

Amlslamic Bank Berhad

(Company No. 295576-U)

(Incorporated in Malaysia)

**Financial Statements
For the Financial Year Ended**

31 March 2007

(In Ringgit Malaysia)

Company No. 295576–U

Amlslamic Bank Berhad
(Incorporated in Malaysia)

FINANCIAL STATEMENTS

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Company No. 295576–U

AmIslamic Bank Berhad

(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors have pleasure in presenting their report and the audited financial statements of the Bank for the financial year ended 31 March 2007.

PRINCIPAL ACTIVITIES

On 1 May 2006, the Islamic banking business of its holding company, AmBank (M) Berhad ("AmBank (M)") was transferred to and vested into the Bank pursuant to the vesting order of the High Court of Malaya made pursuant to Section 50 of the Banking and Financial Institutions Act, 1989. The net book value of the assets and liabilities transferred was RM784.1 million.

The consideration for the transfer of business was satisfied by way of issue of 250.0 million new ordinary shares of RM1.00 each by the Bank to AmBank (M) at RM3.14 per share.

Subsequently, the Bank commenced operations as a licensed Islamic banking institution.

SIGNIFICANT EVENT

Issuance of RM400 million 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 A3 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 qualify as Tier 2 capital of the Bank.

FINANCIAL RESULTS

	The Bank RM'000
Profit before zakat and taxation	139,943
Zakat	(786)
Taxation	<u>(44,378)</u>
Net profit for the year	<u><u>94,779</u></u>

BUSINESS PLAN AND STRATEGY

The ultimate holding company, AMMB Holdings Bhd Group (“AHB Group”) is committed to maintaining its standing as Malaysia’s leading and dynamic banking and financial services group and is dedicated to exploring new frontiers and international opportunities to enhance its capabilities whilst strengthening its position in the global economy. On this basis, upon the approval of the Minister of Finance and other regulatory authorities, the AHB Group had on 2 March 2007 formalized the entry of Australia and New Zealand Banking Group Limited (“ANZ”) as a strategic partner of the AHB Group by executing the relevant definitive agreements with ANZ. The capital infusion of RM1.075 billion to be provided by ANZ through the partnership terms as set out in the definitive agreements will strengthen the AHB Group's balance sheet and enhance its banking operations in the Malaysian and international markets.

ANZ is a major international banking and financial services group which is among the top 50 banks in the world. It is one of the largest and most successful companies in Australia and the largest bank in New Zealand. On the whole, the partnership with ANZ will enable the Group to leverage on the international expertise and strengths of ANZ, as it will bring with it ANZ’s international best practices, as well as exposure to international products, banking systems and cross border capabilities. Coupled with the enhancement of product development capabilities arising from cross-cultural exchanges, the partnership will also enable the Group to sharpen its competitive edge and elevate itself to a level that is on par with international banks.

On the retail and commercial divisional business front, the Group’s brand values and culture of placing its customers on top priority was evident throughout the financial year with the formation and active promotion of several customer service enhancement initiatives by AmBank to significantly improve its customer satisfaction. AmBank will continue to strive for service excellence by providing a combination of quality, competitive pricing and excellent sales delivery and experience for its customers. AmBank will also continue to roll out innovative campaigns and promotions like the AmBank Mad Gold Rush and the Towering FD promotion, which have successfully increased and strengthened the Group’s customer and deposit base during the year. With its strong customer franchise and wide branch network, the Group will continue to strengthen its cross-selling and operational capabilities whilst enhancing its product development initiatives.

The Bank was established on 1 May 2006 and is currently providing a full spectrum of Islamic banking services including personal, commercial and Islamic investment banking facilities which are in accordance with Shariah principles. In conjunction with the official launch of the Bank, the Cashline facility-i was launched to complement the existing current account-i, while the free-for-life Al-Tasrif Card-i which was also newly launched, has received good profit. In June 2006, the Bank also launched the AmOasis Global Islamic Equity fund which was the first global Islamic equity fund to be launched in Malaysia. The Bank will continue to focus on developing new innovative products to suit customer needs and promotion of its products and services as it leverages on group synergies to reach a wider consumer market span. The Bank will also leverage on the incentives provided by the Government for Islamic business expansion and in exploring international joint venture opportunities with potential partners from the Middle East.

OUTLOOK FOR NEXT FINANCIAL YEAR

In tandem with the thrusts of the Ninth Malaysian Plan (9MP), the Malaysian economy is projected to see sustained growth in 2007 with GDP growth projected at 5.9%. On the back of favourable macroeconomic conditions, the banking sector is expected to remain robust with strong capitalization and continuous improvement in asset quality.

For the upcoming year, capital market activities are expected to be robust. The active promotion of Islamic financing by the Malaysian government and growing demand for Shariah compliant securities from local and international investors provide an impetus for more capital market issues.

The Bank will continue to pursue its strategy of expanding its business operations regionally whilst maintaining its leadership position in the industry. The Bank is confident that it has built an infrastructure, customer base and brand-awareness that enables it to take advantage of industry growth opportunities. Further, it is envisaged that the AmBank Group's strategic tie-up with Australia and New Zealand Banking Group Limited will elevate the Group to a level on par with international banks.

ITEMS OF AN UNUSUAL NATURE

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

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect substantially the results of operations of the Bank for the current financial year in which this report is made.

DIVIDENDS

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

RESERVES AND ALLOWANCES

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

ISSUANCE OF SHARES

During the financial year, the issued and paid-up capital of the Bank was increased from 153,038,000 ordinary shares of RM1.00 each to 403,038,000 ordinary shares arising from the issuance of 250,000,000 shares, as consideration for the transfer of the Islamic Banking Business from its holding company, AmBank (M).

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 liabilities 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 are:

Tan Sri Dato' Azman Hashim
Tun Mohammed Haniff Omar (appointed on 15 May 2006)
Tan Sri Datuk Clifford Francis Herbert
Cheah Tek Kuang
Mohamed Azmi Mahmood
Dato' James Lim Cheng Poh

In accordance with Article 87 of the Bank's Articles of Association, Cheah Tek Kuang and Dato' James Lim Cheng Poh retire at the forthcoming Annual General Meeting and, being eligible, offers themselves for re-election.

DIRECTORS' INTERESTS

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

In the ultimate holding company, AMMB Holdings Berhad**No. of ordinary shares of RM1.00 each**

Shares	Balance at 1.4.2006	Bought	Sold	Balance at 31.3.2007
Cheah Tek Kuang	23,800	–	–	23,800
Mohamed Azmi Mahmood	170,024	–	–	170,024

No. of Warrants

Warrants 2003/2008	Balance at 1.4.2006	Bought	Sold/ Exercised	Balance at 31.3.2007
Cheah Tek Kuang	46,189	–	–	46,189
Mohamed Azmi Mahmood	16,083	–	–	16,083

In a related company, AmlInvestment Group Berhad**No. of ordinary shares of RM1.00 each**

Shares	Balance at 1.4.2006	Bought	Sold	Balance at 31.3.2007
Tan Sri Dato' Azman Hashim	94,554,848	–	–	94,554,848
Tun Mohammed Hanif Omar	200,000	–	–	200,000
Cheah Tek Kuang	1,120,100	–	750,000	370,100
Dato' James Lim Cheng Poh	30,000	–	–	30,000
Tan Sri Datuk Clifford Francis Herbert	50,000	–	–	50,000
Mohamed Azmi Mahmood	150,000	–	–	150,000

DEEMED INTEREST**In the ultimate holding company, AMMB Holdings Berhad****No. of ordinary shares of RM1.00 each**

Shares	Name of Company	Balance at 1.4.2006	Bought	Sold	Balance at 31.3.2007
Tan Sri Dato' Azman Hashim	AmcorpGroup Berhad	671,252,421	29,490,000	–	700,742,421
	AMDB Equipment Trading Sdn Bhd	439,047	–	–	439,047
	Regal Genius Sdn Bhd	29,490,000	–	29,490,000	–

In the ultimate holding company, AMMB Holdings Berhad**No. of Warrants**

Warrants 2003/2008	Name of Company	Balance at 1.4.2006	Bought	Sold/ Exercised	Balance at 31.3.2007
Tan Sri Dato' Azman Hashim	AmcorpGroup Berhad	5,954,097	34,648,674	–	40,602,771
	AMDB Equipment Trading Sdn Bhd	22,682	–	–	22,682
	Regal Genius Sdn Bhd	2,989,936	–	2,989,936	–
	Corporateview Sdn Bhd	31,658,738	68,100	31,726,838	–

In a related company, AmInvestment Group Berhad**No. of ordinary shares of RM1.00 each**

Shares	Name of Company	Balance at 1.4.2006	Bought	Sold	Balance at 31.3.2007
Tan Sri Dato' Azman Hashim	AmcorpGroup Berhad	150,896,688	6,760,238	–	157,656,926
	AMDB Equipment Trading Sdn Bhd	100,646	–	–	100,646
	Azman Hashim Holdings Sdn Bhd	209,502	–	–	209,502
	Regal Genius Sdn Bhd	6,760,238	–	6,760,238	–
	AMMB Holdings Bhd	673,200,000	–	–	673,200,000

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

Other than as disclosed, none of the directors in office at the end of the financial year had any interest in shares in the Bank or its related companies during the financial 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 the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest except for related party transactions as shown in Note 25 to the financial statements.

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

CORPORATE GOVERNANCE

(a) BOARD RESPONSIBILITY AND OVERSIGHT

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

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

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

The Board currently comprises six (6) directors with wide skills and experience, of which two (2) 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 & Examination Committee
4. Risk Management Committee
5. Executive Committee

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

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

Number of meetings attended in FY2007						
	Board of Directors	Nomination Committee	Remuneration Committee	Audit and Examination Committee	Risk Management Committee	Executive Committee
Tan Sri Dato' Azman Hashim	11	1 (Member effective 29.5.06)	1	N/A	N/A	12
Tun Mohammed Hanif Omar	9 (Independent Non-Executive Director effective 15.05.06)	1 (Chairman effective 29.05.06)	N/A	1 (Member effective 1.03.07)	N/A	11 (Member effective 29.5.06)
Tan Sri Datuk Clifford Francis Herbert	11	2	1 (Chairman effective 29.05.06)	5 (Chairman effective 29.05.06)	6 (Chairman effective 29.05.06)	N/A
Cheah Tek Kuang	11	2	1 (Member effective 29.05.06)	N/A	6	1 (Resigned as member effective 29.05.06)
Mohammed Azmi Mahmood	9	2	N/A	N/A	N/A	7
Dato' James Lim Cheng Poh	10	N/A	N/A	5 (Member effective 29.05.06)	N/A	11
Number of meetings held in FY2007	11	2	1	5	6	12

Note: All attendances reflect the number of meetings attended during Directors' duration of service.
N/A represents not a member.

Nomination Committee

This Committee comprises five (5) directors which the majority are independent directors. It is responsible for regularly reviewing the board structure, size and composition, as well as identifying and selecting new directors to be appointed to the Board and the Committees of the Board. On an annual basis, it reviews the mix of skills and experience and other qualities and competencies that Non-Executive Directors should bring to the Board.

During the financial year, two (2) 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

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

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

Audit and Examination Committee

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

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

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

Risk Management Committee

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

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

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

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

Internal Audit and Internal Control Activities

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

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

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

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

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

Executive Committee

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

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

(c) MANAGEMENT INFORMATION

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

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

HOLDING AND ULTIMATE HOLDING COMPANY

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

RATING BY EXTERNAL AGENCIES

The Bank was awarded a long term rating of A2 (Stable)/P1 by Rating Agency Malaysia Berhad ("RAM").

The RM400.0 million Subordinated Sukuk Musyarakah was awarded a long term rating of A3 (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 advisors also assisted in the setting up of business and operational procedures with respect to compliance with Shariah principles.

AUDITORS

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

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

TAN SRI DATO' AZMAN HASHIM
Chairman

CHEAH TEK KUANG
Director

Kuala Lumpur, Malaysia
18 May 2007

Company No. 295576-U

Amlslamic Bank Berhad

(Incorporated in Malaysia)

Audited Financial Statements for the financial year ended 31 March 2007

STATEMENT BY DIRECTORS

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

We, **Tan Sri Dato' Azman Hashim** and **Cheah Tek Kuang**, being two of the directors of **Amlslamic Bank Berhad**, do hereby state that, in the opinion of the directors, the accompanying financial statements as set on pages 18 to 76 are drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia guidelines so as to give a true and fair view of the financial position of the Bank as at 31 March 2007 and of the results and the cash flows of the Bank for the financial year then ended.

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

TAN SRI DATO' AZMAN HASHIM
Chairman

CHEAH TEK KUANG
Director

Kuala Lumpur, Malaysia
18 May 2007

Company No. 295576-U

Amlslamic Bank Berhad

(Incorporated in Malaysia)

Audited Financial Statements for the financial year ended 31 March 2007

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 **Amlslamic Bank Berhad**, do solemnly and sincerely declare that the accompanying financial statements as set out on pages 18 to 76 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed **LIM HOCK AUN** at KUALA LUMPUR this 18 day of May 2007

LIM HOCK AUN

Before me,

COMMISSIONER FOR OATHS

Lodged on behalf by:

Address: 22nd Floor, Bangunan AmBank Group,
No. 55 Jalan Raja Chulan,
50200 Kuala Lumpur

Telephone Number: 03-20782633/44/55

AmIslamic Bank Berhad

(Incorporated in Malaysia)

Audited Financial Statements for the financial year ended 31 March 2007

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

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

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

We, Dr. Amir Husin Mohd Nor, Prof. Madya Dr. Noor Naemah Abd. Rahman and Encik Adnan Yusoff, being members of Shariah Committee of AmIslamic Bank Berhad, do hereby confirm that we have reviewed the principles and the contracts relating to the transactions and applications introduced by the Bank during the year ended March 31, 2007.

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

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

We are of the opinion that: -

- a) The contracts, transactions and dealings entered into by the Bank during the year ended March 31, 2007, 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

DR. AMIR HUSIN MOHD NOR

Chairman of the Committee

PROF. MADYA DR. NOOR NAEMAH

ABD. RAHMAN

Member of the Committee

Kuala Lumpur, Malaysia
18 May 2007

ENCIK ADNAN YUSOFF

Member of the Committee

REPORT OF THE AUDITORS TO THE MEMBERS OF

Amlslamic Bank Berhad

(Incorporated in Malaysia)

We have audited the financial statements set out on pages 18 to 76. These financial statements are the responsibility of the Bank's directors.

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

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

In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia so as to give a true and fair view of:
 - (i) the financial position of the Bank as at 31 March 2007 and of the results and the cash flows of the Bank for the financial year ended on that date; and
 - (ii) the matters required by Section 169 of the Act to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

ERNST & YOUNG
AF 0039
Chartered Accountants

GLADYS LEONG
No. 1902/04/08 (J)
Partner

Kuala Lumpur, Malaysia
18 May 2007

Amlslamic Bank Berhad

(Incorporated in Malaysia)

**BALANCE SHEET
AS AT 31 MARCH 2007**

	Note	2007 RM'000	2006 RM'000
ASSETS			
Cash and short-term funds	5	1,849,370	–
Deposits and placements with banks and other financial institutions	6	415,200	–
Securities held-for-trading	7	144,587	–
Financing, advances and other loans	8	6,369,970	–
Other assets	9	87,964	–
Statutory deposit with Bank Negara Malaysia	10	249,000	–
Deferred tax asset	30	223,558	153,038
Property and equipment	11	913	–
Intangible assets	12	65	–
TOTAL ASSETS		<u>9,340,627</u>	<u>153,038</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits from customers	13	4,671,054	–
Deposits and placements of banks and other financial institutions	14	2,553,567	–
Bills and acceptances payable	15	446,614	–
Other liabilities	16	236,721	–
Provision for zakat		786	–
Subordinated Sukuk Musyarakah	17	400,000	–
Total Liabilities		<u>8,308,742</u>	<u>–</u>
Share capital	18	403,038	153,038
Reserves	19	628,847	–
Shareholder's Equity		<u>1,031,885</u>	<u>153,038</u>
TOTAL LIABILITIES AND EQUITY		<u>9,340,627</u>	<u>153,038</u>
COMMITMENTS AND CONTINGENCIES	33	<u>4,038,931</u>	<u>–</u>
NET ASSETS PER SHARE (RM)	34	<u>2.56</u>	<u>1.00</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 2007**

	Note	2007 RM'000	2006 RM'000
Income derived from investment of depositors' funds and others	20	618,218	15,663
Income derived from investment of shareholders' funds	21	128,375	408
Allowances for losses on financing	22	(194,777)	(1,711)
Transfer from/(to) profit equalisation reserve	16	<u>59,148</u>	<u>(315)</u>
Total distributable income		610,964	14,045
Income attributable to the depositors	23	<u>(319,537)</u>	<u>(6,589)</u>
Total net income		291,427	7,456
Other operating expenses	24	(146,171)	(10)
Finance cost	28	<u>(5,313)</u>	<u>-</u>
Profit before zakat & taxation		139,943	7,446
Zakat		(786)	-
Taxation	29	<u>(44,378)</u>	<u>-</u>
Profit from continuing operations		94,779	7,446
Profit from discontinued operations	31	<u>-</u>	<u>1,331</u>
Profit after zakat and taxation		<u>94,779</u>	<u>8,777</u>
Earnings per share (sen):	32		
Basic, for profit from continuing operations		24.78	1.27
Basic, for profit from discontinued operations		<u>-</u>	<u>0.22</u>
Basic for the year		<u>24.78</u>	<u>1.49</u>

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 2007**

	← Non-distributable reserves →				Distributable	
	Share Capital RM'000	Share Premium RM'000	Statutory Reserve RM'000	Capital Reserve RM'000	Accumulated Losses/ Profits RM'000	Total RM'000
Balance as at 1 April 2005	761,719	377,031	95,642	461	(677,925)	556,928
Profit for the year	—	—	—	—	8,777	8,777
Capital reduction						
– set off of accumulated losses	(196,014)	(377,031)	(95,642)	(461)	669,148	—
– cancellation of capital	(412,667)	—	—	—	—	(412,667)
Balance as at 31 March 2006	153,038	—	—	—	—	153,038
Balance as at 1 April 2006	153,038	—	—	—	—	153,038
Issued during the year	250,000	534,068	—	—	—	784,068
Transfer to statutory reserve	—	—	47,390	—	(47,390)	—
Profit for the year	—	—	—	—	94,779	94,779
Balance as at 31 March 2007	403,038	534,068	47,390	—	47,389	1,031,885

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 2007**

	2007	2006
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	139,943	12,177
Adjustments for:		
Allowances for losses on financing	194,777	5,750
Depreciation of property and equipment	43	1,435
Depreciation on intangible asset	8	-
Transfer (from)/ to profit equalisation reserve	(59,148)	315
Accretion of discount less amortisation of premium	(3,311)	(1,733)
Gain on disposal of securities held-for-trading	(658)	(56)
(Gain)/Loss on revaluation of securities held-for-trading	(1,944)	939
Gain on disposal of securities held-to-maturity	-	(540)
Impairment writeback on securities held-to-maturity	-	(2,036)
Gross dividend income from securities available-for-sale	-	(943)
Gross dividend income from securities held-to-maturity	-	(22)
	<hr/>	<hr/>
Operating Profit Before Working Capital Changes	269,710	15,286
(Increase)/Decrease In Operating Assets:		
Deposits and placements with banks and other financial institutions	(413,074)	(61,156)
Securities held-for-trading	363,545	(8,944)
Financing, advances and other loans	(52,558)	(63,116)
Other assets	751	15,963
Statutory deposit with Bank Negara Malaysia	19,794	(6,912)
Increase/(Decrease) In Operating Liabilities:		
Deposits from customers	347,811	355,133
Deposits and placements of banks and other financial institutions	(398,640)	238,901
Obligation on securities sold under repurchase agreements	-	(44,998)
Bills and acceptances payable	221,250	87,589
Recourse obligation of loans sold Cagamas Berhad	-	(18,244)
Other liabilities	(75,781)	69,218
	<hr/>	<hr/>
Cash Generated From Operations	282,808	578,720
Tax refund	7,452	-
	<hr/>	<hr/>
Net Cash Generated From Operating Activities	290,260	578,720

	2007 RM'000	2006 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(956)	(1,027)
Purchase of intangible asset	(73)	–
Transfer of cash and cash equivalent from holding company	1,160,139	–
Net assets transferred from holding company	(784,068)	–
Sale / (Purchase) of securities available-for-sale – net	–	2,351
Sale / (Purchase) of securities held-to-maturity - net	–	10,468
Net dividend income from securities available-for-sale	–	935
Net dividend income from securities held-to-maturity	–	16
	<u>375,042</u>	<u>12,743</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	784,068	
Proceeds received from Subordinated Sukuk Musyarakah	400,000	
Return of capital to holding company		(412,667)
Net assets vested to holding company		412,667
Transfer of cash and cash equivalents pursuant to the business transfer	–	(2,815,260)
	<u>1,184,068</u>	<u>(2,815,260)</u>
Net Cash Generated From/(Used in) Financing Activities	<u>1,184,068</u>	<u>(2,815,260)</u>
Net Increase In Cash and Cash Equivalents	1,849,370	(2,223,797)
Cash and Cash Equivalents At Beginning Of Year	–	<u>2,223,797</u>
Cash and Cash Equivalents At End Of Year	<u>1,849,370</u>	<u>–</u>

Note:

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

AmIslamic Bank Berhad

(Incorporated in Malaysia)

Notes To The Financial Statements

For the year ended 31 March 2007

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

On 1 May 2006, the Islamic banking business of its holding company, AmBank (M) Berhad (“AmBank (M)”) was transferred to and vested into the Bank pursuant to the vesting order of the High Court of Malaya made pursuant to Section 50 of the Banking and Financial Institutions Act, 1989. The net book value of the assets and liabilities transferred was RM784.1 million.

The consideration for the transfer of business was satisfied by way of issue of 250.0 million new ordinary shares of RM1.00 each by the Bank to AmBank (M) at RM3.14 per share.

Subsequently, the Bank commenced operations as a licensed Islamic banking institution.

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

The financial statements of the Bank have been approved by the Board of Directors for issuance on 24 April 2007.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

- (i) The new and revised FRSs that are applicable to the Bank with effect from the period beginning on or after 1 April 2006:
- FRS 2 Share-based Payment
 - FRS 5 Non-current Assets Held for Sale and Discontinued Operations
 - FRS 101 Presentation of Financial Statements
 - FRS 108 Accounting Policies, Changes in Estimates and Errors
 - FRS 110 Events after the Balance Sheet Date
 - FRS 116 Property, Plant and Equipment
 - FRS 121 The Effects of Changes in Foreign Exchange Rates
 - FRS 132 Financial Instruments : Disclosure and Presentation
 - FRS 133 Earnings Per Share
 - FRS 136 Impairment of Assets
 - FRS 138 Intangible Assets
 - FRS 140 Investment Property
- (ii) BNM circular dated 16 October 2006 on the Accounting Treatment of Handling Fees for Hire Purchase Loans (“Circular on Handling Fees”).

The Bank has early adopted the following FRSs, amendments to FRSs and IC Interpretations:

FRS	Effective for financial periods beginning on or after
FRS 119 ₂₀₀₄ Employee Benefits : Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2007
Amendments to FRS 121 : The Effects of Changes in Foreign Exchange rates – Net Investment in a Foreign Operations	1 July 2007
IC Interpretation 7 : Applying the Restatement Approach Under FRS 129 ₂₀₀₄ : Financial Reporting in Hyperinflationary Economies	1 July 2007
IC Interpretation 8 : Scope of FRS 2	1 July 2007

The Bank has not early adopted the following FRSs and IC Interpretations which are not relevant except for FRS 117, FRS 124 and FRS 139 :

FRS	Effective for financial periods beginning on or after
FRS 117 : Leases	1 October 2006
FRS 124 : Related Party Transactions	1 October 2006
FRS 139 : Financial Instruments : Recognition and Measurement	Effective date deferred
FRS 6 : Exploration for and Evaluation of Mineral Resources	1 January 2007
IC Interpretation 1 : Changes in Existing Decommissioning, Restoration and Similar Liabilities	1 July 2007
IC Interpretation 2 : Members' Shares in Co-operative Entities and Similar Instruments	1 July 2007
IC Interpretation 5 : Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 July 2007
IC Interpretation 6 : Liabilities arising from Participating In a Specific Market – Waste Electrical and Electronic Equipment	1 July 2007

The impact of applying FRS 117, 124 and 139 on this financial statements upon first adoption of these standards as required by paragraph 30(b) of FRS 108 are not required to be disclosed by virtue of exemptions provided under paragraph 67B of FRS 117, Paragraph 22A of FRS 124 and paragraph 103AB of FRS 139 respectively.

The adoption of FRS 2, 5, 101, 108, 110, 116, Amendments to FRS 119₂₀₀₄, 121, 132 and 133 does not result in significant changes in accounting policies of the Bank.

(a) Basis Of Accounting

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

(b) Operating Revenue

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

(c) Financing Income and Expense Recognition

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

Financing income on overdraft, 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 financing of the Bank is recognised using the 'sum-of-digits' method.

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

When a loan becomes non-performing, profit accrued and recognised as income prior to the date the loan 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 loan 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 classification of non-performing loans and financing is in conformity with Bank Negara Malaysia's Guideline On Classification of Non-Performing Loans and Allowance for Bad and Doubtful Debts ("BNM/GP3") and Revised BNM/GP8 guidelines.

Attributable income on deposits and financing of the Bank are accrued on a straight-line basis and expensed as incurred.

(d) Recognition of Fees and Other Income

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

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

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

(e) Employee Benefits

(i) Short-term Benefits

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

(ii) Defined Contribution Plan

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

(iii) Termination Benefits

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

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

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

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

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

The specific and general allowances for loans, advances and financing of the Bank are computed based on BNM's guidelines on the "Classification of Non-Performing Loans and Provisions for Substandard, Bad and Doubtful Debts" ("BNM/GP3") requirements. However, the Bank has adopted a more stringent classification policy on non-performing loans, whereby loans 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.

During the financial year, the Bank adopted a more stringent basis for specific allowances on non-performing loans and are as follows:

- (i) Values assigned to collateral held for non-performing loans 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 loans 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 loans which are in arrears for more than seven (7) years.

The financial impact of this adoption was an additional specific allowance charge of RM8,146,000 for the financial year ended 31 March 2007.

- (ii) Specific allowance of 20.0% is provided on non-performing loans which are four (4) to less than six (6) months-in-arrears. Previously, specific allowance was only made when a non-performing loan was in arrears of 6 months and above. The financial impact of this adoption was an additional specific allowance charge of RM6,400,000 for the financial year ended 31 March 2007.

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

(g) Provisions

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

(h) Profit Equalisation Reserve (“PER”)

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

(i) Impairment of Assets

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

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

(j) Income Tax

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

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

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

(k) **Zakat**

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

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

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

(m) **Trade and Other Receivables**

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

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

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

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

(o) Intangible Assets

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

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

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

(p) Assets Purchased under lease

Assets purchased under finance leases which in substance transfer the risks and benefits of ownership of the assets to the Bank are capitalised under property and equipment. The assets and the corresponding lease obligations are recorded at the lower of the present value of the minimum lease payments or the fair value of the leased assets at the beginning of the lease terms, less accumulated depreciation and impairment losses.

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

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

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

As at 31 March 2007, the Bank does not have any assets purchased under lease.

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

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

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

(r) **Bills and Acceptances Payable**

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

(s) **Trade and Other Payables**

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.

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

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

(u) **Redeemable Unsecured Subordinated Bond**

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

(v) **Equity Instruments**

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

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

(w) Foreign Currency Transactions

In preparing the financial statements of the Bank, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions or, if covered by foreign exchange contracts, at contracted rates. 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 retranslation of non-monetary items carried at fair value are included in the income statement for the year except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

(x) Financial Instruments

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

(y) Cash Flow Statement

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

(z) Cash and Cash Equivalents

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

a) Fair value estimation

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

b) Deferred tax assets

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

5. CASH AND SHORT-TERM FUNDS

	2007 RM'000	2006 RM'000
Cash and balances with banks and other financial institutions	5,870	–
Money at call and deposits placements maturing within one month	<u>1,843,500</u>	<u>–</u>
	<u><u>1,849,370</u></u>	<u><u>–</u></u>

As at 31 March 2007, the net interbank lending position of the Bank is detailed as follows:

	2007 RM'000	2006 RM'000
Interbank lending:		
Cash and short term funds	1,843,500	–
Deposits with financial institutions (Note 6)	<u>415,000</u>	<u>–</u>
	2,258,500	–
Interbank borrowing (Note 14)	<u>(30,000)</u>	<u>–</u>
Net interbank lending	<u><u>2,228,500</u></u>	<u><u>–</u></u>

6. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2007 RM'000	2006 RM'000
Licensed Islamic Banks	40,000	–
Licensed Merchant Banks	50,000	–
Bank Negara Malaysia	<u>325,200</u>	<u>–</u>
	<u><u>415,200</u></u>	<u><u>–</u></u>

7. SECURITIES HELD-FOR-TRADING

	2007 RM'000	2006 RM'000
At fair value:		
Money Market Securities:		
Malaysian Government Investment Certificates	39,736	–
Islamic Treasury Bills	<u>48,442</u>	<u>–</u>
	<u>88,178</u>	<u>–</u>
Unquoted Securities In Malaysia:		
Private debt securities	<u>56,409</u>	<u>–</u>
	<u><u>144,587</u></u>	<u><u>–</u></u>

8. FINANCING, ADVANCES AND OTHER LOANS

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

	2007 RM'000	2006 RM'000
Overdrafts	22,420	–
Term financing		
– House financing	856,314	–
– Hire purchase receivables	7,887,080	–
– Other financing	2,384,838	–
Cards receivable	318,470	–
Bills receivable	6,860	–
Trust receipts	25,584	–
Claims on customers under acceptance credit	475,119	–
Revolving credit	70,755	–
	<hr/>	<hr/>
Total	12,047,440	–
Unearned income	(2,589,479)	–
	<hr/>	<hr/>
Less: Islamic financing sold to Cagamas Berhad	9,457,961 (2,718,833)	– –
	<hr/>	<hr/>
Gross financing, advances and other loans	6,739,128	–
Allowances for bad and doubtful financing		
– General	(138,998)	–
– Specific	(230,160)	–
	<hr/>	<hr/>
Net financing, advances and other loans	<u>6,369,970</u>	<u>–</u>

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

	2007 RM'000	2006 RM'000
Al-Bai' Bithaman Ajil	869,887	–
Al-Istisna	623	–
Al-Ijarah/Al-Ijarah Thumma Al-Bai'	3,632,182	–
Al-Musyarakah	18,796	–
Al-Murabahah	571,210	–
Other Islamic contracts	1,646,430	–
	<hr/>	<hr/>
Gross financing, advances and other loans	<u>6,739,128</u>	<u>–</u>

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

	2007 RM'000	2006 RM'000
Domestic non-bank financial institutions		
– Others	653	–
Domestic business enterprises		
– Small medium enterprises	518,641	–
– Others	590,153	–
Government and statutory bodies	21,179	–
Individuals	5,603,789	–
Other domestic entities	2,371	–
Foreign entities	2,342	–
	<u>6,739,128</u>	<u>–</u>
Gross financing, advances and other loans	<u>6,739,128</u>	<u>–</u>

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

	2007 RM'000	2006 RM'000
Fixed rate		
– House financing	430,406	–
– Hire purchase receivables	3,807,196	–
– Other fixed rate financing	2,501,526	–
	<u>6,739,128</u>	<u>–</u>
Gross financing, advances and other loans	<u>6,739,128</u>	<u>–</u>

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

	2007 RM'000	2006 RM'000
Purchase of securities	2,700	–
Purchase of transport vehicles	6,363,353	–
Purchase of landed property		
– Residential	432,115	–
– Non-residential	54,340	–
Purchase of fixed assets other than land and building	168,142	–
Personal use	1,330,785	–
Credit card	318,471	–
Purchase of consumer durables	1,359	–
Construction	2,504	–
Working capital	721,750	–
Other purposes	62,442	–
	<u>9,457,961</u>	<u>–</u>
Less: Islamic financing sold to Cagamas Berhad	<u>(2,718,833)</u>	<u>–</u>
Gross financing, advances and other loans	<u>6,739,128</u>	<u>–</u>

(vi) Movements in non-performing financing, advances and other loans (“NPL”) are as follows:

	2007 RM'000	2006 RM'000
Balance at 1 April	–	2,067,708
Non-performing during the year	223,492	76,292
Reclassified as performing	(42,755)	(342,019)
Amount recovered	(79,182)	(22,461)
Amount written off	(132,984)	(56)
Amount vested from/(to) holding company	510,976	(1,779,464)
	<u>479,547</u>	<u>–</u>
Balance at end of year		
Less:		
Specific allowance	<u>(230,160)</u>	<u>–</u>
Non-performing financing, advances and other loans – net	<u>249,387</u>	<u>–</u>
Gross financing, advances and other loans	6,739,128	–
Add: Islamic financing sold to Cagamas Berhad	2,718,833	–
	<u>9,457,961</u>	<u>–</u>
Less:		
Specific allowance	<u>(230,160)</u>	<u>–</u>
Net financing, advances and other loans (including Islamic financing sold to Cagamas Berhad)	<u>9,227,801</u>	<u>–</u>
Ratio of non-performing financing, advances and other loans to total financing, advances and other loans (including Islamic financing sold to Cagamas Berhad) – net	<u>2.70%</u>	<u>–</u>

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

	2007 RM'000	2006 RM'000
General Allowance		
Balance at 1 April	–	127,287
Allowance made during the year		
– Continuing operations	6,690	255
– Discontinued operations	–	744
Amount vested from/(to) holding company	<u>132,308</u>	<u>(128,286)</u>
Balance at end of year	<u>138,998</u>	<u>–</u>
% of net financing, advances and other loans (including Islamic financing sold to Cagamas Berhad)	<u>1.50%</u>	<u>–</u>
Specific Allowance		
Balance at 1 April	<u>–</u>	<u>475,323</u>
Allowance made during the year		
– Continuing operations	282,142	4,249
– Discontinued operations	–	29,827
Amount written back in respect of recoveries		
– Continuing operations	(81,056)	(2,202)
– Discontinued operations	<u>–</u>	<u>(20,259)</u>
Net charge to income statement	201,086	11,615
Amount written off/ Adjustment to Asset Deficiency Account	(124,973)	(57)
Amount vested from/(to) holding company	<u>154,047</u>	<u>(486,881)</u>
Balance at end of year	<u>230,160</u>	<u>–</u>

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

	2007 RM'000	2006 RM'000
Purchase of securities	1,241	–
Purchase of transport vehicles	252,031	–
Purchase of landed property		
– Residential	98,215	–
– Non-residential	36,086	–
Purchase of fixed assets other than land and building	9,886	–
Personal use	975	–
Credit card	54,612	–
Construction	2,504	–
Working capital	18,344	–
Other purposes	5,653	–
	<u>479,547</u>	<u>–</u>

9. OTHER ASSETS

	2007 RM'000	2006 RM'000
Other receivables and prepayments	31,125	–
Income receivables	4,975	–
Deferred charges	51,864	–
	<u>87,964</u>	<u>–</u>

10. STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA

The non-profit bearing statutory deposit are 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.

11. **PROPERTY AND EQUIPMENT**

	Leasehold improvements RM'000	Office equipment, furniture and fittings RM'000	Computer equipments RM'000	Total RM'000
Cost				
As at 1 April 2006	—	—	—	—
Additions	207	170	579	956
As at 31 March 2007	207	170	579	956
Accumulated Depreciation				
As at 1 April 2006	—	—	—	—
Current depreciation	18	22	3	43
As at 31 March 2007	18	22	3	43
Net Book Value				
As at 31.3.2007	189	148	576	913

11. PROPERTY AND EQUIPMENT

	Leasehold improve- ments RM'000	Office equipment, furniture and fittings RM'000	Computer equipments RM'000	Motor vehicles RM'000	Work in progress RM'000	Total RM'000
Cost						
As at 1 April 2005	21,226	12,750	59,871	1,269	10,003	105,119
Additions	15	37	975	–	–	1,027
Amount vested to holding company	<u>(21,241)</u>	<u>(12,787)</u>	<u>(60,846)</u>	<u>(1,269)</u>	<u>(10,003)</u>	<u>(106,146)</u>
As at 31 March 2006	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Accumulated Depreciation						
As at 1 April 2005	15,750	10,605	45,468	897	–	72,720
Current depreciation	270	176	962	27	–	1,435
Amount vested to holding company	<u>(16,020)</u>	<u>(10,781)</u>	<u>(46,430)</u>	<u>(924)</u>	<u>–</u>	<u>(74,155)</u>
As at 31 March 2006	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Net Book Value						
As at 31.3.2006	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

12. INTANGIBLE ASSETS

The net carrying amount of intangible assets are as follows:

	2007 RM'000	2006 RM'000
Computer Software		
Cost		
At the beginning of the year	–	–
Additions	73	–
At the end of the year	<u>73</u>	<u>–</u>
Accumulated Amortisation		
At the beginning of the year	–	–
Amortisation for the year	8	–
At the end of the year	<u>8</u>	<u>–</u>
	<u>65</u>	<u>–</u>

13. DEPOSITS FROM CUSTOMERS

	2007 RM'000	2006 RM'000
(i) By type of deposit:		
<u>Non-Mudharabah</u>		
Demand deposits	354,020	–
Savings deposits	667,730	–
Negotiable certificates of deposits	6,548	–
	<u>1,028,298</u>	<u>–</u>
<u>Mudharabah</u>		
General investment deposits	3,642,756	–
	<u>4,671,054</u>	<u>–</u>
(ii) The deposits are sourced from the following types of customers:		
Government and other statutory bodies	1,427,990	–
Business enterprises	1,619,155	–
Individuals	1,419,897	–
Others	204,012	–
	<u>4,671,054</u>	<u>–</u>

14. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2007 RM'000	2006 RM'000
<u>Non-Mudharabah</u>		
Licensed Islamic banks	78,103	–
Licensed banks	92,909	–
Licensed merchant banks	993,241	–
Other financial institutions	418,005	–
Bank Negara Malaysia	8,085	–
	<u>1,590,343</u>	<u>–</u>
<u>Mudharabah</u>		
Licensed merchant banks	50,538	–
Other financial institutions	912,686	–
	<u>963,224</u>	<u>–</u>
	<u>2,553,567</u>	<u>–</u>

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

Negotiable certificates of deposits	1,540,617	–
Interbank borrowings (Note 5)	<u>30,000</u>	<u>–</u>

15. BILLS AND ACCEPTANCES PAYABLE

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

16. OTHER LIABILITIES

	2007 RM'000	2006 RM'000
Income payable	39,698	–
Other creditors and accruals	42,853	–
Lease deposits and advance rentals	7,251	–
Profit equalisation reserve	55,592	–
Amount due to holding company	91,327	–
	<u>236,721</u>	<u>–</u>

Profit equalisation reserve

The movements in profit equalisation reserve are as follows:

	2007 RM'000	2006 RM'000
Balance at beginning of year	–	12,713
Transfer from/(to) holding company	114,740	(13,028)
(Writeback)/charge in the financial year	<u>(59,148)</u>	<u>315</u>
Balance at end of year	<u>55,592</u>	<u>–</u>

17. SUBORDINATED SUKUK MUSYARAKAH

On 21 December 2006, the Bank issued the RM400 million Subordinated Sukuk Musyarakah in one lump sum in the format of a 10 year Non-Call 5 year. Subject to the prior approval of Bank Negara Malaysia (“BNM”), the Bank may exercise its call option and redeem in whole (but not in part) the Subordinated Sukuk Musyarakah on the 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 A3 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 qualify as Tier 2 capital of the Bank.

18. SHARE CAPITAL

	2007 RM'000	2006 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:		
Ordinary shares of RM1.00 each:		
Balance at beginning of year	153,038	761,719
Issued during the year	250,000	–
Capital Reduction		
– set off of accumulated losses	–	(196,014)
– cancellation of capital	<u>–</u>	<u>(412,667)</u>
	<u>–</u>	<u>(608,681)</u>
Balance at end of year	<u>403,038</u>	<u>153,038</u>

During the financial year, the Bank issued 250,000,000 new ordinary shares at RM1.00 each at an issue price of RM3.14 per ordinary share amounting to RM784,068,130 as consideration for the vesting of AmBank (M) Berhad's Islamic banking assets and liabilities to the Bank. The new ordinary shares rank pari passu in all respects with the existing ordinary shares of the Bank.

19. **RESERVES**

	2007 RM'000	2006 RM'000
Non-distributable Reserves:		
Share premium	534,068	-
Statutory reserve	<u>47,390</u>	<u>-</u>
Total non-distributable reserves	<u>581,458</u>	<u>-</u>
Distributable Reserves:		
Accumulated profits	<u>47,389</u>	<u>-</u>
Total reserves	<u><u>628,847</u></u>	<u><u>-</u></u>

Movement in reserves are shown in the Statement of Changes in Equity on page 20.

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

As at March 2007, the Bank has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends out of its entire distributable reserves.

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

	2007 RM'000	2006 RM'000
Income derived from investment of:		
(i) General investment deposits	262,257	2,357
(ii) Specific investment deposits	1,237	-
(ii) Other deposits	<u>354,724</u>	<u>13,306</u>
	<u>618,218</u>	<u>15,663</u>

(i) Income derived from investment of general investment depositsFinance income and hibah:

Financing, advances and other loans	226,371	1,228
Securities held-for-trading	1,593	168
Money at call and deposits with financial institutions	<u>20,902</u>	<u>228</u>

	248,866	1,624
Accretion of discount	<u>1,165</u>	<u>263</u>

	<u>250,031</u>	<u>1,887</u>
--	----------------	--------------

Fee and commission income:

Commission	2,255	46
Other fee income	<u>9,058</u>	<u>433</u>

	<u>11,313</u>	<u>479</u>
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Gain/(Loss) arising from sale of securities:

Net gain from disposal of securities held-for-trading	232	8
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Others:

Gain/(loss) on revaluation of securities held-for-trading	684	(17)
Others	<u>(3)</u>	<u>-</u>

	<u>681</u>	<u>(17)</u>
--	------------	-------------

Total	<u>262,257</u>	<u>2,357</u>
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(ii) Income derived from investment of specific investment depositsFinance income and hibah:

Financing, advances and other loans	<u>1,237</u>	<u>-</u>
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(iii) **Income derived from investment of other deposits**

	2007 RM'000	2006 RM'000
<u>Finance income and hibah:</u>		
Financing, advances and other loans	306,185	7,084
Securities held-for-trading	2,156	926
Money at call and deposits with financial institutions	<u>28,271</u>	<u>1,259</u>
	336,612	9,269
Accretion of discount	<u>1,576</u>	<u>1,448</u>
	<u>338,188</u>	<u>10,717</u>
 <u>Fee and commission income:</u>		
Commission	3,050	252
Other fee income	<u>12,252</u>	<u>2,390</u>
	<u>15,302</u>	<u>2,642</u>
 <u>Gain/(Loss) arising from sale of securities:</u>		
Net gain from disposal of securities held-for-trading	313	42
 <u>Others:</u>		
Gain/(loss) on revaluation of securities held-for-trading	925	(95)
Other	<u>(4)</u>	<u>-</u>
	<u>921</u>	<u>(95)</u>
 Total	<u><u>354,724</u></u>	<u><u>13,306</u></u>

21. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	2007 RM'000	2006 RM'000
<u>Finance income and hibah:</u>		
Financing, advances and other loans	110,809	232
Securities held-for-trading	780	5
Money at call and deposits with financial institutions	10,231	42
	<hr/>	<hr/>
	121,820	279
Accretion of discount	570	48
	<hr/>	<hr/>
	122,390	327
	<hr/>	<hr/>
<u>Fee and commission income:</u>		
Commission	1,104	8
Other fee income	4,434	76
	<hr/>	<hr/>
	5,538	84
	<hr/>	<hr/>
<u>Gain/Loss) arising from sale of securities:</u>		
Net gain from disposal of securities held-for-trading	113	-
	<hr/>	<hr/>
<u>Others:</u>		
Gain/(loss) on revaluation of securities held-for-trading	335	(3)
Others	(1)	-
	<hr/>	<hr/>
	334	(3)
	<hr/>	<hr/>
	<hr/>	<hr/>
Total	<u>128,375</u>	<u>408</u>

22. ALLOWANCE FOR LOSSES ON LOANS, ADVANCES AND FINANCING

	2007 RM'000	2006 RM'000
Continuing Operations:		
Allowance for bad and doubtful financing:		
Specific allowance (net)		
– made in the financial year	282,142	4,249
– written back	(81,056)	(2,202)
General allowance made in the financial year	6,690	255
Bad debts and financing recovered	(12,999)	(591)
	<u>194,777</u>	<u>1,711</u>
Discontinuing Operations:		
Allowance for bad and doubtful financing:		
Specific allowance (net)		
– made in the financial year	–	29,827
– written back	–	(20,259)
General allowance made in the financial year	–	744
Bad debts and financing recovered	–	(6,273)
	<u>–</u>	<u>4,039</u>

23. INCOME ATTRIBUTABLE TO DEPOSITORS

	2007 RM'000	2006 RM'000
Deposit from customers		
– Mudharabah fund	106,797	867
– Non-Mudharabah fund	10,463	324
	<u>117,260</u>	<u>1,191</u>
Deposit and placements of banks and other financial institutions		
– Mudharabah fund	28,240	205
– Non-Mudharabah fund	72,262	5,163
	<u>100,502</u>	<u>5,368</u>
Others	<u>101,775</u>	<u>30</u>
	<u>319,537</u>	<u>6,589</u>

24. OTHER OPERATING EXPENSES

	2007 RM'000	2006 RM'000
Personnel/Staff costs		
Salaries, allowances and bonuses	4,557	–
Others	289	–
Establishment costs		
Depreciation	43	–
Amortisation of intangible assets	8	–
Rental	289	–
Cleaning, maintenance & security	43	–
Computerisation cost	264	3
Others	81	–
Marketing and communication expenses		
Communication	247	–
Advertising & marketing expenses	4,587	–
Others	45	–
Administration and general expenses		
Professional services	1,867	–
Others	3,398	7
Shared service cost	130,453	–
	<hr/>	<hr/>
	146,171	10
	<hr/> <hr/>	<hr/> <hr/>

The above expenditure includes the following statutory disclosures:

	2007 RM'000	2006 RM'000
Directors' remuneration (Note 26)	369	–
Rental of premises	289	–
Depreciation of property and equipment (Note 11)	43	–
Amortisation of intangible assets (Note 12)	8	–
Auditors' remuneration		
– Statutory audit	150	–
– Half yearly review	60	–
	<hr/>	<hr/>

The total number of employees of the Bank as at 31 March 2007 were 47 (2006: Nil).

Staff cost includes salaries, bonuses, contributions to EPF and all other staff related expenses. Contributions to EPF of the Bank amounted to RM629,000 (2006: RM2,389,000).

25. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

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

During the financial year, the significant related party transactions and balances are as follows:

(a) The significant transactions and balances of the Bank with its holding companies and related companies are as follows:

	2007	2006
	RM'000	RM'000
Income		
<u>Holding Company</u>		
Profit on deposits and placements	–	54
<u>Related Companies</u>		
Profit on deposits and placements	1,975	659
Profit on securities held-for-trading	–	103
Profit on loans and advances	–	1,151
 Expenditure		
<u>Holding company</u>		
Profit on deposits and placements	1,041	167
Shared service cost	130,453	–
<u>Related companies</u>		
Profit on deposits and placements	2,179	311
Profit on subordinated term loan	–	2,686
Other expenses	–	240
 Amount due from		
<u>Related company</u>		
Cash and short-term funds	230,000	–
Deposits and placements	50,000	–
Profit receivable	63	–
 Amount due to		
<u>Holding company</u>		
Deposits and placements	8,593	–
<u>Related companies</u>		
Deposits and placements	967,708	–
Profit payable	6	–

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

26. DIRECTORS' REMUNERATION

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

	2007 RM'000	2006 RM'000
Executive directors:		
Bonuses	–	318
Salaries and other remuneration	–	167
Benefits-in-kind	–	23
	<u>–</u>	<u>508</u>
Non-executive directors:		
Fees	146	118
Other remuneration	<u>223</u>	<u>46</u>
	<u>369</u>	<u>164</u>
Total director's remuneration (excluding benefits-in-kind)	<u><u>369</u></u>	<u><u>672</u></u>

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	
	2007	2006
Executive director		
Above RM500,000	–	1
Non-executive director		
Below RM50,000	3	6
RM50,001 to RM100,000	2	–
RM100,001 to RM150,000	1	–

27. SHARIAH COMMITTEES MEMBER'S REMUNERATION

Shariah committees member's remuneration charged to the income statements for the year was RM37,000.

28. FINANCE COST

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

29. **TAXATION**

Taxation consists of the following:

	2007 RM'000	2006 RM'000
Net transfer from deferred taxation (Note 30)	<u>44,378</u>	<u>3,400</u>

No provision for estimated tax payable is made in the financial statements of the Bank for the current year due to the utilisation of unabsorbed tax losses of approximately RM83.4 million and no provision for estimated tax payable is made in the prior year due to losses incurred.

As at 31 March 2007, the Bank has unutilised tax losses amounting to approximately RM685.3 million (2006: RM712.3 million) which can be used to offset against future taxable income subject to the agreement by the Inland Revenue Board.

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

	2007 RM'000	2006 RM'000
Profit before taxation	<u>139,943</u>	<u>12,177</u>
Taxation at Malaysian statutory tax rate of 27% (2006: 28%)	37,785	3,409
Changes in tax rates on opening deferred tax	9,593	–
Utilisation of previously unrecognised unabsorbed capital allowances	(3,124)	–
Expenses not deductible for tax purposes	<u>124</u>	<u>(9)</u>
Tax expense for the year	<u>44,378</u>	<u>3,400</u>

30. DEFERRED TAX ASSETS

	2007 RM'000	2006 RM'000
Balance at beginning of year	153,038	291,597
Transfer to income statement (Note 29)	<u>(44,378)</u>	<u>(3,400)</u>
	108,660	288,197
Amount vested from/ (to) holding company	68,501	(135,159)
Amount due from holding company	53,849	-
Tax recovered	<u>(7,452)</u>	<u>-</u>
Balance at end of year	<u><u>223,558</u></u>	<u><u>153,038</u></u>

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

	2007 RM'000	2006 RM'000
Unabsorbed tax losses	185,028	153,038
Temporary differences between depreciation and tax allowances on property and equipment	(28)	-
Temporary differences arising from general allowance for bad and doubtful debts and financing	37,530	-
Temporary differences arising from profit equalisation reserve	15,010	-
Others	<u>(13,982)</u>	<u>-</u>
	<u><u>223,558</u></u>	<u><u>153,038</u></u>

31. PROFIT FROM DISCONTINUED OPERATIONS**i) Business merger**

The commercial banking business of the Bank comprising assets and liabilities (save for non-transferable assets) amounting to RM412.7 million were vested to its holding company, AmBank (M) Berhad on 1 June 2005. The assets and liabilities were vested pursuant to a High Court Vesting Order made under section 50 of the Banking and Financial Institutions Act, 1989.

Amounts of assets and liabilities vested by the Bank into AmBank (M) Berhad on 1 June 2005 were as follows:

	RM'000
ASSETS	
Cash and short-term funds	2,815,260
Deposits and placements with banks and other financial institutions	83,256
Securities held-for-trading	546,145
Securities available-for-sale	150,343
Securities held-to-maturity	483,733
Loans, advances and financing	8,415,042
Other assets	142,470
Statutory deposit with Bank Negara Malaysia	319,565
Deferred tax asset	135,159
Property and equipment	31,991
TOTAL ASSETS	13,122,964
LIABILITIES	
Deposits from customers	7,245,119
Deposits and placements of banks and other financial institutions	3,887,752
Obligation on securities sold under repurchase agreements	25,738
Bills and acceptances payable	603,341
Recourse obligation of loans sold to Cagamas Berhad	179,683
Other liabilities	308,664
Subordinated term loan	460,000
TOTAL LIABILITIES	12,710,297
NET ASSETS	412,667

ii) Impact to the Income Statement

As the Bank commenced operations as a full fledged Islamic Bank on 1 May 2006, the profit of the Conventional Banking Operations of the Bank for the corresponding period in the previous year was reported as discontinued operations in compliance with FRS 5: Non-Current assets held for sale and Discontinued operations.

The profit of the Conventional Banking Operations of the Bank reported as discontinued operations was as follows:

	31 March 2006 RM'000
Interest income	85,342
Interest expense	<u>(49,369)</u>
Net interest income	35,973
Other operating income	<u>16,090</u>
Net income	52,063
Other operating expenses	(a) <u>(44,505)</u>
Operating profit	7,558
Allowance for losses on loans and financing	(4,039)
Impairment written back	<u>1,212</u>
Profit before taxation	4,731
Taxation	<u>(3,400)</u>
Profit for the period	<u>1,331</u>

(a) Other Operating Expenses

	2007 RM'000	2006 RM'000
Personnel/Staff costs		
Salaries, allowances and bonuses	–	17,947
Others	–	3,174
Establishment costs		
Depreciation	–	1,435
Rental	–	1,756
Cleaning, maintenance & security	–	127
Computerisation cost	–	2,746
Others	–	644
Marketing and communication expenses		
Communication	–	1,934
Advertising & marketing expenses	–	4,427
Commission	–	2,753
Others	–	249
Administration and general expenses		
Professional services	–	1,018
Others	–	6,295
	<u>–</u>	<u>44,505</u>

The above expenditure includes the following statutory disclosures:

	2007 RM'000	2006 RM'000
Directors' remuneration (Note 26)	–	672
Rental of premises	–	1,756
Depreciation of property and equipment (Note 11)	–	1,435
Auditors' remuneration		
– Statutory audit	–	5
	<u>–</u>	<u>5</u>

32. EARNINGS PER SHARE (EPS)

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

	2007 RM'000	2006 RM'000
Basic, for profit from continuing operations		
Net profit attributable to shareholders of the Bank	<u>94,779</u>	<u>7,446</u>
Number of ordinary shares at beginning of year	153,038	761,719
Effect of the issuance of shares	229,452	–
Effect of capital reduction	<u>–</u>	<u>(173,852)</u>
Weighted average number of ordinary shares in issue	<u>382,490</u>	<u>587,867</u>
Basic earnings per share (sen)	<u>24.78</u>	<u>1.27</u>
 Basic, for profit from discontinued operations		
Net profit attributable to shareholders of the Bank	<u>–</u>	<u>1,331</u>
Number of ordinary shares at beginning of year	–	761,719
Effect of the issuance of shares	–	–
Effect of capital reduction	<u>–</u>	<u>(173,852)</u>
Weighted average number of ordinary shares in issue	<u>–</u>	<u>587,867</u>
Basic earnings per share (sen)	<u>–</u>	<u>0.22</u>

There are no dilutive potential ordinary shares during the financial years.

33. COMMITMENTS AND CONTINGENCIES

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

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

	2007			2006		
	Principal Amount RM'000	Credit Equivalent Amount* RM'000	Risk Weighted Amount RM'000	Principal Amount RM'000	Credit Equivalent Amount* RM'000	Risk Weighted Amount RM'000
Direct credit substitutes	119,948	119,948	102,537	–	–	–
Certain transaction- related contingent items	45,018	22,509	22,509	–	–	–
Irrevocable commitments to extend credit:						
– maturing less than one year	1,021,949	–	–	–	–	–
– maturing more than one year	15,088	7,544	7,544	–	–	–
Short-term self- liquidating trade- related contingencies	74,177	14,835	14,835	–	–	–
Islamic financing sold to Cagamas Berhad with recourse	2,718,833	2,718,833	2,718,833	–	–	–
Others	43,918	–	–	–	–	–
	<u>4,038,931</u>	<u>2,883,669</u>	<u>2,866,258</u>	<u>–</u>	<u>–</u>	<u>–</u>

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

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:

	2007 RM'000	2006 RM'000
Total assets	9,340,627	153,038
Less:		
Total liabilities	<u>(8,308,742)</u>	<u>—</u>
Net assets	<u>1,031,885</u>	<u>153,038</u>
Issued and fully paid-up ordinary shares of RM1.00 each	<u>403,038</u>	<u>153,038</u>
Net assets per share (RM)	<u>2.56</u>	<u>1.00</u>

35. **CAPITAL COMMITMENTS**

	2007 RM'000	2006 RM'000
Authorised and contracted for:		
Purchase of computer equipment and software	192	—
Authorised but not contracted for:		
Purchase of computer equipment and software	<u>113</u>	<u>—</u>
	<u>305</u>	<u>—</u>

36. CAPITAL ADEQUACY RATIO

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

The risk weighted capital adequacy ratio of the Bank of 14.45% exceeded the minimum requirements of BNM. In the prior year, subsequent to the business transfer of its commercial banking business to AmBank (M), the Bank was not required to maintain the capital adequacy ratios.

	2007 RM'000	2006 RM'000
<u>Tier 1 capital</u>		
Paid-up share capital	403,038	153,038
Share premium	534,068	–
Statutory reserve	47,390	–
Unappropriated profit	47,389	–
	<u>1,031,885</u>	<u>153,038</u>
Less: Deferred tax asset	(223,558)	(153,038)
Total Tier 1 capital	<u>808,327</u>	<u>–</u>
<u>Tier 2 capital</u>		
Subordinated Sukuk Musyarakah	400,000	–
General allowances for bad and doubtful debts and financing	138,998	–
Total Tier 2 capital	<u>538,998</u>	<u>–</u>
Capital base	<u>1,347,325</u>	<u>–</u>

	2007		2006	
	Principal RM'000	Risk - Weighted RM'000	Principal RM'000	Risk - Weighted RM'000
Notional risk-weighted assets:				
Categories				
0%	2,018,817	–	–	–
10%	–	–	–	–
20%	555,611	111,122	–	–
50%	330,764	165,382	–	–
100%	9,044,348	9,002,290	–	–
	<u>11,949,540</u>	<u>9,278,794</u>	<u>–</u>	<u>–</u>
Market risk	–	42,058	–	–
	<u>11,949,540</u>	<u>9,320,852</u>	<u>–</u>	<u>–</u>
Capital Ratios:				
Core capital ratio		8.67%		–
Risk-weighted capital ratio		<u>14.45%</u>		<u>–</u>

37. TRANSFER OF ISLAMIC BANKING BUSINESS OF AMBANK (M) BERHAD TO THE BANK

On 1 May 2006, the Islamic banking business of its holding company, AmBank (M) was transferred to and vested into the Bank pursuant to the vesting order of the High Court of Malaya made pursuant to Section 50 of the Banking and Financial Institutions Act, 1989, for a purchase consideration of RM784.1 million. The consideration for the transfer of business was satisfied by way of issue of 250.0 million new ordinary shares of RM1.00 each at RM3.14 per share by the Bank.

The amounts of assets and liabilities vested are as follows:

	RM'000
ASSETS	
Cash and short-term funds	1,160,139
Deposits and placements with banks and other financial institutions	2,126
Securities held-for-trading	502,219
Financing, advances and other loans	6,512,189
Deferred tax asset	68,501
Other assets	29,567
Statutory deposit with Bank Negara Malaysia	<u>268,794</u>
TOTAL ASSETS	<u>8,543,535</u>
LIABILITIES AND EQUITY	
Deposits from customers	4,323,243
Deposits and placements of banks and other financial institutions	2,952,207
Bills and acceptance payable	225,364
Other liabilities	<u>258,653</u>
Total Liabilities	<u>7,759,467</u>
Net assets vested from holding company	<u>784,068</u>

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.

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

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

MARKET RISK MANAGEMENT

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

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

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

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

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

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

2007	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	1 to 5 years	Over 5 years	Non- profit sensitive	Trading Book	Total	Effectiv e profit rate
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
ASSETS										
Cash and short-term funds	1,843,500	–	–	–	–	–	5,870	–	1,849,370	3.54
Deposits and placements with banks and other financial institutions	–	415,000	200	–	–	–	–	–	415,200	3.57
Securities held-for-trading	–	–	–	–	–	–	–	144,587	144,587	3.61
Loans, advances and financing										
– Performing	403,685	225,904	169,586	71,952	333,328	5,055,127	–	–	6,259,582	7.34
– Non-performing *	–	–	–	–	–	–	110,388	–	110,388	–
Other non-profit sensitive balances	–	–	–	–	–	–	561,500	–	561,500	–
TOTAL ASSETS	2,247,185	640,904	169,786	71,952	333,328	5,055,127	677,758	144,587	9,340,627	
LIABILITIES AND SHAREHOLDER'S FUNDS										
Deposits from customers	2,893,287	893,897	418,918	345,618	119,334	–	–	–	4,671,054	3.03
Deposits and placements of banks and other financial institutions	447,748	525,741	342,795	412,446	824,837	–	–	–	2,553,567	3.69
Bills and acceptances payables	171,245	200,038	75,331	–	–	–	–	–	446,614	–
Subordinated Sukuk Musyarakah	–	–	–	–	400,000	–	–	–	400,000	4.80
Other non-profit sensitive balances	–	–	–	–	–	–	237,507	–	237,507	–
Total Liabilities	3,512,280	1,619,676	837,044	758,064	1,344,171	–	237,507	–	8,308,742	
Shareholder's Funds	–	–	–	–	–	–	1,031,885	–	1,031,885	
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS	3,512,280	1,619,676	837,044	758,064	1,344,171	–	1,269,392	–	9,340,627	
On-balance sheet profit sensitivity gap	(1,265,095)	(978,772)	(667,258)	(686,112)	(1,010,843)	5,055,127	(591,634)	144,587	–	
Off-balance sheet profit sensitivity gap	–	–	–	–	–	–	–	–	–	
Total profit sensitivity gap	(1,265,095)	(978,772)	(667,258)	(686,112)	(1,010,843)	5,055,127	(591,634)	144,587	–	

2006

	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	Effective profit rate %
ASSETS										
Other non-profit sensitive balances	-	-	-	-	-	-	153,038	-	153,038	-
TOTAL ASSETS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>153,038</u>	<u>-</u>	<u>153,038</u>	
LIABILITIES AND SHAREHOLDER'S FUNDS										
Shareholder's Funds	-	-	-	-	-	-	153,038	-	153,038	
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>153,038</u>	<u>-</u>	<u>153,038</u>	
On-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	

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

LIQUIDITY RISK

Liquidity risk is the risk that the organisation will not be able to fund its day-to-day operations at a reasonable cost.

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

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

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

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

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

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

2007	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	>1 to 5 years	Over 5 years	Non-specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS								
Cash and short-term funds	1,849,370	–	–	–	–	–	–	1,849,370
Deposits and placements with banks and other financial institutions	–	415,000	200	–	–	–	–	415,200
Securities held-for-trading	–	39,736	–	48,442	56,409	–	–	144,587
Loans, advances and financing	526,187	594,035	624,172	782,304	1,204,975	2,638,297	–	6,369,970
Other assets	–	–	–	–	–	–	311,522	311,522
Statutory deposit with Bank Negara Malaysia	–	–	–	–	–	–	249,000	249,000
Property and equipment	–	–	–	–	–	–	913	913
Intangible assets	–	–	–	–	–	–	65	65
TOTAL ASSETS	2,375,557	1,048,771	624,372	830,746	1,261,384	2,638,297	561,500	9,340,627
LIABILITIES AND SHAREHOLDER'S EQUITY								
Deposits from customers	2,893,287	893,897	418,918	345,618	119,334	–	–	4,671,054
Deposits and placements of banks and other financial institutions	447,748	525,741	342,795	412,446	824,837	–	–	2,553,567
Bills and acceptances payables	171,245	200,038	75,331	–	–	–	–	446,614
Other liabilities	–	–	–	–	–	–	236,721	236,721
Provision for zakat	–	–	–	–	–	–	786	786
Subordinated Sukuk Musyarakah	–	–	–	–	–	400,000	–	400,000
Total Liabilities	3,512,280	1,619,676	837,044	758,064	944,171	400,000	237,507	8,308,742
Shareholder's equity	–	–	–	–	–	–	1,031,885	1,031,885
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	3,512,280	1,619,676	837,044	758,064	944,171	400,000	1,269,392	9,340,627
Net maturity mismatch	(1,136,723)	(570,905)	(212,672)	72,682	317,213	2,238,297	(707,892)	–

2006	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								
Other assets	-	-	-	-	-	-	153,038	153,038
TOTAL ASSETS	-	-	-	-	-	-	153,038	153,038
LIABILITIES AND SHAREHOLDER'S EQUITY								
Shareholder's equity	-	-	-	-	-	-	153,038	153,038
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	-	-	-	-	-	-	153,038	153,038
Net maturity mismatch	-	-	-	-	-	-	-	-

CREDIT RISK MANAGEMENT

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

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

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

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

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

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

OPERATIONAL RISK MANAGEMENT

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

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

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

LEGAL AND REGULATORY RISK

The Bank manages legal and regulatory risks to its business. Legal risk arises from the potential 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. Financial derivatives is one of the financial instruments engaged by the Bank both for revenue purposes as well as to manage the Bank's own market risk exposure. The Bank's involvement in financial derivatives is currently focused on foreign exchange rate derivatives.

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

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

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

Risk associated with financial derivatives

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

Market risk of derivatives used for trading purposes

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

Credit risk of derivatives

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

As at 31 March 2007, the amounts of counterparty credit risk, measured in terms of the cost to replace the positive value contracts of the Bank, was Nil (2006: Nil). This amount will increase or decrease over the life of the contracts, mainly as a function of movement in market rates and time.

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

40. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments are contracts that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than a forced or liquidated sale. The information presented herein represents best estimates of fair values of financial instruments at the balance sheet date.

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

In addition, fair value information for non-financial assets and liabilities such as taxation are excluded, as they do not fall within the scope of FRS132 (Financial Instruments: Disclosure and Presentation) (formerly known as Malaysian Accounting Standards Board ("MASB") 24), which requires the fair value information to be disclosed.

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

	2007		2006	
	Carrying Value RM'000	Fair Value RM'000	Carrying Value RM'000	Fair Value RM'000
Financial Assets				
Cash and short-term funds	1,849,370	1,849,370	—	—
Deposits and placements with financial institutions	415,200	415,200	—	—
Securities held-for-trading	144,587	144,587	—	—
Financing, advances and other loans *	6,508,968	6,723,431	—	—
Other financial assets	87,964	87,964	—	—
	<u>9,006,089</u>	<u>9,220,552</u>	<u>—</u>	<u>—</u>
Non-financial assets	<u>334,538</u>	<u>334,538</u>	<u>153,038</u>	<u>153,038</u>
TOTAL ASSETS	<u>9,340,627</u>	<u>9,555,090</u>	<u>153,038</u>	<u>153,038</u>
	2007		2006	
	Carrying Value RM'000	Fair Value RM'000	Carrying Value RM'000	Fair Value RM'000
Financial Liabilities				
Deposits from customers	4,671,054	4,680,532	—	—
Deposits and placements of banks and other financial institutions	2,553,567	2,558,898	—	—
Subordinated Sukuk Musyarakah	400,000	422,607	—	—
Other financial liabilities	628,529	628,529	—	—
	<u>8,253,150</u>	<u>8,290,566</u>	<u>—</u>	<u>—</u>
Non-Financial Liabilities				
Other non-financial liabilities	55,592	55,592	—	—
Shareholder's equity	1,031,885	1,031,885	153,038	153,038
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u>9,340,627</u>	<u>9,378,043</u>	<u>153,038</u>	<u>153,038</u>

* The general allowance for the Bank amounting to RM138,998,000 has been included under non-financial assets.

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

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

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

(a) Cash And Short-Term Funds

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

(b) Deposits With Banks And Other Financial Institutions

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

(c) Securities Held-For-Trading

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

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

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

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

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.

(f) Bills And Acceptances Payables

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

(g) Redeemable Unsecured Subordinated Bond

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.

41. **SIGNIFICANT EVENTS**

Transfer of Islamic Banking Business of AmBank (M) Berhad to the Bank

On 1 May 2006, the Islamic banking business of its holding company, AmBank (M) was transferred to and vested into the Bank pursuant to the vesting order of the High Court of Malaya made pursuant to Section 50 of the Banking and Financial Institutions Act, 1989. The net book value of the assets and liabilities transferred was RM784.1 million.

The consideration for the transfer of business was satisfied by way of issue of 250.0 million new ordinary shares of RM1.00 each by the Bank to AmBank (M) at RM3.14 per share.

Issuance of RM400 million 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 A3 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 qualify as Tier 2 capital of the Bank.

42. CHANGE IN ACCOUNTING POLICIES AND COMPARATIVE FIGURES

Change in Accounting Policies

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

a) FRS 138: Intangible Assets – Computer Software

The adoption of FRS 138 has resulted in a change in the accounting policy for computer software which is not an integral part of computer hardware. Previously, such computer software was included in property and equipment. In accordance with FRS 138, computer software which is not an integral part of computer hardware had been classified as intangible asset.

The change in accounting policy has been applied prospectively in accordance with the transitional provisions of FRS 138.

As the change in accounting policy has been applied prospectively, the change has had no impact on amounts reported for financial year ended 31 March 2006 or prior period. This change has no impact on the Bank's financial statements.

b) FRS 5: Non-current Assets Held For Sale and Discontinued Operations

With the adoption of FRS 5, non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amounts are recovered principally through a sale transaction rather than through continuing use.

Comparative Figures

Changes in comparative figures arising from the adoption of BNM Guidelines on Financial Reporting for Licensed Islamic Banks (BNM/GP8-i). These comparative amounts which have been reclassified to conform with the current year's presentation are as follows.

	As previously stated	Effect of change	As restated
	RM'000	RM'000	RM'000
At 31 March 2006			
Income Statements			
Interest income	85,342	(85,342)	–
Interest expense	(49,369)	49,369	–
Income from Islamic banking operations	9,477	(9,477)	–
Other operating income	15,266	(15,266)	–
Other operating expenses	(44,825)	44,815	(10)
Allowance for losses on loan and financing	(5,750)	4,039	(1,711)
Impairment writeback on securities held-to-maturity	2,036	(2,036)	–
Taxation	(3,400)	3,400	–
Continuing operations			
Income derived from investment of depositors' fund and others	–	15,663	15,663
Income derived from investment of shareholders' funds	–	408	408
Transfer from/(to) profit equalisation reserve	–	(315)	(315)
Income attributable to the depositors	–	(6,589)	(6,589)
Discontinuing operations	–	1,331	1,331