyarakah ("Senior Sukuk Musyarakah Programme").</p> <p>Under this transaction, the investors (known as the "Senior Sukukholders") shall from time to time, form a partnership amongst themselves for the purpose of investing in the Shariah compliant financial services business of Amlslamic ("Musyarakah Venture"). Each tranche of the Senior Sukuk which comprises at least two Senior Sukukholders shall constitute a Musyarakah Venture. Any profit derived from the venture will be distributed based on a pre-agreed profit sharing ratio among the Senior Sukukholders, but a loss will be shared based on their capital contribution.</p> <p>Amlslamic shall issue Senior Sukuk to the Senior Sukukholders, in consideration of their capital contribution ("Musyarakah Capital"). The Senior Sukuk represents their proportionate participation in the said Musyarakah Venture.</p> <p>The Issuer shall declare trust over the Trust Assets (as defined). The Trust Assets would be the Shariah compliant financial services business of the Issuer (including the Profit Reserve Account (as defined)) ("Trust Assets"). The Trustee (acting on behalf of the Senior Sukukholders) shall appoint the Issuer as its agent (the "Manager") to manage the Musyarakah Venture on behalf of the Senior Sukukholders upon the terms and subject to the conditions therein contained.</p> <p>The Senior Sukuk shall entitle the Senior Sukukholders the right to share the income generated from the Musyarakah Venture in proportion to each Senior Sukukholder's respective contribution of the Musyarakah Capital ("Periodic Distribution"), which shall be distributed monthly, quarterly or semi-annually, at the option of the Issuer, ("Periodic Distribution Date") to the Senior Sukukholders.</p> <p>The return expected ("Expected Return") by the Senior Sukukholders from the Musyarakah Venture shall be the yield from the respective tranches of the Senior Sukuk up to the respective maturity dates of the Senior Sukuk ("Maturity Dates") or the date of declaration of an event being an event which dissolves the Musyarakah Venture ("Dissolution Event"), whichever is applicable.</p> <p>The Senior Sukukholders shall have also agreed upfront that they shall receive return, if any, up to the Expected Return. Any amounts in excess of the Expected Return shall be credited by the Manager to a Profit Reserve Account which may be used to fund future payments of Periodic Distribution. Any amount standing to the credit of the Profit Reserve Account on the Maturity Dates or on the date of declaration of a Dissolution Event (both</p> |

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| | | <p>referred to as “Dissolution Date”) will be due and payable to the Manager as an incentive fee for managing the Musyarakah Venture.</p> <p>The Manager may at any time prior to the Dissolution Date utilise the amounts standing to the credit of the Profit Reserve Account (“Advance Incentive Fee”) so long as any amounts deducted from the Profit Reserve Account prior to the Dissolution Date are re-credited to fund any shortfall in the amount of the Periodic Distribution.</p> <p>If, on any Periodic Distribution Date, the income generated from the Trust Assets and the amounts re-credited to the Profit Reserve Account are insufficient to meet the expected Periodic Distribution(s) on any Periodic Distribution Date in full, the Issuer shall make advance payments during the tenor of the Senior Sukuk (“Advance Payment”) equal to such deficiency. For the avoidance of doubt, any Advance Payment made by the Issuer shall be off-set against the Exercise Price (as defined herein).</p> <p>The Issuer (as “Obligor”) shall also grant to the Trustee (acting on behalf of the Senior Sukukholders) a Purchase Undertaking whereby the Issuer shall undertake to purchase the Trust Assets from the Trustee at the Exercise Price, subject always to the terms set out under item (aa)(iii) (Purchase Undertaking) hereunder.</p> |
| (d) | Issue Size (RM) | <p>Up to RM3.0 billion in nominal value.</p> <p>The aggregate outstanding nominal value of the Senior Sukuk issued under the Senior Sukuk Musyarakah Programme at any point in time shall not exceed RM3.0 billion.</p> |
| (e) | Issue Price (RM) | <p>Issued at par, at a premium or at a discount at an issue price to be determined prior to issuance.</p> |
| (f) | Tenor of the Facility/ Issue | <p>The date of the first issuance under the Senior Sukuk Musyarakah Programme shall not be later than twenty four (24) months from the date of approval by the Securities Commission (“SC”).</p> <p><u>Tenure of Senior Sukuk Musyarakah Programme</u> Up to thirty (30) years from the date of the first issuance under the Senior Sukuk Musyarakah Programme.</p> <p><u>Tenure of Sukuk</u> More than one (1) year and up to ten (10) years as the Issuer may select, provided that the Senior Sukuk mature at or prior to the expiry of the Senior Sukuk Musyarakah Programme.</p> |
| (g) | Profit Rate (%) (please specify) | <p>The expected profit rates of the Senior Sukuk will be determined prior to each issuance.</p> |

| (h) | Profit Payment Frequency | The Periodic Distribution shall be made on a monthly, quarterly or semi-annual basis at the option of the Issuer, provided that no Periodic Distribution Date shall extend beyond the final maturity of the respective series. | | | | | | | | |
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| (i) | Profit Payment Basis | Actual days/ 365 days | | | | | | | | |
| (j) | Yield to Maturity (“YTM”) (%) | The YTM is the Expected Return to the Senior Sukukholders under each Musyarakah Venture which shall be determined prior to issuance. | | | | | | | | |
| (k) | Security/Collateral | Unsecured. | | | | | | | | |
| (l) | Details on utilisation of proceeds | <p>The proceeds of the Senior Sukuk shall be utilised for the following purposes:-</p> <table border="1" data-bbox="715 607 1391 981"> <thead> <tr> <th data-bbox="715 607 1230 640">Utilisation of proceeds</th> <th data-bbox="1230 607 1391 640">Up to RM</th> </tr> </thead> <tbody> <tr> <td data-bbox="715 640 1230 763">(i) To defray issuance expenses for the establishment of the Senior Sukuk Musyarakah Programme</td> <td data-bbox="1230 640 1391 763">1.6 Mil</td> </tr> <tr> <td data-bbox="715 763 1230 947">(ii) For the Issuer’s general working capital requirements which shall be Shariah-compliant and to fund the growth of its Islamic financial services business</td> <td data-bbox="1230 763 1391 947">Balance amount</td> </tr> <tr> <td data-bbox="715 947 1230 981">Total</td> <td data-bbox="1230 947 1391 981">3,000.0 Mil</td> </tr> </tbody> </table> | Utilisation of proceeds | Up to RM | (i) To defray issuance expenses for the establishment of the Senior Sukuk Musyarakah Programme | 1.6 Mil | (ii) For the Issuer’s general working capital requirements which shall be Shariah-compliant and to fund the growth of its Islamic financial services business | Balance amount | Total | 3,000.0 Mil |
| Utilisation of proceeds | Up to RM | | | | | | | | | |
| (i) To defray issuance expenses for the establishment of the Senior Sukuk Musyarakah Programme | 1.6 Mil | | | | | | | | | |
| (ii) For the Issuer’s general working capital requirements which shall be Shariah-compliant and to fund the growth of its Islamic financial services business | Balance amount | | | | | | | | | |
| Total | 3,000.0 Mil | | | | | | | | | |
| (m) | Sinking fund (if any) | Not applicable. | | | | | | | | |
| (n) | Rating | Final long-term rating of AA3 assigned by RAM Ratings. | | | | | | | | |
| (o) | Form and Denomination | <p><u>Form</u> The Senior Sukuk shall be represented by Global Certificates in bearer form (exchangeable for definitive certificates in limited circumstances) in accordance with the Rules on the Scripless Securities under the Real Time Electronic Transfer of Funds and Securities (“RENTAS”) System and/or any other procedures/guidelines issued by the relevant authority(ies). No physical delivery of the Senior Sukuk is permitted. The Global Certificates will be deposited with BNM acting as the Central Depository.</p> <p><u>Denomination</u> RM1,000 (unless required to be in such other denominations in accordance with the Rules on Fully Automated System for Issuing/ Tendering (“FAST”) issued by BNM and/or any other relevant guidelines).</p> | | | | | | | | |
| (p) | Mode of Issue | The Senior Sukuk may be issued via private placement on a best effort basis (i.e. direct placement or bought-deal) and/or book building on a best effort basis without prospectus. | | | | | | | | |

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| (q) | Selling Restriction | <p><u>At issuance</u> The Senior Sukuk may not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia other than to persons falling within Schedule 6 or Section 229(1)(b) or Schedule 7 or Section 230(1)(b), and Schedule 9 or Section 257(3) of the Capital Markets and Services Act, 2007 (“CMSA”).</p> <p><u>After issuance</u> The Senior Sukuk may not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia other than to persons falling within Schedule 6 or Section 229(1)(b) and Schedule 9 or Section 257(3) of the CMSA.</p> |
| (r) | Listing Status | The Senior Sukuk may be listed on Bursa Malaysia Securities Berhad under the Exempt Regime. The SC will be notified accordingly in the event of such listing. |
| (s) | Minimum Level of Subscription (RM or %) | <p><u>Issuance via bought-deal or direct placement</u> 100%</p> <p><u>Issuance via book building</u> 5%</p> |
| (t) | Other regulatory approvals required in relation to the issue, offer or invitation and whether or not obtained | <p>The Senior Sukuk Musyarakah Programme is subject to the approval from the SC on the waiver from having to comply with paragraphs 14.1(iii) and 14.1(vi) in relation to “Covenants by the Borrower” as set out in the SC’s Guidelines on the Minimum Contents Requirements for Trust Deeds in respect of the Senior Sukuk Musyarakah Programme. The SC’s approval on the waiver is sought concurrently with the SC’s approval for the Senior Sukuk Musyarakah Programme.</p> <p>Save for the above, no other regulatory approvals are required in relation to the issue, offer or invitation of the Senior Sukuk under the Senior Sukuk Musyarakah Programme.</p> |
| (u) | Identified Assets | The Trust Assets shall comprise of the Shariah compliant financial services business of the Issuer and the Profit Reserve Account. |
| (v) | Purchase and Selling Price/ (where applicable) | Not applicable under the contract of Musyarakah. |
| (w) | Conditions Precedent | <p>The availability of the Senior Sukuk Musyarakah Programme shall be subject to conditions precedent, including but not limited to the following:-</p> <ul style="list-style-type: none"> a) Receipt of a certified true copy of the Issuer’s Memorandum and Articles of Association and board of directors’ resolution authorising, amongst others, the execution of the transaction documents; b) Receipt of a list of the Issuer’s authorised signatories and their respective specimen signatures; |

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| | | <ul style="list-style-type: none"> c) Receipt of a report of the relevant winding-up search or the relevant statutory declaration in relation thereto; d) The Issuer shall have obtained the approvals from the SC, where applicable, in respect of the Senior Sukuk Musyarakah Programme and a written confirmation from the solicitors addressed to the Lead Arranger that the approvals are unconditional or, if they are conditional, the conditions have been fulfilled (to the extent that they have to be fulfilled prior to the issuance of the Senior Sukuk); e) The Issuer shall have received the endorsement of the Shariah Adviser in respect of the Senior Sukuk Musyarakah Programme; f) All the transaction documents shall have been duly executed and endorsed as exempted from stamp duty; g) The Issuer shall have obtained a minimum long-term rating of AA3 from RAM Ratings at the point of first issuance; and h) Satisfactory legal opinion from solicitors confirming (a) the validity, legality and enforceability of the transaction documents and any other relevant documents pertaining to the Senior Sukuk Musyarakah Programme, and (b) that all the conditions precedent have been fulfilled. |
| (x) | Representations and Warranties | <p>Representations and warranties typical and customary for a programme of this nature, which shall include but not limited to the following:-</p> <ul style="list-style-type: none"> a) The Issuer is a company duly incorporated and validly existing under the laws of Malaysia and it has the power and authority to carry on its business and to own its properties and assets; b) The Issuer has the power to enter into, exercise its rights under and perform its obligations under the transaction documents; c) The Issuer's entry into, exercise of its rights under and performance of the transaction documents do not and will not violate any existing law or agreements to which it is a party; d) The transaction documents create valid and binding obligations which are enforceable on and against the Issuer; e) No litigation or arbitration is current or, to the Issuer's knowledge, is threatened, which if adversely determined would have a material adverse effect on the ability of the Issuer to comply with its obligations under the transaction documents; f) No step has been taken by the Issuer, its creditors or any of its shareholders or any other person on its behalf nor have any legal proceedings or application been started or threatened under Section 176 of the Companies Act 1976; g) The audited financial statements of the Issuer are prepared in accordance with generally accepted |

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| | | <p>accounting principles and standards and they fairly represent its financial position;</p> <p>h) There has been no change in the business or condition (financial or otherwise) of the Issuer or its subsidiaries since the date of its last audited financial statements which might have a material adverse effect on the ability of the Issuer to comply with its obligations under the transaction documents; and</p> <p>i) Such other representations and warranties as may be advised by the solicitors for the Lead Arranger including but not limited to the requirements under the SC's Minimum Contents Requirements for Trust Deeds, save and except for such requirements waived by the SC pursuant to item (t) set out herein.</p> |
| (y) | Dissolution Events | <p>Standard dissolution events shall apply and shall include, but not be limited to: -</p> <p>a) The Issuer fails to pay any Periodic Distribution or the Exercise Price under any tranche of the Senior Sukuk Musyarakah Programme and/or the transaction documents on the due date or on demand, if so payable;</p> <p>b) The Issuer fails to observe or perform or commits a breach of any obligation, undertaking or covenant under the transaction documents (other than an obligation of the type referred to in (a) above) and in the case of a failure capable of remedy, the Issuer has not remedied the said breach within thirty (30) days after the Issuer became aware or having being notified of the failure;</p> <p>c) Any representation, warranty or statement which is made by the Issuer proves to be inaccurate in any material respect when made or repeated and in the case of a representation made in good faith but subsequently proves to be incorrect, the Trustee does not determine that such misrepresentation has been rectified to the Trustee's satisfaction within thirty (30) days after the Issuer became aware or having being notified of the failure;</p> <p>d) Any indebtedness of the Issuer (other than indebtedness arising from the Senior Sukuk Musyarakah Programme) becomes due or capable of being declared due before its stated maturity or any guarantee or similar obligations of the Issuer is not discharged at maturity or when called and the occurrence of such event has a material adverse effect on the Issuer to meet its obligations under the Senior Sukuk Musyarakah Programme or the transaction documents;</p> <p>e) There is a revocation, withholding or modification of a licenses, authorisation or approval that would materially impair or prejudice the Issuer's ability to comply with the terms and conditions of the Senior Sukuk Musyarakah Programme and/or transaction documents and no appeal in respect thereof is</p> |

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| | | <p>made by the Issuer within the time period stipulated under the Islamic Banking Act 1983 (“IBA”) and/or any other relevant legislations;</p> <p>f) Any step is taken for the winding up, dissolution or liquidation of the Issuer or a petition for winding up, is presented against the Issuer and the Issuer has not taken any action to set aside such petition within sixty (60) days from the date of service of such winding up petition;</p> <p>g) An encumbrancer takes possession of, or a trustee, receiver or similar officer is appointed in respect of, the whole or substantial part of the business or assets of the Issuer or distress, legal process, sequestration or any form of execution is levied or enforced upon or instituted against any of the assets of the Issuer and is not discharged within sixty (60) days after being levied, enforced or instituted, or any security interest which may for the time being affect any of its assets becomes enforceable;</p> <p>h) Any legal proceedings, suit or action which could materially and adversely affect the obligations of the Issuer under the transaction documents or the Senior Sukuk Musyarakah Programme shall be instituted against the Issuer by any third party and the Issuer has not, within thirty (30) days from the date such legal proceedings, suit or action were instituted against the Issuer taken any reasonable steps to discharge or stay such legal proceedings, suit or action;</p> <p>i) The Issuer undergoes any scheme of reconstruction, arrangement or compromise pursuant to Section 176 of the Companies Act, 1965 or there is declared by any competent court or authority, a moratorium on the payment of indebtedness or other suspension of payments generally (other than for the purposes of and followed by a scheme for reconstruction, amalgamation, consolidation or merger of the Issuer with prior approval in writing by the Minister of Finance or BNM, unless during or following such reconstruction, amalgamation, consolidation or merger the Issuer becomes or is declared to be insolvent); and</p> <p>j) Such other Dissolution Events as may be advised by the solicitors for the Lead Arranger including but not limited to the requirements under the SC’s Minimum Contents Requirements for Trust Deeds, save and except for such requirements waived by the SC pursuant to item (t) set out herein.</p> <p>Upon the occurrence of any of the above Dissolution Events, the Trustee may and shall, if so directed by a special resolution of the Senior Sukukholders, declare that a Dissolution Event has occurred and the Senior Sukuk are immediately due and repayable. Under the Musyarakah arrangement, the Trustee shall be entitled to invoke the Purchase Undertaking whereupon the circumstances set out thereunder shall take place.</p> |
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| (z) | Principal terms and conditions for warrants, (where applicable) | Not applicable |
| (aa) | Other Principal Terms and Conditions for the issue | |
| (i) | Positive Covenants | <p>These shall include but not limited to the following:</p> <ul style="list-style-type: none"> a) The Issuer will at all times maintain its corporate legal existence and exercise reasonable diligence in carrying out its business in a proper and efficient manner and in particular, it will ensure, amongst others, that all necessary approvals or relevant licenses are obtained; b) The Issuer will at all times perform all its obligations and promptly comply with all provisions of the transaction documents and the terms and conditions of the Senior Sukuk Musyarakah Programme; c) The Issuer shall provide the following to the Trustee: <ul style="list-style-type: none"> (i) within 180 days after the end of each financial year, a copy of its annual audited accounts and any other accounts, reports, notices, statements, circulars or other documents issued by the Issuer to its shareholders; (ii) annually, a certificate stating that the Issuer has complied with its obligations under the Trust Deed and the terms and conditions of the Senior Sukuk Musyarakah Programme and that there did not exist or had not existed, from the first issue date, any Dissolution Event and if such is not the case, to specify the same; and (iii) such information relating to the Issuer's affairs to the extent permitted by law which the Trustee may reasonably require from time to time in order to discharge its duties and obligations. d) The Issuer shall immediately notify the Trustee in the event that the Issuer becomes aware of the following: <ul style="list-style-type: none"> (i) the occurrence of any Dissolution Event and the Issuer shall take reasonable steps and/or such other steps as may be reasonably requested by the Trustee to remedy and/or mitigate the Dissolution Event; (ii) any circumstance that has occurred or any other matter that may materially prejudice the ability of the Issuer to perform its obligations under the Senior Sukuk Musyarakah Programme; (iii) any substantial change in the nature of the business of the Issuer; (iv) any change in the utilisation of the |

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| | | <p>proceeds from the Senior Sukuk Musyarakah Programme other than for the purpose stipulated;</p> <p>(v) any change in the Issuer's withholding tax position or taxing jurisdiction; and</p> <p>(vi) any other matters that may materially prejudice the interests of the Senior Sukukholders;</p> <p>e) The Issuer shall at all times keep proper books and accounts on a basis consistently applied in accordance with the laws of Malaysia and generally accepted accounting principles and standards in Malaysia;</p> <p>f) The Issuer shall at all times maintain a paying agent with a specified office in Malaysia;</p> <p>g) The Issuer shall procure that the paying agent notifies the Trustee in the event that the paying agent does not receive payment from the Issuer on the due dates as required under the Trust Deed and the terms and conditions of the Senior Sukuk Musyarakah Programme;</p> <p>h) The Issuer shall promptly comply with all applicable provisions of the CMSA and IBA and/or any notes, circulars, conditions and/or guidelines issued by the SC and BNM from time to time; and</p> <p>i) Such other covenants as may be advised by the solicitors for the Lead Arranger including but not limited to the requirements under the SC's Minimum Contents Requirements for Trust Deeds, save and except for such requirements waived by the SC pursuant to item (t) set out herein.</p> |
| (ii) | Negative covenants | <p>These shall include but not limited to the following:</p> <p>a) The Issuer will not carry out any business or other activities other than that currently set out in its Memorandum and Articles of Association;</p> <p>b) Save and except for transactions lawfully entered into by the Issuer in the ordinary course of its banking and/or financial services business or such other incidental business(es) with its or its related corporations' directors, substantial shareholders or persons connected with any of them ("Interested Persons") and recurring transactions with Interested Persons approved by the shareholders of the Issuer, the Issuer will not enter into any transaction, whether directly or indirectly with any of the Interested Persons unless:-</p> <p>(i) such transaction shall be on terms that are no less favourable to the Issuer than those which could have been obtained in a comparable transaction from persons who are not Interested Persons, provided that the transaction has been approved by the majority of its board of directors and, where applicable, shareholders at a general meeting; and</p> <p>(ii) with respect to transactions involving an aggregate payment or value equal to or greater than 25% of the Issuer's total</p> |

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| | | <p>shareholders' funds as reflected in the latest audited financial statements, the Issuer shall obtain certification from an independent adviser that the transaction is carried out on fair and reasonable terms, provided that the Issuer certifies to the Trustee that, where applicable, the Issuer has received the certification referred to in this sub-paragraph (ii), and that the transaction has been approved by the majority of its board of directors and, where applicable, shareholders at a general meeting;</p> <p>c) The Issuer shall not execute or omit to execute any document which may render any of the transaction documents to be illegal, void, voidable or unenforceable;</p> <p>d) The Issuer shall not use the proceeds derived from the Senior Sukuk Musyarakah Programme for purposes other than those stated herein; and</p> <p>e) Such other covenants as may be advised by the solicitors for the Lead Arranger including but not limited to the requirements under the SC's Minimum Contents Requirements for Trust Deeds, save and except for such requirements waived by the SC pursuant to item (t) herein.</p> |
| (iii) | Purchase Undertaking | <p>In respect of each tranche of the Sukuk, the Obligor shall grant an undertaking to the Trustee (acting on behalf of the Senior Sukukholders) to purchase the Senior Sukukholders' interests in the Trust Assets from the Issuer at the Exercise Price upon the occurrence of the earlier of any of the following events:</p> <ol style="list-style-type: none"> 1. the respective Maturity Dates of the Senior Sukuk; or 2. the declaration of a Dissolution Event. <p>The Exercise Price shall be determined based on the following formula:</p> <p><u>On the respective Maturity Dates of the Senior Sukuk:</u> Exercise Price = Musyarakah Capital <u>plus</u> Expected Return <u>less</u> total Periodic Distributions paid.</p> <p><u>On declaration of a Dissolution Event:</u> Exercise Price = Musyarakah Capital <u>plus</u> Expected Return on Dissolution Date <u>less</u> aggregate of Periodic Distribution(s) made and to be adjusted to be equivalent to the accreted value plus accrued but unpaid Periodic Distributions (if any) up to the date of declaration of a Dissolution Event and such calculation of the Exercise Price shall be in accordance with FAST Rules.</p> <p>On any payment of the Exercise Price, the Issuer (as "Obligor") will be entitled to deduct the aggregate of the Advance Payments in relation to the portion of the Senior Sukuk outstanding from the Exercise Price.</p> |

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| (iv) | Profit Reserve Account | The Manager shall open a profit reserve account for the purpose of crediting of any excess income from the Trust Assets and, if applicable, re-crediting of any Advance Incentive Fee, which will be used to fund payments of the Periodic Distribution from time to time to the extent that there is insufficient income from the Trust Assets to pay such Periodic Distribution amount. |
| (v) | Compensation for Late and Default Payments (“ Ta’widh ”) (applicable to the Purchase Undertaking only) | In the event of any overdue payments of any amounts due under the Purchase Undertaking, the Obligor shall pay to the Trustee for the benefit of the Senior Sukukholders compensation (Ta’widh) on such overdue amounts at the rate and manner prescribed by the Shariah Advisory Council of the SC or such other relevant regulatory authority from time to time in accordance with the Shariah principles. |
| (vi) | Status | The Senior Sukuk will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer, and will rank pari passu, without any preference amongst themselves, and equally with all other present and future unsecured and unsubordinated obligations (excluding deposits) of the Issuer, except those obligations preferred by law, liens or rights of set-off arising from the normal course of business. |
| (vii) | Redemption | Unless previously purchased and cancelled, the Senior Sukuk shall be fully redeemed on the respective maturity date(s) at 100% of their nominal value. |
| (viii) | Open Market Acquisition and Cancellation | The Issuer or any of its related corporations (within the meaning of the Companies Act 1965) may at any time acquire the Senior Sukuk at any price in the open market or by private treaty, provided: (a) Any of the Senior Sukuk so acquired by the Issuer shall be cancelled and cannot be reissued; or (b) Any of the Senior Sukuk acquired by the Issuer’s related corporations need not be cancelled but will not entitle such related corporations to vote at any meetings of the Senior Sukukholders and will not be deemed to be outstanding for the purpose of determining the total votes exercisable by the Senior Sukukholders whenever such determination is required under the Trust Deed. |
| (ix) | Changes of Circumstances | If at any time prior to the availability of the Senior Sukuk Musyarakah Programme, as a result of any change in applicable law, regulation or regulatory requirement or in the interpretation or application thereof or if compliance by the Lead Arranger / Facility Agent / Primary Subscriber(s) / investor(s) (collectively “ the Financing Parties ”) with any applicable direction, request or requirement (whether or not having the force of law) will impose on the Financing Parties any condition, burden or obligation, then the commitment of the Lead Arranger / Facility Agent / Primary Subscriber(s) / investor(s) to arrange/ subscribe (as the case may be) under the Senior Sukuk Musyarakah Programme will terminate upon notice to the Issuer of the occurrence of such event after becoming aware thereof. |

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| (x) | Adverse Market | At any time prior to the first issuance under the Senior Sukuk Musyarakah Programme, the Financing Parties reserve the right to withdraw/ terminate the arrangement of the Senior Sukuk Musyarakah Programme if there occurs any change in the national or international financial, political or economic conditions, including but not limited to adversities in international/ domestic money, capital or syndicated loan markets, the business activities or financial position of the Issuer which in the opinion of the Financing Parties, will materially affect the offering and distribution of the Senior Sukuk under the Senior Sukuk Musyarakah Programme in the secondary market upon successful completion of the arrangement of the same. |
| (xi) | Trust Deed | The Senior Sukuk Musyarakah Programme shall be constituted by a trust deed, which shall be administered by the Trustee, who shall act on behalf of the Senior Sukukholders. |
| (xii) | Taxation | All payments by the Issuer in respect of the Senior Sukuk Musyarakah Programme shall be made without withholding or deductions for or on account of any present or future tax, duty or charge of whatsoever nature imposed or levied by or on behalf of Malaysia or Malaysian law, unless such withholding or deduction is required by law and the Issuer shall not gross up for any such withholding or deduction. |
| (xiii) | Currency | Ringgit Malaysia |
| (xiv) | Documentation | Standard documentation satisfactory to all parties concerned incorporating clauses normal and customary for a financing of this nature and/or as advised by the Lead Arranger's solicitors. |
| (xv) | Governing Law | The laws of Malaysia |
| (xvi) | Jurisdiction | The Issuer shall unconditionally and irrevocably submit to the exclusive jurisdiction of the courts of Malaysia. |

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3. INVESTMENT CONSIDERATIONS

The business of Amlslamic is subject to a number of risk factors, many of which are outside its control. Prior to making an investment decision, prospective investors should carefully consider, along with the other information in this IM, the following risks. The risks and risk factors set forth below are not an exhaustive list of the challenges currently facing Amlslamic or that may develop in the future. Additional risks, whether known or unknown, may in the future have a material adverse effect on Amlslamic or the Senior Sukuk.

3.1 Considerations Relating to the Malaysian Banking Industry

3.1.1 Amlslamic may be subject to changes to the Malaysian regulatory environment for the financial industry

To the extent that Amlslamic is a financial institution licensed under IBA, the Bank is regulated by BNM. The Bank is also subject to relevant securities and other laws in Malaysia. BNM is given extensive powers to regulate the Malaysian banking industry under the Malaysian law. This includes the authority to establish limits on lending to certain sectors of the Malaysian economy, establish priority lending guidelines in furtherance of certain social and economic objectives, and establish measures requiring maintenance of reserves and minimum capital adequacy requirement. BNM also has broad investigative and enforcement powers. Accordingly, potential investors should be aware that BNM could, in the future, significantly restrict business activities or restrict credit in a way which may be adverse to the operations, financial condition or asset quality of banks and financial institutions in Malaysia, including Amlslamic.

3.1.2 Deposits in Malaysia

On 16 October 2008, the Malaysian Government moved to guarantee all bank deposits in an effort to shore up confidence in the Malaysian financial system, particularly after several regional jurisdictions had done so to curb potentially damaging capital outflows. BNM announced the guarantee for all local and foreign currency deposits from 16 October 2008 until 31 December 2010. MDIC will be proposing to the Parliament for an increased coverage to RM250,000 (with effect from 1 January 2011) from the current RM60,000 and expects that this is to be approved by year end.

Generally, BNM is not required to act as lender of last resort to meet liquidity needs in the banking system or for specific institutions. In the past, BNM has on a case-by-case basis provided a safety net for individual banks with an isolated liquidity crisis. However, there can be no assurance that BNM will provide such assistance in the future. Effective from 1 September 2005, BNM has introduced a deposit insurance system. Under the "Deposit Insurance System", eligible deposits are insured up to a prescribed limit of RM60,000 (inclusive of principal and interest) per depositor, per member institution. There is also separate coverage of up to RM60,000 per depositor, per member institution for Islamic deposits (i.e. those accepted under Shariah principles), accounts held under joint ownership, trust accounts and accounts in the name of sole proprietorships and partnerships. The Deposit Insurance System is administrated by MDIC, an independent statutory body, and all financial institutions which are licensed banks or licensed finance companies under the BAFIA or Islamic banks under the IBA (including foreign banks which are operating in Malaysia through their subsidiaries as licensed banks or Islamic banks) are member institutions of the Deposit Insurance System.

However, the fact that deposits exceeding the prescribed limit are not insured up to their full amount could lead to or exacerbate liquidity problems, which, if severe, could have an adverse effect on Amlslamic's business, financial condition, results of operations or prospects, or on the Malaysian financial markets generally.

3.2 Considerations Relating to Amlslamic

3.2.1 Political and Economic Factors

Political and economic conditions and developments in Malaysia as well as abroad could have a profound effect on the financial performance of Amlslamic. Adverse political and economic conditions or developments, such as an unstable political system, nationalisation and severe fluctuations in interest and currency exchange rates, create uncertainty and could discourage the free flow of investment capital and affect international trade, ultimately resulting in adverse developments in national economic activity. This in turn may have a material adverse impact on the financial performance of Amlslamic as a financial services provider. As a result of globalisation, economic or market problems in a single country or region are increasingly affecting other markets generally. A continuation of these situations could adversely affect global economic conditions and world markets and, in turn, could cause a chain reaction effect and thus adversely affect Amlslamic's businesses.

3.2.2 Changes in market conditions may have an adverse effect on Amlslamic's business, financial condition, and results of operations or prospects

The Malaysian economy is affected by changes in the global economic and market environment. Any widespread global financial instability may adversely affect the Malaysian economy, which could materially and adversely affect Amlslamic's business, financial conditions and results of operations or prospects. There can be no assurance that changes in the market conditions will not adversely affect Amlslamic's business, financial condition, results of operations or prospects.

In addition, to the extent that any of Amlslamic's customers have been adversely affected by the changes in market conditions and the global credit and financial markets generally, the ability of such customers to service their financing obligations to Amlslamic may also be affected. If financing to these customers were to become non-performing, this could adversely affect Amlslamic's business, financial condition, results of operations or prospects.

3.2.3 Competition

Whilst the number of domestic banking institutions has been reduced over time through consolidation, the Malaysian banking industry operates in a very competitive environment fostered by BNM's policies, inter-alia, foreign licensed Islamic banks and domestic Islamic banks are now allowed to offer/perform products and services that are similar to those of Amlslamic. Further, BNM has in 2009 announced further measures to liberalise the financial sector, including a framework for the issuance of up to 5 new commercial banking licences and 2 new Islamic banking licences to foreign financial institutions and the increase of foreign equity limits to 70% in existing domestic Islamic banks, investment banks, insurance and takaful companies. On 20 November 2009, BNM also announced that a new commercial banking licence had been issued to a foreign institution under a bilateral arrangement between Malaysia and the People's Republic of China. On 16 April 2010, BNM announced that a commercial banking licence had been issued to a locally-incorporated company to be established by Bank of Baroda (40%), Indian Overseas Bank (35%) and Andhra Bank (25%) as a reinstatement of a commercial banking licence to an Indian bank. On 17 June 2010, BNM announced that 5 commercial banking licences will be issued to the wholly-owned subsidiaries of foreign financial institutions. These measures will further intensify competition to Amlslamic. Although these policies are designed, in part, to encourage development of financial institutions in Malaysia and to strengthen domestic financial institutions in preparation for increased foreign competition, any increased competition could have an adverse effect on Amlslamic's operations in the form of reduced margins, smaller market share and reduced income generally.

Although Amlslamic would plan for expansion and growth in future business volume, Amlslamic's future growth would inevitably be subject to competition from other service providers and also customer preference. As such, there can be no assurance that Amlslamic will be able to maintain or increase its present market share in the future.

3.2.4 A decline in Amlslamic's asset quality could adversely affect its business, financial condition, results of operations or prospects if its financing provisions are insufficient to cover its liabilities

Amlslamic's business, financial condition, results of operations or prospects could be adversely affected if Amlslamic's financing provisions are insufficient, the value of Amlslamic's collateral securing financing for its customers declines or a material amount of Amlslamic's financing becomes uncollectible. A portion of Amlslamic's collateral is in the form of vehicles, which do not maintain their value due to depreciation. In addition, Amlslamic's financing is also secured by collateral such as real estate and securities. Any significant decline in Amlslamic's asset quality could adversely affect its business, financial condition, results of operations or prospects. Further, any decline in the value of the collateral securing Amlslamic's financing to its customers, coupled with any inability to obtain additional collateral or inability to realise the value of collateral may require Amlslamic to increase its financing loss provisions, which may adversely affect Amlslamic's business, financial condition, and results of operations or prospects.

Although Amlslamic believes that it has adopted a sound asset quality management and intends to maintain it, there is no assurance that the system will remain effective or adequate in the future.

3.2.5 Amlslamic may experience liquidity constraints as it is dependent on short-term funding

The funding requirements of Malaysian banks, particularly Islamic banks, are primarily met through short-term funding, namely term deposits from customers and from other financial institutions. Amlslamic's experience is that a substantial portion of its customers' term deposits are rolled over upon maturity. However, no assurance can be given that this will continue in the future. If a substantial number of depositors, or a small number of large depositors, fail to roll over deposited funds upon maturity, Amlslamic's liquidity position could be adversely affected and Amlslamic may be required to seek alternative sources of short-term or long-term funding, which may be more expensive than deposits, to finance its operations. Furthermore, there can be no guarantee that Amlslamic will be able to obtain such funds.

3.2.6 Amlslamic's risk management system may be inadequate or ineffective in managing risks

As an Islamic banking institution covering activities including retail, commercial and corporate banking and treasury products and services that are Shariah-compliant in nature, Amlslamic is subject to business risks which are inherent in the Islamic financial services industry. Generally, these business risks can be broadly divided into:

- (a) Market risk, which is the risk of loss associated with 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;
- (b) Funding risk, which is the risk that Amlslamic is not able to fund its day-to-day operations at a reasonable cost;
- (c) Credit risk, which is the risk of loss due to the inability or unwillingness of a counterparty to meet its payment obligations;

- (d) Operational risk, which is the risk of potential loss from a breakdown in internal processes and systems, deficiencies in people and management or operational failure arising from external events; and
- (e) Legal and regulatory risk, which is the risk of breaches of applicable laws and regulatory requirements, breaches of obligations of fidelity, unenforceability of counterparty obligations, and inappropriate documentation of contractual obligations.

Each of the business risks above has an implication on Amlslamic's financial condition and every transaction that Amlslamic undertakes is subject to, inter-alia, the abovementioned risks. Amlslamic's financial position may be adversely affected resulting from any of the risks operating on its own. For example, Amlslamic's investment position in certain assets may require a huge mark-down as a result of the slump in the market price of those assets, or Amlslamic may find that it will not be able to enforce a counterparty obligation due to imperfect documentation.

Far more critical to Amlslamic's financial condition is a risk that has a 'chain reaction' effect whereby the operation of one risk leads to the operation of one or more other risks. For example, a market downturn may result in Amlslamic's customers incurring losses thus weakening their financial condition and triggering an increase in credit risks. Such increased credit risks may require Amlslamic to set aside additional loss provisions which could potentially affect Amlslamic's credit rating adversely thereby increasing liquidity risk. In an extreme case, the additional loss provisions (if large) may lead to Amlslamic breaching regulatory capital requirements.

To counter the business risks it faces, Amlslamic has put in place a risk management framework to manage uncertainties such that deviations from Amlslamic's intended objectives are kept within acceptable levels. The risk management framework thus serves to identify, capture and analyse the risks assumed by Amlslamic at an early stage, continuously measuring and monitoring the risks and to set limits, policies and procedures to control them to ensure sustainable risk-taking and sufficient return.

However, the risk management framework, as a whole may not always be fully effective as there may be risks that have not been anticipated or identified and certain risks may be significantly greater than indicated by historical data. Further, the data relied upon to formulate the risk management framework may not be accurate, complete, up-to-date or properly evaluated. The process to manage operational, legal and regulatory risks would require proper recording and verification of a large number of transactions and events. Such process may not be fully effective in all cases. Accordingly, any failure in the effectiveness of Amlslamic's risk management procedures could have a material adverse effect on Amlslamic's business, financial condition, results of operations or prospects.

A description of Amlslamic's risk management structure is set out in Section 6.0 of this IM.

3.2.7 Major shareholders may influence policies of Amlslamic

As of 30 June 2010, Amcorp and ANZ (via ANZ Funds) held 16.72% and 23.78%, respectively, of the issued share capital of AHB, which, in turn, holds 100% of the issued share capital of AmBank through AMFB. AmBank, in turn, holds 100% of the issued share capital of Amlslamic. As of 30 June 2010, TSAH, the Chairman/Non-Independent Non-Executive Director held indirectly, a 100% controlling interest in Amcorp. Based on these shareholding interests in Amcorp, AHB, AmBank and Amlslamic, each of these major shareholders may, to a certain extent, be able to exercise control over matters which require shareholders' approval. There can be no assurance that the corporate objectives and strategies of Amlslamic would not be substantially influenced by the policies of the shareholders. In the case of ANZ as a

major shareholder, Amlslamic and such shareholder enjoy a strategic relationship which has been and is expected to continue to be of significant benefit to Amlslamic. If for any reason the nature or extent of ANZ's investment in Amlslamic were to change over time, there can be no assurance that Amlslamic would continue to benefit from this or any similar strategic relationship to the same extent.

3.2.8 Employee misconduct could adversely tarnish Amlslamic's image and affect its business, financial condition, results of operations or prospects

As with any business enterprise, Amlslamic is susceptible to the risks associated with acts of misconduct by its employees including directors. Acts of misconduct by employees may take various forms and could include misappropriation of Amlslamic's assets or the assets of its clients, concealment and/or wilful misstatement of its liabilities, unauthorised transactions and/or commitment of its resources, and breach of client confidentiality.

Acts of misconduct by employees would not only result in financial loss to Amlslamic but may also tarnish its image, which would bring about a loss of its stature in the market. Furthermore, acts of misconduct may also cover breaches of laws, regulations and guidelines, which, in extreme cases, could result in suspension and/or revocation of its banking and finance licences under IBA.

Whilst the risks of misconduct by employees, including directors, cannot be entirely eliminated, Amlslamic has in place internal control systems to check such misconduct and to take appropriate actions.

3.2.9 IT risk could affect Amlslamic's business, financial condition, results of operations or prospects

Amlslamic is susceptible to IT risk as large portions of its operational systems are computerised. However, Amlslamic has taken reasonable steps to reduce these risks, including the following:

- (a) Adoption of an IT risk assessment and risk treatment model which is used to monitor and manage the critical information system operational risk;
- (b) Adoption of an IT governance model which includes regular reviews by senior management;
- (c) Formulation of an "Information and Communication Technology" plan which is reviewed annually to ensure continuous upgrading of the critical IT application systems;
- (d) Formulation and adoption of disaster recovery procedures and facilities for critical application areas which are tested on a regular basis; and
- (e) Conduct of regular audits to ensure that appropriate mechanisms are in place and are being adopted for IT security and control.

3.2.10 Classification and Provisioning Policies for NPF

Amlslamic adopts conservative accounting policies vis-à-vis BNM's requirements with regard to classification of NPF, provision for bad and doubtful debts, general provision and write-off policies.

Further, the Malaysian Accounting Standards Board (MASB) had announced that Financial Reporting Standard (FRS) 139 - Financial Instruments: Recognition and Measurement will be applicable to all entities for annual periods beginning on or after 1 January 2010. For Amlslamic, FRS 139 is applicable for the first time with effect from the financial year beginning 1 April 2010. FRS 139 requires, among others, the

application of fair value accounting and impairment assessment for financial assets and financial liabilities. Therefore, the first time adoption of FRS 139 by Amlslamic will result in adjustments to opening retained earnings and the potential recognition of fair value adjustments to the income statements, the adjustments of which are not expected to have any material impact on Amlslamic's operations.

Although Amlslamic believes that its financing portfolio is adequately provided, no assurance can be given that the level of provisions would prove to be adequately provided for or that Amlslamic would not have to make significant additional provisions for possible financing losses in the future.

3.2.11 Risk of possible future mergers and acquisitions within the banking industry

Given the consolidation of financial institutions in the domestic banking industry, there can be no assurance that the AHB Group will not be affected by or involved in any mergers or acquisitions in the future and that any such mergers or acquisitions will be guaranteed a successful implementation or will not have any adverse effect on the AHB Group's business, financial condition, results of operations or prospects. In particular, if the AHB Group makes a decision relating to any acquisition or merger in uncertain or highly competitive economic or market conditions, respectively, or for a substantial consideration, such an acquisition or a merger may result in an increase to its risk factor or a depletion of the resources of the AHB Group, which could have an adverse effect on the business, financial condition and results of operations of Amlslamic.

3.2.12 Dependence on the AHB Group for certain services

To operate its business, Amlslamic currently obtains certain services, including support services for its finance, audit and compliance functions, from other companies in the AHB Group. In addition, Amlslamic also relies on AmBank's distribution channels in the course of its business. The terms for the provision of such services, including the costs payable by Amlslamic, have been arrived at on an arm's length basis. However, there is no assurance that such terms will not be less favourable or that the costs of such services will not increase in the future. In addition, if there are material interruptions in the supply of such services and Amlslamic is unable to obtain from alternative sources services of an acceptable quality in a timely and cost-effective manner, Amlslamic's operations may be affected, which may result in a loss of customers and income. There can be no assurance as to the availability of such services in the future.

3.3 Considerations Relating to the Senior Sukuk

3.3.1 Liquidity of the Senior Sukuk

The Senior Sukuk will constitute a new issue of securities with no established trading market. No assurance can be given as to whether an active or liquid trading market for the Senior Sukuk will develop or if a trading market develops, that it will provide investors with liquidity of investments or that the liquidity will continue for the tenor of the Senior Sukuk Musyarakah Programme. Furthermore, no assurance can be given as to the market prices for the Senior Sukuk.

3.3.2 A downgrade in ratings may affect the liquidity and market price of the Senior Sukuk

The Senior Sukuk are rated AA3 by RAM Ratings. There can be no assurance that the rating will remain in effect for any given period or that the ratings will not be revised by the rating agencies in the future if, in their judgement, circumstances so warrant. Any downgrade or withdrawal of a rating may have an adverse effect on the liquidity and market price of the Senior Sukuk but would not constitute an event of default or an event obliging the Issuer to prepay the Senior Sukuk.

3.3.3 There are no terms in the Senior Sukuk that limit the Issuer's ability to incur additional indebtedness, including but not limited to any indebtedness that are secured or ranks equally with the Senior Sukuk

There are no restrictions on the amount or number of other securities or any other form of indebtedness that Amlslamic may issue which are secured or ranks pari passu with the Senior Sukuk. The creation and issue of further securities or any other form of indebtedness that are secured or which rank pari passu with the Senior Sukuk does not require the consent of the holders of the Senior Sukuk. The issue of such securities and/or incurrence of such indebtedness may reduce the amount recoverable by the holders of the Senior Sukuk in the event of dissolution or winding-up of Amlslamic.

3.3.4 Issuer's ability to meet its obligations under the Senior Sukuk

The Senior Sukuk constitute direct and unsecured obligations of the Issuer and are payable out of the business operations of the Issuer and thus will not be the obligations or responsibilities of any person other than the Issuer. The ability of the Issuer to meet its obligations to pay the nominal value of the Senior Sukuk and their profit payments will largely be dependent on the revenue generated by its operations.

3.4 Forward Looking Statements

Certain statements in this IM are forward-looking in nature. These statements include, among others, discussions of Amlslamic's business strategies and expectations concerning its position in the Malaysian economy, future operations, profitability, liquidity, capital resources and financial position. All forward-looking statements are based on estimates and assumptions made by Amlslamic and third party consultants that, although believed to be reasonable, are subject to risks and uncertainties which may cause actual events and the future results of Amlslamic to be materially different from that expected or indicated by such statements and estimates and no assurance can be given that any such statements or estimates will be realised. In light of these and other uncertainties, the inclusion of forward-looking statements in this IM should not be regarded as a representation or warranty by Amlslamic or any other person that the plans and objectives of Amlslamic will be achieved.

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4. DESCRIPTION OF THE ISSUER

4.1 History and Background Information on Amlslamic

Amlslamic is a public limited company incorporated under the Act on 14 April 1994. Amlslamic is a wholly-owned subsidiary of AmBank which in turn is a wholly-owned subsidiary of AMFB. AMFB is wholly-owned by AHB.

Amlslamic was incorporated as Arab-Malaysian Bank Berhad to acquire the commercial banking business of the Malaysian branch of the Bank of America (Asia) Limited, then operating under the name of Security Pacific Asian Bank Limited, Kuala Lumpur Branch (“**SPABL**”).

On 1 August 1994, Arab-Malaysian Bank Berhad completed the acquisition of the business of SPABL and commenced operations as a locally incorporated commercial bank before changing its name to AmBank Berhad on 14 June 2002.

On 1 June 2005, the banking business of AmBank Berhad was vested in AmFinance Berhad (now known as AmBank) pursuant to the vesting order of the High Court of Malaya dated 18 May 2005 issued under section 50 of the BAFIA. Thereafter, AmBank Berhad surrendered its commercial banking licence to the Ministry of Finance and ceased to be a commercial banking institution.

On 16 September 2005, AmBank Berhad was renamed AMBB Capital Berhad.

On 21 February 2006, AMBB Capital Berhad was renamed Amlslamic.

On 1 May 2006, Amlslamic commenced operations as an Islamic banking institution under the IBA after AmBank transferred all of its Islamic banking and financial businesses to Amlslamic pursuant to the vesting order of the High Court of Malaya dated 18 April 2006 under section 50 of the BAFIA.

On 12 April 2008, the integration of the Islamic fund-based business activities of AmInvestment Bank and Amlslamic (“**Business Transfer**”) was completed. This has enabled AmInvestment Bank to leverage on Amlslamic’s balance sheet to provide for larger and more structured investment banking deal flow. This is crucial following the completion of the framework for investment banking whereby BNM introduced more stringent limits on lending, underwriting of both debt instruments and equities as well as proprietary trading by investment banks.

Amlslamic provides a range of retail, commercial banking, corporate banking and treasury products and services which are Shariah-compliant in nature.

As at 30 June 2010, the authorised share capital of Amlslamic is RM2,000,000,000 comprising 2,000,000,000 ordinary shares of RM1.00 each, of which 403,038,000 ordinary shares of RM1.00 each were issued and fully paid-up.

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4.2 Business Overview

As at 31 March 2010, Amlslamic has audited consolidated total assets of RM17.2 billion, loans, advances and financing of RM11.8 billion, customer deposits of RM13.4 billion and shareholders' funds of RM1.3 billion. In terms of total assets, Amlslamic is the fifth largest Islamic bank in Malaysia (based on the published financial results of the 17 domestic and foreign Islamic banks in Malaysia) as at 31 March 2010.

Since its inception, Amlslamic has not only shown growth but has also capitalised on the demand for Islamic financial services. With its universal banking licence and 16 years of experience in offering Islamic banking products and services via the AmBank Group's channels, Amlslamic continues to build its relationship with existing customers as well as cultivate new ones in providing a range of retail and commercial banking products and services which are Shariah compliant. This is further complemented by the AmBank Group's extensive network of branches, ATMs, and e-banking centres nationwide.

In addition to its Islamic banking business activities, one of the key aspects of Amlslamic's operations is in paying its zakat contributions as part of its corporate social responsibility as well as duty as an Islamic business entity.

The following are some of the strategic initiatives that are being undertaken at Amlslamic:

Dedicated branches

As a key component of its business moving forward, Amlslamic has set up 3 dedicated branches in addition to its shared branches network with AmBank. The first two branches which began operations in November 2007 are located in Bandar Baru Bangi and Putrajaya. The third branch was set up at the International Islamic University Malaysia in Gombak in June 2010. This was undertaken with the objective of enhancing its visibility and fulfilling the AmBank Group's vision in making Amlslamic the premier Islamic bank of choice in Malaysia and the region.

Amlslamic Branding for the AmBank Group

In an effort taken by Amlslamic in conjunction with the International Currency Business Unit ("ICBU") licence granted by BNM, the AmBank Group is now adopting the brand name of "**Amlslamic**" in order to create and build a brand that is relevant and preferred for Islamic banking & finance both locally and globally.

Synonymous with being the AmBank Group's Islamic entity, "Amlslamic" shall be known as the promoting brand for all the Group's Islamic products and services including investment banking, funds management and ICBU products.

Amlslamic being an Islamic brand name is expected by the AmBank Group to be a more preferred brand for, inter alia, Islamic business activities and investors. This is expected to also provide a greater brand exposure and growth potential for Amlslamic brand in the global Islamic banking and finance scene (under the Malaysian Government's initiative to promote Malaysia as a major hub for international Islamic finance through the Malaysian International Islamic Financial Centre (MIFC).

A dual signage comprising signages of Amlslamic and AmBank throughout its shared branches network has also been introduced with the objective of strengthening Amlslamic's brand visibility.

Tie Ups and Alliances

Amlslamic has invested in tying up its products through various alliances and collaborations with 3rd parties to expand its product reach and market penetration. The following are some of the initiatives:

- Amlslamic had signed a tri-partite agreement with Takaful IKHLAS Sdn Bhd and FWU AG (which specialises in “white label” investment solutions for European and International distribution partners) to promote the distribution of a takaful investment-linked plan through Amlslamic and AmBank’s branches throughout the country. Under this programme, a customer can invest funds in specific Islamic deposits that are linked to the Takaful plan. This has made Malaysia the first country to introduce such a partnership i.e. between an Islamic institution, a takaful institution and FWU AG. To-date, Amlslamic had been awarded the “Best Bancatakaful Award 2009” by the Malaysian Takaful Association for Amlslamic’s sales of AmHigh Takaful; and
- Amlslamic’s granting to Perbadanan Tabung Pendidikan Tinggi Nasional (“PTPTN”) in December 2009 and June 2010 respectively, of two (2) 10-year Bai’ Inah Term Financing amounting to RM3.0 billion guaranteed by the Government of Malaysia where Amlslamic is the financier and facility agent.

Retail and Business Banking Activities

In 2009, the major focus was on growing Amlslamic’s retail and commercial business. In this regard, a number of new products and programmes were introduced:

- Flexi Bai’ Bithaman Ajil for House Financing-i, house financing product with flexible rate features as opposed to fixed rate financing;
- AmMomentum Select Islamic Negotiable Instruments of Deposit (NID-i), an Islamic structured deposit which was awarded “Best Islamic Structured Product” at The Asset AAA Islamic Finance Awards 2010 and “Best Islamic Product” at the FinanceAsia Structured Products Award 2009;
- Amlslamic signed a Memorandum of Participation for Bursa Commodity House (“BCH”). BCH is a MIFC initiative operated by Bursa Securities’ wholly-owned subsidiary, Bursa Malaysia Islamic Services Sdn Bhd. BCH is a Shariah-compliant web-based commodity trading platform aimed at facilitating commodity murabahah transactions for the development of the Islamic financial market infrastructure as well as to facilitate liquidity management for Islamic financial institutions; and
- the Wakalah Deposit Investment account for corporate customers and interbank placements.

Decrease cost of funds in tandem with enhancements to cost efficiency

The AHB Group has outlined as part of its strategic aspirations, a targeted reduction in its funding costs, while simultaneously reducing the profit rate volatility risk in its funding costs. Amlslamic aims to move towards the target by improving its funding and liquidity profile, building its deposit distribution capabilities and creating deposit-focused product units.

The AHB Group also seeks to reduce its cost and increase its efficiency in various other aspects of its business and attain, in the medium term, a cost to income ratio of circa 40%. From an operational perspective, Amlslamic aims to centralise its key processes and backroom activities to increase its efficiency. Amlslamic also aims for further operational enhancement via simplification, automation and outsourcing. With respect to its employees, Amlslamic aims to streamline performance management activities to align targets across its business.

Reduce NPF and strengthen receivables management, collections and risk management policies

The AHB Group aims to reduce its net NPFs ratio to below system levels in the medium term upon recovery from the current global, regional and domestic economic downturn. AmIslamic aims to strengthen its credit risk infrastructure and improve its risk assessment processes with the goal of further refining credit scoring across all retail products. New and enhanced rating models are expected to be launched in 2010, to generate obligor's probability-of-default, loss-given-default and exposure-at-default. AmIslamic has established a centralised retail collection centre to focus on maximising recovery efforts.

Differentiate and enhance customer experience

AmIslamic aims to elevate the customer experience through brand differentiation and migration of customer transactions to preferred and more cost effective delivery channels. AmIslamic consistently monitors its brand position in the market and is dedicated to the enhancement of its brand positioning and brand awareness amongst consumers, with a particular focus on customer profitability in all sales acquisition programmes and campaigns.

Leverage the synergies of AmIslamic's Business Banking and Retail Banking divisions

AmIslamic currently aims to utilise the synergies of its Business Banking and Retail Banking divisions to:

- reduce the cost of borrowing by achieving CASA ("**C**urrent **A**ccounts **S**aving **A**ccounts") portfolio growth;
- reduce operational cost by achieving cost efficiencies; and
- introduce new products and services.

Following the Business Transfer, AmIslamic also intends to further enhance the synergies between its existing divisions and the newly transferred divisions.

4.3 Australia and New Zealand Banking Group Limited ("ANZ")

On 26 April 2007, AHB obtained the approval of its shareholders at an EGM for its proposed strategic partnership with ANZ by way of ANZ's equity participation via ANZ Funds, in the AHB Group. ANZ's equity participation entailed:

- (a) the issuance of 163,934,426 convertible preference shares by AHB to ANZ Funds at an issue price of RM3.05 per share which were convertible into 163,934,426 new shares in AHB, all of which have since been converted into shares in AHB by ANZ Funds in March 2008; and
- (b) the issuance of RM575.0 million exchangeable bonds by AmBank to ANZ Funds which were originally exchangeable into 188,524,590 new shares in AHB at RM3.05 per share; subsequent to a rights issue exercise undertaken by AHB to partially fund the privatisation of AIGB, the outstanding bonds were exchangeable for 194,915,254 shares in AHB and the exchange price was reduced to RM2.95 per share in AHB, all of which have since been exchanged into shares in AHB by ANZ Funds in August 2009.

ANZ Funds also acquired 300,000,000 shares in AHB in May 2007 pursuant to a purchase from Amcorp and 57,991,803 shares in AHB in January 2008 pursuant to ANZ Funds' entitlement under the said rights issue exercise undertaken by AHB. On 3 August 2009, AHB has allotted 194,915,254 new AHB shares to ANZ Funds upon the latter's notice to exchange its entire holding of the exchangeable bonds into new AHB shares. The paid-up capital of

AHB has increased from RM2,722,969,590 as at 31 July 2009 to RM2,917,884,844 upon the exchange. ANZ Funds' shareholding increased from 19.17% to 24.57% upon the exchange.

Subsequently, on 25 August 2009, AHB announced the completion of its Special Issue Share exercise where 96,300,000 shares were fully allocated to eligible Bumiputera shareholders. AHB's current paid-up share capital is RM3,014,184,844. ANZ Funds' shareholding has been diluted to 23.78% currently.

ANZ has three representatives on the board of directors of AHB along with representations on the various Management and Board Committees of AmBank. ANZ's equity investment provides ANZ with the opportunity to nominate senior management appointments to the AHB Group. Current senior management nominees by ANZ include the Deputy Group Managing Director/ Chief Financial Officer, Chief Risk Officer and Chief Operations Officer.

ANZ is an international banking and financial services group which is ranked amongst the top 50 banks in the world by market capitalisation. ANZ has over six million customers worldwide and a presence in over 30 countries, with its primary operations in Australia, New Zealand and Asia Pacific. ANZ's securities are listed on the Australia, New Zealand and New York Stock Exchanges. ANZ is a leading retail, corporate and institutional bank in Australia and one of the largest banks in New Zealand. Its retail business in Australia provides a full range of products through over 820 branches. In 2009, the recognition and awards which ANZ received included:

- Dow Jones Sustainability Indexes, September 2009 – ANZ ranked as the No. 1 bank globally on corporate sustainability performance for the third consecutive year
- Canstar CANNEX, June 2009 – ANZ was named the “Socially Responsible Bank of the Year”
- The Asian Banker, March 2009 – ANZ was awarded “Best Retail Bank in Australia” and “Best Retail Bank in Vietnam” in the Excellence in Retail Financial Services Award
- Financial Insight Innovation Award, March 2009 – ANZ MoneyManager was awarded for Innovation in Account Aggregation
- Insto Magazine, February 2009 – ANZ was awarded “Syndication Loans House of the Year” and “Trade Finance House of the Year” in the Insto Distinction Award.

ANZ has established partnerships with the following financial institutions in Asia: Metrobank Card Corporation (Philippines), Panin Bank (Indonesia), Sacombank (Vietnam), Saigon Securities Inc (Vietnam), ANZ Royal (Cambodia), Vientiane Commercial Bank (Laos), Bank of Tianjin (China) and the Shanghai Rural Commercial Bank (China).

On 4 August 2009, ANZ announced it had reached agreement with the Royal Bank of Scotland Group plc (“**RBS**”) to acquire selected RBS businesses in Asia delivering on its strategy to be a leading super regional bank by 2012. The acquisition included the RBS retail, wealth and commercial businesses in Taiwan, Singapore, Indonesia and Hong Kong, and the institutional businesses in Taiwan, the Philippines and Vietnam.

The AHB Group's strategic partnership with ANZ has created further market growth opportunities, given ANZ's exposure to international products, banking systems as well as cross border capabilities in Asia. By leveraging on ANZ's capabilities in risk management, retail banking and business banking, product innovation, branding, IT infrastructure, training and development of personnel, AmIslamic aims to entrench its position as a premier Islamic financial institution providing innovative products and services to its customers.

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4.4 Corporate Information

4.4.1 Registered Office and Principal Place of Business

The registered office of AmIslamic is located at 22nd Floor, Bangunan AmBank Group, No. 55 Jalan Raja Chulan, 50200 Kuala Lumpur while its principal place of business is located at Level 45, Menara AmBank, No. 8, Jalan Yap Kwan Seng, 50450 Kuala Lumpur.

4.4.2 Share Capital and Changes in Share Capital

Share Capital

The authorised and issued and fully paid-up share capital of AmIslamic as at 30 June 2010 are as follows:

| Type | No. of Shares | Par value (RM) | Total (RM) |
|---------------------------------|---------------|----------------|---------------|
| Authorised | | | |
| Ordinary shares | 2,000,000,000 | 1.00 | 2,000,000,000 |
| Issued and fully paid-up | | | |
| Ordinary shares | 403,038,000 | 1.00 | 403,038,000 |

Changes in Share Capital

The changes in the issued and paid-up share capital of AmIslamic since its incorporation are as follows:

| Date of Allotment | No. of Shares allotted | Par value (RM) | Type of Issuance | Cumulative share capital (RM) |
|-------------------|----------------------------|----------------|---------------------|-------------------------------|
| 14.04.1994 | 2 | 1.00 | Subscribers' shares | 2 |
| 01.08.1994 | 124,999,998 | 1.00 | Cash | 125,000,000 |
| 28.08.1995 | 78,125,000 | 1.00 | Cash | 203,125,000 |
| 30.08.1995 | 50,000,000 | 1.00 | Note ¹ | 253,125,000 |
| 29.11.1996 | 94,921,875 | 1.00 | Cash | 348,046,875 |
| 29.10.1999 | 31,250,000 | 1.00 | Note ² | 379,296,875 |
| 29.04.2000 | 56,250,000 | 1.00 | Note ³ | 435,546,875 |
| 30.09.2002 | 69,921,875 | 1.00 | Note ⁴ | 505,468,750 |
| 06.01.2004 | 203,125,000 | 1.00 | Cash | 708,593,750 |
| 29.07.2004 | 31,250,000 | 1.00 | Cash | 739,843,750 |
| 31.03.2005 | 21,875,000 | 1.00 | Cash | 761,718,750 |
| 28.12.2005 | (608,680,750) ⁵ | 1.00 | Capital Reduction | 153,038,000 |
| 01.05.2006 | 250,000,000 | 1.00 | Note ⁶ | 403,038,000 |

Notes:

- Conversion of RM75,000,000 nominal amount of Irredeemable Convertible Unsecured Loan Stocks 1994/1999 ("ICULS 94/99") on the basis of one (1) new ordinary share in exchange for RM1.50 nominal value of ICULS 94/99 tendered.
- Conversion of RM50,000,000 nominal amount of Interest Bearing Irredeemable Convertible Unsecured Loan Stocks 1995/2005 ("ICULS 95/05") on the basis of one (1) new ordinary share in exchange for RM1.60 nominal value of ICULS 95/05 tendered.
- Conversion of RM30,000,000 nominal amount of ICULS 95/05 and RM60,000,000 nominal amount of Interest Bearing Irredeemable Convertible Unsecured Loan Stocks 1996/2001 ("ICULS 96/01") on the basis of one (1) new ordinary share in exchange for RM1.60 nominal amount of ICULS 95/05 and 96/01 tendered.
- Conversion of RM20,000,000 nominal amount of ICULS 95/05 and RM91,875,000 nominal amount of Interest Bearing Irredeemable Convertible Unsecured Loan Stocks 1996/2002 ("ICULS 96/02") on the basis of one (1) new ordinary share in exchange for RM1.60 nominal amount of ICULS 95/05 and 96/02 tendered.
- Pursuant to an order by the High Court of Malaya dated 19 December 2005 for capital reduction in accordance with Section 64(2) of the Act.
- Settlement for the acquisition of Islamic banking business of AmBank (M) Berhad pursuant to the Islamic Banking Business Transfer Agreement dated 5 April 2006.

4.4.3 Substantial Shareholders

As at 30 June 2010, the substantial shareholders of AmIslamic and their respective shareholding are as follows:

| Substantial Shareholders | Nationality/ Country of Incorporation | No. of Shares | | | |
|--------------------------|---|--------------------|-----|--------------------------|-----|
| | | Direct interest | % | Indirect interest | % |
| AmBank | Malaysia | 403,038,000 | 100 | - | - |
| AMFB | Malaysia | - | - | 403,038,000 [#] | 100 |
| AHB | Malaysia | - | - | 403,038,000 [^] | 100 |
| TSAH | Malaysian | - | - | 403,038,000 [*] | 100 |
| Amcorp | Malaysia | - | - | 403,038,000 [*] | 100 |
| Clear Goal Sdn Bhd | Malaysia | - | - | 403,038,000 [*] | 100 |
| ANZ Funds | Australia | - | - | 403,038,000 [*] | 100 |
| ANZ | Australia | - | - | 403,038,000 [*] | 100 |

Notes:

[#] Deemed interested by virtue of its interests in AmBank

[^] Deemed interested by virtue of its interests in AmBank, via AMFB

^{*} Deemed interested by virtue of his/its interests in AmBank, via AMFB arising from his/its substantial interests in AHB

4.5 Information on Directors and Senior Management

4.5.1 Board

The members of the Board as at 30 June 2010 are as follows:

| Name / Designation | Date of appointment | Nationality |
|---|---------------------|-------------|
| TSAH <i>(Chairman, Non-Independent Non-Executive Director)</i> | 01.08.1994 | Malaysian |
| Tun Mohammed Hanif bin Omar <i>(Independent Non-Executive Director)</i> | 15.05.2006 | Malaysian |
| Tan Sri Datuk Clifford Francis Herbert <i>(Independent Non-Executive Director)</i> | 16.04.2004 | Malaysian |
| Dato' Gan Nyap Liou @ Gan Nyap Liow <i>(Independent Non-Executive Director)</i> | 15.11.2007 | Malaysian |
| Dato' Dr Mahani binti Zainal Abidin <i>(Independent Non-Executive Director)</i> | 21.05.2009 | Malaysian |
| Cheah Tek Kuang <i>(Non-Independent Non-Executive Director)</i> | 01.08.1994 | Malaysian |
| Ashok Ramamurthy <i>(Non-Independent Non-Executive Director)</i> | 18.11.2008 | Australian |

4.5.2 Directors' Shareholdings

| Name / Designation | No. of Shares held as at 30 June 2010 | | | |
|--|---------------------------------------|---|--------------------------|-----|
| | Direct | % | Indirect | % |
| TSAH <i>(Chairman, Non-Independent Non-Executive Director)</i> | - | - | 403,038,000 ¹ | 100 |
| Tun Mohammed Hanif bin Omar <i>(Independent Non-Executive Director)</i> | - | - | - | - |
| Tan Sri Datuk Clifford Francis Herbert <i>(Independent Non-Executive Director)</i> | - | - | - | - |
| Dato' Gan Nyap Liou @ Gan Nyap Liow <i>(Independent Non-Executive Director)</i> | - | - | - | - |
| Dato' Dr Mahani binti Zainal Abidin <i>(Independent Non-Executive Director)</i> | - | - | - | - |
| Cheah Tek Kuang <i>(Non-Independent Non-Executive Director)</i> | - | - | - | - |
| Ashok Ramamurthy <i>(Non-Independent Non-Executive Director)</i> | - | - | - | - |

Note:

¹ Deemed interested by virtue of his interests in AmBank, via AMFB arising from his substantial interests in AHB

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4.5.3 Directors' Profiles

The directors of Amlslamic and their respective profiles are set out below:-

Y.Bhg. Tan Sri Azman Hashim

Y. Bhg. Tan Sri Azman Hashim, a Malaysian, was appointed on 1 August 1994 to the Board of Amlslamic Bank Berhad ("**Amlslamic Bank**"), then known as Arab-Malaysian Bank Berhad. Tan Sri Azman has been the Chairman of AMMB Holdings Berhad ("**AHB**"), the holding company of Amlslamic Bank, since 1991. He is the Non-Independent Non-Executive Chairman of AHB.

He is also the Chairman of the Board of several subsidiaries of AHB, namely AmInvestment Group Berhad, AMFB Holdings Berhad, AmBank (M) Berhad, AmInvestment Bank Berhad, AmProperty Trust Management Berhad, AmG Insurance Berhad and AmLife Insurance Berhad.

Tan Sri Azman, a Chartered Accountant (FCPA), a Fellow of the Institute of Chartered Accountants and a Fellow of the Institute of Chartered Secretaries and Administrators, has been in the banking industry since 1960 when he joined Bank Negara Malaysia and served there until 1964. He practised as a Chartered Accountant in Azman Wong Salleh and Co. from 1964 to 1971. He then joined the Board of Malayan Banking Berhad from 1966 until 1980 and was its Executive Director from 1971 until 1980. He was the Executive Chairman of Kwong Yik Bank Berhad, a subsidiary of Malayan Banking Berhad, from 1980 until April 1982 when he acquired the then Arab-Malaysian Development Bank Berhad which is now known as AmInvestment Bank Berhad.

Tan Sri Azman is the Executive Chairman of Amcorp Group Berhad and RCE Capital Berhad, and Chairman of Malaysian South-South Corporation Berhad, MCM Technologies Berhad, the Islamic Banking and Finance Institute Malaysia Sdn Bhd and the Institute of Bankers Malaysia. He serves as a member on the Board of Pembangunan MasMelayu Berhad and Asian Institute of Finance Berhad. Tan Sri Azman is also involved in several charitable organisations as the Chairman of AmGroup Foundation, ECM Libra Foundation and Perdana Leadership Foundation, and Trustee for Yayasan Azman Hashim, Yayasan Perpaduan Nasional, Malaysian Liver Foundation, Yayasan Tuanku Najihah, Yayasan Canselor Open University Malaysia and Yayasan Wakaf Malaysia.

Tan Sri Azman is the Chairman of Malaysian Investment Banking Association and Malaysia Productivity Corporation. He is the Chairman Emeritus of Pacific Basin Economic Council (PBEC) International and Co-Chairman of Malaysia – Singapore Roundtable. He is the President of Malaysia South-South Association, Malaysia-Japan Economic Association, Malaysian Prison FRIENDS Club and Non-Aligned Movement's (NAM) Business Council, and Treasurer of Malaysia-Australia Foundation. He is a member of the APEC Business Advisory Council, East Asia Business Council, the Trilateral Commission (Asia-Pacific Group), the Malaysian-British and Malaysia-China Business Councils, and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) Business Advisory Council. He is also the Leader of the ASEAN-Japanese Business Meeting (Malaysia Committee, Keizai Doyukai) and is on the Board of Advisors of AIM Centre for Corporate Social Responsibility. He is the Pro-Chancellor of Open University of Malaysia, a member of the Governing Body of Asian Productivity Organisation and the International Advisory Panel of Bank Negara Malaysia International Centre for Education in Islamic Finance (INCEIF).

Y.A. Bhg. Tun Mohammed Hanif Bin Omar

Y.A. Bhg. Tun Mohammed Hanif Bin Omar, a Malaysian, was appointed to the Board of Amlslamic Bank Berhad on 15 May 2006. Tun Mohammed Hanif also sits on the Board of AMMB Holdings Berhad (“AHB”) and other subsidiaries of AHB, namely AMFB Holdings Berhad, AmBank (M) Berhad and AmInvestment Bank Berhad.

Tun Mohammed Hanif was the Inspector General of the Malaysian Police Force for 20 years until his retirement in January 1994. Tun Mohammed Hanif is also currently the Non-Executive Chairman of General Corporation Berhad, and Deputy Executive Chairman of Genting Berhad and Genting Malaysia Berhad. He has been the President of the Malaysian Institute of Management since 2001.

Tun Mohammed Hanif received his Bachelor of Arts from the then University of Malaya, Singapore in 1959, LLB (Honours) from Buckingham University, United Kingdom in 1986 and Certificate of Legal Practice (Honours) from the Legal Qualifying Board in 1987.

Y. Bhg. Tan Sri Datuk Clifford Francis Herbert

Y. Bhg. Tan Sri Datuk Clifford Francis Herbert, a Malaysian, was appointed on 16 April 2004 to the Board of Amlslamic Bank Berhad, then known as AmBank Berhad.

Tan Sri Datuk Clifford at present sits on the Boards of AMMB Holdings Berhad, AmInvestment Bank Berhad, AmBank (M) Berhad, Genting Malaysia Berhad and Shell Refining Company (Federation of Malaya) Berhad.

Tan Sri Datuk Clifford joined the Malaysian Civil Service in 1964 as Assistant Secretary in the Public Services Department from 1964 to 1968. Subsequently, he served in the Ministry of Finance from 1975 to 1997, culminating as Secretary General to the Treasury. He retired from the civil service in 1997.

As Secretary General in the Ministry of Finance, he was also appointed as alternate Governor of the World Bank. From 1994 to 2000, Tan Sri Datuk Clifford was Chairman of KL International Airport Berhad which built the Kuala Lumpur International Airport. He had been a Board member of numerous statutory bodies and government related public companies among them being Kumpulan Khazanah Nasional Berhad, Malaysia Airline System Berhad, Petroliam Nasional Berhad, Bank Negara Malaysia, the Securities Commission and Chairman of Percetakan Nasional Malaysia Berhad. Additionally Tan Sri Datuk Clifford is also involved in several NGOs.

Tan Sri Datuk Clifford holds a Masters of Public Administration from University of Pittsburgh, USA and a Bachelor of Arts (Honours) in Economics from University of Malaya.

Y. Bhg. Dato’ Gan Nyap Liou @ Gan Nyap Liow (Larry)

Y. Bhg. Dato’ Larry Gan, a Malaysian, was appointed to the Board of Amlslamic Bank Berhad on 15 November 2007.

He is a Certified Management Consultant and a Chartered Accountant.

Dato’ Larry Gan was with Accenture, a global management and technology consulting firm for 26 years until his retirement in December 2004. He was a worldwide partner for 16 years and held many global leadership positions including Managing Partner ASIA and Managing Partner Corporate Development ASIA PACIFIC. He was Chairman of the CEO Advisory Council and member of the Global Management Council from 1997 to 2004.

He served as Chairman of the Association of Computer Industry Malaysia (PIKOM), Vice President of the Association of Asian Oceania Computer Industry Organisation, and member of the Ministry of Science and Technology Think Tank, Copyright Tribunal, and the Labuan International Financial Exchange Committee.

Dato' Larry Gan presently serves on the boards of several public companies in Malaysia and internationally. He is Chairman of Cuscapi Berhad and a director of AmBank (M) Berhad, Tanjong Public Limited Company, AMDB Berhad, Tien Wah Press Holdings Berhad, Saujana Resort (M) Berhad and Lotus Group International Limited.

He also serves as a director of Badan Pengawas Pemegang Saham Minoriti Berhad (Minority Shareholder Watchdog Group), Deputy Chairman of the British Chamber of Commerce, a Trustee with the Centre of South East Asia Architectural Heritage and Trustee & Deputy Chairman of Yayasan Tuanku Nur Zahirah.

Y. Bhg. Dato' Dr Mahani binti Zainal Abidin

Y. Bhg. Dato' Dr Mahani binti Zainal Abidin, a Malaysian, was appointed to the Board of Amlslamic Bank Berhad on 21 May 2009. She is also a Board member of AmInvestment Services Berhad, a subsidiary of AMMB Holdings Berhad.

Dato' Dr. Mahani is currently the Chief Executive, Institute of Strategic and International Studies ("ISIS"), Malaysia and has been holding the position since May 2007

Dato' Dr Mahani obtained a Ph.D (development economics) from the University of London in 1992 and was Professor in the Department of Applied Economics at the Faculty of Economics and Administration, University of Malaya until 2007. Her research interests are industrialisation and economic transformation, international trade and regional integration. In 1998, Dato' Dr. Mahani was appointed a member of the Working Group for the National Economic Action Council, a body established by the Malaysian Government to formulate measures to initiate recovery from the economic and financial crisis. In 2001, she was appointed as the Head, Special Consultancy Team on Globalisation of the National Economic Action Council, and from 2005 to 2007 she worked as the Deputy Director-General, Department of Higher Education, Ministry of Higher Education Malaysia.

Dato' Dr Mahani was a Board Member of the Employees Provident Fund from 1998 to 2000 and also served as Deputy Chairman of the National Accreditation Board from 2003 to 2007. Dato' Dr. Mahani is currently Council Member of National Economic Advisory Council (NEAC), Trustee of Yayasan 1Malaysia, the Deputy President of the Malaysian Economic Association and Member of International Steering Committee for the Pacific Trade & Development (PAFTAD).

Mr. Cheah Tek Kuang

Mr. Cheah Tek Kuang, a Malaysian, was appointed on 1 August 1994 to the Board of Amlslamic Bank Berhad, then known as Arab-Malaysian Bank Berhad. He is currently the Group Managing Director of AMMB Holdings Berhad ("AHB") and Chief Executive Officer of AmBank (M) Berhad ("AmBank").

Mr Cheah joined AmInvestment Bank Berhad in 1978 and held various senior positions. In 1994, he was promoted to Managing Director, and he became the Group Managing Director of AmInvestment Bank Berhad from January 2002 to December 2004 before assuming the office of Group Managing Director in AHB. He remains as a Non-Independent Non-Executive Director of AmInvestment Bank Berhad.

He is a Board member of several subsidiaries of AHB, including AmBank, AmLife Insurance Berhad, AmG Insurance Berhad and AmInvestment Group Berhad. His directorships in other

public companies include Bursa Malaysia Berhad and Cagamas Berhad. He is a member of the Investment Panel of Retirement Fund Incorporated (Kumpulan Wang Persaraan {Diperbadankan}). He also currently serves as a Council Member of the Association of Banks in Malaysia and is the Alternate Chairman of Malaysian Investment Banking Association.

Mr. Cheah has a Bachelor of Economics (Honours) degree from the University of Malaya and is a Fellow of the Institute of Bankers Malaysia.

Mr. Ashok Ramamurthy

Mr. Ashok Ramamurthy, an Australian, was appointed to the Board of AmIslamic Bank Berhad on 18 November 2008. Mr. Ashok is currently the Deputy Group Managing Director/Chief Financial Officer of AMMB Holdings Berhad (“AHB”). Mr. Ashok is also a director in AHB’s subsidiaries, namely AmInvestment Group Berhad, AmInvestment Bank Berhad and AmBank (M) Berhad.

As the Chief Financial Officer of AHB, Mr. Ashok is accountable for the delivery of financial performance to meet the targets set by the Group Managing Director and AHB Board and to meet all financial regulatory reporting requirements. The role, as a key member of the leadership committees, requires him to proactively manage resources and trends to deliver superior financial performance in a challenging and competitive environment.

Mr. Ashok is the Senior Australia and New Zealand Banking Group Limited (“ANZ”) representative in AHB Group and accountable for building enduring relationships between ANZ and AHB Group. This is a key role representing ANZ interests as a director in the Board and various sub-committees of the Board of the major subsidiaries of AHB Group.

Mr. Ashok has worked with ANZ for circa 22 years, across multiple geographies including New Zealand, Australia, India and now Malaysia. His functional expertise is built around finance at the core, and blended with risk management, operations and shared services, and strategy and change management. He has direct experience as the Chief Financial Officer and/or Chief Operating Officer in a number of ANZ businesses including Commercial Banking, Markets and Treasury, Funds Management and Insurance, Wealth Management, Banking Products and Transaction Services, and Personal/Retail Banking. Mr. Ashok has been successful in developing and executing transformational agendas in his career.

4.5.4 Profile of Key Management

Y. Bhg. Datuk Mahdi bin Morad

Datuk Mahdi bin Morad, a Malaysian, is currently the Chief Executive Officer of AmIslamic. The previous position held by Datuk Mahdi was Executive Director, Retail Banking of AmBank. He joined Arab-Malaysian Finance Berhad (now known as AMFB Holdings Berhad) in 1989. Prior to this, he held various positions in Asia Commercial Finance Berhad and Sime Darby Plantations Berhad.

Datuk Mahdi has a Bachelor of Science degree in Agricultural Business from Iowa State University, USA and a Masters degree in Business Administration from University of Missouri, USA.

Datuk Mahdi serves as a director on the boards of various subsidiaries of AmBank, namely AmPremier Capital Berhad, AMBB Capital (L) Ltd, AmCapital (L) Inc., MBf Information Services Sdn Bhd, MBF Trustees Berhad, Bougainvillea Development Sdn Bhd, AmProperty Holdings Sdn Bhd and AmCredit & Leasing Sdn Bhd. He is also the Chairman of Arab-Malaysian Credit Berhad.

4.6 Amlslamic's Businesses

Following the completion of the Business Transfer, Amlslamic's operations have been divided into eight business divisions, namely the Retail Banking Division, the Business Banking Division, the Corporate and Institutional Banking Division, the Trade Services Division, the Treasury and Markets Division, the Unit Trust Division, the Islamic Private Trust Services Division and the Stockbroking Division. As at 31 March 2010, the Retail Banking Division contributed approximately 75% of Amlslamic's total financing assets.

4.6.1 Retail Banking

Amlslamic's Retail Banking services and products are offered across the following business units:

- vehicle financing;
- personal financing / cashline;
- property financing
- credit cards;
- deposits; and
- takaful.

As at 31 March 2010, the Retail Banking business served approximately 1.5 million customer accounts through its distribution network of branches, ATMs, EBCs, 24-hour customer contact centre, mobile banking and internet banking services.

Amlslamic has adopted a customer service campaign known as Customer F.I.R.S.T. (which stands for Friendly, Innovative, Responsive, Simple and Trustworthy). Under this campaign, Amlslamic benchmarks itself against banking practices and reviews and rewards branches that excel in customer service.

In addition, Amlslamic and AmBank joint branches operate as full service retail banking shopfronts offering customers traditional retail banking products and services as well as bancatakaful and investment services. This service model is intended to ensure that branch personnel are simultaneously focused on providing efficient and effective service to customers whilst driving business growth with an entrepreneurial mindset. In recent years, Amlslamic has increased the number of customer facing personnel in branches and also transformed the sales zone in its branches to ensure a more conducive environment for customer sales interactions.

(a) Vehicle financing

As at 31 March 2010, Amlslamic had RM6.5 billion financing outstanding in the purchase of transport vehicles sector, representing approximately 53% of Amlslamic's total financing portfolio, and ranked third (3rd) in vehicle financing, based on the published financial results of domestic and foreign financial institutions in Malaysia.

The table below sets out Amlslamic's vehicle financing portfolio as at the dates indicated:-

| | As at 31 March 2008 RM billion | As at 31 March 2009 RM billion | As at 31 March 2010 RM billion |
|---|--------------------------------------|--------------------------------------|--------------------------------------|
| Financing for purchase of transport vehicles | 6.4 | 6.3 | 6.5 |

The vehicle financing is usually offered on a fixed-rate basis, generally secured by the vehicle being purchased and typically has a term of three to seven years (with a maximum of nine years). The financing typically represents 75% to 90% of the assessed collateral value of the vehicle to be financed, depending on the credit assessment of the customers, and the age of the vehicles.

(b) Personal Financing / Cash Line

As at 31 March 2010, Amlslamic ranked third (3rd) in personal financing/ co-operative financing, based on the published financial results of domestic and foreign financial institutions in Malaysia, with a market share of 13% and based on a gross financing portfolio of RM2.1 billion.

Amlslamic offers principal personal financing/ co-operative financing products aimed at members of co-operatives who are government employees. The asset quality of such personal financing/ co-operative financing is significantly enhanced by the payment method, which is typically via a deduction from monthly salary.

As part of its efforts to increase brand visibility, Amlslamic has launched various sales campaigns such as “School Holiday”, “Duit Raya” and “Back to School” offering free gifts and cash.

(c) Property financing

Amlslamic’s Retail Banking Property Financing portfolio consists mainly of financing for residential properties. Amlslamic has approximately 2% of the domestic market as at 31 March 2010 with gross financing assets of RM565.4 million. As at 31 March 2010, property financing represented approximately 5% of Amlslamic’s total financing portfolio. The table below sets out Amlslamic’s property financing portfolio as at the dates indicated:-

| | As at 31 March 2008 RM million | As at 31 March 2009 RM million | As at 31 March 2010 RM million |
|--------------------|--|--|--|
| Property financing | 565.5 | 596.2 | 565.4 |

The Bank provides a wide range of property financing which offers multiple and varied financing options including fixed or floating rate options and flexible payment options based on the Bai’ Bithaman Ajil (deferred payment sale) concept. Amlslamic’s residential property financing normally have terms of between 20 and 25 years, with a maximum financing tenure of 30 years. These financings are typically secured by the property being purchased or refinanced and are generally term financing or overdrafts (or a combination of both).

Amlslamic’s marketing activities in relation to property financing include product-bundling initiatives and active participation in sales launches. Amlslamic also has strategic alliances with major housing developers to provide end financing packages to home buyers. In addition, Amlslamic has expanded the sales channels and emphasis on the extensive branch distribution channels.

Amlslamic currently has 5 mortgage business centres throughout Malaysia, as well as offering mortgage products through its entire network of 189 retail branches through branch managers and a specialised sales force comprising personal bankers and consumer financing specialists.

(d) Credit Cards

Amlslamic issues Al-Taslif card-i and credit cards based on Shariah concept of Bai Inah via its True Card-i and CARz Card-i with features such as non-compounding of profit, lower profit rates as well as cash rebate on petrol as part of its initiatives to attract the market. The Bank plans to continue expanding its credit cards customer base through cross-selling of its products and services to customers via product packaging and bundling. As at 31 March 2010, Amlslamic ranked second (2nd) in Islamic credit cards based on the published financial results of domestic and foreign financial institutions in Malaysia.

(e) Deposit

Amlslamic offers a complete range of Shariah-compliant deposit products and services including current and savings accounts, investment fixed deposits and structured deposits. The Bank has grown its term deposits base by maintaining relationships with its customers and a pricing strategy to assist in funding asset growth.

The Bank's key strategies revolve around the concepts of:

- (1) **Acquisition** – understanding its key customer segments and meeting their financial needs;
- (2) **Activation** – increasing transactionality and primary accounts; and
- (3) **Anti-attrition** – prevention to reduce dormancy and closure.

These strategies are underpinned by the delivery of key customer proof points centred on the themes of simplicity, friendliness and convenience. The Bank continues to focus on initiatives which will provide long-term sustainable growth specifically in low-cost deposits.

(f) Takaful

Amlslamic launched its first Shariah compliant investment linked plan in 2008. Its AmHigh Takaful Investment-Linked Plan which was accorded the Best Bancatakaful Award, showcased the Bank's innovative investment strategies as well as management of investment risks to grow the financial wealth and family values.

4.6.2 Business Banking

Amlslamic offers a wide range of products and services to cater for the needs of corporate and commercial customers. In addition, the SMEs market segment has also been identified as a target market with high growth potential. The Business Banking Division has also established a Bumiputera unit that focuses on expanding the Bank's customer base to include Bumiputera entrepreneurs, Government-Linked Corporations ("**GLCs**") and statutory bodies. In collaboration with Credit Guarantee Corporation Malaysia Berhad ("**CGC**"), Amlslamic also offers financing via its Direct Access Guarantee Scheme-I (DAGS-i) with guarantee directly through CGC.

The Business Banking Division offers a financing programme focusing on SMEs financing requirements in respect of the purchase of commercial and industrial properties. This programme offers a more flexible and faster approval process compared to the approval process normally applicable within the Business Banking Division.

4.6.3 Corporate and Institutional Banking

Corporate and Institutional Banking (“**CIB**”) is a division which focuses on deepening and expanding banking relationships with the AmBank Group’s corporate clients, as well as offering a wider spectrum of the AmBank Group’s commercial banking and investment banking products. CIB focuses on the following areas of business:

(a) Relationship Banking

Relationship Banking provides clients with financial solutions, which include but are not limited to lending, debt and equity capital markets, trade and cash management, foreign exchange and derivatives, as well as advisory and investment products.

(b) Offshore Banking

The AmBank Group’s offshore banking operations in Labuan International Business and Financial Centre comprises Labuan Offshore Branch (“**AmBank-LOB**”) and AmInternational (L) Ltd (“**AMIL**”), which focus on providing foreign currency financing solutions to Malaysian corporations venturing abroad. These include financing for cross-border acquisitions in Singapore and Indonesia, and providing financing to Malaysian corporations which undertake joint venture projects in Hong Kong, India, China, Indonesia and Vietnam in the oil and gas, energy and services as well as the plantation sectors.

CIB works closely with other divisions within the AmBank Group to structure value-added financial solutions for the AmBank Group’s clients. With the increase in the coverage of banking solutions by this division, the CIB teams are able to increase coverage of clients in various sectors. In addition, by marketing various products and services that the AmBank Group offers, this division also plays a pivotal role in cross-selling the products and services of the AmBank Group.

Going forward, the broad strategies of the division will be to diversify and differentiate, in line with the AmBank Group’s strategic objectives. In addition, the division has well-documented asset writing strategies to provide it with clear direction during the current financial market conditions.

4.6.4 Trade Services

AmIslamic provides a wide array of trade services and financing products to cater to the growing business needs of Malaysian exporters. AmIslamic’s trade businesses contribute RM1.0 billion in receivables as at 31 March 2010. AmIslamic is well positioned to grow its trade assets size with a network of offices, agents and correspondent banking relationships in countries worldwide.

4.6.5 Treasury and Markets

The Treasury and Markets division provides capabilities for the trading of Islamic money market investment and Islamic fixed income securities instruments across every market segment including the consumer, SMEs, corporate, institutional and inter-bank markets.

4.6.6 Unit Trust

Unit trust products which are under the Fund Management Division have always been at the forefront of innovative Islamic fund management products and solutions for retail, corporate and institutional markets. The product includes firsts in the market such as the Al-Syamil Facility, an umbrella vehicle allowing switching between various Islamic funds.

4.6.7 Islamic Private Trust Services

The AmBank Group's trustee services division is Malaysia's first bank-backed trust corporation that provides comprehensive services in both private trust and corporate trust services. As a Trust and Fiduciary services provider, the division also offers Islamic private trust services including Wasiat writing, Islamic trust, and Estate administration in the setting up of trust accounts for individuals, family members and institutions.

4.6.8 Stockbroking

The AmBank Group is the first to launch the Islamic stockbroking window service in Malaysia. Islamic stockbroking services offered by the AmBank Group's investment banking arm, providing stockbroking business or activities in accordance with Shariah principles, has been developed by revamping and interpreting various parts of existing practices by applying Shariah principles.

4.7 Competitive Strengths

Amlslamic considers the following to be its principal competitive strengths:

4.7.1 Strategic partnership with ANZ, a major international banking and financial services group

The partnership with ANZ enables Amlslamic to leverage on the international expertise and strengths of ANZ, as ANZ brings with it its international best practices as well as exposure to international products, banking systems and cross border capabilities. The equity participation of ANZ is expected to enable Amlslamic to compete more effectively against international banks, given the expected enhancement of its product development abilities and risk management practices.

Amlslamic believes that the following benefits will be derived by Amlslamic from the AHB Group's strategic partnership with ANZ:

- (i) **Risk Management Framework:** ANZ has a proven track record in transferring risk capabilities to its partners. This includes improvements of credit risk management systems, knowledge transfer on Basel II implementation and enhancement of financial discipline.

Retail and Business Banking: ANZ has experience and capabilities in deposit-raising strategies, auto financing, mortgages and branch service enhancement. ANZ's experience with SMEs will also enable Amlslamic to leverage ANZ's vast corporate banking experience for business expansion purposes. ANZ's credit card business in other Asian markets is expected to enable Amlslamic to adopt ANZ's best practice and capture a larger share of the fast-growing Malaysian credit card market.
- (ii) **Product Innovation:** Amlslamic will have access to ANZ's products and services expertise for product enhancement and innovation as well as cross-selling activities via Amlslamic's existing franchise and distribution channels.
- (iii) **Branding:** It is envisaged that ANZ will add significant credibility and provide a "unique selling point" for Amlslamic to position itself as a domestic Islamic bank with a significant foreign shareholding, and further strengthen its brand equity.
- (iv) **IT Infrastructure and other Operations:** Amlslamic is expected to be able to leverage on ANZ's international standards and IT practices for the enhancement of its existing IT infrastructure. ANZ's best practices in the area

of compliance are expected to enable Amlslamic to enhance its internal auditing and reporting systems. Further, Amlslamic is expected to also gain exposure to ANZ's highly automated banking processes and centralised back office operations.

- (v) **Training and Development:** With staff secondment and training, Amlslamic is expected to be able to absorb and implement ANZ's international service standards to enhance the overall quality of its human capital.
- (vi) **Regional Presence and Cross-Border Transactions:** The partnership is expected to also provide Amlslamic with access to ANZ's wide international network for remittance, trade finance operations and investment banking cross border dealflow.

On 28 August 2008, with the technical expertise from ANZ, the AHB Group has established the foreign exchange, interest rate derivatives and commodities business. The AHB Group is leveraging on ANZ's markets sales, trading, IT, risk, product development and process skills to set foundation for a sustainable markets business in the AHB Group. The business aspiration is to build complete and integrated end-to-end solutions that add significant value across the Group's business segments including retail banking, business banking and corporate banking.

4.7.2 Extensive and diversified distribution network

Amlslamic and AmBank currently jointly operate 189 branches (including 3 dedicated Islamic banking branches), 745 ATMs and 129 self-service EBCs in Malaysia.. Besides its network of dedicated nationwide marketing officers and personal bankers, Amlslamic also leverages on the sales force in the AHB Group which comprise marketing, sales and financial services personnel and agents.

4.7.3 Extensive and diversified retail banking business

Amlslamic offers a diversified range of retail banking products and services. In 2009, the major focus was on growing a new product, Flexi Bai' Bithaman Ajil for House Financing-i, a house financing product with flexible rate features as opposed to fixed rate financing as part of Amlslamic's medium to long term strategy in gearing up the development of variable and floating rate financing products as the mainstream product over fixed rate financing products.

4.7.4 Leading market position in key products

Amlslamic is the fifth (5th) largest Islamic bank in Malaysia in terms of asset size as at 31 March 2010 based on the published financial results of the 17 domestic and foreign Islamic banks in Malaysia, and the second largest Islamic credit card issuer in Malaysia, measured by the total amount of credit card receivables outstanding as at 31 March 2010, commanding a 26% market share based on BNM monthly statistical report.

4.7.5 Ability to provide and cross-sell a wide range of products and services

Being the first-to-market in the region through numerous product innovations, Amlslamic provides a wide range of Shariah-compliant commercial banking, retail banking and related financial services, which also include investment advisory as well as treasury products. Striving to be the premier Islamic bank of choice, Amlslamic continues to grow while providing our customers a complete range of innovative Shariah compliant financial solutions. One notable product innovation by Amlslamic is the AmMomentum Select NID-i, a flexible investment strategy that monitors market momentum to determine timing and methods of investment.

4.7.6 Established and reputable brand name

The initiatives to strengthen the branding of the Amlslamic come through approach of elevating the brand of “Amlslamic” as the Islamic banking / finance products and services for the AmBank Group.

The AmBank Group continues to adopt the brand name of “Amlslamic” in order to create and build a brand that is relevant and preferred for Islamic banking & finance both locally and globally in conjunction with the International Currency Business Unit (“**ICBU**”) licence granted by BNM. Synonymous with the AmBank Group’s Islamic entity, “Amlslamic” shall be known as the promoting brand for all the Group’s Islamic products and services including investment banking, funds management and ICBU products.

By leveraging on the AmBank Group’s extensive international networking to carry the brand of Amlslamic, it should add significant credibility in establishing Amlslamic as a prominent brand in the local front as well as the region. Through this approach, the bank should be able to cater for all their customers’ Islamic financial needs by offering a complete range of Shariah-compliant products and services and also a variety of banking concepts

Another significant branding initiative comes in the form of “dual signage” where the brand name of the Amlslamic appears side by side with the conventional at major locations of the Group’s shared branches throughout the country. This strategy is meant to elevate the visibility of Amlslamic as part of strengthening its brand.

4.7.7 Important strategic alliances

Amlslamic has entered into a number of strategic alliances including a tri-partite agreement with Takaful IKHLAS Sdn Bhd and FWU AG (which specialises in “white label” investment solutions for European and International distribution partners) to promote the distribution of a takaful investment-linked plan through Amlslamic and AmBank’s branches throughout the country.

The Bank had also invested in tying up its products through various alliances and collaborations with external parties to expand its product reach and market penetration, such as the collaboration with Perbadanan Tabung Pendidikan Tinggi Nasional (“**PTPTN**”) to provide two (2) 10-year Bai’ Inah Term Financing amounting up to RM3.0 billion as well as collaboration with Yayasan Waqaf Malaysia (YWM) and Universiti Kebangsaan Malaysia (UKM) to be the collection agent for their “Cash Waqaf Fund”.

In the retail and business banking areas, new products were launched which include Flexi Bai’ Bithaman Ajil for Home Financing-i, AmMomentum Select Islamic Negotiable Instruments of Deposit (NID-i), Wakalah Deposit Investment account for corporate customers and interbank placements and CARz Card-i (card specially designed to cater the motorists). Amlslamic had also signed a Memorandum of Participation for Bursa Commodity House and participated in the Launch of Interbank Murabahah Master Agreement.

Some major strategic initiatives that will continue throughout FYE 2011 include:

- Continue implementation of the dual signage (comprising signages of Amlslamic Bank and AmBank) strategy throughout the Group shared branches network
- On-going product development, business tie-ups and dealings
- Gear up the development and business opportunities in the equity business based on the Musharakah concept
- Increase business penetration for government and government linked companies for both deposits & financing

4.8 Strategy

Amlslamic's focus is to achieve sustainable and profitable growth within its risk management framework. In order to achieve this objective, Amlslamic aims to meet the needs of its customers and develop innovative and competitive products and services.

To best effect each of the business strategies enumerated below, Amlslamic intends to leverage on the international expertise and strengths of ANZ. ANZ brings with it its international best practices as well as exposure to international products, banking systems and cross border capabilities. Amlslamic's principal strategies are in alignment to the overall strategies of the AHB Group, which is to maximise income, continue to deliver profitable growth and meet its return on equity targets by focusing on its core business areas.

The AHB Group had in late 2007 announced its medium term aspirations which include an intention to double its 31 March 2007 underlying net profit after tax and attain a return on equity of 17% to 20%. Amidst the current global economic challenges that have arisen since then, the Group is currently evaluating the timeframe to achieve its medium term aspirations. Amlslamic aims to meet these targets by continuing to focus on its core business areas.

| Business Areas | Current Focus |
|-----------------------|---|
| General | <ul style="list-style-type: none">• In the highly competitive market, the Amlslamic's business strategy remained focused on meeting the banking and financing needs of the retail consumers and middle market commercial businesses, particularly SMEs. |
| Deposit | <ul style="list-style-type: none">• Making exponential progress in mobilizing low cost deposits supported by offering of full suite of deposit products and services.• To establish liaison and support with Government agencies and corporations to explore new business opportunities. |
| Financing | <ul style="list-style-type: none">• By continuing to remain innovative in introducing products and services that are responsive to customer needs. |
| SMEs | <ul style="list-style-type: none">• To accelerate the development of progressive and resilient entrepreneurs and SMEs by providing ready access to financing of their business expansion needs via structured financing programs which provide flexibility and speed |
| Wealth Management | <ul style="list-style-type: none">• To be the customer's planning partner for life by combining expert financial planning capabilities with time-tested, prudent investment management services |

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5. FINANCIAL AND OTHER MATERIAL INFORMATION

5.1 Financial Highlights

A summary of the financial statements of Amlslamic based on the audited financial statements for the past three (3) FYEs 31 March 2008 to 2010 are as follows:

| | FYE 31 March 2008 (Audited) RM million | FYE 31 March 2009 (Audited) RM million | FYE 31 March 2010 (Audited) RM million |
|--|---|---|---|
| Income Statement | | | |
| Income derived from investment of depositors' funds and others | 676.9 | 807.9 | 884.7 |
| Income derived from investment of shareholder's funds | 155.5 | 155.6 | 148.3 |
| Allowance for losses on financing and advances (Provision for)/write back of commitments and contingencies | (139.7) | (93.7) | (90.3) |
| Impairment loss | - | (12.0) | 12.7 |
| Transfer from/(to) profit equalisation reserve | - | - | (4.2) |
| | 18.3 | (24.6) | 12.6 |
| Total distributable income | 711.0 | 833.2 | 963.8 |
| Income attributable to the depositors | (338.4) | (382.2) | (327.8) |
| Total net income | 372.6 | 451.0 | 636.0 |
| Other operating expenses | (200.8) | (218.5) | (259.3) |
| Finance cost | (19.2) | (19.2) | (20.1) |
| Profit before zakat and taxation | 152.6 | 213.3 | 356.6 |
| Zakat | (0.6) | (1.0) | (1.3) |
| Taxation | (65.9) | (55.6) | (94.0) |
| Profit after zakat and taxation | 86.1 | 156.7 | 261.3 |
| EPS (sen) Basic/Diluted | 21.36 | 38.87 | 64.84 |

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| | FYE 31 March 2008 (Audited) RM million | FYE 31 March 2009 (Audited) RM million | FYE 31 March 2010 (Audited) RM million |
|---|---|---|---|
| Balance Sheet | | | |
| ASSETS | | | |
| Cash and short-term funds | 1,521.4 | 3,217.9 | 3,886.5 |
| Deposits and placements with banks and other financial institutions | - | - | 150.0 |
| Securities held-for-trading | 99.7 | 203.9 | 350.9 |
| Securities available-for-sale | - | 569.3 | 907.9 |
| Derivative financial assets | - | 1.9 | 3.5 |
| Financing and advances | 8,000.8 | 9,810.5 | 11,758.7 |
| Other assets | 124.7 | 106.4 | 81.6 |
| Statutory deposit with Bank Negara Malaysia | 257.2 | 86.0 | 32.1 |
| Deferred tax asset | 157.7 | 99.2 | 41.5 |
| Property and equipment | 0.5 | 0.4 | 0.3 |
| Intangible assets | 0.6 | 0.6 | 0.4 |
| TOTAL ASSETS | 10,162.6 | 14,096.1 | 17,213.4 |
| LIABILITIES AND EQUITY | | | |
| Deposits from customers | 5,446.3 | 10,155.1 | 13,398.0 |
| Deposits and placements of banks and other financial institutions | 2,508.8 | 1,445.1 | 1,485.8 |
| Derivative financial liabilities | - | 1.9 | 3.5 |
| Bills and acceptances payable | 547.4 | 612.6 | 395.0 |
| Other liabilities | 141.5 | 196.8 | 191.8 |
| Provision for zakat | 0.6 | 1.1 | 1.2 |
| Subordinated Sukuk Musyarakah | 400.0 | 400.0 | 400.0 |
| Total Liabilities | 9,044.6 | 12,812.6 | 15,875.3 |
| Share capital | 403.0 | 403.0 | 403.0 |
| Reserves | 715.0 | 880.5 | 935.1 |
| Equity attributable to equity holder of the Bank | 1,118.0 | 1,283.5 | 1,338.1 |
| TOTAL LIABILITIES AND EQUITY | 10,162.6 | 14,096.1 | 17,213.4 |
| Net assets per share (RM) | 2.77 | 3.18 | 3.32 |

The summary financial statements of Amlslamic for the FYE 31 March 2008 had not incorporated the restatement as follows:

- i) inclusion of financial results of AmlInvestment Bank's Islamic fund-based activities vested to Amlslamic in FYE 2009 under the pooling of interest method under Malaysian Generally Accepted Accounting Practices ("Merger Method"). Under the Merger Method, the results of business transferred from AmlInvestment Bank together with the assets and liabilities are included in the financial statements of Amlslamic as if the merger had been effected prior to and throughout the current financial year.
- ii) reclassification arising from changes in presentation with effect from April 2008 and April 2009.

Core financial ratios of the Bank can be summarised as follows:

| | FYE 31 March 2008 | FYE 31 March 2009 | FYE 31 March 2010 |
|-------------------------------------|----------------------|----------------------|----------------------|
| <u>Financial Ratios - Unaudited</u> | | | |
| Return on assets | 0.88% | 1.29% | 1.67% |
| Return on equity | 8.01% | 13.05% | 19.94% |
| Net financing margin | 4.92% | 4.15% | 4.18% |
| Financing loss coverage ratio | 100.99% | 110.82% | 136.96% |
| Financing to deposits ratio | 146.90% | 96.61% | 87.76% |
| Cost to income | 40.73% | 40.65% | 37.16% |
| <u>Financial Ratios - Audited</u> | | | |
| Net NPF ratio | 1.50% | 1.29% | 0.96% |
| Core capital ratio | 10.32% | 11.22% | 10.53% |
| Risk-weighted capital ratio | 16.28% | 16.65% | 15.29% |

Notes:

The Financial Ratios used are defined as:

Return on assets means net profit for the year as a percentage of the average of beginning and year-end total assets.

Return on equity means net profit for the year as a percentage of the average of beginning and year-end shareholders' funds.

Net financing margin means net financing income, as a percentage of the average of beginning and year-end profit-earning assets (comprising cash and short-term funds, deposits and placements with banks and other financial institutions, securities held-for-trading, securities available-for-sale and financing and advances).

Net NPF ratio means non-performing financing less specific allowance as a percentage of gross financing and advances (before deduction of Islamic financing sold to Cagamas Berhad) less specific allowance.

Financing loss coverage ratio means total specific allowance and general allowance for bad and doubtful financing as a percentage of gross non-performing financing.

Financing to deposits ratio means net financing and advances as a percentage of deposits from customers.

Cost to income means operating expenses as a percentage of net income (gross finance income and hibah and other operating income less income attributable to the depositors and finance cost and add/less transfer from/to profit equalisation reserve).

Core capital ratio means the ratio of Tier I capital to risk-weighted assets calculated in accordance with BNM guidelines.

Risk-weighted capital ratio means the ratio of total capital base to risk-weighted assets calculated in accordance with BNM guidelines.

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5.2 Commentaries On Past Performance

FYE 31 March 2008

Amlslamic reported a profit before zakat and tax (“PBT”) of RM152.6 million for the year, an increase of RM12.7 million or 9.1% as compared to the previous financial year. The increase in PBT was mainly contributed by an increase of RM47.0 million in net profit income and a reduction of RM58.2 million in allowances made for losses on financing and advances. The increase in net profit/dividend income was attributable to strong growth in financing and advances. Allowances made for losses on financing and advances registered a significant decline as a result of the more stringent allowance for bad and doubtful financing policy adopted with effect from previous financial year coupled with a lower net non-performing financing recorded, which fell to 1.50% from 2.70% a year ago. The favourable results achieved in net profit/dividend income and allowances were partially offset by higher other operating expenses, in tandem with the expanding business operations and lower write back from profit equalisation reserve.

On 11 March 2008, AHB, the ultimate holding company, announced a Proposed Group Internal Restructuring whereby the Islamic fund-based activity of AmInvestment Bank shall be transferred to and vested in the Bank pursuant to the vesting order issued by the High Court of Malaya at Kuala Lumpur.

FYE 31 March 2009

Effective on 12 April 2008, the Islamic fund-based activity of AmInvestment Bank was transferred to the Bank. The consideration for the business transfer, which was based on the book value of the assets acquired less the book value of the liabilities assumed, was settled in cash by the Bank.

During the financial year, Amlslamic had displayed its resilience against the global financial downturn by registering a PBT of RM213.3 million. The increase in PBT was mainly attributable to increase in net profit/dividend income arising from continuous strong growth in financing and advances as well as a significant decrease in allowances for losses on financing and advances, which was underpinned by improved credit control, collections and recoveries management. Net non-performing financing ratio of the Bank continued to improve to 1.29%. The improvement from net profit income and allowances for losses on financing and advances was partially offset by higher other operating expenses, which was in line with the Bank’s expanding business operations, profit equalisation reserve charge as compared to a write back in the previous financial year as well as provisions made on commitments and contingencies.

FYE 31 March 2010

The substantially improved domestic economy and capital markets recovery had benefited the domestic banking industry, with Amlslamic achieving a significant increase in its PBT to RM356.6 million, which represented an increase of RM143.3 million or 67.2% over the preceeding financial year. The sound performance of the Bank was principally due to increase of RM62.1 million in net profit income, driven by the continuous strong growth in financing and advances, write back of provision for commitments and contingencies and profit equalisation reserve compared to a charge in the previous financial year. The increase was partly offset by higher other operating expenses, which was in line with the expanding business operations.

With superior credit/risk tools and enhanced systems, the Bank’s asset quality continued to improve, whereby the Bank’s net non-performing financing fell to 0.96% from 1.29%.

5.3 Capitalisation and Indebtedness

The following table sets out the capitalization and indebtedness of Amlslamic based on the audited financial statements for the past three (3) FYEs 31 March 2008 to 2010:

| | FYE 31 March 2008 (Audited) RM million | FYE 31 March 2009 (Audited) RM million | FYE 31 March 2010 (Audited) RM million |
|---|---|---|---|
| Short-term and long-term liabilities | | | |
| Deposits from customers | 5,446.3 | 10,155.1 | 13,398.0 |
| Deposits and placements of banks and other financial institutions | 2,508.8 | 1,445.1 | 1,485.8 |
| Derivative financial liabilities | - | 1.9 | 3.5 |
| Bills and acceptances payable | 547.4 | 612.6 | 395.0 |
| Other liabilities | 141.5 | 196.8 | 191.8 |
| Provision for zakat | 0.6 | 1.1 | 1.2 |
| | 8,644.6 | 12,412.6 | 15,475.3 |
| Subordinated Sukuk Musyarakah | 400.0 | 400.0 | 400.0 |
| | 400.0 | 400.0 | 400.0 |
| Total Liabilities | 9,044.6 | 12,812.6 | 15,875.3 |
| Equity | | | |
| Share capital | 403.0 | 403.0 | 403.0 |
| Reserves | | | |
| Share premium | 534.0 | 534.0 | 534.0 |
| Statutory reserve | 90.5 | 168.8 | 265.2 |
| Available for-sale reserve | - | 8.9 | 2.2 |
| Unappropriated profits | 90.5 | 168.8 | 133.7 |
| Total Shareholder's Funds | 1,118.0 | 1,283.5 | 1,338.1 |
| Total Liabilities and Equity | 10,162.6 | 14,096.1 | 17,213.4 |
| Off Balance Sheet Exposure | 4,265.2 | 4,185.8 | 4,117.9 |
| Total Capitalisation | 1,518.0 | 1,683.5 | 1,738.1 |

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5.4 Funding

The Bank funds most of its operations from customer deposits and interbank financing. Customer deposits in the CASA space has increased by 30% over the last twelve (12) months. The overall strategy is to enlarge the distribution footprint and branch network plays a pivotal role in depositing gathering. Amlslamic's distribution footprint includes 3 dedicated Islamic bank branches, 764 ATMs and 129 electronic banking centres nationwide. Of these, a targeted 400 (342 installations completed) ATMs are placed at 7-Eleven stores to accord customers with 24-hour and more secure banking convenience.

The Bank's liquidity risk management is in compliance with the New Liquidity Framework as prescribed by BNM.

5.4.1 Customer Deposits

The following table illustrates the profile of Amlslamic's customer deposits by type for the past three (3) FYEs 31 March 2008 to 2010:

Profile of Customer Deposits by Type

| | FYE 31 March 2008 (Audited)* RM million | FYE 31 March 2009 (Audited) RM million | FYE 31 March 2010 (Audited) RM million |
|---------------------------------------|--|---|---|
| Deposit Type | | | |
| <u>Non-Mudharabah</u> | | | |
| Demand deposits | 520.6 | 645.9 | 910.8 |
| Savings deposits | 801.0 | 945.9 | 1,154.4 |
| Negotiable instruments of deposits | 6.5 | 267.0 | 155.8 |
| Other deposits | - | - | 9.5 |
| | <u>1,328.1</u> | <u>1,858.8</u> | <u>2,230.5</u> |
| <u>Mudharabah</u> | | | |
| General investment deposits | 4,118.2 | 8,251.4 | 11,088.9 |
| Structured deposits | - | 44.9 | 78.6 |
| | <u>4,118.2</u> | <u>8,296.3</u> | <u>11,167.5</u> |
| Total | 5,446.3 | 10,155.1 | 13,398.0 |

* Figures not restated with reclassification made in FYE 2009. In FYE 2009, certain depositors which were previously classified under deposits and placements of banks and other financial institutions were reclassified to deposits from customers. The rationale for the reclassification is to facilitate better peer comparison as the reclassification is in line with industry practice.

The following table illustrates the maturity structure of the Bank's customer deposits for the past two (2) FYEs 31 March 2009 to 2010:

Maturity Structure

| | FYE 31 March 2009 (Audited) RM million | FYE 31 March 2010 (Audited) RM million |
|---------------------------|---|---|
| Maturity Structure | | |
| Due within six months | 9,180.2 | 12,691.1 |
| Six months to one year | 525.2 | 411.6 |
| One year to three years | 379.3 | 233.0 |
| Three years to five years | 70.4 | 62.3 |
| Total | 10,155.1 | 13,398.0 |

5.4.2 Interbank Deposits

The Bank is an active interbank participant. It also acts as a Principal Dealer on BNM money market tender operations. Interbank financing are normally used to fund short term mismatches in the Bank's maturity profiles or for on-financing and arbitrage opportunities, where there are opportunities to do so. The Bank seeks to maintain financing from the interbank market within manageable levels so as to avoid dependence on the interbank market financing. The Bank is currently a net interbank financier.

The Bank also issues negotiable certificates of deposits and sells securities to raise short term funds.

5.4.3 Other Funding Sources

Sale of credit facilities to Cagamas Berhad

The Bank is able to secure longer-term sources of funds of three to seven years tenure by selling consumer financings to Cagamas Berhad (the Malaysian national mortgage corporation) with recourse to the Bank. The Bank continues to service such financings, retaining the fixed or floating profit collected on the financings, and pays a fixed or floating rate of profit to Cagamas Berhad as selected by the Bank at the time of sale.

Asset securitization

The Bank obtains alternative funding by undertaking asset securitization whereby it sells credit facilities or a portfolio of financings to a special purpose vehicle, which, in turn issues securities to fund the acquisition from the Bank. By doing so, the Bank is able to realize the value of the assets sold to the special purpose vehicle as well as diversify external sources of asset funding and to transfer specific risk exposures. Apart from the abovementioned, the establishment of the Senior Sukuk Musyarakah Programme will provide the Bank with a long term funding platform to tap liquidity in the Malaysia debt capital markets, to meet its long-term funding requirements and to facilitate the Bank in enhancing its liquidity risk management activities.

5.4.4 Contingency Funding Plan

The contingency funding plan of Amlslamic comprises of the following:-

- liquidity and crisis management policy
- liquidity and management resources
- crisis management action plan

The above are adopted in accordance with Sound Practices for Managing Liquidity in Banking Organisation issued by the Basel Committee on Banking Supervision 2000.

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5.5 Capital Adequacy

Our historical capital adequacy ratios for the past three (3) FYEs 31 March 2008 to 2010:

| | FYE 31 March 2008 (Audited) RM million | FYE 31 March 2009 (Audited) RM million | FYE 31 March 2010 (Audited) RM million |
|---|---|---|---|
| Tier I capital | | | |
| Paid-up share capital | 403.0 | 403.0 | 403.0 |
| Share premium | 534.0 | 534.0 | 534.0 |
| Statutory reserve | 90.4 | 168.8 | 265.2 |
| Unappropriated profit | 90.4 | 168.8 | 133.7 |
| | 1,117.8 | 1,274.6 | 1,335.9 |
| Less: Deferred tax assets | (157.6) | (102.1) | (42.1) |
| Total Tier I capital | 960.2 | 1,172.5 | 1,293.8 |
| Tier II capital | | | |
| Subordinated Sukuk Musyarakah | 400.0 | 400.0 | 400.0 |
| General allowance for bad and doubtful debts and financing | 154.7 | 166.5 | 184.8 |
| Total Tier II capital | 554.7 | 566.5 | 584.8 |
| Capital base | 1,514.9 | 1,739.0 | 1,878.6 |
| Risk-weighted assets | 9,303.8 | 10,447.0 | 12,286.5 |
| Capital Ratios: | | | |
| Core capital | 10.32% | 11.22% | 10.53% |
| Risk-weighted capital | 16.28% | 16.65% | 15.29% |

Notes:

The capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks, which are based on the Basel II capital accord.

The following is a breakdown of the risk weighted assets of Amlslamic in the various categories of risk weights for the past three (3) FYEs 31 March 2008 to 2010:

| | FYE 31 March 2008 (Audited) RM million | FYE 31 March 2009 (Audited) RM million | FYE 31 March 2010 (Audited) RM million |
|--|---|---|---|
| 0% | - | - | - |
| 20% | 13.1 | 137.3 | 193.4 |
| 35% | 58.7 | 31.9 | 45.0 |
| 50% | 50.9 | 96.4 | 62.8 |
| 75% | 6,245.3 | 6,487.7 | 6,570.8 |
| 100% | 1,970.6 | 2,354.7 | 3,527.1 |
| 150% | 138.4 | 171.5 | 341.1 |
| Total risk weighted assets equivalent for credit risk | 8,477.0 | 9,279.5 | 10,740.2 |
| Total risk weighted assets equivalent for market risk | 37.6 | 237.8 | 456.3 |

| | FYE 31 March 2008 (Audited) RM million | FYE 31 March 2009 (Audited) RM million | FYE 31 March 2010 (Audited) RM million |
|--|---|---|---|
| Total risk weighted assets equivalent for operational risk | 789.2 | 929.7 | 1,090.0 |
| Large exposure risk requirement for equity holdings | - | - | - |
| Total risk weighted assets | 9,303.8 | 10,447.0 | 12,286.5 |

5.6 Asset Quality

5.6.1 Financing and Advances Portfolio

Financing and advances by type

The following table sets out the breakdown of AmIslamic's financing portfolio by product type for the past three (3) FYEs 31 March 2008 to 2010:

| | FYE 31 March 2008 (Audited) RM million | FYE 31 March 2009 (Audited) RM million | FYE 31 March 2010 (Audited) RM million |
|--|---|---|---|
| Cash lines | 140.9 | 125.8 | 252.5 |
| Term financing: | | | |
| House financing | 812.2 | 730.8 | 772.8 |
| Hire-purchase receivables | 7,700.5 | 7,608.6 | 7,947.6 |
| Other financing | 3,285.7 | 4,359.1 | 4,751.2 |
| Card receivables | 268.1 | 310.6 | 292.9 |
| Bills receivables | 3.8 | 2.1 | - |
| Trust receipts | 46.1 | 32.4 | 70.2 |
| Claims on customers under acceptance credits | 686.4 | 763.7 | 917.8 |
| Revolving credits | 122.4 | 257.0 | 771.3 |
| Total | 13,066.1 | 14,190.1 | 15,776.3 |
| Less: Unearned income | (2,824.4) | (3,208.3) | (3,422.3) |
| | 10,241.7 | 10,981.8 | 12,354.0 |
| Less: Islamic financing sold to Cagamas Berhad | (1,956.0) | (905.8) | (345.7) |
| Gross financing and advances | 8,285.7 | 10,076.0 | 12,008.3 |
| Allowance for bad and doubtful financing: | | | |
| - General | (154.7) | (166.5) | (184.8) |
| - Specific | (130.2) | (99.0) | (64.8) |
| Net financing and advances | 8,000.8 | 9,810.5 | 11,758.7 |

Financing and advances by economic purpose

The following table sets out the breakdown of Amlslamic's gross financing portfolio by economic purpose for the past three (3) FYEs 31 March 2008 to 2010:

| | FYE 31 March 2008 (Audited) RM million | FYE 31 March 2009 (Audited) RM million | FYE 31 March 2010 (Audited) RM million |
|---|---|---|---|
| Purchase of securities | 9.4 | 6.3 | 3.2 |
| Purchase of transport vehicles | 6,368.2 | 6,255.5 | 6,536.1 |
| Purchase of landed property | | | |
| - Residential | 420.1 | 383.0 | 382.4 |
| - Non-residential | 141.5 | 213.2 | 183.0 |
| Purchase of fixed assets other than land and building | 126.3 | 161.4 | 157.1 |
| Personal use | 1,702.1 | 2,035.4 | 2,050.3 |
| Credit card | 267.7 | 309.4 | 279.4 |
| Purchase of consumer durables | 1.2 | 0.1 | 1.3 |
| Construction | 8.1 | 109.7 | 228.9 |
| Working capital | 1,073.7 | 1,216.7 | 2,006.5 |
| Other purpose | 123.4 | 291.1 | 525.8 |
| | 10,241.7 | 10,981.8 | 12,354.0 |
| Less: Islamic financing sold to Cagamas Berhad | (1,956.0) | (905.8) | (345.7) |
| Gross financing and advances | 8,285.7 | 10,076.0 | 12,008.3 |

5.6.2 Financing and Advances Maturity Profile

The following table sets out the breakdown of Amlslamic's gross financing portfolio by remaining maturity for the past two (2) FYEs 31 March 2009 to 2010:

| | FYE 31 March 2009 (Audited) RM million | FYE 31 March 2010 (Audited) RM million |
|-------------------------------------|---|---|
| Financing Maturity | | |
| Maturing within one year | 1,268.2 | 1,982.2 |
| One year to three years | 759.1 | 804.7 |
| Three years to five years | 1,536.0 | 2,074.7 |
| Over five years | 6,512.7 | 7,146.7 |
| Gross financing and advances | 10,076.0 | 12,008.3 |

5.6.3 Non-Performing Financing (“NPF”)

Classification of NPF

BNM’s “GP3” guidelines classify NPF into three categories according to periods of default, i.e. sub-standard, doubtful and bad. Specific allowance is made against the uncollateralized portion of the outstanding balance of the financings, that is, the outstanding balance of the financings net of interest-in-suspense and the realisable security value of any collateral. According to the classification status of each account, the provisioning level will be 20% (in the case of sub-standard accounts), 50% (in the case of doubtful accounts) or 100% (in the case of bad accounts), as stipulated by BNM’s GP3 guidelines.

BNM requires Malaysian banks to keep a general allowance equal to at least 1.5% of gross financings net of interest-in-suspense and specific provisions.

Amlslamic will consider a financing non-performing when it is more than three months in arrears. An NPF will be classified as “sub-standard” if it is between three (3) to nine (9) months in arrears and is considered as “doubtful” if it is more than nine (9) months in arrears and collection thereof is considered by the Bank to be highly improbable. An NPF that is more than twelve (12) months in arrears and is considered by the Bank to be impossible to collect or worthless will be classified as “bad”. As at 31 March 2010, Amlslamic has total financing loss reserves (specific and general combined) of RM249.6 million.

Profile of NPF

Amlslamic’s gross NPF was RM182.2 million and net NPF was RM117.4 million as at 31 March 2010, representing a ratio of gross NPF to total gross financing and advances (before deduction of Islamic financing sold to Cagamas Berhad) of 1.47% and a ratio of net NPF to total net financing and advances (before deduction of Islamic financing sold to Cagamas Berhad) of 0.96% respectively.

Set out below are Amlslamic’s total NPF and NPF ratios for the past three (3) FYEs 31 March 2008 to 2010:

| | FYE 31 March 2008 (Audited) * RM million | FYE 31 March 2009 (Audited) RM million | FYE 31 March 2010 (Audited) RM million |
|---|---|---|---|
| Balance at beginning of year | 479.5 | 305.3 | 239.6 |
| Non-performing during the year | 206.0 | 186.2 | 155.1 |
| Reclassified as performing | (103.5) | (62.4) | (54.8) |
| Amount recovered | (70.5) | (27.6) | (21.1) |
| Amount written off | (229.4) | (161.9) | (136.6) |
| Balance at end of year | 282.1 | 239.6 | 182.2 |
| Less: Specific allowance | (130.2) | (99.0) | (64.8) |
| Net non-performing financing and advances | 151.9 | 140.6 | 117.4 |
| Gross financing and advances | 8,285.7 | 10,076.0 | 12,008.3 |
| Add: Islamic financing sold to Cagamas Berhad | 1,956.0 | 905.8 | 345.7 |
| Balance at end of year | 10,241.7 | 10,981.8 | 12,354.0 |
| Less: Specific allowance | (130.2) | (99.0) | (64.8) |
| Net financing and advances (including Islamic financing sold to Cagamas Berhad) | 10,111.5 | 10,882.8 | 12,289.2 |
| NPF ratio | 1.50% | 1.29% | 0.96% |

* Figures not restated with the effects of the Merger Method.

NPF by economic purpose

The table below sets out Amlslamic's NPF by economic purpose for the past three (3) FYEs 31 March 2008 to 2010:

| | FYE 31 March 2008 (Audited) * RM million | FYE 31 March 2009 (Audited) RM million | FYE 31 March 2010 (Audited) RM million |
|---|---|---|---|
| Purchase of securities | 0.9 | 0.6 | 0.1 |
| Purchase of transport vehicles | 124.9 | 120.8 | 111.5 |
| Purchase of landed property | | | |
| - Residential | 81.4 | 58.0 | 37.9 |
| - Non-residential | 25.2 | 14.3 | 5.3 |
| Purchase of fixed assets other than land and building | 7.2 | 2.3 | - |
| Personal use | 0.5 | 0.5 | 2.6 |
| Credit card | 10.6 | 11.1 | 9.5 |
| Purchase of consumer durables | - | - | 0.2 |
| Construction | 2.5 | - | - |
| Working capital | 24.8 | 30.8 | 13.7 |
| Other purpose | 4.1 | 1.2 | 1.4 |
| | 282.1 | 239.6 | 182.2 |

* Figures not restated with the effects of the Merger Method.

Financing loss provisioning policy

Amlslamic's provisioning policy is in line with BNM's regulatory requirements. The Bank maintains both general provisions and specific provisions for NPF. The Bank's policy in relation to the write-back of specific provisions is in line with BNM's "GP3" guidelines, where the write-back of specific provisions is permitted under certain circumstances.

Specific financing loss provision will be made against the uncollateralized portion of the outstanding balance of a financing (i.e. the outstanding balance of the financing net of interest-in-suspense and the realizable security value of any collateral). The financing loss provision assigned will vary depending on the status of the financing account. In the case of sub-standard accounts, the provisioning level is 20%, in the case of doubtful accounts, the provisioning level is 50% and for bad accounts, the provisioning level is 100%.

Amlslamic has internally adopted a practice of assigning zero value for property collaterals that relate to non-performing corporate and retail financing that are over seven (7) years in arrears. In addition, a 50% provision is taken in respect of financing accounts that are more than five (5) years but less than seven (7) years in arrears. Thus, for any financial period, the amount of the Bank's financing loss provisions will be contingent upon the amount of NPF that are five (5) to seven (7) years in arrears and the amount of NPF that are more than seven (7) years in arrears. Any amounts that the Bank realizes from property collateral relating to a financing for which the Bank has taken a financing provision following the provision will be added to the Bank's income statement at the relevant time.

BNM also requires all banks to keep a general financing loss allowance of at least 1.5% of total gross financing net of interest-in-suspense and specific provisions.

The realizable security value of the various forms of collateral pledged is ascertained in accordance with the Bank's policy on valuation of collateral pledged for NPF while the review of the adequacy of the specific provisions in the policy is carried out monthly. The determination of the realizable security value of collateral pledged is based on BNM's "GP3" guidelines, for example, as a general rule:

- the realizable security value for property is based on the forced sale value of the property. Under certain circumstances, as stipulated in BNM's "GP3" guidelines, the reserve price or the auction price of the property may be used as its realizable security value;
- the realizable security value for quoted shares is based on the latest market price subject to BNM's approval. For quoted shares, net tangible value is used as the realizable security value; and
- the realizable security value for plant and machinery is based on the valuation report prepared by a professional valuer, if there is one. In the absence of professional valuation, a 20% depreciation rate will be applied annually on the amount financed and no value is assigned for bad accounts.

The Bank observes BNM's "GP3" guidelines for specific provisioning. The following tables show Amlslamic's NPF classification standards and the specific provisioning required for different financing products:

Overdrafts and financings (repayment at intervals of less than three months)

| Months in arrears (from first day of default) | Classification status | Specific provisioning required |
|--|-----------------------|--------------------------------|
| 4 – 8 | Sub-standard | 20% |
| 9 – 11 | Doubtful | 50% |
| > 12 | Bad | 100% |

Financings (repayment at intervals of three months or longer)

| Months in arrears (from first day of default) | Classification status | Specific provisioning required |
|--|-----------------------|--------------------------------|
| 4 – 8 | Sub-standard | 20% |
| 9 – 11 | Doubtful | 50% |
| > 12 | Bad | 100% |

Trade bills

| Months in arrears (from first day of default) | Classification status | Specific provisioning required |
|--|-----------------------|--------------------------------|
| 4 – 6 | Doubtful | 50% |
| > 6 | Bad | 100% |

Credit cards

| Months in arrears (from first day of default) | Classification status | Specific provisioning required |
|--|-----------------------|--------------------------------|
| 4 – 6 | Doubtful | 50% |
| > 6 | Bad | 100% |

Write-off policy

Amlslamic's write-off policy is in compliance with BNM's "GP3" guidelines, which, in brief, provide that banks may write-off accounts or portions thereof which have been classified as bad and deemed uncollectible. The Bank writes off a particular financing after management has determined that the particular financing is not recoverable and (i) after either commencement of legal action to recover amounts unpaid or after the borrower has been declared bankrupt or (ii) if appropriate action has been taken to foreclose/ enforce on collateral securing the financing. The Bank continues to monitor financing which are written off for possible repayment of any amounts outstanding until all arrears are collected. Write-offs of financing must be approved by the Board.

The Bank also adopts BNM's "GP3" guidelines for the partial write-off of accounts. Where there is adequate justification for the relevant Committee to approve a partial write-off of a financing, the amount of the financing is written down to the realizable value of the security and the shortfall in realizable security value over the outstanding balance of the financing will be written off. The Bank continues to evaluate effective procedures for improving recovery. As a general rule, a partial write-off is permitted when:

- the realizable value of the security is less than the outstanding balance of the financing and further collateral to improve the security deficiency is not forthcoming; or
- the shortfall in realizable security value over the outstanding balance of the financing is deemed uncollectible and worthless.

5.6.4 Portfolio of Securities

The securities held-for-trading and securities available-for-sale of Amlslamic for the past three (3) FYEs 31 March 2008 to 2010 are as set out below:

| | FYE 31 March 2008 (Audited) RM million | FYE 31 March 2009 (Audited) RM million | FYE 31 March 2010 (Audited) RM million |
|--|---|---|---|
| Securities held-for-trading | | | |
| At fair value | | | |
| <u>Money market securities:</u> | | | |
| Malaysian Government investment certificates | 35.2 | - | 189.9 |
| Islamic treasury bills | 34.6 | - | 39.1 |
| Sukuk BNM | - | - | 15.0 |
| Islamic Khazanah bonds | - | 1.0 | - |
| BNM monetary notes | - | - | 48.7 |
| | 69.8 | 1.0 | 292.7 |
| <u>Unquoted Securities:</u> | | | |
| <u>In Malaysia</u> | | | |
| Private debt securities | 29.9 | 202.9 | 58.2 |
| | | | |
| Total securities held-for-trading | 99.7 | 203.9 | 350.9 |
| Securities available-for-sale | | | |
| At fair value | | | |
| <u>Money market securities:</u> | | | |
| Malaysian Government investment certificates | - | 36.0 | 76.0 |

| | FYE 31 March 2008 (Audited) RM million | FYE 31 March 2009 (Audited) RM million | FYE 31 March 2010 (Audited) RM million |
|--|---|---|---|
| Negotiable instruments of deposit | - | 29.2 | 577.3 |
| | - | 65.2 | 653.3 |
| <u>Unquoted securities: In Malaysia</u> | | | |
| Private debt securities | - | 504.1 | 258.8 |
| Total | - | 569.3 | 912.1 |
| Less: Accumulated impairment losses | - | - | (4.2) |
| Total securities available-for-sale | - | 569.3 | 907.9 |

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 recognized in the income statement.

As at 31 March 2010, the securities held-for-trading constituted 2.04% of Amlslamic's total assets. Amlslamic's securities held-for-trading comprised mainly Malaysian Government investment certificates, BNM monetary notes, Islamic Treasury Bills, Sukuk Bank Negara Malaysia and unquoted private debt securities.

Securities available-for-sale

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

As at 31 March 2010, the securities available-for-sale constituted 5.27% of Amlslamic's total assets. Amlslamic's securities available-for-sale comprised mainly unquoted private debt securities and money market securities including negotiable instruments of deposits and Malaysian Government investment certificates.

5.7 Financial Reporting Standard (FRS) 139

The Malaysian Accounting Standards Board (MASB) had announced that Financial Reporting Standard (FRS) 139 - Financial Instruments: Recognition and Measurement will be applicable to all entities for annual periods beginning on or after 1 January 2010. For Amlslamic, FRS 139 is applicable for the first time with effect from the financial year beginning 1 April 2010.

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6. RISK MANAGEMENT

Amlslamic's risk management is performed on a group basis among its banking entities. The AHB Group recognizes that every risk assumed by the AHB Group carries potential gains as well as possible erosion of shareholders' value. The main objectives of the AHB Group's risk management policies are to identify, capture, and analyze these risks at an early stage, as well as continuously measure and monitor these risks and to set limits, policies and procedures to control them to ensure sustainable risk-taking and sufficient returns. To this end, seven (7) types of risks, namely strategic, capital, credit, market, funding, operational and legal have been identified.

AHB Group's risk management effort is guided by the following objectives:

- All significant risk in AHB Group must be recognized, systematically identified, prioritized and managed according to their significance and implications.
- Centralised overview , accountability and management of risks in our Group to allow a more informed decision-making process in which all risks are considered and evaluated from a complete organization or business unit perspective.
- A uniform risk language for quantifiable risks that permits comparability and risk aggregation. This will allow the management to assess the impact of risks in a familiar form and also to foster comparison amongst various types of risks.
- Better awareness, grading and development of risk indicators on non-quantifiable risks for making decisions.
- Our Group only takes risks that we can accommodate. The size of permissible risk-taking activity will be assessed against the available capital at risk determined by our Board.
- Risk taking activities must be able to generate sufficient profits to cover expected losses that can arise from their inherent risks in the long-run. A risk-return factor will be a consideration in such assessments.
- A balance must be achieved between revenue expectations and risks involved in relation to any customer, product or venture consideration. A risk-return factor will be a consideration in such assessments.

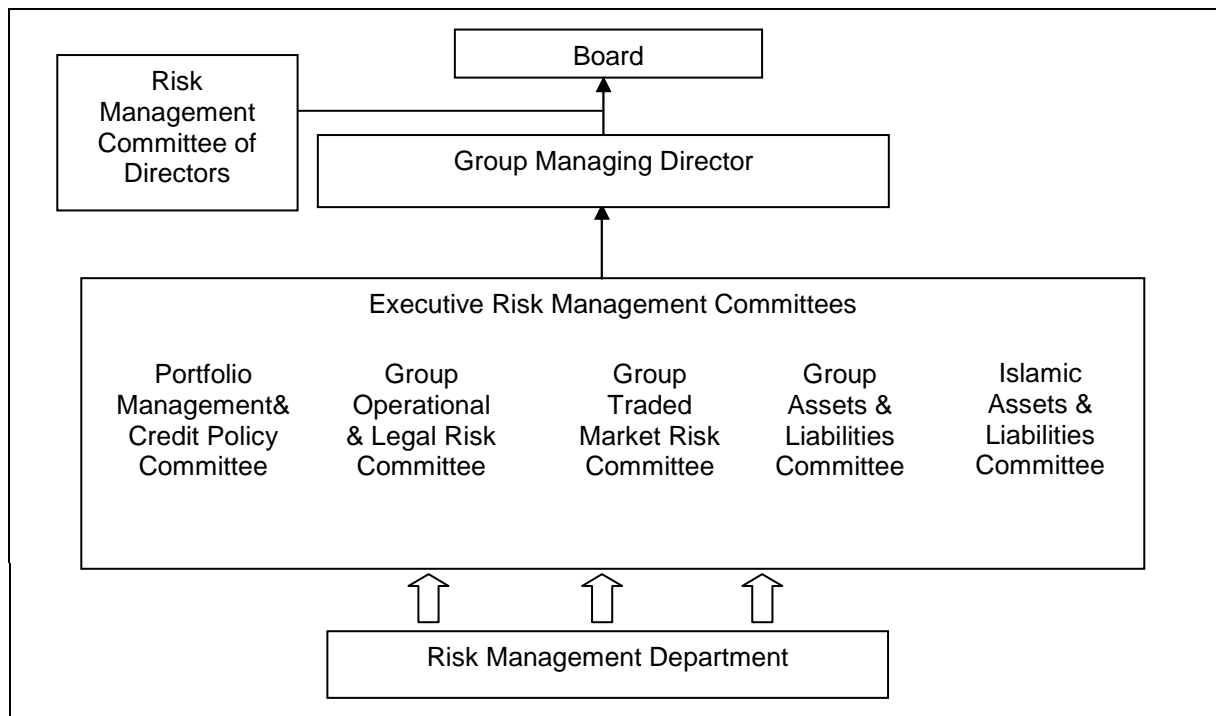
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Risk Management Structure

The Group's main risk management organizational structure (as illustrated below) is made up of the following components:

- Board
- Risk Management Committee of Directors
- Executive Risk Management Committees
- Risk Management Department

Figure 1: Risk management structure



Board

The Board regularly discusses risk management policies and approves the Bank's risk management strategy. The Board also plays the important role of establishing and approving the broad risk tolerance levels for the Bank. In addition, the engagement of new products or activities would require the Board's approval after taking into account our risk-bearing capacity and readiness.

Risk Management Committee of Directors

The Risk Management Committee of Directors comprises non-executive directors and assists the Board in discharging its functions, and oversees the executive body by having a more focused forum on risk issues. The Risk Management Committee of Directors ensures that risk management at all levels are carried out effectively and that the Board's risk tolerance levels are effectively enforced by the Bank. It will review high-level risk exposures and decisions made by the Executive Risk Management Committees, to ensure that these decisions are within the Bank's overall risk parameters.

Executive Risk Management Committees

The Bank's Executive Risk Management Committees are responsible for the day-to-day management of risks and for implementing the Board's approved risk management policies at the operational level. The Committees oversee the seven (7) types of risks stated earlier.

Chaired by senior executives and comprising the relevant senior executives of both the business and non-business units, these Committees are vested with the power to steer the Bank's business direction in conformance to the risk tolerance levels set by the Board. These Committees review the external business and economic environments and have discretionary powers in the micro-management of risk and the risk positioning of the Bank's business, within the parameters set by the Board. These Committees report their activities to the Risk Management Committee of Directors on a quarterly basis.

Risk Management Department

The Risk Management Department is independent of business units and reports directly to the Group Managing Director. It assists the Executive Risk Management Committees in discharging their duties and implementing the directives of the committees. The major role of the Risk Management Department is to:

- Be a central platform where risks throughout the Bank can be aggregated for overview on a portfolio basis;
- Standardise risk measurement methodology to enable comparisons;
- Acts as a central resource for evaluating risks to assist management, business and operating units; and
- Recommends means to control or minimise risks on a portfolio basis.

The Risk Management Department is made up of several units, to provide a comprehensive coverage of all risks within the Bank. Their functions encompass research and analysis, reporting on risk exposures, monitoring of compliance with limits, formulation of risk assessment methodology and formulation of the Bank's risk strategy.

The Internal Audit Department and Audit Committee complement the risk management structure. They assist the Board by providing independent assessments of the effectiveness of the risk management structure, control systems and methodologies used to manage risks.

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7. INDUSTRY OVERVIEW

7.1 Islamic Finance Developments

Robust Islamic finance

Efforts continue to be taken to strengthen Malaysia as an International Islamic Financial Centre (MIFC). These include promotional activities, branding, sukuk issuance, product innovation, standardisation of documentation as well as harmonisation efforts towards understanding and interpretation of Islamic financial products and services. MIFC promotional activities focused on attracting potential sukuk issuers and global players from established financial centres in Europe, Asia and Middle East. These include international road shows, advertisements through mass media and branding. The brand “Shaping Islamic Finance Together” launched in October 2009 reflects Malaysia’s position of being at the frontier in the development of Islamic finance and in thought leadership.

The Islamic finance industry was not spared from the global economic downturn, which saw sukuk issuance declining 57.1% to USD15.0 billion in 2008 (2007: USD35.0 billion). Despite this, a landmark issuance of USD3.0 billion bond and USD1.5 billion sukuk by Petroliam Nasional Berhad (PETRONAS) in August 2009 received overwhelming response. It is the largest USD issuance by an Asian entity in 2009, excluding Japan. The issuance was designated as “Emas” to create a distinct identity for foreign currency denominated bond issuance out of Malaysia, thereby providing greater visibility to the domestic capital market for the raising for funds by local and foreign corporations.

Another initiative was the launch of Bursa Suq Al-Sila’, formerly known as Bursa Commodity Murabahah House in August 2009, the world’s first Syariah-compliant commodity trading platform, using crude palm oil (CPO) as the underlying commodity. The platform will further enhance liquidity management for Islamic financial institutions. On 15 September 2009, Bursa Suq Al-Sila’ achieved a milestone with its first international transaction.

Malaysia pursued strategic collaboration in Islamic finance with key financial centres and international institutions to further enhance international linkages. This resulted in BNM signing memorandums of understanding (MoUs) with the United Kingdom Trade and Investment, Dubai Financial Services Authority, Qatar Financial Centre Regulatory Authority and Central Bank of Bahrain.

BNM is developing Syariah parameters to promote consistent application of Islamic financial contracts. Six contracts were identified, namely Murabahah, Ijarah, Mudharabah, Musharakah, Istisna’ and Wadiah. The issuance of Syariah parameters will add greater clarity as well as harmonise interpretation and understanding of products and services. This will facilitate wider acceptance of Islamic finance and greater cross border transactions. The first Syariah parameter on Murabahah contract was issued on 28 August 2009.

(Source: Economic Report 2009/2010, Ministry of Finance, Malaysia)

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7.2 Prospects for 2010

Monetary policy remains supportive

The Malaysian economy is expected to improve in 2010 with growth of 2.0% – 3.0%, supported by stronger domestic demand and fiscal measures as well as the recovery in the global economy. Inflation is anticipated to rise modestly in line with the increase in global commodity prices. Monetary policy will remain supportive of growth and will continue to be determined based on the assessment of domestic and international developments, and their implications on economic growth and price stability.

Private sector financing through the banking system and capital market is expected to increase as economic growth gathers momentum. Liberalisation measures for the financial sector will enhance the attractiveness and competitiveness of the Malaysian financial and capital markets. Meanwhile, a proposed private pension scheme will enable more savings to be intermediated through the capital market and provide an additional retirement savings scheme.

(Source: Economic Report 2009/2010, Ministry of Finance, Malaysia)

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8. OTHER INFORMATION

8.1 Material Contracts

There are no material contracts (including contracts not reduced into writing), not being contracts entered into in the ordinary course of business which have been entered into by Amlslamic during the past two (2) years preceding the date of this IM.

8.2 Material Litigation

As at 30 June 2010:

- (a) in respect of material litigation, claims and arbitration arising from the ordinary course of business apart from those which:
- (i) the financial impact thereof has already been accounted for in the last audited financial statements of Amlslamic; and
 - (ii) if not accounted for as alluded to in the preceding sub-paragraph (i), our Board is of the view that there is no material and adverse impact on the financial position of Amlslamic arising from such litigation, claims and arbitration.

Further, our Board does not know of any threatened proceedings against us that is likely to have a material adverse effect on our financial position or business; and

- (b) in respect of material litigation, claims and arbitration arising not in the ordinary course of business:
- (i) Amlslamic is not engaged in any such material litigation, claims and arbitration either as plaintiff or defendant; and
 - (ii) our Board does not know of any such threatened proceedings against Amlslamic that is likely to have a material adverse effect on Amlslamic's business.

8.3 Commitments and Contingent Liabilities

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

The commitments and contingencies outstanding of Amlslamic as at 31 March 2010 are as follows:

| | Principal Amount (RM'000) | Credit Equivalent Amount (RM'000) | Risk Weighted Amount (RM'000) |
|--|--|--|--|
| Credit - Related Exposures | | | |
| Direct credit substitutes | 184.8 | 184.8 | 184.8 |
| Certain transaction-related contingent items | 130.2 | 65.1 | 65.8 |
| Short term self liquidating trade-related contingencies | 90.4 | 18.1 | 18.4 |
| Islamic financing sold to Cagamas Berhad with recourse | 335.9 | 335.9 | 253.8 |

| | Principal Amount | Credit Equivalent Amount | Risk Weighted Amount |
|--|-----------------------------|---|---------------------------------|
| Irrevocable commitments to extend credit maturing : | | | |
| - less than one year | 1,987.1 | - | - |
| - more than one year | 160.5 | 37.4 | 33.8 |
| Unutilised credit card line | 447.6 | 89.5 | 66.9 |
| Sell and buy back agreements | 306.5 | 6.3 | 5.8 |
| Obligations under underwriting agreements | 391.0 | - | - |
| Others | 8.4 | - | - |
| | <u>4,042.4</u> | <u>737.1</u> | <u>629.3</u> |
| Derivative Financial Instruments | | | |
| Commodity related contracts: | | | |
| - Over one year to five years | 75.5 | 9.5 | 1.9 |
| | <u>4,117.9</u> | <u>746.6</u> | <u>631.2</u> |

As at 31 March 2010, Amlslamic does not have any capital commitments.

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APPENDIX I

**AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD
1 APRIL 2009 TO 31 MARCH 2010**

Company No. 295576-U

Amlslamic Bank Berhad

(Company No. 295576-U)

(Incorporated in Malaysia)

**Financial Statements
For the Financial Year Ended
31 March 2010**

(In Ringgit Malaysia)

Company No. 295576-U

Amlslamic Bank Berhad
(Incorporated in Malaysia)

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Amlslamic 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 2010.

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.

FINANCIAL RESULTS

| | RM'000 |
|----------------------------------|-----------------|
| Profit before zakat and taxation | 356,610 |
| Zakat | (1,270) |
| Taxation | <u>(93,995)</u> |
| Profit after zakat and taxation | <u>261,345</u> |

BUSINESS PLAN AND STRATEGY

A number of recent positive indicators around the world point to greater optimism and an emerging recovery on the economic front. Whilst fiscal support is set to continue for a while longer, recent strengthening in Asian interest rates and currencies, and positive government comments indicate that we are on the road to normalisation of policy settings.

BUSINESS PLAN AND STRATEGY (CONTD.)

The Malaysian economy has improved substantially due to the adoption of fiscal stimulus programmes, prudent monetary policies and vigilant supervision by Bank Negara Malaysia (“BNM”) over the past year, and recovery in the regional export markets. Lending growth has recovered to pre crisis levels benefitting from government spend, global recovery prospects and stronger private consumption. The domestic banking industry has displayed strong resilience, emerging from the financial downturn with stronger capitalisation. Given the improving outlook, BNM has begun normalising monetary conditions by raising interest rate by 25bps in March 2010 and indicating that further rate increases are likely during calendar year 2010.

The expected economic and capital markets recovery, and emerging tailwinds in 2010 will enhance AMMB Holdings Berhad and its subsidiaries' ("AHB Group") ability to continue to deliver profitable growth, diversify, rebalance portfolios towards viable segments and execute volume versus price trade-offs in certain portfolios in line with its Medium Term Aspirations (“MTA”). Focus areas encompass income diversification, cost management, deposits growth particularly low cost deposits and enhanced risk disciplines. Other priorities include preserving sound capital position and strengthening longer term funding in anticipation of Basel III requirements, and improving operating productivity and efficiency whilst investing for the medium term.

AHB Group continues to place concerted effort in growing customer deposits and increasing the mix of low cost deposits, which is governed by the Group Asset Liability Management Committee. Introduction of new products and services, a new funds transfer pricing system, expansion of distribution footprints, and cross-selling will play a pivotal role in the AHB Group’s strategy to support deposits growth.

The retail banking division remains a major contributor to the AHB Group’s performance and continues to maintain its asset growth focus on profitable segments whilst diversifying into new sources of non-interest income including wealth management and Islamic fee-based products.

Business banking division’s priorities remain on harnessing existing customer relationships by enhancing cross-sell, underpinned by the focus to increase deposits, trade finance, cash management, and fee income whilst acquiring new customers with good track record and good quality business plans.

BUSINESS PLAN AND STRATEGY (CONTD.)

Corporate and Institutional banking (previously known as Relationship banking and Regional business) will focus on project financing with government support, large corporations and large multinational corporations. Moving forward, the division will continue to target cross-selling of institutional products and leverage its customer base for current accounts and deposits growth with focus to increase fee-based income. Contribution from regional businesses will also gradually increase as economic activity returns to more normal levels.

With the technical support from Australia and New Zealand Banking Group Ltd. ("ANZ"), AHB Group has established an integrated framework for the forex and derivatives businesses to provide customers end-to-end product and service offerings in forex, interest rates and commodities.

Since its inception in May 2006, Amlslamic Bank Berhad has shown remarkable progress in an increasingly competitive environment, in line with the increased integration of the Malaysian Islamic financial system into the global Islamic financial landscape. Amlslamic Bank had invested its products through various alliances and collaborations with external parties to expand its product reach and market penetration, such as the collaboration with Perbadanan Tabung Pendidikan Tinggi Nasional ("PTPTN") to provide Bai' Inah Term Financing as well as collaboration with Yayasan Waqaf Malaysia ("YWM") and Universiti Kebangsaan Malaysia ("UKM") to be the collection agent for their "Cash Waqaf Fund".

In the retail and business banking areas, new products were launched which include Flexi Bai' Bithaman Ajil for Home Financing-i, AmMomentum Select Islamic Negotiable Instruments of Deposit (NID-i), Wakalah Deposit Investment account for corporate customers and interbank placements and CARz Card-i (card specially designed to cater to motorists). The Bank had also signed a Memorandum of Participation for Bursa Commodity House and participated in the Launch of Interbank Murabahah Master Agreement.

In tandem with the Bank's retail focus strategy, the Bank has participated in Malaysia International Halal Showcase (MIHAS) in May 2009 and Franchise Seminar and Business Opportunities Exhibition in February 2010 to promote Islamic products and services directly to the target market.

BUSINESS PLAN AND STRATEGY (CONTD.)

In enhancing its image and brand awareness, the Bank became the Associate Sponsor of the Malaysia International Islamic Financial Centre ("MIFC") programme with Bloomberg on "Shaping Islamic Finance Together". This is an initiative under the auspices of Bank Negara Malaysia. The programme is an editorial driven seven-segment across seven weeks on Islamic Finance focusing on Market Vibrancy, Product Innovation/Thought Leadership, International Linkages and Ready Talent Pool.

Some major strategic initiatives that will continue throughout FY 2011 include:

- (i) Continue implementation of the dual signage (comprising signages of AmIslamic Bank Berhad and AmBank (M) Berhad) strategy throughout the AmBank (M) Berhad Group shared branches network.
- (ii) On-going product development, business tie-ups and dealings.
- (iii) Gear up the development and business opportunities in the equity business based on the Musharakah concept.
- (iv) Increase business penetration for government and government linked companies for both deposits and financing.

OUTLOOK FOR NEXT FINANCIAL YEAR

Recent positive indicators around the world point to greater optimism and an emerging recovery on the economic front, with the chances for a double dip recession receding both globally and in particular regionally. BNM recently announced that the Malaysian gross domestic product (“GDP”) for full-year 2009 has performed better compared to first half of 2009 with contraction of only 1.7%. For 2010, current consensus view projects a GDP expansion of circa +5.0%. AHB Group will keep abreast with the progress of economic developments to refine our business priorities for opportunistic strategies in light of the economic upturn.

Malaysian banks have displayed resilience during the 2009 financial downturn with minimal impact on profitability and have remained well capitalized. Asset quality remained intact, and in fact improved, during the economic downturn whilst lending growth has strengthened on the back of prudent monetary policies, fiscal stimulus, improving consumption and higher corporate investment.

AHB Group will stay focused on executing to its Medium Term Aspirations (“MTA”) around de-risking, diversifying away from concentrations and differentiated growth via targeting profitable business segments and volume versus price trade-offs. AHB Group’s aspirations centre on growing non-interest incomes and low-cost deposits, building new products and businesses, enhancing channels, and adopting best-in-class governance structure (risk and finance) with customer-centric operations.

Given this AHB Group is well positioned to exceed FY 2010 results and deliver a 4th successive year of record profits for the year ending 31 March 2011.

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

The amount of dividends paid by the Bank since 31 March 2009 were as follows:

RM'000

In respect of the financial year ended 31 March 2010:

| | |
|--|----------------|
| First interim dividend of 33.08% less 25% tax on 403,038,000 ordinary shares, approved by the Board of Directors on 15 September 2009 and paid on 17 November 2009 | 100,000 |
| Second interim dividend, approved by the Board of Directors on 7 December 2009 and paid on 25 February 2010, consisting of: | |
| - Gross dividends of 16.56% less 25% tax on 403,038,000 ordinary shares | 50,060 |
| - Single tier dividend of 12.39% on 403,038,000 ordinary shares | 49,940 |
| | <u>200,000</u> |

The directors do not recommend the payment of final 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

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 allowance 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 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.

DIRECTORS

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

Tan Sri Azman Hashim
Tun Mohammed Hanif Omar
Tan Sri Datuk Clifford Francis Herbert
Dato' Gan Nyap Liou @ Gan Nyap Liow
Dato' Dr Mahani binti Zainal Abidin (appointed on 21.5.2009)
Cheah Tek Kuang
Ashok Ramamurthy

In accordance with Article 87 of the Bank's Articles of Association, Dato' Gan Nyap Liou @ Gan Nyap Liow retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

Pursuant to Section 129 of the Companies Act, 1965, Tan Sri Azman Hashim and Tun Mohammed Hanif Omar, retire at the forthcoming Annual General Meeting ("AGM") and offer themselves for reappointment to hold office until the conclusion of the next AGM.

DIRECTORS' INTERESTS

Under the Bank's Articles of Association, the directors are not required to hold shares in the Bank.

The interests in shares in the ultimate holding company 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 ("AHB")**

| | No. of ordinary shares of RM1.00 each | | | Balance at 31.3.2010 |
|------------------|--|---------------|-------------|---------------------------------|
| | Balance at 1.4.2009 | Bought | Sold | |
| Cheah Tek Kuang | 78,800 | - | - | 78,800 |
| Ashok Ramamurthy | 100,000 | - | - | 100,000 |

| | No. of Scheme Shares pursuant to AHB Executives' Share Scheme | | | Balance at 31.3.2010 |
|------------------|--|------------------|---------------|---------------------------------|
| | Balance at 1.4.2009 | Granted * | Vested | |
| Cheah Tek Kuang | - | 110,000 | - | 110,000 |
| Ashok Ramamurthy | - | 44,300 | - | 44,300 |

| | No. of Options pursuant to AHB Executives' Share Scheme | | | Balance at 31.3.2010 |
|------------------|--|------------------|---------------|---------------------------------|
| | Balance at 1.4.2009 | Granted * | Vested | |
| Cheah Tek Kuang | - | 672,400 | - | 672,400 |
| Ashok Ramamurthy | - | 264,800 | - | 264,800 |

* The vesting of the Scheme Shares and/or the entitlement to exercise the Options are conditional upon the satisfaction of the performance target of AHB Group and all other conditions as set out in the By-Laws of AHB Executives' Share Scheme.

DIRECTORS' INTERESTS (CONTD.)

INDIRECT INTERESTS

In the ultimate holding company,
AMMB Holdings Berhad

| | | No. of ordinary shares of RM1.00 each | | | |
|----------------------|---------------------|---------------------------------------|------------|------------|-------------|
| | | Balance at | | Balance at | |
| | | 1.4.2009 | Bought | Sold | 31.3.2010 |
| Tan Sri Azman Hashim | Amcorp Group Berhad | 482,001,333 | 81,852,585 | 60,000,000 | 503,853,918 |

By virtue of Tan Sri Azman Hashim's shareholding in the ultimate holding company, AMMB Holdings Berhad, he is deemed to have interests in the shares of the Bank and its related corporations to the extent the ultimate holding company has an interest.

None of the other directors in office at the end of the financial year had any interest in the shares of the Bank or its related corporations during the year.

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 28 to the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm in 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 27 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 shareholder's 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, organisation 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 seven (7) directors with wide skills and experience, four (4) of whom 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

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.

CORPORATE GOVERNANCE (CONTD.)**(b) COMMITTEES OF THE BOARD (CONTD.)**

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 2010 ("FY2010") | | | | | |
|---|--------------------|----------------------|------------------------|---------------------------------|---------------------------|
| | Board of Directors | Nomination Committee | Remuneration Committee | Audit and Examination Committee | Risk Management Committee |
| Tan Sri Azman Hashim | 9 (Chairman) | 3 | 3 | N/A | N/A |
| Tun Mohammed Hanif Omar | 9 | 3 (Chairman) | N/A | 10 | N/A |
| Tan Sri Datuk Clifford Francis Herbert | 9 | 3 | 3 (Chairman) | 10 (Chairman) | 7 (Chairman) |
| Dato' Gan Nyap Liou @ Gan Nyap Liow | 7 | N/A | N/A | 9 | 2 |
| Dato' Dr Mahani binti Zainal Abidin * | 7 | N/A | N/A | N/A | 5 |
| Cheah Tek Kuang | 8 | 2 | 2 | N/A | 2 ** |
| Ashok Ramamurthy | 9 | 3 | 3 | N/A | N/A |
| Number of meetings held in FY2010 | 9 | 3 | 3 | 10 | 7 |

Notes:

1. All attendances reflect the number of meetings attended during Directors' duration of service.
2. N/A represents non-Committee Member.
3. * Appointed on 21.5.2009
** Resigned as member on 21.5.2009

CORPORATE GOVERNANCE (CONTD.)

Nomination Committee

The Committee comprises five (5) members, two (2) of whom are Independent Non-Executive 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 the annual review of 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, three (3) meetings were 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

The Committee comprises four (4) members, all of whom 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 would 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 Committee comprises three (3) members, all of whom are Independent Non-Executive Directors. 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 AEC met during the year to review the scope of work of both the internal audit function and the statutory auditors, the results arising thereafter as well as their evaluation of the system of internal controls. The AEC also followed up on the resolution of major issues raised by the internal auditors, statutory auditors as well as the regulatory authorities in the examination reports. The financial statements were reviewed by the AEC prior to their submission to the Board of the Bank for adoption.

In addition, the AEC has 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.

CORPORATE GOVERNANCE (CONTD.)

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 exercises oversight on behalf of the Board to ensure adequate overall management of credit, market, liquidity, operational, legal and capital risks impacting the Bank.

The Committee is independent from management and comprises three (3) members, all of whom are Independent Non-Executive Directors. The Committee ensures that the Board's risk tolerance level is effectively enforced, the risk management process is in place and functioning and reviews high-level risk exposures 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 Head of the Group Internal Audit Department reports to the AEC. Group Internal Audit assists the AEC in assessing and reporting on business risks and internal controls, and operates within the framework defined in the Audit Charter.

The AEC approves the Group Internal Audit's annual audit plan, 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 meetings. The minutes of the AEC meetings are formally tabled to the Board for notation and action, where necessary. The Group Chief Internal Auditor and the external auditors also attend the AEC meetings by invitation and the AEC holds separate meetings with the Chief Internal Auditor and external auditors whenever necessary.

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

CORPORATE GOVERNANCE (CONTD.)

Internal Audit and Internal Control Activities (Contd.)

Group Internal Audit focuses its efforts on performing audits in accordance with the audit plan, which is prioritised based on a comprehensive risk assessment of all significant areas of audit identified in the Bank. The structured audit risk assessment approach ensures that all risk-rated 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.

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

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 items in the agenda 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 giving sufficient time before the meeting to enable the Directors to be prepared and to obtain further explanations, where necessary, and 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 financial institution rating of the Bank at AA3/P1/Stable.

Following the upgrade on financial institution rating on the Bank, the long term rating of the Bank's RM400.0 million Subordinated Sukuk Musyarakah had been upgraded to A1/Stable by RAM.

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 committee also assisted in the setting up of business and operational procedures with respect to compliance with Shariah principles.

AUDITORS

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

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



TAN SRI AZMAN HASHIM
Chairman



CHEAH TEK KUANG
Director

Kuala Lumpur, Malaysia
12 May 2010

Company No. 295576-U

Amlslamic Bank Berhad
(Incorporated in Malaysia)

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

We, **TAN SRI AZMAN HASHIM** and **CHEAH TEK KUANG**, being two of the directors of **Amlslamic Bank Berhad**, do hereby state that, in the opinion of the directors, the accompanying financial statements as set on pages 22 to 91 are 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 Guidelines so as to give a true and fair view of the financial position of the Bank as at 31 March 2010 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 AZMAN HASHIM
Chairman



CHEAH TEK KUANG
Director

Kuala Lumpur, Malaysia
12 May 2010

Company No. 295576-U

AIslamic Bank Berhad
(Incorporated in Malaysia)

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

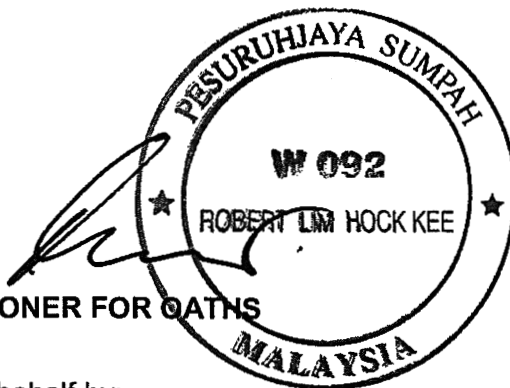
I, **LIM HOCK AUN**, being the Officer primarily responsible for the financial management of **AIslamic Bank Berhad**, do solemnly and sincerely declare that the accompanying financial statements as set out on pages 22 to 91 are, in my opinion, correct and I make this solemn declaration conscientiously 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
in the Wilayah Persekutuan on 12 May 2010



LIM HOCK AUN

Before me,



COMMISSIONER FOR OATHS

Lodged on behalf by:

Address: 22nd Floor, ^{Let 210, Tingkat 2, Bangunan Angkasa Raya} ~~Bangunan AmBank Group,~~
^{Jalan Ampang, 50450 Kuala Lumpur} ~~No. 55 Jalan Raja Chulan,~~
50200 Kuala Lumpur
Telephone Number: 03-20362633

Amlslamic 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.

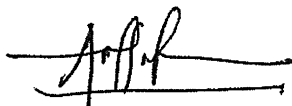
We, Associate Professor Dr. Amir Husin Mohd Nor, Associate Professor Datin Dr. Noor Naemah Abd. Rahman and Encik Adnan Yusoff, being members of the Shariah Committee of Amlslamic Bank Berhad, do hereby confirm that we have reviewed the principles and the contracts relating to the transactions and applications introduced by the Bank during the year ended 31 March 2010.

We have provided various aspects of the Shariah advisory 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.

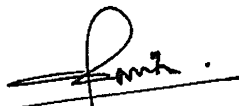
- a) The contracts, transactions and dealings entered into by the Bank during the year ended 31 March 2010, that we have reviewed are in compliance with the Shariah rules and principles;
- b) The main sources and investments of the Bank disclosed to us conform to the basis that had been approved by us 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.



**ASSOC. PROF. DR. AMIR HUSIN
MOHD NOR**

Chairman of the Committee



**ASSOC. PROF. DATIN DR. NOOR NAEMAH
ABD. RAHMAN**

Member of the Committee



ENCIK ADNAN YUSOFF
Member of the Committee

Kuala Lumpur, Malaysia
12 May 2010

295576-U

**Independent auditors' report to the member of
Amlslamic Bank Berhad
(Incorporated in Malaysia)**

Report on the financial Statements

We have audited the financial statements of Amlslamic Bank Berhad, which comprise the balance sheet as at 31 March 2010, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 22 to 91.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

295576-U

**Independent auditors' report to the member of
Amlslamic Bank Berhad (Contd.)
(Incorporated in Malaysia)**

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards as modified by Bank Negara Malaysia Guidelines and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 March 2010 and of its financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion, 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.

Other matters

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



Ernst & Young
AF: 0039
Chartered Accountants



Yap Seng Chong
No. 2190/12/11(J)
Chartered Accountant

Kuala Lumpur, Malaysia
12 May 2010

Amlslamic Bank Berhad
(Incorporated in Malaysia)

BALANCE SHEET
AS AT 31 MARCH 2010

| | Note | 2010 RM'000 | 2009 RM'000 |
|---|--------|-------------------|-------------------|
| ASSETS | | | |
| Cash and short-term funds | 5 | 3,886,453 | 3,217,910 |
| Deposits and placements with banks and other financial institutions | 6 | 150,000 | - |
| Securities held-for-trading | 7 | 350,934 | 203,863 |
| Securities available-for-sale | 8 | 907,930 | 569,295 |
| Derivative financial assets | 9 | 3,461 | 1,885 |
| Financing and advances | 10 | 11,758,678 | 9,810,477 |
| Other assets | 11 | 81,626 | 106,438 |
| Statutory deposit with Bank Negara Malaysia | 12 | 32,079 | 86,079 |
| Deferred tax asset | 32 | 41,500 | 99,191 |
| Property and equipment | 13 | 317 | 393 |
| Intangible assets | 14 | 449 | 560 |
| TOTAL ASSETS | | <u>17,213,427</u> | <u>14,096,091</u> |
| LIABILITIES AND EQUITY | | | |
| Deposits from customers | 15 | 13,398,040 | 10,155,070 |
| Deposits and placements of banks and other financial institutions | 16 | 1,485,750 | 1,445,052 |
| Derivative financial liabilities | 9 | 3,458 | 1,884 |
| Bills and acceptances payable | 17 | 394,986 | 612,567 |
| Other liabilities | 18 | 191,820 | 196,833 |
| Provision for zakat | | 1,226 | 1,130 |
| Subordinated Sukuk Musyarakah | 19 | 400,000 | 400,000 |
| Total Liabilities | | <u>15,875,280</u> | <u>12,812,536</u> |
| Share capital | 20 | 403,038 | 403,038 |
| Reserves | 21 | 935,109 | 880,517 |
| Equity attributable to equity holder of the Bank | | <u>1,338,147</u> | <u>1,283,555</u> |
| TOTAL LIABILITIES AND EQUITY | | <u>17,213,427</u> | <u>14,096,091</u> |
| OFF-BALANCE SHEET EXPOSURE | 37 (e) | <u>4,117,941</u> | <u>4,185,781</u> |
| NET ASSETS PER SHARE (RM) | 34 | <u>3.32</u> | <u>3.18</u> |

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

Amlslamic Bank Berhad
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2010

| | Note | 2010 RM'000 | 2009 RM'000 |
|--|------|----------------|----------------|
| Income derived from investment of depositors' funds and others | 22 | 884,705 | 807,939 |
| Income derived from investment of shareholder's funds | 23 | 148,294 | 155,619 |
| Allowances for losses on financing and advances | 24 | (90,297) | (93,752) |
| Write back of/(provision for) commitments and contingencies | | 12,713 | (11,978) |
| Impairment loss | | (4,218) | (18) |
| Transfer from/(to) profit equalisation reserve | 18 | 12,635 | (24,566) |
| Total distributable income | | 963,832 | 833,244 |
| Income attributable to the depositors | 25 | (327,872) | (382,200) |
| Total net income | | 635,960 | 451,044 |
| Other operating expenses | 26 | (259,250) | (218,511) |
| Finance cost | 30 | (20,100) | (19,200) |
| Profit before zakat and taxation | | 356,610 | 213,333 |
| Zakat | | (1,270) | (1,032) |
| Taxation | 31 | (93,995) | (55,633) |
| Profit after zakat and taxation | | 261,345 | 156,668 |
| Earnings per share (sen): | | | |
| Basic/Diluted earnings per ordinary share | 33 | 64.84 | 38.87 |

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

Amlslamic Bank Berhad
(Incorporated in Malaysia)

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2010**

| | Attributable to Equity Holder of the Bank | | | | Distributable | | Total RM'000 |
|--|---|----------------------------|--------------------------------|-----------------------------|--|-------------------------------------|------------------|
| | Share Capital RM'000 | Share Premium RM'000 | Statutory Reserve RM'000 | Merger Reserve RM'000 | Available For-Sale Reserve RM'000 | Unappropriated Profits RM'000 | |
| At 1 April 2008 | 403,038 | 534,068 | 90,439 | 317,903 | - | 90,436 | 1,435,884 |
| Net change in revaluation of securities available-for-sale | - | - | - | - | 8,906 | - | 8,906 |
| Effects arising from the pooling of interest | - | - | - | (317,903) | - | - | (317,903) |
| Profit for the year | - | - | - | - | - | 156,668 | 156,668 |
| Transfer to statutory reserve | - | - | 78,334 | - | - | (78,334) | - |
| At 31 March 2009 | 403,038 | 534,068 | 168,773 | - | 8,906 | 168,770 | 1,283,555 |
| At 1 April 2009 | 403,038 | 534,068 | 168,773 | - | 8,906 | 168,770 | 1,283,555 |
| Net change in revaluation of securities available-for-sale | - | - | - | - | (6,753) | - | (6,753) |
| Profit for the year | - | - | - | - | - | 261,345 | 261,345 |
| Transfer to statutory reserve | - | - | 96,396 | - | - | (96,396) | - |
| Dividends | - | - | - | - | - | (200,000) | (200,000) |
| At 31 March 2010 | 403,038 | 534,068 | 265,169 | - | 2,153 | 133,719 | 1,338,147 |

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

Amlslamic Bank Berhad
(Incorporated in Malaysia)

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2010

| | 2010 | 2009 |
|---|------------------|------------------|
| | RM'000 | RM'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before zakat and taxation | 356,610 | 213,333 |
| Adjustments for: | | |
| Allowances for losses on financing | 123,162 | 119,953 |
| Depreciation of property and equipment | 136 | 125 |
| Amortisation of intangible assets | 164 | 149 |
| Impairment loss | 4,218 | 18 |
| Transfer (from)/to profit equalisation reserve | (12,635) | 24,566 |
| Accretion of discount less amortisation of premium | (1,259) | (3,867) |
| Gain on disposal of securities held-for-trading | (2,952) | (6,660) |
| Gain on disposal of securities available-for-sale | (4,665) | (2,307) |
| Loss on revaluation of securities held-for-trading | 716 | 3,958 |
| (Write back of)/provision for commitments and contingencies | (12,713) | 11,978 |
| Shares/options granted under Executives' Share Scheme | 190 | - |
| Operating profit before working capital changes | <u>450,972</u> | <u>361,246</u> |
| (Increase)/decrease in operating assets: | | |
| Deposits and placements with banks and other financial institutions | (150,000) | - |
| Securities held-for-trading | (142,148) | 362,117 |
| Financing and advances | (2,071,363) | (1,875,469) |
| Other assets | 24,622 | (14,304) |
| Statutory deposit with Bank Negara Malaysia | 54,000 | 185,621 |
| Increase/(decrease) in operating liabilities: | | |
| Deposits from customers | 3,242,970 | 3,238,980 |
| Deposits and placements of banks and other financial institutions | 40,698 | (117,264) |
| Bills and acceptances payable | (217,581) | 65,220 |
| Other liabilities | 234 | 10,966 |
| Cash generated from operations | <u>1,232,404</u> | <u>2,217,113</u> |
| Zakat paid | (1,174) | (503) |
| Tax paid | (27,000) | - |
| Net cash generated from operating activities | <u>1,204,230</u> | <u>2,216,610</u> |

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

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2010 (CONTD.)**

| | 2010 | 2009 |
|--|------------------|------------------|
| | RM'000 | RM'000 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net purchase of securities available-for-sale | (335,574) | (555,112) |
| Purchase of property and equipment | (60) | (75) |
| Purchase of intangible assets | (53) | (101) |
| Cash paid for net assets vested | - | (314,854) |
| Net cash used in investing activities | <u>(335,687)</u> | <u>(870,142)</u> |
| CASH FLOW FROM FINANCING ACTIVITY | | |
| Dividends paid, representing net cash used in financing activities | <u>(200,000)</u> | <u>-</u> |
| Net increase in cash and cash equivalents | 668,543 | 1,346,468 |
| Cash and cash equivalents at beginning of year | 3,217,910 | 1,871,442 |
| Cash and cash equivalents at end of year (Note 5) | <u>3,886,453</u> | <u>3,217,910</u> |

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

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

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010

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 principles. 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 22nd Floor, Bangunan AmBank Group, No. 55, Jalan Raja Chulan, 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 and authorised for issue by the Board of Directors on 26 April 2010.

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

At the date of authorisation of these financial statements, the following new FRSs and Interpretations, and amendments to certain Standards and Interpretations were issued but not yet effective and have not been applied by the Bank, which are:

Effective for financial periods beginning on or after 1 January 2010

FRS 4: Insurance Contracts

FRS 7: Financial Instruments: Disclosure

FRS 101: Presentation of Financial Statements (revised)

FRS 123: Borrowing Costs

FRS 139: Financial Instruments: Recognition and Measurement

Amendments to FRS 1: First-time Adoption of Financial Reporting Standards and

FRS 127: Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

Amendments to FRS 2: Share-based Payment: Vesting Conditions and Cancellation

Amendments to FRS 132: Financial Instruments: Presentation

Amendments to FRS 139: Financial Instruments: Recognition and Measurement,

FRS 7: Financial Instruments: Disclosure and IC Interpretation 9: Reassessment of Embedded Derivatives

Amendments to FRSs "Improvements to FRSs (2009)"

IC Interpretation 9: Reassessment of Embedded Derivatives

IC Interpretation 10: Interim Financial Reporting and Impairment

IC Interpretation 11: FRS 2 - Group and Treasury Share Transactions

IC Interpretation 13: Customer Loyalty Programmes

IC Interpretation 14: FRS 119 -The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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Effective for financial periods beginning on or after 1 March 2010

Amendments to FRS 132: Financial Instruments: Presentation

Effective for financial periods beginning on or after 1 July 2010

FRS 1: First-time Adoption of Financial Reporting Standards

FRS 3: Business Combinations (revised)

FRS 127: Consolidated and Separate Financial Statements (amended)

Amendments to FRS 2: Share-based Payment

Amendments to FRS 5: Non-current Assets Held for Sale and Discontinued Operations

Amendments to FRS 138: Intangible Assets

Amendments to IC Interpretation 9: Reassessment of Embedded Derivatives

IC Interpretation 12: Service Concession Arrangements

IC Interpretation 15: Agreements for the Construction of Real Estate

IC Interpretation 16: Hedges of a Net Investment in a Foreign Operation

IC Interpretation 17: Distributions of Non-cash Assets to Owners

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

Effective for financial periods beginning on or after 1 January 2011

Limited Exemption from Comparative FRS 7 Disclosures for First Time Adopters
(Amendments to FRS 1)

Improving Disclosures about Financial Instruments (Amendments to FRS 7)

The Bank plans to adopt the above pronouncements when they become effective in the respective financial period. The effects of the new FRSs, Amendments and IC Interpretation applicable to the Bank are discussed below. Unless otherwise described below, these pronouncements are expected to have no significant impact to the financial statements of the Bank upon their initial application:

Pronouncements effective for financial periods beginning on or after 1 January 2010

(i) FRS 101: Presentation of Financial Statements (revised)

The revised FRS 101 separates owner and non-owner changes in equity. Therefore, the statement of changes in equity will now include only details of transactions with owners. All non-owner changes in equity are presented as a single line labelled as total comprehensive income. The Standard also introduces the statement of comprehensive income: presenting all items of income and expense recognised in the income statement, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Bank is currently evaluating the format to adopt. In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the reclassification of items in the financial statements. This revised FRS does not have any impact on the financial position and results of the Bank.

(ii) FRS 123: Borrowing Costs

This Standard supersedes FRS 123₂₀₀₄: Borrowing Costs that removes the option of expensing borrowing costs and requires capitalisation of such costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognised as an expense. The Bank's current accounting policy is to expense the borrowing costs in the period which they are incurred. In accordance with the transitional provisions of the Standard, the Bank will apply the change in accounting policy prospectively for which the commencement date for capitalisation of borrowing cost on qualifying assets is on or after the financial period 1 January 2010.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

- (iii) FRS 139: Financial Instruments: Recognition and Measurement, FRS 7: Financial Instruments: Disclosure and Amendments to FRS 139: Financial Instruments: Recognition and Measurement, FRS 7: Financial Instruments: Disclosure

The new Standard on FRS 139: Financial Instruments: Recognition and Measurement establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Requirements for presenting information about financial instruments are in FRS 132: Financial Instruments: Presentation and the requirements for disclosing information about financial instruments are in FRS 7: Financial Instruments: Disclosures.

FRS 7: Financial Instruments: Disclosures is a new Standard that requires new disclosures in relation to financial instruments. The Standard is considered to result in increased disclosures, both quantitative and qualitative of the Bank's exposure to risks, enhanced disclosure regarding components of the Bank's financial position and performance, and possible changes to the way of presenting certain items in the financial statements.

In accordance with the respective transitional provisions, the Bank is exempted from disclosing the possible impact to the financial statements upon the initial application.

- (iv) Amendments to FRSs "Improvements to FRSs (2009)"

FRS 117: Leases: Clarifies on the classification of leases of land and buildings. The Bank is still assessing the potential implication as a result of the reclassification of its unexpired land leases as operating or finance leases. For those land element held under operating leases that are required to be reclassified as finance leases, the Bank shall recognise a corresponding asset and liability in the financial statements which will be applied retrospectively upon initial application. However, in accordance with the transitional provision, the Bank is permitted to reassess lease classification on the basis of the facts and circumstances existing on the date it adopts the amendments; and recognise the asset and liability related to a land lease newly classified as a finance lease at their fair values on that date; any difference between those fair values is recognised in Unappropriated profits. The Bank is currently in the process of assessing the impact of this amendment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

- (v) Amendments to FRS 1: First-time adoption of Financial Reporting Standards and FRS 127: Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

The amendment to FRS 1 allow first-time adopters to use costs, determined in accordance with FRS 127, or deemed cost of either fair value (in accordance with FRS 139) or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate opening FRS balance sheet. In the amendment to FRS 127, there is no longer a distinction between pre-acquisition and post-acquisition dividends. The amendment also requires the cost of the investment of a new parent in a group (in a reorganisation meeting certain criteria) to be measured at the carrying amount of its share of equity as shown in the separate financial statements of the previous parent. The amendments also remove the definition of the cost method from FRS 127 and will be applied prospectively. The amendment to FRS 127 does not have any impact on the financial statements of the Bank.

- (vi) Amendments to FRS 132: Financial Instruments: Presentation and FRS 101: Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation

FRS 132: Financial Instruments: Disclosures and Presentation will be renamed as Financial Instruments: Presentation upon the adoption of FRS 7: Financial Instruments: Disclosures. The amendments provide a limited scope exception for puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. An instrument that meets the definition of a financial liability is classified as an equity instrument only if it fulfils a number of specific features and conditions as stipulated in the Standard.

- (vii) IC Interpretation 13: Customer Loyalty Programme

This IC requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The amount of proceeds allocated to the award credits is measured by reference to their fair value.

Pronouncements effective for financial periods beginning on or after 1 March 2010

The Amendments to FRS 132 as identified in paragraphs 95A, 97AA and 97AB of the Standard shall apply to financial statements of annual periods beginning on or after 1 January 2010. The amendments in paragraphs 11, 16 and 97E of the Standard, relating to Classification of Rights Issues shall apply to financial statements of annual periods beginning on or after 1 March 2010.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(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 is recognised on an effective yield basis.

Financing income on cash line, house 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 tenor of the financing in accordance with BNM Circular on Handling Fees dated 16 October 2006 and are 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 profit income on financing and advances is in conformity with BNM's "Guideline on Classification of Non-Performing Loans and Provision for 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

(ii) Defined Contribution 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(e) Employee Benefits (Contd.)

(iv) Share-based Compensation Benefits

The ultimate holding company, AMMB Holdings Berhad (“AHB”), operates an equity-settled share-based compensation scheme wherein shares or options to subscribe for shares of AHB are granted to eligible directors and employees of the AHB Group based on the financial and performance criteria and such conditions as it may deem fit.

Where the AHB Group pays for services of its employees using share options or via grant of shares, the fair value of the transaction is recognised as an expense in the income statement over the vesting periods of the grants, with a corresponding increase in equity. The total amount to be recognised as compensation expense is determined by reference to the fair value of the share options or shares granted at the date of the grant and the number of share options or shares granted to be vested by the vesting date, taking into account, if any, the market vesting conditions upon which the options or shares were granted but excluding the impact of any non-market vesting conditions. At the balance sheet date, the AHB Group revises its estimate of the number of share options or shares granted that are expected to vest by the vesting date. Any revision of this estimate is included in the income statement and a corresponding adjustment to equity over the remaining vesting period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(f) Allowance for Bad and Doubtful Financing

Allowances for doubtful financing are made based on management's evaluation of the portfolio of financing and advances, 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 a percentage of total outstanding financing and advances (including accrued profit), net of specific allowance for bad and doubtful financing, is maintained by the Bank against risks which are not specifically identified.

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 and advances of the Bank are computed in conformity with the revised 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 and advances 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% 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 and advances.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(g) Provisions

Provisions are recognised when the Bank has a present legal obligation as a result of past events, 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 the amount appropriated out of the Bank's gross income in order to maintain a certain level of return to depositors which is as stipulated by Bank Negara Malaysia's Circular on "Framework of Rate of Return". PER is deducted from the total gross income in deriving the net distributable gross income at a rate which does not exceed the maximum amount of the total of 15% of monthly gross income, monthly net trading income, other income and irregular income. The amount appropriated is shared by the depositors and the Bank. PER is maintained up to the maximum of 30% of total capital fund of the Bank.

(i) Impairment of Assets

(i) Securities Available-for-sale

Impairment of securities available-for-sale is calculated as the difference between the asset's carrying amount and the estimated recoverable amount.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(i) Impairment of Assets (Contd.)

(ii) Securities held-to-maturity

For securities held-to-maturity which are carried at amortised cost, the amount of the impairment loss is measured as the difference between the assets's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the impairment loss is recognised in the income statement.

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

For securities held-to-maturity which are carried at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the asset and present value of its estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

As at 31 March 2010, the Bank does not have any securities held-to-maturity (2009: RM Nil).

(iii) Other assets

The carrying values of asset 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(j) **Income Tax**

Tax expense 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 balance sheet 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. Deferred tax is not provided for goodwill or from the initial recognition of assets and liabilities that at the time of transaction, affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially 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**

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

(i) **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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(l) **Securities (Contd.)**

(ii) Securities available-for-sale

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

(iii) Securities held-to-maturity

Securities held-to-maturity are financial assets with fixed or determinable payments and fixed maturity that the Bank have the positive intent and ability to hold to maturity. Unquoted shares in organisations set up for socio-economic purposes and equity instruments received as a result of loan restructuring or loan conversion which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are also classified as securities held-to-maturity.

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

Any sale or reclassification of a significant amount of securities held-to-maturity not close to their maturity would result in the reclassification of all securities held-to-maturity to securities available-for-sale, and prevent the Bank from classifying the similar class of securities as securities held-to-maturity for the current and following two financial years.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(n) Property and Equipment and Depreciation

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. 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 | 20.0% |
| Office equipment, furniture and fittings | 10.0% - 25.0% |
| Computer hardware | 20.0% - 33 1/3% |

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.

An asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

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 maintaining computer software applications are recognised as expense when incurred. Costs that are directly associated with the software application development stage are recognised as intangible assets. Costs directly associated with software application development include employee payroll and payroll related costs.

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

(p) Bills and Acceptances Payable

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(q) 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.

(r) Provision for Commitments and Contingencies

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

(s) 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 based on the effective rate method.

(t) Equity Instruments

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

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

(u) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(v) Derivative Financial Instruments and Hedge Accounting

Fair values of derivative financial instruments are normally zero or negligible at inception and the subsequent change in value is favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The fair values of the derivative financial instruments are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques, including discounted cash flow models and option pricing models, as appropriate.

Derivative financial instruments are measured at fair value and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gain or loss arising from the change in the fair value of the derivative instrument is recognised in the income statement unless they are part of a hedging relationship which qualifies for hedge accounting where the gain or loss is recognised as follows:

(i) Fair value hedge

Where a derivative financial instrument hedges the changes in fair value of a recognised asset or liability, any gain or loss on the hedging instruments is recognised in the income statement. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the income statement.

(ii) Cash flow hedge

Gains and losses on the hedging instruments, to the extent that the hedge is effective, are deferred in the separate component of equity, Cash Flow Hedge reserve. The ineffective part of any gain or loss is recognised in the income statement. The deferred gains and losses are then released to the income statement in the periods when the hedged forecast transactions affect the income statement. If the hedged forecast transactions result in the recognition of a non-financial asset or a non-financial liability, the gain and loss previously deferred in equity is transferred from equity and included in the initial measurement of the cost of the asset or liability.

(w) Sell and Buy Back Agreements

These are obligations of the Bank to perform its commitment to buy back specified Islamic securities at maturity. Gains and losses are recognised upon sale and shown as trading gain or loss from securities held-for-trading.

(x) Cash Flow Statement

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(y) Cash and Cash Equivalents

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and short term funds, net of outstanding overdrafts.

(z) Contingent Liabilities and Contingent Assets

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Bank or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. The Bank makes provision for a contingent liability when it is probable that an outflow of resources embodying economic benefits is required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Bank. The Bank does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTD.)

(b) Impairment of Intangible Assets

The Bank's intangible assets that can be separated and sold and have a finite useful life are amortised over their estimated useful lives.

The determination of the estimated useful life of these intangible assets requires the management to analyse the circumstances, the industry and market practice and also to use judgement. At each balance sheet date, or more frequently when events or changes in circumstances dictate, intangible assets are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying value of the asset with its recoverable amount.

(c) 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.

(d) Allowance for Bad and Doubtful Debts and Financing

Doubtful financing and advances are reviewed at each reporting date to assess whether allowances for impairment should be recorded in the financial statements. In particular, judgement is required in the identification of doubtful financing and the estimation of realisable amount from the doubtful financing when determining the level of allowance required.

The Bank has adopted certain criteria in the identification of doubtful financing, which include classifying financing as non-performing when repayments are in arrears for more than three (3) months. Specific allowances for doubtful financing are provided after taking into consideration of the values assigned to collateral. The values assigned to collateral are estimated based on market value and/or forced sales value, as appropriate in conformity with BNM guidelines.

In addition to the specific allowances made, the Bank also makes general allowance against exposure not specifically identified based on a percentage of total outstanding financing (including accrued profit), net of specific allowance for bad and doubtful financing. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

5. CASH AND SHORT-TERM FUNDS

| | 2010 RM'000 | 2009 RM'000 |
|---|------------------------------|------------------------------|
| Cash and balances with banks and other financial institutions | 3,553 | 7,810 |
| Money at call and deposits placements maturing within one month | 3,882,900 | 3,210,100 |
| | <u>3,886,453</u> | <u>3,217,910</u> |

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

| | | |
|--|------------------|------------------|
| Interbank financing: | | |
| Cash and short-term funds | 3,882,900 | 3,210,100 |
| Deposits and placements with banks and other financial institutions (Note 6) | 150,000 | - |
| | <u>4,032,900</u> | <u>3,210,100</u> |
| Interbank borrowing (Note 16) | (296,931) | (43,054) |
| Net interbank financing | <u>3,735,969</u> | <u>3,167,046</u> |

6. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

| | 2010 RM'000 | 2009 RM'000 |
|------------------------------|------------------------------|------------------------------|
| Other financial institutions | <u>150,000</u> | <u>-</u> |

7. SECURITIES HELD-FOR-TRADING

| | 2010 | 2009 |
|--|----------------|----------------|
| | RM'000 | RM'000 |
| At fair value: | | |
| Money Market Securities: | | |
| Malaysian Government Investment Certificates | 189,911 | - |
| Islamic Khazanah Bonds | - | 991 |
| Islamic Treasury Bills | 39,141 | - |
| Sukuk Bank Negara Malaysia | 14,990 | - |
| Bank Negara Malaysia Monetary Notes | 48,716 | - |
| | <u>292,758</u> | <u>991</u> |
| Unquoted Securities in Malaysia: | | |
| Private debt securities | 58,176 | 202,872 |
| Total securities held-for-trading | <u>350,934</u> | <u>203,863</u> |

8. SECURITIES AVAILABLE-FOR-SALE

| | 2010 | 2009 |
|--|----------------|----------------|
| | RM'000 | RM'000 |
| At fair value: | | |
| Money Market Securities: | | |
| Malaysian Government Investment Certificates | 76,005 | 36,025 |
| Negotiable Instruments of Deposit | 577,330 | 29,190 |
| | <u>653,335</u> | <u>65,215</u> |
| Unquoted securities: | | |
| Private debt securities | 258,813 | 504,080 |
| Total | <u>912,148</u> | <u>569,295</u> |
| Less: Accumulated impairment losses | (4,218) | - |
| Total securities available-for-sale | <u>907,930</u> | <u>569,295</u> |

8. SECURITIES AVAILABLE-FOR-SALE (CONTD.)

The Bank was appointed as Islamic Principal Dealer ("i-PD") by Bank Negara Malaysia ("BNM") for Islamic Government and BNM Sukuk Berhad issuances with effect from 1 July 2009 until 31 December 2012.

As an i-PD, the Bank is required to undertake certain obligations as well as accorded certain incentives in the appointment period. One of the incentives accorded is the eligibility to maintain 1% Statutory Reserve Requirement ("SRR") in the form of Government Investment Certificates ("GIC") holdings instead of cash. As at 31 March 2010, the nominal values of GIC holdings maintained for SRR purposes amount to RM75.26 million (2009: RM Nil).

9. DERIVATIVE FINANCIAL ASSETS/LIABILITIES

Derivative financial instruments are off-balance sheet financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, profit rates and security prices) of the underlying instruments. These instruments allow the Bank and its customers to transfer, modify or reduce their foreign exchange and profit rate risks via hedge relationships. The Bank also transacts in these instruments for proprietary trading purposes. The default classification for derivative financial instruments is trading, unless designated in a hedge relationship and are in compliance with the hedge effectiveness criteria. The risks associated with the use of derivative financial instruments, as well as management's policy for controlling these risks are set out in Note 38.

The table below shows the Bank's derivative financial instruments as at the balance sheet date. The contractual or underlying principal amounts of these derivative financial instruments and their corresponding gross positive (derivative financial asset) and gross negative (derivative financial liability) fair values at balance sheet date are analysed below:

| | Contract/ Notional Amount RM'000 | Positive Fair Value RM'000 | Negative Fair Value RM'000 |
|----------------------------|---|---|---|
| Trading Derivatives | | | |
| 31 March 2010 | | | |
| Purchased options | 75,500 | 3,461 | - |
| Written options | 75,500 | - | 3,458 |
| | <u>151,000</u> | <u>3,461</u> | <u>3,458</u> |
| 31 March 2009 | | | |
| Purchased options | 44,494 | 1,885 | - |
| Written options | 44,494 | - | 1,884 |
| | <u>88,988</u> | <u>1,885</u> | <u>1,884</u> |

Fair values of derivative financial instruments are normally zero or negligible at inception and the subsequent change in value is favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms.

10. FINANCING AND ADVANCES

(i) Financing and advances analysed by type are as follows:

| | 2010 RM'000 | 2009 RM'000 |
|--|------------------------------|------------------------------|
| Cash lines | 252,506 | 125,849 |
| Term financing | | |
| - House financing | 772,823 | 730,830 |
| - Hire purchase receivables | 7,947,593 | 7,608,606 |
| - Other financing * | 4,751,206 | 4,359,119 |
| Cards receivable | 292,842 | 310,594 |
| Bills receivables | - | 2,103 |
| Trust receipts | 70,239 | 32,385 |
| Claims on customers under acceptance credit | 917,819 | 763,656 |
| Revolving credit | 771,311 | 257,038 |
| Total | <u>15,776,339</u> | <u>14,190,180</u> |
| Unearned income | <u>(3,422,336)</u> | <u>(3,208,340)</u> |
| | 12,354,003 | 10,981,840 |
| Less: Islamic financing sold to Cagamas Berhad | <u>(345,738)</u> | <u>(905,803)</u> |
| Gross financing and advances | 12,008,265 | 10,076,037 |
| Allowances for bad and doubtful financing | | |
| - General | (184,803) | (166,507) |
| - Specific | <u>(64,784)</u> | <u>(99,053)</u> |
| Net financing and advances | <u>11,758,678</u> | <u>9,810,477</u> |

* Included in other financing is financing amounting to RM210,619,000 (2009: RM Nil) which is exempted from general allowance by Bank Negara Malaysia.

(ii) The maturity structure of financing and advances is as follows:

| | | |
|------------------------------|-------------------|-------------------|
| Maturing within one year | 1,982,230 | 1,268,161 |
| One year to three years | 804,687 | 759,163 |
| Three years to five years | 2,074,631 | 1,536,020 |
| Over five years | 7,146,717 | 6,512,693 |
| Gross financing and advances | <u>12,008,265</u> | <u>10,076,037</u> |

10. FINANCING AND ADVANCES (CONTD.)

(iii) Financing and advances analysed by contract are as follows:

| | 2010 RM'000 | 2009 RM'000 |
|---------------------------------|------------------------------|------------------------------|
| Bai' Bithaman Ajil | 1,260,664 | 1,177,304 |
| Istisna | - | 625 |
| Ijarah/Al-Ijarah Thumma Al-Bai' | 6,271,747 | 5,430,924 |
| Musarakah | - | 6 |
| Murabahah | 1,033,047 | 861,692 |
| Other Islamic contracts | 3,442,807 | 2,605,486 |
| Gross financing and advances | <u>12,008,265</u> | <u>10,076,037</u> |

(iv) Financing and advances analysed by type of customer are as follows:

| | 2010 RM'000 | 2009 RM'000 |
|--|------------------------------|------------------------------|
| Domestic non-bank financial institutions | 58,012 | 4,106 |
| Domestic business enterprises | | |
| - Small medium enterprises | 1,150,197 | 946,981 |
| - Others | 2,063,244 | 1,319,548 |
| Government and statutory bodies | 210,619 | - |
| Individuals | 8,519,544 | 7,801,361 |
| Other domestic entities | 2,078 | - |
| Foreign entities | 4,571 | 4,041 |
| Gross financing and advances | <u>12,008,265</u> | <u>10,076,037</u> |

(v) Financing and advances analysed by profit rate sensitivity are as follows:

| | 2010 RM'000 | 2009 RM'000 |
|------------------------------|------------------------------|------------------------------|
| Fixed rate | | |
| - House financing | 325,779 | 381,353 |
| - Hire purchase receivables | 6,271,747 | 5,430,921 |
| - Other fixed rate financing | 5,201,701 | 4,101,030 |
| Variable rate | | |
| - Base financing rate plus | 83,079 | 2,013 |
| - Cost plus | 125,959 | 160,720 |
| Gross financing and advances | <u>12,008,265</u> | <u>10,076,037</u> |

10. FINANCING AND ADVANCES (CONTD.)

(vi) Financing and advances analysed by financing purposes are as follows:

| | 2010 | 2009 |
|---|-------------------|-------------------|
| | RM'000 | RM'000 |
| Purchase of securities | 3,232 | 6,319 |
| Purchase of transport vehicles | 6,536,079 | 6,255,482 |
| Purchase of landed property | | |
| - Residential | 382,422 | 383,048 |
| - Non-residential | 183,016 | 213,184 |
| Purchase of fixed assets other than land and building | 157,110 | 161,385 |
| Personal use | 2,050,316 | 2,035,433 |
| Credit card | 279,355 | 309,379 |
| Purchase of consumer durables | 1,313 | 124 |
| Construction | 228,931 | 109,673 |
| Working capital | 2,006,439 | 1,216,667 |
| Other purposes | 525,790 | 291,146 |
| | <u>12,354,003</u> | <u>10,981,840</u> |
| Less: Islamic financing sold to Cagamas Berhad | (345,738) | (905,803) |
| Gross financing and advances | <u>12,008,265</u> | <u>10,076,037</u> |

(vii) Movements in non-performing financing and advances ("NPF") are as follows:

| | 2010 | 2009 |
|---------------------------------------|----------------|----------------|
| | RM'000 | RM'000 |
| Balance at beginning of year | 239,637 | 305,321 |
| Non-performing during the year | 155,135 | 186,216 |
| Reclassified as performing | (54,810) | (62,432) |
| Amount recovered | (21,151) | (27,618) |
| Amount written off | (136,579) | (161,850) |
| Balance at end of year | <u>182,232</u> | <u>239,637</u> |
| Less: Specific allowance | (64,784) | (99,053) |
| Non-performing financing and advances | <u>117,448</u> | <u>140,584</u> |
| - net | <u>117,448</u> | <u>140,584</u> |

10. FINANCING AND ADVANCES (CONTD.)

(vii) Movements in non-performing financing and advances ("NPF") (Contd.)

| | 2010 RM'000 | 2009 RM'000 |
|---|------------------------------|------------------------------|
| Gross financing and advances | 12,008,265 | 10,076,037 |
| Add: Islamic financing sold to Cagamas Berhad | 345,738 | 905,803 |
| | <u>12,354,003</u> | <u>10,981,840</u> |
| Less: Specific allowance | (64,784) | (99,053) |
| Net financing and advances (including Islamic financing sold to Cagamas Berhad) | <u>12,289,219</u> | <u>10,882,787</u> |
| Ratio of non-performing financing and advances to total financing and advances (including Islamic financing sold to Cagamas Berhad) – net | <u>0.96%</u> | <u>1.29%</u> |

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

| | 2010 RM'000 | 2009 RM'000 |
|---|------------------------------|------------------------------|
| General Allowance | | |
| Balance at beginning of year | 166,507 | 154,953 |
| Allowance made during the year (Note 24) | 18,296 | 11,554 |
| Balance at end of year | <u>184,803</u> | <u>166,507</u> |
| As % of net financing and advances (including Islamic financing sold to Cagamas Berhad) less financing exempted from general allowance by Bank Negara Malaysia | <u>1.53%</u> | <u>1.53%</u> |

10. FINANCING AND ADVANCES (CONTD.)

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

| | 2010 | 2009 |
|--|---------------|---------------|
| | RM'000 | RM'000 |
| Specific Allowance | | |
| Balance at beginning of year | 99,053 | 153,436 |
| Allowance made during the year (Note 24) | 149,764 | 156,544 |
| Amount written back in respect of recoveries (Note 24) | (44,898) | (48,145) |
| Net charge to income statement | 104,866 | 108,399 |
| Amount written off | (139,135) | (162,782) |
| Balance at end of year | 64,784 | 99,053 |

(ix) Non-performing financing and advances analysed by financing purposes are as follows:

| | 2010 | 2009 |
|---|---------------|---------------|
| | RM'000 | RM'000 |
| Purchase of securities | 81 | 626 |
| Purchase of transport vehicles | 111,528 | 120,821 |
| Purchase of landed property | | |
| - Residential | 37,872 | 58,008 |
| - Non-residential | 5,294 | 14,277 |
| Purchase of fixed assets other than land and building | - | 2,312 |
| Personal use | 2,607 | 496 |
| Credit card | 9,510 | 11,095 |
| Purchase of consumer durables | 207 | - |
| Construction | - | 6 |
| Working capital | 13,696 | 30,747 |
| Other purposes | 1,437 | 1,249 |
| | 182,232 | 239,637 |

11. OTHER ASSETS

| | 2010 | 2009 |
|-----------------------------------|---------------|---------------|
| | RM'000 | RM'000 |
| Other receivables and prepayments | 18,578 | 43,469 |
| Profit receivable | 9,528 | 10,834 |
| Deferred charges | 53,520 | 52,135 |
| | 81,626 | 106,438 |

12. 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. As at 31 March 2010, a total of RM75.26 million nominal value of Government Investment Certificates, classified as securities available-for-sale, was used for Statutory Reserve Requirement purposes, as mentioned in Note 8 (2009: RM Nil).

13. PROPERTY AND EQUIPMENT

| | Leasehold improvements RM'000 | Office equipment, furniture and fittings RM'000 | Computer equipment RM'000 | Total RM'000 |
|---------------------------------|-------------------------------------|--|---------------------------------|-----------------|
| Cost | | | | |
| As at 1 April 2009 | 214 | 88 | 366 | 668 |
| Additions | 48 | 1 | 11 | 60 |
| As at 31 March 2010 | 262 | 89 | 377 | 728 |
| Accumulated Depreciation | | | | |
| As at 1 April 2009 | 102 | 47 | 126 | 275 |
| Depreciation for the year | 44 | 18 | 74 | 136 |
| As at 31 March 2010 | 146 | 65 | 200 | 411 |
| Net Book Value | | | | |
| As at 31 March 2010 | 116 | 24 | 177 | 317 |
| Cost | | | | |
| As at 1 April 2008 | 207 | 215 | 171 | 593 |
| Additions | 7 | - | 68 | 75 |
| Reclassification | - | (127) | 127 | - |
| As at 31 March 2009 | 214 | 88 | 366 | 668 |
| Accumulated Depreciation | | | | |
| As at 1 April 2008 | 59 | 62 | 29 | 150 |
| Depreciation for the year | 43 | 18 | 64 | 125 |
| Reclassification | - | (33) | 33 | - |
| As at 31 March 2009 | 102 | 47 | 126 | 275 |
| Net Book Value | | | | |
| As at 31 March 2009 | 112 | 41 | 240 | 393 |

14. INTANGIBLE ASSETS

The net carrying amount of intangible assets are as follows:

| | 2010 | 2009 |
|---------------------------------|---------------|---------------|
| | RM'000 | RM'000 |
| Computer Software | | |
| Cost | | |
| At the beginning of the year | 809 | 708 |
| Additions | 53 | 101 |
| At the end of the year | <u>862</u> | <u>809</u> |
| Accumulated Amortisation | | |
| At the beginning of the year | 249 | 100 |
| Amortisation for the year | 164 | 149 |
| At the end of the year | <u>413</u> | <u>249</u> |
| Net Book Value | <u>449</u> | <u>560</u> |

15. DEPOSITS FROM CUSTOMERS

| | 2010 | 2009 |
|---|-------------------|-------------------|
| | RM'000 | RM'000 |
| (i) By type of deposit: | | |
| <u>Non-Mudharabah</u> | | |
| Demand deposits | 910,759 | 645,865 |
| Savings deposits | 1,154,413 | 945,950 |
| Negotiable instruments of deposits | 155,782 | 266,985 |
| Other deposits | 9,544 | - |
| | <u>2,230,498</u> | <u>1,858,800</u> |
| <u>Mudharabah</u> | | |
| General investment deposits | 11,088,972 | 8,251,420 |
| Structured deposits | 78,570 | 44,850 |
| | <u>11,167,542</u> | <u>8,296,270</u> |
| Total | <u>13,398,040</u> | <u>10,155,070</u> |
| (ii) The maturity structure of deposits from customers is as follows: | | |
| Due within six months | 12,691,088 | 9,180,168 |
| Six months to one year | 411,653 | 525,255 |
| One year to three years | 232,968 | 379,264 |
| Three years to five years | 62,331 | 70,383 |
| | <u>13,398,040</u> | <u>10,155,070</u> |

15. DEPOSITS FROM CUSTOMERS (CONTD.)

(iii) The deposits are sourced from the following types of customers:

| | 2010 | 2009 |
|---------------------------------------|-------------------|-------------------|
| | RM'000 | RM'000 |
| Government and other statutory bodies | 4,745,630 | 2,914,914 |
| Business enterprises | 6,163,798 | 4,765,935 |
| Individuals | 2,171,919 | 1,957,159 |
| Others | 316,693 | 517,062 |
| | <u>13,398,040</u> | <u>10,155,070</u> |

16. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

| | 2010 | 2009 |
|------------------------------|------------------|------------------|
| | RM'000 | RM'000 |
| <u>Non-Mudharabah</u> | | |
| Licensed Islamic banks | 289,762 | 413,974 |
| Licensed banks | 450,363 | 198,259 |
| Licensed investment banks | 123,224 | 202,031 |
| Other financial institutions | 48,159 | 61,731 |
| Bank Negara Malaysia | 2,823 | 3,429 |
| | <u>914,331</u> | <u>879,424</u> |
| <u>Mudharabah</u> | | |
| Licensed investment banks | 152 | - |
| Other financial institutions | 571,267 | 565,628 |
| | <u>571,419</u> | <u>565,628</u> |
| Total | <u>1,485,750</u> | <u>1,445,052</u> |

Included under deposits and placements of banks and other financial institutions are the following:

| | | |
|------------------------------------|----------------|----------------|
| Negotiable instruments of deposits | 610,619 | 820,736 |
| Interbank borrowings (Note 5) | 296,931 | 43,054 |
| | <u>907,550</u> | <u>863,790</u> |

17. BILLS AND ACCEPTANCES PAYABLE

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

18. OTHER LIABILITIES

| | 2010 | 2009 |
|---|----------------|----------------|
| | RM'000 | RM'000 |
| Profit payable | 48,910 | 60,055 |
| Other creditors and accruals | 73,441 | 66,799 |
| Lease deposits and advance rentals | 10,355 | 6,867 |
| Profit equalisation reserve | 49,298 | 61,933 |
| Amount due to related companies | 2,428 | 1,172 |
| Provision for commitments and contingencies | 337 | - |
| Deferred income | - | 7 |
| Provision for taxation | 7,051 | - |
| | <u>191,820</u> | <u>196,833</u> |

Profit equalisation reserve

The movements in profit equalisation reserve are as follows:

| | 2010 | 2009 |
|-------------------------------------|---------------|---------------|
| | RM'000 | RM'000 |
| Balance at beginning of year | 61,933 | 37,367 |
| Transfer (to)/from income statement | (12,635) | 24,566 |
| Balance at end of year | <u>49,298</u> | <u>61,933</u> |

19. 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 5th 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 6th 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 A1 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 II capital of the Bank.

20. SHARE CAPITAL

| | 2010 | 2009 |
|--------------------------------------|------------------|------------------|
| | RM'000 | RM'000 |
| Authorised: | | |
| Balance at beginning and end of year | | |
| Ordinary shares of RM1.00 each | <u>2,000,000</u> | <u>2,000,000</u> |
| Issued and fully paid: | | |
| Balance at beginning and end of year | | |
| Ordinary shares of RM1.00 each | <u>403,038</u> | <u>403,038</u> |

21. RESERVES

| | Note | 2010 | 2009 |
|----------------------------------|-------------|----------------|----------------|
| | | RM'000 | RM'000 |
| Non-distributable Reserves: | | | |
| Share premium | (a) | 534,068 | 534,068 |
| Statutory reserve | (b) | 265,169 | 168,773 |
| Available-for-sale reserve | (c) | 2,153 | 8,906 |
| Total non-distributable reserves | | <u>801,390</u> | <u>711,747</u> |
| Distributable Reserve: | | | |
| Unappropriated profits | (d) | 133,719 | 168,770 |
| Total reserves | | <u>935,109</u> | <u>880,517</u> |

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

- (a) Share premium is used to record premium arising from new shares issued by the Bank.
- (b) The statutory reserve is maintained in compliance with Section 15 of the Islamic Banking Act, 1983 and is not distributable as cash dividends.
- (c) The available-for-sale reserve is in respect of unrealised fair value gains and losses on securities available-for sale.
- (d) Unappropriated profits are those reserves available for distribution by way of dividends. During the financial year, the Bank has fully utilised the tax credit under Section 108 of the Income Tax Act, 1967 to distribute cash dividend payments (2009: The Section 108 balance was RM49.9 million). The Bank may distribute dividends out of its entire unappropriated profits under the single tier system.

22. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

| | 2010 | 2009 |
|--|----------------|----------------|
| | RM'000 | RM'000 |
| Income derived from investment of: | | |
| (i) General investment deposits | 647,960 | 476,716 |
| (ii) Other deposits | 236,745 | 331,223 |
| | <u>884,705</u> | <u>807,939</u> |
| (i) Income derived from investment of general investment deposits | | |
| <u>Finance income and hibah:</u> | | |
| Financing and advances | 554,540 | 403,010 |
| Securities held-for-trading | 3,317 | 7,600 |
| Money at call and deposits with financial institutions | 57,112 | 39,547 |
| | <u>614,969</u> | <u>450,157</u> |
| Accretion of discount less amortisation of premium | | |
| - net | 1,970 | 2,003 |
| Total finance income and hibah | <u>616,939</u> | <u>452,160</u> |
| <u>Other operating income:</u> | | |
| Fee and commission | | |
| income: | | |
| - Commission | 5,819 | 4,184 |
| - Other fee income | 23,799 | 18,756 |
| Net gain from sale of securities held-for- trading | 1,896 | 3,347 |
| Loss on revaluation of securities held-for-trading | (460) | (1,989) |
| Foreign exchange | (19) | 254 |
| Others | (14) | 4 |
| Total other operating income | <u>31,021</u> | <u>24,556</u> |
| Total | <u>647,960</u> | <u>476,716</u> |

22. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS (CONTD.)

(ii) Income derived from investment of other deposits

| | 2010 RM'000 | 2009 RM'000 |
|---|----------------|----------------|
| <u>Finance income and hibah:</u> | | |
| Financing and advances | 202,612 | 280,011 |
| Securities held-for-trading | 1,212 | 5,281 |
| Money at call and deposits with financial institutions | 20,867 | 27,477 |
| | <u>224,691</u> | <u>312,769</u> |
| Accretion of discount less amortisation of premium - net | 720 | 1,392 |
| Total finance income and hibah | <u>225,411</u> | <u>314,161</u> |
| <u>Other operating income:</u> | | |
| Fee and commission income: | | |
| - Commission | 2,126 | 2,907 |
| - Other fee income | 8,695 | 13,032 |
| Net gain from sale of securities held-for- trading | 693 | 2,325 |
| Loss on revaluation of securities held-for-trading | (168) | (1,382) |
| Foreign exchange | (7) | 177 |
| Others | (5) | 3 |
| Total other operating income | <u>11,334</u> | <u>17,062</u> |
| Total | <u>236,745</u> | <u>331,223</u> |

23. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

| | 2010 | 2009 |
|--|----------------|----------------|
| | RM'000 | RM'000 |
| <u>Finance income and hibah:</u> | | |
| Financing and advances | 106,280 | 118,985 |
| Securities held-for-trading | 636 | 2,244 |
| Securities available-for-sale | 21,254 | 12,685 |
| Money at call and deposits with financial institutions | 10,946 | 11,676 |
| | <u>139,116</u> | <u>145,590</u> |
| Amortisation of premium less accretion of discount - net | (1,431) | 472 |
| | <u>137,685</u> | <u>146,062</u> |
| <u>Other operating income:</u> | | |
| Fee and commission income: | | |
| - Commission | 1,115 | 1,236 |
| - Other fee income | 4,561 | 5,537 |
| Net gain from sale of securities held-for- trading | 363 | 988 |
| Net gain from sale of securities available-for-sale | 4,665 | 2,307 |
| Loss on revaluation of securities held-for-trading | (88) | (587) |
| Foreign exchange | (4) | 75 |
| Others | (3) | 1 |
| Total other operating income | <u>10,609</u> | <u>9,557</u> |
| Total | <u>148,294</u> | <u>155,619</u> |

24. ALLOWANCE FOR LOSSES ON FINANCING AND ADVANCES

| | 2010 | 2009 |
|--|---------------|---------------|
| | RM'000 | RM'000 |
| Allowance for bad and doubtful financing: | | |
| Specific allowance (net) | | |
| - made in the financial year {Note 10(viii)} | 149,764 | 156,544 |
| - written back {Note 10(viii)} | (44,898) | (48,145) |
| General allowance made in the financial year {Note 10(viii)} | 18,296 | 11,554 |
| Bad debts and financing recovered - net | (32,865) | (26,201) |
| | <u>90,297</u> | <u>93,752</u> |

25. INCOME ATTRIBUTABLE TO THE DEPOSITORS

| | 2010 | 2009 |
|---|----------------|----------------|
| | RM'000 | RM'000 |
| Deposit from customers | | |
| - Mudharabah fund | 242,259 | 229,257 |
| - Non-Mudharabah fund | 25,565 | 29,469 |
| | <u>267,824</u> | <u>258,726</u> |
| Deposits and placements of banks and other financial institutions | | |
| - Mudharabah fund | 13,036 | 13,714 |
| - Non-Mudharabah fund | 22,130 | 43,267 |
| | <u>35,166</u> | <u>56,981</u> |
| Others | 24,882 | 66,493 |
| | <u>327,872</u> | <u>382,200</u> |

26. OTHER OPERATING EXPENSES

| | 2010 | 2009 |
|---|----------------|----------------|
| | RM'000 | RM'000 |
| Personnel costs | | |
| - Salaries, allowances and bonuses | 5,184 | 5,202 |
| - Shares and options granted under Executives' Share Scheme | 190 | - |
| - Others | 1,148 | 1,251 |
| Establishment costs | | |
| - Depreciation of property and equipment | 136 | 125 |
| - Amortisation of intangible assets | 164 | 149 |
| - Rental | 664 | 965 |
| - Cleaning, maintenance and security | 30 | 27 |
| - Computerisation cost | 29 | 26 |
| - Others | 26 | 119 |
| Marketing and communication expenses | | |
| - Communication, advertising and marketing expenses | 8,539 | 6,323 |
| - Others | 68 | 100 |
| Administration and general expenses | | |
| - Professional services | 2,995 | 2,233 |
| - Others | 304 | 640 |
| Service transfer pricing expenses | 239,773 | 201,351 |
| | <u>259,250</u> | <u>218,511</u> |

26. OTHER OPERATING EXPENSES (CONTD.)

The above expenditure includes the following statutory disclosures:

| | 2010 | 2009 |
|--|---------------|---------------|
| | RM'000 | RM'000 |
| Directors' remuneration (Note 28) | 1,034 | 972 |
| Rental of premises | 664 | 965 |
| Depreciation of property and equipment (Note 13) | 136 | 125 |
| Amortisation of intangible assets (Note 14) | 164 | 149 |
| Auditors' remuneration | | |
| – Audit | 164 | 140 |
| – Assurance related services | 95 | - |

Personnel costs include salaries, bonuses, contributions to Employees' Provident Fund ("EPF") and all other staff related expenses. Contributions to EPF by the Bank amounted to RM829,000 (2009: RM832,000).

27. 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 and certain members of senior management of the Bank including close members of their families.

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:

| | 2010 | 2009 |
|--|---------------|---------------|
| | RM'000 | RM'000 |
| Income | | |
| <u>Related company</u> | | |
| Profit on deposits and placements | 8 | 11 |
| <u>Key management personnel</u> | | |
| Profit on financing | - | 1 |
| Expenditure | | |
| <u>Holding company</u> | | |
| Profit on deposits and placements | 137 | 50 |
| Service transfer pricing expenses | 238,292 | 199,282 |
| <u>Related companies</u> | | |
| Profit on deposits and placements | 2,184 | 937 |
| Service transfer pricing expenses | 1,480 | 2,305 |
| <u>Key management personnel</u> | | |
| Salary and other remuneration including meeting allowances | 418 | 618 |
| Estimated money value of benefits | 82 | 29 |
| Gratuity | 58 | - |
| Profit on deposits and placements | 36 | 1 |
| Information service provider | - | 29 |

27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTD.)

| | 2010 | 2009 |
|--|---------------|---------------|
| | RM'000 | RM'000 |
| Amount due from | | |
| <u>Related company</u> | | |
| Cash and short-term funds | - | 250,000 |
| <u>Key management personnel</u> | | |
| Financing (card receivables and house financing) | 4 | - |
| Amount due to | | |
| <u>Ultimate Holding Company</u> | | |
| Other payable | 278 | - |
| <u>Holding company</u> | | |
| Deposits and placements | 328,686 | 31,533 |
| Other payable | 2,021 | 1,172 |
| Profit payable | 6 | 99 |
| <u>Related companies</u> | | |
| Deposits and placements | 158,002 | 54,543 |
| Other payable | 129 | - |
| Profit payable | 119 | 5 |
| <u>Key management personnel</u> | | |
| Deposits and placements | 4,654 | 19 |

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.

27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTD.)**Directors related transactions**

The significant transactions of the Bank with companies in which certain directors and/or their close family members are deemed to have a substantial interest, are as follows:

| Supplier | Types of Transactions | 2010 RM'000 | 2009 RM'000 |
|--|---|------------------------|------------------------|
| Harpers Travel (M) Sdn Bhd | Provision of airline ticketing services | 8 | 38 |
| Islamic Banking and Finance Institute Malaysia Sdn Bhd | Seminar attendance fee | 9 | 15 |
| Financial Information Services Sdn Bhd | Provision of information service | 43 | 3 |
| Institute of Bankers Malaysia AmFirst Real Estate Investment Trust | Training Rental of premises, management fee and charges | 3 640 | 11 624 |
| Gubahan Impian | Flower Arrangement and Hamper | 2 | - |
| Bursa Malaysia Bhd | Training | 2 | - |
| Australia and New Zealand Banking Group Limited | Technical services and technology capability | 35 | 15 |
| Restoran Seri Melayu | Food and beverages | 1 | - |

The above transactions have been entered into in the normal course of business and have been established under terms and conditions that are not materially different from those arranged with independent parties.

28. DIRECTORS' REMUNERATION

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

| | 2010 | 2009 |
|--|---------------|---------------|
| | RM'000 | RM'000 |
| Non-executive directors: | | |
| Salaries and bonus | 288 | 258 |
| Fees | 352 | 313 |
| Other remuneration | 394 | 401 |
| Total directors' remuneration (including benefits-in-kind) | 1,034 | 972 |

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 is as follows:

| | Number of Directors | |
|--------------------------|----------------------------|-------------|
| | 2010 | 2009 |
| Non-executive directors: | | |
| Below RM50,000 | - | 4 |
| RM50,001 to RM100,000 | 3 | 1 |
| RM100,001 to RM150,000 | 2 | 2 |
| RM150,001 to RM200,000 | 1 | 1 |
| RM400,001 to RM450,000 | 1 | 1 |

29. SHARIAH COMMITTEE'S MEMBERS' REMUNERATION

Shariah committee's members' remuneration charged to the income statement for the year was RM56,000 (2009: RM45,000).

30. FINANCE COST

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

31. TAXATION

Taxation consists of the following:

| | 2010 RM'000 | 2009 RM'000 |
|---|------------------------------|------------------------------|
| Current year taxation | 34,052 | - |
| Deferred tax (Note 32) : | | |
| Relating to origination and reversal of temporary differences | 57,327 | 56,004 |
| Under/(over) provision in prior years | 2,616 | (371) |
| | <u>59,943</u> | <u>55,633</u> |
| Total income tax expense for the year | <u>93,995</u> | <u>55,633</u> |

As at 31 March 2010, the Bank has fully utilised the unabsorbed tax losses (2009: RM226.6 million) to offset against taxable income. No provision for estimated tax payable was made in the previous financial year due to the utilisation of unabsorbed tax losses of approximately RM265.9 million.

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:

| | 2010 RM'000 | 2009 RM'000 |
|---|------------------------------|------------------------------|
| Profit before taxation | 356,610 | 213,333 |
| Taxation at Malaysian statutory tax rate of 25% (2009 : 25%) | 89,153 | 53,333 |
| Expenses not deductible for tax purposes | 2,226 | 2,671 |
| Under/(over) recognition of deferred tax in prior years | 2,616 | (371) |
| Tax expense for the year | <u>93,995</u> | <u>55,633</u> |

32. DEFERRED TAX ASSET

| | 2010 | 2009 |
|--|---------------|---------------|
| | RM'000 | RM'000 |
| Balance at beginning of year | 99,191 | 157,794 |
| Recognised in equity | 2,252 | (2,970) |
| Transfer to income statement (Note 31) | (59,943) | (55,633) |
| Balance at end of year | <u>41,500</u> | <u>99,191</u> |

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

| | 2010 | 2009 |
|---|---------------|---------------|
| | RM'000 | RM'000 |
| Unabsorbed tax losses | - | 59,570 |
| Temporary differences between depreciation and tax allowances on property and equipment | (147) | (187) |
| Temporary differences arising from general allowance for bad and doubtful debts and financing | 46,201 | 41,627 |
| Temporary differences arising from profit equalisation reserve | 12,324 | 15,483 |
| Temporary difference recognised in Equity | (718) | (2,970) |
| Others | (16,160) | (14,332) |
| | <u>41,500</u> | <u>99,191</u> |

Deferred tax liability recognised directly in equity:

| | 2010 | 2009 |
|--|---------------|---------------|
| | RM'000 | RM'000 |
| Balance at beginning of year | 2,970 | - |
| Relating to net unrealised gain on securities available-for-sale | (2,252) | 2,970 |
| Balance at end of year | <u>718</u> | <u>2,970</u> |

33. EARNINGS PER SHARE

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.

| | 2010 | 2009 |
|--|-------------|-------------|
| Basic/Diluted | | |
| Net profit attributable to shareholder of the Bank (RM'000) | 261,345 | 156,668 |
| Number of ordinary shares at beginning of year representing weighted average number of ordinary shares in issue ('000) | 403,038 | 403,038 |
| Basic/Diluted earnings per share (sen) | 64.84 | 38.87 |

34. 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:

| | 2010 RM'000 | 2009 RM'000 |
|---|------------------------------|------------------------------|
| Total assets | 17,213,427 | 14,096,091 |
| Less: | | |
| Total liabilities | (15,875,280) | (12,812,536) |
| Net assets | 1,338,147 | 1,283,555 |
| Issued and fully paid up ordinary shares of RM1.00 each ('000) | 403,038 | 403,038 |
| Net assets per share (RM) | 3.32 | 3.18 |

35. CAPITAL COMMITMENTS

As at the balance sheet date, the Bank has the following commitments:

| | 2010 RM'000 | 2009 RM'000 |
|---|------------------------------|------------------------------|
| Authorised and contracted for: | | |
| Purchase of computer equipment and software | - | 5 |
| Authorised but not contracted for: | | |
| Purchase of computer equipment and software | - | 97 |
| | <u>-</u> | <u>102</u> |

36. LEASE COMMITMENTS

The Bank has 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:

| | 2010 RM'000 | 2009 RM'000 |
|----------------------------|------------------------------|------------------------------|
| Within one year | 1,216 | 906 |
| Between one and five years | 2,547 | 1,766 |
| More than five years | 756 | 854 |
| | <u>4,519</u> | <u>3,526</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.

37. CAPITAL ADEQUACY RATIO

(a) The capital adequacy ratios of the Bank as at 31 March are as follows:

| | 2010 | 2009 |
|-----------------------------|-------------|-------------|
| Core capital ratio | 10.53% | 11.22% |
| Risk-weighted capital ratio | 15.29% | 16.65% |

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

The detailed disclosures on the risk-weighted assets, as set out in Notes 37 (c), (d) and (e) are presented in accordance with paragraph 4.3 of Bank Negara Malaysia's CAFIB Disclosure Requirements (Pillar 3).

(b) The components of Tier I and Tier II Capital of the Bank are as follows:

| | 2010 RM'000 | 2009 RM'000 |
|--|------------------------------|------------------------------|
| <u>Tier I capital</u> | | |
| Paid-up ordinary share capital | 403,038 | 403,038 |
| Share premium | 534,068 | 534,068 |
| Statutory reserve | 265,169 | 168,773 |
| Unappropriated profits | 133,719 | 168,770 |
| | <u>1,335,994</u> | <u>1,274,649</u> |
| Less: Deferred tax asset | (42,218) | (102,161) |
| Total Tier I capital | <u>1,293,776</u> | <u>1,172,488</u> |
| <u>Tier II capital</u> | | |
| Subordinated Sukuk Musyarakah | 400,000 | 400,000 |
| General allowances for bad and doubtful debts and financing | 184,803 | 166,507 |
| Total Tier II capital | <u>584,803</u> | <u>566,507</u> |
| Capital base | <u>1,878,579</u> | <u>1,738,995</u> |

37. CAPITAL ADEQUACY RATIO (CONTD.)

- (c) The breakdown of risk-weighted assets ("RWA") by exposures in each major risk category of the Bank are as follows:

2010**Exposure Class**

| | | Gross Exposures | | Net Exposures | Risk Weighted Assets | Capital Requirements |
|----|--|-----------------|----------------|---------------|----------------------|----------------------|
| | | RM'000 | | RM'000 | RM'000 | RM'000 |
| 1. | <u>Credit Risk</u> | | | | | |
| | <i>On-Balance Sheet Exposures</i> | | | | | |
| | Sovereigns/Central Banks | 3,968,110 | | 3,968,110 | - | - |
| | Public Sector Entities | 29,831 | | 29,831 | 5,966 | 477 |
| | Banks, Development Financial Institutions ("DFI") and Multilateral Development Bank ("MDBs") | | | | | |
| | Insurance Companies, Securities Firms and Fund Managers | 718,459 | | 718,459 | 143,731 | 11,499 |
| | Corporates | 3,418,971 | | 3,367,269 | 3,179,488 | 254,359 |
| | Regulatory Retail | 8,330,738 | | 8,325,365 | 6,243,317 | 499,465 |
| | Residential Mortgages | 198,113 | | 198,060 | 79,736 | 6,379 |
| | Other Assets | 94,806 | | 94,806 | 91,253 | 7,300 |
| | Defaulted Exposures | 274,924 | | 259,821 | 365,502 | 29,240 |
| | Total for On- Balance Sheet Exposures | 17,033,952 | | 16,961,721 | 10,108,993 | 808,719 |
| | <i>Off-Balance Sheet Exposures</i> | | | | | |
| | OTC derivatives | 9,501 | | 9,501 | 1,900 | 152 |
| | Off balance sheet exposures other than OTC derivatives or credit derivatives | 737,060 | | 737,060 | 629,309 | 50,345 |
| | Total for Off- Balance Sheet Exposures | 746,561 | | 746,561 | 631,209 | 50,497 |
| | Total On and Off- Balance Sheet Exposures | 17,780,513 | | 17,708,282 | 10,740,202 | 859,216 |
| 2. | Large Exposures Risk Requirement | | | | | |
| | | | | | | |
| 3. | <u>Market Risk</u> | Long Position | Short Position | | | |
| | Profit Rate Risk | | | | | |
| | - General profit rate risk | 1,047,739 | 106,263 | | 301,642 | 24,131 |
| | - Specific profit rate risk | 1,047,739 | 106,263 | | 154,688 | 12,375 |
| | Foreign Currency Risk | - | - | | - | - |
| | Option Risk | - | - | | - | - |
| | Total | 2,095,478 | 212,526 | | 456,330 | 36,506 |
| 4. | Operational Risk | | | | 1,090,009 | 87,201 |
| 5. | Total RWA and Capital Requirements | | | | 12,286,541 | 982,923 |

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

37. CAPITAL ADEQUACY RATIO (CONTD.)

- (c) The breakdown of risk-weighted assets ("RWA") by exposures in each major risk category of the Bank are as follows (contd.):

2009**Exposure Class**

| | | Gross Exposures | | Net Exposures | Risk Weighted Assets | Capital Requirements |
|----|--|-------------------|----------------|-------------------|----------------------|----------------------|
| | | RM'000 | | RM'000 | RM'000 | RM'000 |
| 1. | <u>Credit Risk</u> | | | | | |
| | <i>On-Balance Sheet Exposures</i> | | | | | |
| | Sovereigns/Central Banks | 3,087,174 | | 3,087,174 | - | - |
| | Public Sector Entities | 25,561 | | 25,561 | 5,112 | 409 |
| | Banks, Development Financial Institutions ("DFI") and Multilateral Development Bank ("MDBs") | | | | | |
| | Insurance Companies, Securities Firms and Fund Managers | 306,446 | | 306,446 | 78,744 | 6,299 |
| | Corporates | 2,497,467 | | 2,465,048 | 2,092,057 | 167,365 |
| | Regulatory Retail | 7,679,664 | | 7,674,712 | 5,749,139 | 459,931 |
| | Residential Mortgages | 154,919 | | 154,873 | 63,758 | 5,101 |
| | Other Assets | 39,095 | | 39,095 | 28,096 | 2,248 |
| | Defaulted Exposures | 176,861 | | 176,680 | 227,844 | 18,227 |
| | Total for On- Balance Sheet Exposures | 13,967,187 | | 13,929,589 | 8,244,750 | 659,580 |
| | <i>Off-Balance Sheet Exposures</i> | | | | | |
| | OTC derivatives | - | | - | - | - |
| | Off balance sheet exposures other than OTC derivatives or credit derivatives | 1,261,300 | | 1,252,181 | 1,034,786 | 82,783 |
| | Total for Off- Balance Sheet Exposures | 1,261,300 | | 1,252,181 | 1,034,786 | 82,783 |
| | Total On and Off- Balance Sheet Exposures | 15,228,487 | | 15,181,770 | 9,279,536 | 742,363 |
| 2. | Large Exposures Risk Requirement | | | | | |
| | | | | | | |
| 3. | <u>Market Risk</u> | Long Position | Short Position | | | |
| | Profit Rate Risk | | | | | |
| | - General profit rate risk | 770,071 | 53,563 | | 160,198 | 12,816 |
| | - Specific profit rate risk | 304,537 | - | | 21,419 | 1,714 |
| | Foreign Currency Risk | 1,294 | - | | 1,294 | 103 |
| | Option Risk | 399,000 | - | | 54,875 | 4,390 |
| | Total | 1,474,902 | 53,563 | | 237,786 | 19,023 |
| 4. | Operational Risk | | | | 929,719 | 74,377 |
| 5. | Total RWA and Capital Requirements | | | | 10,447,041 | 835,763 |

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

37. CAPITAL ADEQUACY RATIO (CONTD.)

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

2010

| Risk Weights | Exposures after Netting and Credit Risk Mitigation | | | | | | | | | | Total Exposures after Netting and Credit Risk Mitigation RM'000 | Total Risk Weighted Assets RM'000 | | |
|-----------------------------|--|------------------------|----------------------|---|------------|-------------------|-----------------------|--------------------|--------------|--------|--|--------------------------------------|------------|------------|
| | Sovereigns and Central Banks | Public Sector Entities | Banks, DFIs and MDBs | Insurance Companies, Securities Firms and Fund Managers | Corporates | Regulatory Retail | Residential Mortgages | Higher Risk Assets | Other Assets | | | | | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | |
| 0% | 3,968,110 | - | - | - | - | - | - | - | 3,549 | - | - | - | 3,971,659 | - |
| 20% | - | 29,831 | 727,831 | - | 209,137 | - | - | - | 5 | - | - | - | 966,804 | 193,361 |
| 35% | - | - | - | - | - | - | - | 128,622 | - | - | - | - | 128,622 | 45,018 |
| 50% | - | - | 1,129 | - | 44,250 | 10,808 | 69,457 | - | - | - | - | - | 125,644 | 62,822 |
| 75% | - | - | - | - | - | 8,761,036 | - | - | - | - | - | - | 8,761,036 | 6,570,777 |
| 100% | - | - | - | 303 | 3,409,241 | 12,841 | 13,463 | - | 91,252 | - | - | - | 3,527,100 | 3,527,099 |
| 150% | - | - | - | - | 137,421 | 87,086 | - | - | - | 2,910 | - | - | 227,417 | 341,125 |
| Average Risk Weight | | | | | | | | | | | | | | |
| Total | 3,968,110 | 29,831 | 728,960 | 303 | 3,800,049 | 8,871,771 | 211,542 | 2,910 | 94,806 | | | | 17,708,282 | 10,740,202 |
| Deduction from Capital Base | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

37. CAPITAL ADEQUACY RATIO (CONTD.)

(d) The breakdown of credit risk exposures by risk weights for the current financial year are as follows (contd.):

2009

| Risk Weights | Exposures after Netting and Credit Risk Mitigation | | | | | | | | | | Total Exposures after Netting and Credit Risk Mitigation RM'000 | Total Risk Weighted Assets RM'000 |
|-----------------------------|--|------------------------|----------------------|---|------------|-------------------|-----------------------|--------------------|--------------|------------|--|--------------------------------------|
| | Sovereigns and Central Banks | Public Sector Entities | Banks, DFIs and MDBs | Insurance Companies, Securities Firms and Fund Managers | Corporates | Regulatory Retail | Residential Mortgages | Higher Risk Assets | Other Assets | | | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| 0% | 3,087,174 | - | - | - | - | - | - | - | 4,703 | - | 3,091,877 | - |
| 20% | - | 25,593 | 248,263 | - | 409,685 | - | - | - | 3,106 | - | 686,647 | 137,329 |
| 35% | - | - | - | - | - | - | - | - | - | - | 91,042 | 31,864 |
| 50% | - | - | 58,194 | - | 53,283 | 15,901 | 91,042 | 65,516 | - | - | 192,894 | 96,447 |
| 75% | - | - | - | - | - | 8,650,287 | - | - | - | - | 8,650,287 | 6,487,715 |
| 100% | - | - | - | 129 | 2,285,486 | 16,490 | 13,695 | - | 38,906 | - | 2,354,706 | 2,354,706 |
| 150% | - | - | - | - | 23,780 | 94,181 | - | - | (7,621) | 3,977 | 114,317 | 171,475 |
| Average Risk Weight | | | | | | | | | | | | |
| Total | 3,087,174 | 25,593 | 306,457 | 129 | 2,772,234 | 8,776,859 | 170,253 | 3,977 | 39,094 | 15,181,770 | 9,279,536 | |
| Deduction from Capital Base | - | - | - | - | - | - | - | - | - | - | - | - |

37. CAPITAL ADEQUACY RATIO (CONTD.)

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

| 2010 | Principal Amount RM'000 | Positive Fair Value of Derivative Contracts RM'000 | Credit Equivalent Amount RM'000 | Risk Weighted Assets RM'000 |
|--|-------------------------------|---|--|--------------------------------------|
| Credit - Related Exposures | | | | |
| Direct credit substitutes | 184,794 | | 184,794 | 184,794 |
| Certain transaction-related contingent items | 130,228 | | 65,114 | 65,772 |
| Short term self liquidating trade-related contingencies | 90,357 | | 18,071 | 18,372 |
| Islamic financing sold to Cagamas Berhad with recourse | 335,852 | | 335,852 | 253,809 |
| Irrevocable commitments to extend credit maturing : | | | | |
| - less than one year | 1,987,102 | | - | - |
| - more than one year | 160,507 | | 37,415 | 33,823 |
| Unutilised credit card lines | 447,639 | | 89,528 | 66,953 |
| Sell and buy back agreements | 306,538 | | 6,286 | 5,786 |
| Obligations under underwriting agreements | 391,000 | | - | - |
| Others | 8,424 | | - | - |
| Total | 4,042,441 | | 737,060 | 629,309 |
| Derivative Financial Instruments | | | | |
| Commodity related contracts: | | | | |
| - Over one year to five years | 75,500 | 3,461 | 9,501 | 1,900 |
| | <u>75,500</u> | <u>3,461</u> | <u>9,501</u> | <u>1,900</u> |
| Total | 4,117,941 | 3,461 | 746,561 | 631,209 |

37. CAPITAL ADEQUACY RATIO (CONTD.)

(e) The Off-Balance Sheet exposures and their related counterparty credit risk of the Bank are as follows (contd.):

| 2009 | Principal Amount RM'000 | Positive Fair Value of Derivative Contracts RM'000 | Credit Equivalent Amount RM'000 | Risk Weighted Assets RM'000 |
|--|--|---|--|--|
| Credit - Related Exposures | | | | |
| Direct credit substitutes | 168,092 | | 168,092 | 168,092 |
| Certain transaction-related contingent items | 182,317 | | 91,159 | 91,659 |
| Short term self liquidating trade-related contingencies | 55,734 | | 11,147 | 11,147 |
| Islamic financing sold to Cagamas Berhad with recourse | 879,088 | | 879,088 | 663,997 |
| Irrevocable commitments to extend credit maturing : | | | | |
| - less than one year | 1,508,291 | | - | - |
| - more than one year | 259,804 | | 10,433 | 24,083 |
| Unutilised credit card lines | 505,845 | | 101,169 | 75,602 |
| Sell and buy back agreements | 155,560 | | 212 | 206 |
| Obligations under underwriting agreements | 399,000 | | - | - |
| Others | 27,556 | | - | - |
| Total | 4,141,287 | | 1,261,300 | 1,034,786 |
| Derivative Financial Instruments | | | | |
| Commodity related contracts: | | | | |
| - Over one year to five years | 44,494 | 1,885 | - | - |
| | 44,494 | 1,885 | - | - |
| Total | 4,185,781 | 1,885 | 1,261,300 | 1,034,786 |

38. 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. The Bank's current strategic goals are for top quartile shareholder returns and target return on equity wherein the Bank will de-risk, further diversify and have a differentiated growth strategy within its various business lines.

Every risk assumed by the Bank carries with it potential for gains as well as potential to erode the shareholder's 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.

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 thresholds. 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.

38. RISK MANAGEMENT POLICY (CONTD.)

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.

2010

| | ----- Non Trading Book -----> | | | | | | | Effective profit rate % | |
|---|-------------------------------|-----------------------|-----------------------|------------------------|---------------------|---------------------|-----------------------------|-------------------------|---------------------|
| | Up to 1 month RM'000 | >1 to 3 months RM'000 | >3 to 6 months RM'000 | >6 to 12 months RM'000 | 1 to 5 years RM'000 | Over 5 years RM'000 | Non-profit sensitive RM'000 | | Trading Book RM'000 |
| ASSETS | | | | | | | | | |
| Cash and short-term funds | 3,882,900 | - | - | - | - | - | 3,553 | - | 3,886,453 |
| Deposits and placements with banks and other financial institutions | - | 150,000 | - | - | - | - | - | - | 150,000 |
| Securities held-for-trading | - | - | - | - | - | - | - | 350,934 | 350,934 |
| Securities available-for-sale | - | 433,336 | 151,873 | 10,231 | 178,735 | 133,755 | - | - | 907,930 |
| Derivative financial assets | - | - | - | - | - | - | 3,461 | - | 3,461 |
| Financing and advances | 1,130,778 | 484,421 | 355,019 | (197,007) | 3,143,706 | 6,909,116 | - | - | 11,826,033 |
| - Performing * | - | - | - | - | - | - | (67,355) | - | (67,355) |
| - Non-performing ** | - | - | - | - | - | - | 155,971 | - | 155,971 |
| Other non-profit sensitive balances | - | - | - | - | - | - | - | - | - |
| TOTAL ASSETS | 5,013,678 | 1,067,757 | 506,892 | (186,776) | 3,322,441 | 7,042,871 | 95,630 | 350,934 | 17,213,427 |
| LIABILITIES AND EQUITY | | | | | | | | | |
| Deposits from customers | 6,980,417 | 3,757,758 | 1,032,610 | 411,653 | 295,299 | - | 920,303 | - | 13,398,040 |
| Deposits and placements of banks and other financial institutions | 982,646 | 106,915 | 102,585 | 6,543 | 286,768 | - | 293 | - | 1,485,750 |
| Derivative financial liabilities | - | - | - | - | - | - | 3,458 | - | 3,458 |
| Bills and acceptances payable | 185,269 | 176,432 | 33,285 | - | - | - | - | - | 394,986 |
| Subordinated Sukuk Musyarakah | - | - | - | - | 400,000 | - | - | - | 400,000 |
| Other non-profit sensitive balances | - | - | - | - | - | - | 193,046 | - | 193,046 |
| Total Liabilities | 8,148,332 | 4,041,105 | 1,168,480 | 418,196 | 982,067 | - | 1,117,100 | - | 15,875,280 |
| Equity attributable to equity holder of the Bank | - | - | - | - | - | - | 1,338,147 | - | 1,338,147 |
| TOTAL LIABILITIES AND EQUITY | 8,148,332 | 4,041,105 | 1,168,480 | 418,196 | 982,067 | - | 2,455,247 | - | 17,213,427 |
| On-balance sheet profit sensitivity gap | (3,134,654) | (2,973,348) | (661,588) | (604,972) | 2,340,374 | 7,042,871 | (2,359,617) | 350,934 | - |
| Off-balance sheet profit sensitivity gap | - | - | - | - | - | - | - | - | - |
| Total profit sensitivity gap | (3,134,654) | (2,973,348) | (661,588) | (604,972) | 2,340,374 | 7,042,871 | (2,359,617) | 350,934 | - |

38. RISK MANAGEMENT POLICY (CONTD.)

2009

| | ----- Non Trading Book -----> | | | | | | | Effective profit rate % | |
|---|-------------------------------|-----------------------|-----------------------|------------------------|---------------------|---------------------|-----------------------------|-------------------------|-------------------|
| | Up to 1 month RM'000 | >1 to 3 months RM'000 | >3 to 6 months RM'000 | >6 to 12 months RM'000 | 1 to 5 years RM'000 | Over 5 years RM'000 | Non-profit sensitive RM'000 | Trading Book RM'000 | Total RM'000 |
| ASSETS | | | | | | | | | |
| Cash and short-term funds | 3,210,100 | - | - | - | - | - | 7,810 | - | 3,217,910 |
| Securities held-for-trading | - | - | - | - | - | - | - | 203,863 | 203,863 |
| Securities available-for-sale | - | 7,384 | 9,286 | 31,760 | 336,935 | 183,930 | - | - | 569,295 |
| Derivative financial assets | - | - | - | - | - | - | 1,885 | - | 1,885 |
| Financing and advances | | | | | | | | | |
| - Performing * | 762,591 | 440,423 | (245,620) | 86,593 | 2,019,866 | 6,772,547 | - | - | 9,836,400 |
| - Non-performing ** | - | - | - | - | - | - | (25,923) | - | (25,923) |
| Other non-profit sensitive balances | - | - | - | - | - | - | 292,661 | - | 292,661 |
| TOTAL ASSETS | 3,972,691 | 447,807 | (236,334) | 118,353 | 2,356,801 | 6,956,477 | 276,433 | 203,863 | 14,096,091 |
| LIABILITIES AND EQUITY | | | | | | | | | |
| Deposits from customers | 5,000,098 | 2,294,215 | 1,239,990 | 525,255 | 449,647 | - | 645,865 | - | 10,155,070 |
| Deposits and placements of banks and other financial institutions | 512,025 | 296,164 | 272,374 | 166,528 | 192,778 | - | 5,183 | - | 1,445,052 |
| Derivative financial liabilities | - | - | - | - | - | - | 1,884 | - | 1,884 |
| Bills and acceptances payable | 220,903 | 281,824 | 109,840 | - | - | - | - | - | 612,567 |
| Subordinated Sukuk Musyarakah | - | - | - | - | 400,000 | - | - | - | 400,000 |
| Other non-profit sensitive balances | - | - | - | - | - | - | 197,963 | - | 197,963 |
| Total Liabilities | 5,733,026 | 2,872,203 | 1,622,204 | 691,783 | 1,042,425 | - | 850,895 | - | 12,812,536 |
| Equity attributable to equity holder of the Bank | - | - | - | - | - | - | 1,283,555 | - | 1,283,555 |
| TOTAL LIABILITIES AND EQUITY | 5,733,026 | 2,872,203 | 1,622,204 | 691,783 | 1,042,425 | - | 2,134,450 | - | 14,096,091 |
| On-balance sheet profit sensitivity gap | (1,760,335) | (2,424,396) | (1,858,538) | (573,430) | 1,314,376 | 6,956,477 | (1,858,017) | 203,863 | - |
| Off-balance sheet profit sensitivity gap | - | - | - | - | - | - | - | - | - |
| Total profit sensitivity gap | (1,760,335) | (2,424,396) | (1,858,538) | (573,430) | 1,314,376 | 6,956,477 | (1,858,017) | 203,863 | - |

* This is arrived at after deducting Islamic financing sold to Cagamas Berhad from financing and advances.

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

38. RISK MANAGEMENT POLICY (CONTD.)

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 the 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 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.

38. RISK MANAGEMENT POLICY (CONTD.)

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

2010

| | 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 |
| ASSETS | | | | | | | | |
| Cash and short-term funds | 3,882,900 | - | - | - | - | - | 3,553 | 3,886,453 |
| Deposits and placements with banks and other financial institutions | - | 150,000 | - | - | - | - | - | 150,000 |
| Securities held-for-trading | - | - | 9,737 | 102,847 | 77,235 | 161,115 | - | 350,934 |
| Securities available-for-sale | - | 433,336 | 151,873 | 10,231 | 178,735 | 133,755 | - | 907,930 |
| Derivative financial assets | - | - | - | - | - | - | 3,461 | 3,461 |
| Financing and advances | 1,250,336 | 383,343 | 168,299 | 131,240 | 2,814,126 | 7,011,334 | - | 11,758,678 |
| Other assets | - | - | - | - | - | - | 81,626 | 81,626 |
| Statutory deposit with Bank Negara Malaysia | - | - | - | - | - | - | 32,079 | 32,079 |
| Deferred tax assets | - | - | - | - | - | - | 41,500 | 41,500 |
| Property and equipment | - | - | - | - | - | - | 317 | 317 |
| Intangible assets | - | - | - | - | - | - | 449 | 449 |
| TOTAL ASSETS | 5,133,236 | 966,679 | 329,909 | 244,318 | 3,070,096 | 7,306,204 | 162,985 | 17,213,427 |
| LIABILITIES AND EQUITY | | | | | | | | |
| Deposits from customers | 6,980,417 | 3,757,758 | 1,032,610 | 411,653 | 295,299 | - | 920,303 | 13,398,040 |
| Deposits and placements of banks and other financial institutions | 982,646 | 106,915 | 102,585 | 6,543 | 286,768 | - | 293 | 1,485,750 |
| Derivative financial liabilities | - | - | - | - | - | - | 3,458 | 3,458 |
| Bills and acceptances payable | 185,269 | 176,432 | 33,285 | - | - | - | - | 394,986 |
| Other liabilities | - | - | - | - | - | - | 191,820 | 191,820 |
| Provision for zakat | - | - | - | - | - | - | 1,226 | 1,226 |
| Subordinated Sukuk Musyarakah | - | - | - | - | - | 400,000 | - | 400,000 |
| Total Liabilities | 8,148,332 | 4,041,105 | 1,168,480 | 418,196 | 582,067 | 400,000 | 1,117,100 | 15,875,280 |
| Equity attributable to equity holder of the Bank | - | - | - | - | - | - | 1,338,147 | 1,338,147 |
| TOTAL LIABILITIES AND EQUITY | 8,148,332 | 4,041,105 | 1,168,480 | 418,196 | 582,067 | 400,000 | 2,455,247 | 17,213,427 |
| Net maturity mismatch | (3,015,096) | (3,074,426) | (838,571) | (173,878) | 2,488,029 | 6,906,204 | (2,292,262) | - |

38. RISK MANAGEMENT POLICY (CONTD.)**2009**

| | 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 |
| ASSETS | | | | | | | | |
| Cash and short-term funds | 3,217,910 | - | - | - | - | - | - | 3,217,910 |
| Securities held-for-trading | 26,994 | 57,799 | 90,994 | 28,076 | - | - | - | 203,863 |
| Securities available-for-sale | - | 7,384 | 9,286 | 31,760 | 336,935 | 183,930 | - | 569,295 |
| Derivative financial assets | - | - | - | - | - | - | 1,885 | 1,885 |
| Financing and advances | 921,030 | 69,990 | 77,093 | 157,627 | 2,225,246 | 6,359,491 | - | 9,810,477 |
| Other assets | - | - | - | - | - | - | 106,438 | 106,438 |
| Statutory deposit with Bank Negara Malaysia | - | - | - | - | - | - | 86,079 | 86,079 |
| Deferred tax assets | - | - | - | - | - | - | 99,191 | 99,191 |
| Property and equipment | - | - | - | - | - | - | 393 | 393 |
| Intangible assets | - | - | - | - | - | - | 560 | 560 |
| TOTAL ASSETS | 4,165,934 | 135,173 | 177,373 | 217,463 | 2,562,181 | 6,543,421 | 294,546 | 14,096,091 |
| LIABILITIES AND EQUITY | | | | | | | | |
| Deposits from customers | 5,645,963 | 2,294,215 | 1,239,990 | 525,255 | 449,647 | - | - | 10,155,070 |
| Deposits and placements of banks and other financial institutions | 517,208 | 296,164 | 272,374 | 166,528 | 192,778 | - | - | 1,445,052 |
| Derivative financial liabilities | - | - | - | - | - | - | 1,884 | 1,884 |
| Bills and acceptances payable | 220,903 | 281,824 | 109,840 | - | - | - | - | 612,567 |
| Other liabilities | - | - | - | - | - | - | 196,833 | 196,833 |
| Provision for zakat | - | - | - | - | - | - | 1,130 | 1,130 |
| Subordinated Sukuk Musyarakah | - | - | - | - | - | 400,000 | - | 400,000 |
| Total Liabilities | 6,384,074 | 2,872,203 | 1,622,204 | 691,783 | 642,425 | 400,000 | 199,847 | 12,812,536 |
| Equity attributable to equity holder of the Bank | - | - | - | - | - | - | 1,283,555 | 1,283,555 |
| TOTAL LIABILITIES AND EQUITY | 6,384,074 | 2,872,203 | 1,622,204 | 691,783 | 642,425 | 400,000 | 1,483,402 | 14,096,091 |
| Net maturity mismatch | (2,218,140) | (2,737,030) | (1,444,831) | (474,320) | 1,919,756 | 6,143,421 | (1,188,856) | - |

38. RISK MANAGEMENT POLICY (CONTD.)

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 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, including a group risk appetite framework 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.

For non-retail credits, 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 and 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.

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 nine rating grades. Credit risk is quantified based on Expected Default Frequencies and Expected Losses on default from its portfolio of financing and advances 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.

38. RISK MANAGEMENT POLICY (CONTD.)

LEGAL AND REGULATORY RISK

The Bank manages legal and regulatory risks to its business. Legal risk arises from the potential that 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. The Bank's involvement in financial derivatives is limited to options.

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 profit rate and foreign rate factors, the Bank uses them to reduce the overall profit rate and 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.

38. RISK MANAGEMENT POLICY (CONTD.)

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.

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.

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 deferred 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:

| | 2010 | | 2009 | |
|---|--------------------------|----------------------|--------------------------|----------------------|
| | Carrying Value RM'000 | Fair Value RM'000 | Carrying Value RM'000 | Fair Value RM'000 |
| Financial Assets | | | | |
| Cash and short-term funds | 3,886,453 | 3,886,453 | 3,217,910 | 3,217,910 |
| Deposits and placements with banks and other financial institutions | 150,000 | 150,000 | - | - |
| Securities held-for-trading | 350,934 | 350,934 | 203,863 | 203,863 |
| Securities available-for-sale | 907,930 | 907,930 | 569,295 | 569,295 |
| Derivative financial assets | 3,461 | 3,461 | 1,885 | 1,885 |
| Financing and advances * | 11,943,481 | 12,175,028 | 9,976,984 | 10,190,850 |
| Other financial assets | 60,185 | 60,185 | 140,382 | 140,382 |
| | <u>17,302,444</u> | <u>17,533,991</u> | <u>14,110,319</u> | <u>14,324,185</u> |
| Non-Financial Assets | (89,017) | | (14,228) | |
| TOTAL ASSETS | <u>17,213,427</u> | | <u>14,096,091</u> | |

39. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTD.)

| | 2010 | | 2009 | |
|---|--------------------------|----------------------|--------------------------|----------------------|
| | Carrying Value RM'000 | Fair Value RM'000 | Carrying Value RM'000 | Fair Value RM'000 |
| Financial Liabilities | | | | |
| Deposits from customers | 13,398,040 | 13,385,662 | 10,155,070 | 10,180,725 |
| Deposits and placements of banks and other financial institutions | 1,485,750 | 1,496,564 | 1,445,052 | 1,421,687 |
| Derivative financial liabilities | 3,458 | 3,458 | 1,884 | 1,884 |
| Subordinated Sukuk Musyarakah | 400,000 | 442,544 | 400,000 | 456,142 |
| Other financial liabilities | 538,734 | 538,734 | 748,597 | 754,010 |
| | <u>15,825,982</u> | <u>15,866,962</u> | <u>12,750,603</u> | <u>12,814,448</u> |
| Non-Financial Liabilities | | | | |
| Other non-financial liabilities | 49,298 | | 61,933 | |
| Equity attributable to equity holder of the Bank | <u>1,338,147</u> | | <u>1,283,555</u> | |
| TOTAL LIABILITIES AND EQUITY | <u>17,213,427</u> | | <u>14,096,091</u> | |

* The general allowance for the Bank amounting to RM184,803,000 (2009: RM166,507,000) has been included under non-financial assets.

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 as at 31 March 2010 and 31 March 2009:

(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.

39. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTD.)

(b) **Securities Held-For-Trading, Securities Available-For-Sale and Securities Held-To-Maturity**

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. Where discounted cash flow techniques are used, the estimated future cash flows are discounted using market indicative rates of similar instruments at the balance sheet date.

(c) **Financing And Advances**

The fair value of variable rate financing and advances 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 and advances, the fair values are deemed to approximate the carrying values, net of specific allowance for bad and doubtful financing.

(d) **Derivative Financial Instruments**

The fair values of the derivative financial instruments are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques, including discounted cash flow models and option pricing models, as appropriate.

(e) **Other Assets**

The estimated fair value of other assets are estimated to approximate their carrying value because the realisable value of the final consideration as at balance sheet date is similar to that of the carrying value.

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

The fair value of deposits liabilities payable on demand ("current 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.

(g) **Bills And Acceptances Payable**

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

39. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTD.)

(h) Other Liabilities

The fair values of other liabilities approximate their carrying value at the balance sheet date.

(i) 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.

As assumptions were made regarding risk characteristics of the various financial instruments, discount rates, future expected loss experience and other factors, changes in the uncertainties and assumptions could materially affect these estimates and the resulting value estimates.

40. CREDIT EXPOSURES ARISING FROM CREDIT TRANSACTIONS WITH CONNECTED PARTIES

| | 2010 | 2009 |
|---|--------|--------|
| Outstanding credit exposures with connected parties (RM'000) | 30,541 | 16,918 |
| Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures (%) | 0.23% | 0.14% |
| Percentage of outstanding credit exposures with connected parties which is non-performing or in default (%) | 0.14% | 0.76% |

The credit exposures above are derived based on Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties, which are effective for the financial year 2009. Under the guidelines, a connected party refers to:

- (a) directors of the Bank and their close relatives;
- (b) controlling shareholder and his close relatives;
- (c) executive officer and his close relatives; executive officer refers to member of management having authority and responsibility for planning, directing and/or controlling the activities of the Bank;

40. CREDIT EXPOSURES ARISING FROM CREDIT TRANSACTIONS WITH CONNECTED PARTIES (CONTD.)

- (d) officer and his close relatives; officer refers to those responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually;
- (e) firms, partnerships, companies or any legal entities which control, or are controlled by, any person (including close relatives in the case of individuals) listed in (a) to (d) above, or in which they have interest as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;
- (f) any person for whom the persons listed in (a) to (d) above is a guarantor;
- (g) subsidiary of, or an entity controlled by the Bank and its connected parties.

Credit transactions and exposures to connected parties disclosed includes the extension of credit facility and/or off-balance sheet transactions that give rise to credit/counterparty risk, the underwriting and acquisition of equities and private debt securities.

Credit transactions entered into with connected parties are on arm's length basis whereby:

- (i) the creditworthiness of the connected party is not less than what is normally required of other persons;
- (ii) the terms and conditions of credit transactions with connected parties are not more favourable than those entered into with other counterparties with similar circumstances and creditworthiness;
- (iii) the credit transactions are in the interest of the Bank and approved by the Board of Directors with not less than three quarters of all board members present.

APPENDIX II
SHARIAH ENDORSEMENT

SHARIAH ENDORSEMENT

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

*All praise is due to Allah, the Cherisher of the world, and peace and blessing
be upon the Prophet of Allah, on his family and all his companions*

AMISLAMIC BANK BERHAD

PROPOSED SENIOR SUKUK ISSUANCE PROGRAMME OF UP TO RM 3.0 BILLION NOMINAL VALUE BASED ON THE SHARIAH PRINCIPLES OF MUSYARAKAH ("SENIOR SUKUK MUSYARAKAH PROGRAMME")

I, Dr Mohd Daud Bakar, as the independent Shariah Adviser for AmlInvestment Bank Berhad for the abovesaid proposed issuance(s) of Islamic securities under the Senior Sukuk Musyarakah Programme by Amlslamic Bank Berhad ("Amlslamic Bank" or the "Issuer"), have reviewed the proposed structure and mechanism to be entered into in respect thereto to ensure Shariah compliance.

Except where defined herein, defined terms used in this Shariah Endorsement have the same meanings given in the Principal Terms and Conditions in connection with the proposed Senior Sukuk Musyarakah Programme.

1. Structure of Transaction

The proposed structure and mechanism will be based on the Shariah principles of **Musyarakah** which will have the following principle features:

- 1.1. The principles of Musyarakah is an approved Shariah concept and principles to be applied for the purpose of structuring, documenting and trading of Islamic Securities, as specified under the Securities Commission's ("SC") Guidelines on the Offering of Islamic Securities dated 26 July 2004, as amended from time to time.
- 1.2. The investors (known as "Senior Sukukholders") shall from time to time, form a partnership amongst themselves for the purpose of investing in the Shariah compliant financial services business of Amlslamic Bank ("**Musyarakah Venture**"). Each tranche of the Senior Sukuk shall constitute a Musyarakah Venture.
- 1.3. Amlslamic shall issue Senior Sukuk to the Senior Sukukholders, in consideration of their capital contribution ("**Musyarakah Capital**"), being the subscription price of the Senior Sukuk. The Senior Sukuk represents their proportionate participation in the said Musyarakah Venture.

- 1.4. The Issuer shall declare trust over the Trust Assets (as defined). The Trust Assets would be the Shariah compliant financial services business of the Issuer (including the Profit Reserve Account (as defined)) ("**Trust Assets**"). The Issuer shall also be appointed by the Trustee (who acts on behalf of the Senior Sukukholders) as the "**Manager**" to manage the Musyarakah Venture for the Senior Sukukholders, upon the terms and subject to conditions therein contained.
- 1.5. The Senior Sukuk shall entitle the Senior Sukukholders the right to share the income generated from the Musyarakah Venture in proportion to each Senior Sukukholder's respective contribution of the Musyarakah Capital ("**Periodic Distribution**").
- 1.6. The return expected ("**Expected Return**") by the Senior Sukukholders from the Musyarakah Venture shall be the yield from the respective tranches of the Senior Sukuk up to the respective maturity dates of the Senior Sukuk ("**Maturity Dates**") or the date of declaration of an event being an event which dissolves the Musyarakah Venture ("**Dissolution Event**"), whichever is applicable.
- 1.7. The Senior Sukukholders shall have also agreed upfront that they shall receive return, if any, up to the Expected Return. Any amounts in excess of the Expected Return shall be credited by the Manager to a Profit Reserve Account which may be used to fund future payments of Periodic Distribution. Any amount standing to the credit of the Profit Reserve Account on the Maturity Dates or on the date of declaration of a Dissolution Event (both referred to as "**Dissolution Date**") will be due and payable to the Manager as an incentive fee for managing the Musyarakah Venture.
- 1.8. The Manager may at any time prior to the Dissolution Date utilize the amounts standing to the credit of the Profit Reserve Account ("**Advance Incentive Fee**") so long as any amounts deducted from the Profit Reserve Account prior to the Dissolution Date are re-credited to fund any shortfall in the amount of the Periodic Distribution.
- 1.9. If there is insufficient income generated from the Trust Assets and the amount re-credited is also insufficient to meet a Periodic Distribution, then the Issuer shall make advance payments during the tenor of the Senior Sukuk ("**Advance Payment**") equal to such deficiency. Any such Advance Payment made by the Issuer shall be off-set against the Exercise Price.
- 1.10. Amlslamic Bank, as the Obligor shall also grant to the Trustee (acting on behalf of the Senior Sukukholders) a Purchase Undertaking whereby the Obligor shall undertake to purchase the Trust Assets from the Trustee upon the Dissolution Date of the Senior Sukuk at the Exercise Price.

2. Shariah Considerations

2.1 Utilisation of Proceeds.

The proceeds of the Senior Sukuk shall be utilised for the following purposes:

- a) To defray issuance expenses for the establishment of the Senior Sukuk Musyarakah Programme; and
- b) For the Issuer's general working capital requirements which are Shariah compliant and to fund the growth of its Islamic financial services business

2.2 Trust Assets. The Issuer shall declare a trust over the Trust Assets for the benefit of the Senior Sukukholders. The Trust Assets would be the Shariah compliant financial services business of the Issuer (including the Profit Reserve Account).

2.3 Profit and Loss Sharing. The Senior Sukukholders shall share the profit and losses from each Musyarakah Venture in proportion to each Sukukholder's respective contribution of the Musyarakah Capital.

Under the Musyarakah Venture, income derived from Amlslamic Bank's Islamic financial services business shall be distributed to the Senior Sukukholders either monthly, quarterly or semi-annually, at the option of the Issuer.

The Senior Sukukholders have agreed upfront that they shall receive profits, if any, up to the Expected Return. Any amounts in excess of the Expected Return shall be credited by the Manager to a Profit Reserve Account which may be used to fund future payments of Periodic Distribution. Any amount standing to the credit of the Profit Reserve Account on the Dissolution Date will be due and payable to the Manager as an incentive fee for managing the Musyarakah Venture.

2.4 Profit Reserve Account. The Manager shall open a profit reserve account for the purpose of crediting of any excess income from the Trust Assets and, if applicable, re-crediting of any Advance Incentive Fee, which will be used to fund payments of the Periodic Distribution from time to time to the extent that there is insufficient income from the Trust Assets to pay such Periodic Distribution amount.

2.5 Purchase Undertaking. The Obligor shall give an undertaking to the Trustee (acting for the Senior Sukukholders) to purchase the Senior Sukukholders' interests in the Trust Assets from the Trustee at the Exercise Price upon the occurrence of the earlier of the respective maturity dates of the Senior Sukuk or the declaration of a Dissolution Event.

From Shariah point of view, the permissibility of the Purchase Undertaking mechanism as mentioned above would be based on the following:

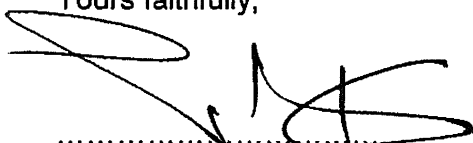
- a) Amlslamic Bank, as the Obligor, undertakes to purchase the Trust Assets owned by the Senior Sukukholders pursuant to the Purchase Undertaking. This undertaking is based on the Obligor's promise (*Wa'ad Mulzim*) to purchase the Trust Assets comprising all of their rights, title and interests under the Musyarakah Venture at a price to be agreed based on mutual consent and according to an agreed formula.

- b) The purpose of this Purchase Undertaking is for the Obligor to purchase the Senior Sukukholders' interests in the Trust Assets from the Trustee at the Exercise Price upon the occurrence of the earlier of the respective maturity dates of the Senior Sukuk or the declaration of a Dissolution Event. Such undertaking by the Obligor to purchase the Trust Assets which is managed by the Issuer is permissible and is not a capital guarantee as the undertaking can only be exercised if the assets are still available. Unlike capital guarantee which requires the Obligor to refund the full capital irrespective of the availability of the assets of the venture, the purchase undertaking by the Obligor will and could only be exercised if the assets of the venture are available to make the purchase contract valid. Thus, this Purchase Undertaking could not be exercised if the assets of the venture, due to some reasons, cease to exist.

3. **Approval**

Accordingly, having reviewed the structure and mechanism as documented above, and the Shariah considerations contained herein, I hereby confirm that the above proposed Senior Sukuk Musyarakah Programme is in compliance with the Islamic principles as well as the relevant guidelines formulated by the Securities Commission to regulate the issuance of Islamic securities, subject to satisfactory documentation and proper execution of the same.

Yours faithfully,



.....
Dr. Mohd Daud Bakar

27 JUL 2010

Date :

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