

**AmBank (M) Berhad**  
(Company No. 8515-D)  
(Incorporated in Malaysia)  
**And Its Subsidiary Companies**

**Financial Statements**  
**For the Financial Year Ended**  
**31 March 2007**  
(In Ringgit Malaysia)

**AmBank (M) Berhad**  
(Incorporated in Malaysia)  
**And Its Subsidiary Companies**

**FINANCIAL STATEMENTS**

<b>CONTENTS</b>	<b>PAGE(S)</b>
Directors' report	3 – 16
Statement by directors	17
Statutory Declaration	18
Report of the auditors	19
Balance sheets	20
Income statements	21
Statements of changes in equity	22 – 25
Cash flow statements	26 – 28
Notes to the financial statements	29 – 114

**AmBank (M) Berhad**  
(Incorporated in Malaysia)  
**And Its Subsidiary Companies**

**DIRECTORS' REPORT**

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

**PRINCIPAL ACTIVITIES**

The principal activity of the Bank is to carry on the business of a licensed commercial bank and finance company which also includes the provision of Islamic banking services via its wholly owned subsidiary Amlslamic Bank Berhad.

The principal activities of its subsidiary companies are disclosed in Note 13 to the financial statements.

There have been no other significant changes in the nature of the activities of the Bank and its subsidiary companies during the financial year.

**SIGNIFICANT EVENTS**

- (i) On 1 May 2006, Amlslamic Bank Berhad ("Amlslamic Bank") received its licence to transact Islamic banking business with immediate effect.

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 Islamic Banking business of AmBank (M) Berhad ("AmBank") had been vested to Amlslamic Bank on 1 May 2006. 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 an issue of 250.0 million new ordinary shares of RM1.00 each by Amlslamic Bank to AmBank at RM3.14 per share.

- (ii) On 11 May 2006, the Bank announced the proposal to dispose its freehold land together with its 46-storey office building known as Menara AmBank to AmFIRST Real Estate Investment Trust ("AmFIRST REIT") for a proposed consideration of RM230 million. The sale was completed and the consideration was satisfied through the issuance of 230 million AmFIRST REIT units at an issue price of RM1.00 per unit which the Bank had sold to its ultimate holding company, AMMB Holdings Berhad ("AHB") for a cash consideration of RM230 million. The cash proceeds of RM230 million had been received from AHB on 29 December 2006 and a gain on disposal of RM33.7 million was recognized in the income statement.
- (iii) On 19 May 2006, AmInvestment Bank Berhad ("AmInvestment Bank") (formerly known as AmMerchant Bank Berhad) entered into a Novation Agreement with Quanto Assets Berhad ("Quanto Assets") (formerly known as CLO Assets Berhad) and the Bank, whereby the RM460.0 million 10-year Unsecured Subordinated Term Loan ("Subloan") to the Bank was novated to Quanto Assets. Quanto Assets has funded the acquisition of the Subloan through the issuance of private debt securities in the debt capital market.

## SIGNIFICANT EVENTS (CONTD.)

- (iv) On 21 November 2006, upon obtaining the approval from Bank Negara Malaysia, the ultimate holding company, AMMB Holdings Berhad ("AHB") entered into a Heads of Agreement ("HOA") with ANZ on 23 November 2006 in relation to the involvement of ANZ as an investor and partner of AHB Group which will be via a proposed equity participation by ANZ valued at RM1.075 billion as follows:
- (a) proposed issue of 163,934,426 convertible preference shares of RM1.00 each by AHB Group ("CPS") to ANZ Funds Pyt Ltd ("ANZ Funds"), a wholly-owned subsidiary company of ANZ at an issue price of RM3.05 per CPS which will convert into 163,934,426 new ordinary shares of RM1.00 each in AHB ("Proposed CPS Transaction"); and
  - (b) proposed issue of 188,524,590 new ordinary shares in AHB arising from the exchange of RM575,000,000 nominal value 10 Year Unsecured Exchangeable Bonds ("EBs") arising from the proposed issue of the EBs by the Bank to ANZ Funds which are exchangeable into 188,524,590 new ordinary shares in AHB at an exchange price of RM3.05 per share ("Proposed Exchangeable Bond Transaction").

The Proposed CPS Transaction and Proposed Exchangeable Bond Transaction are collectively referred to as the "Proposed Equity Participation".

Concurrently with the Proposed Equity Participation, AmCorpGroup Berhad ("AmCorp"), the principal shareholder of AHB, had also on 30 November 2006 entered into a HOA with ANZ for the disposal by AmCorp of 300 million ordinary shares held in AHB representing approximately 14.1% of the existing issued and paid up share capital of AHB to ANZ at RM4.30 per ordinary share valued at RM1.29 billion ("Proposed AmCorp Transaction").

The Proposed Equity Participation and the Proposed AmCorp Transaction are inter-conditional with each other and shall be undertaken concurrently.

The Proposed Equity Participation and the Proposed AmCorp Transaction are conditional upon the approval, inter alia, of Bank Negara Malaysia ("BNM"), Minister of Finance ("MOF"), Securities Commission, shareholders and any other relevant authorities.

Upon completion of the Proposed Equity Participation and Proposed AmCorp Transaction, ANZ would emerge as a substantial strategic investor with an equity interest of up to 24.9% in AHB. This is in line with BNM's requirement for AmCorp to institutionalize its shareholdings in AHB by May 2007.

On 2 March 2007, following the receipt of approval of BNM on 28 February 2007, AHB and ANZ Funds executed Sale and Purchase Agreement, Subscription and Relationship Agreement, Exchangeable Bond Subscription Agreement and Technical Services Agreement for the Proposed Equity Participation pursuant to Section 45 of the Banking and Financial Institutions Act, 1989 and terms of the respective HOAs.

Further, AmCorp and ANZ Funds have in accordance with the terms of the AmCorp HOAs, on 2 March 2007 executed a Sale and Purchase Agreement in relation to the Proposed AmCorp Transaction.

The Proposed CPS Transaction and Proposed Exchangeable Bond Transaction have received the approval of all relevant authorities and the shareholders of AHB at an Extraordinary General Meeting held in April 2007.

- (v) On 20 December 2006, the Bank prepaid the RM680 million loan facility to Astute Assets Berhad after obtaining the necessary approvals from Bank Negara Malaysia on 12 December 2006.
- (vi) On 21 December 2006, Amlslamic Bank issued RM400 million of Subordinated Sukuk Musyarakah ("Sukuk Musyarakah") for the purpose of increasing Amlslamic Bank's capital funds. The Sukuk Musyarakah carries profit rate of 4.80% per annum for the first five (5) years and shall be stepped up by 0.5% per annum every subsequent year to maturity date. The profit is payable on a semi-annual basis. The Sukuk Musyarakah is for a period of ten (10) years. Amlslamic Bank may exercise its call option and redeem in whole (but not in part) the 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.

**SUBSEQUENT EVENTS**

- (a) Upon obtaining the necessary approvals from the shareholders and the relevant authorities, AHB has on 18 May 2007 implemented the following:
- (i) Increase in the authorised share capital of AHB from 5,000,000,000 comprising 5,000,000,000 ordinary shares of RM1.00 each to RM5,200,000,000 comprising 5,000,000,000 ordinary shares of RM1.00 each and 200,000,000 CPS of RM1.00 each;
  - (ii) Issue of 163,934,426 CPS to ANZ Funds at an issue price of RM3.05 per CPS amounting to RM500,000,000, which shall be converted into 163,934,426 new ordinary shares of RM1.00 each in AHB; and
  - (iii) Issue of the RM575,000,000 EBs by the Bank to ANZ Funds which are exchangeable into 188,524,590 new ordinary shares in AHB at an exchange price of RM3.05 per share.
- (b) AHB has utilised a total of RM450,000,000 from the proceed of CPS for the subscription of AMFB Holdings Berhad ("AMFB")'s rights issue of 30,000,000 new ordinary shares of RM1.00 each at an issue price RM5.00 per share amounting to RM150,000,000 and RM300,000,000 interest bearing Irredeemable Convertible Unsecured Loan Stocks issued by AMFB on rights entitlement basis. The issue price of RM5.00 per share is derived at based on 17.6% premium on the net tangible assets per share of AMFB of approximately RM4.25 as at 31 March 2007.
- (c) AMFB has subscribed for RM150,000,000 nominal amount Irredeemable Non-cumulative Convertible Preference Shares ("AmBank INCPS") of RM1.00 each and RM300,000,000 Interest Bearing Irredeemable Convertible Unsecured Loan Stock ("AmBank ICULS") issued by the Bank on rights entitlements basis to further increase the capital funds of the Bank.
- (d) On 18 May 2007 the Group obtained approval from BNM for the sale of its portfolio of non-performing loans (net) totalling RM574 million. Upon the completion of the sale, the Group's non-performing loans (net) ratio will further reduce to 5.38% from 6.16% as at 31 March 2007.

**FINANCIAL RESULTS**

	<b>The Group RM'000</b>	<b>The Bank RM'000</b>
Loss before taxation and zakat		
– Continuing	(415,694)	(574,185)
– Discontinued	–	16,453
Taxation		
– Continuing	54,071	102,133
– Discontinued	–	(4,607)
Zakat		
– Continuing	(786)	–
– Discontinued	–	–
Loss for the year	<u>(362,409)</u>	<u>(460,206)</u>
Attributable to:		
Equity holders of the Bank	(362,396)	(460,206)
Minority interests	(13)	–
Loss for the year	<u>(362,409)</u>	<u>(460,206)</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 AHB 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 AHB 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 the Bank to significantly improve its customer satisfaction. The Bank will continue to strive for service excellence by providing a combination of quality, competitive pricing and excellent sales delivery and experience for its customers. The Bank 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.

AmIslamic Bank, the Group's Islamic banking subsidiary had been established by the Group 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 Syariah principles. In conjunction with the official launch of AmIslamic Bank, the Cashline facility-i was launched to complement the existing current account-i, while the free-for-life Al-Taslif Card-i which was also newly launched, has received good interest. In June 2006, the Group also launched the AmOasis Global Islamic Equity fund which was the first global Islamic equity fund to be launched in Malaysia. AmIslamic 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 Group 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 THE 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 Group will continue to pursue its strategy of expanding its business operations regionally whilst maintaining its leadership position in the industry. The Group 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 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 the operations of the Group and of the Bank during 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 the operations of the Group and 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, allowances or provisions during the financial year other than those disclosed in the financial statements.

## **ISSUANCE OF SHARES**

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

## **SHARE OPTIONS**

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

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

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

Before the income statements and balance sheets of the Group and of the Bank were made out, the directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and financing and the making of allowances for doubtful debts and financing, and have satisfied themselves that all known bad debts and financing had been written off and adequate allowances had been made for doubtful debts and financing.

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

## **CURRENT ASSETS**

Before the income statements and balance sheets of the Group and 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 Group and 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 Group and 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 of the Group and of the Bank misleading or inappropriate.

## **CONTINGENT AND OTHER LIABILITIES**

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

- a) any charge on the assets of the Group and of the Bank which has arisen since the end of the financial year which secures the liability of any other person; or
- b) any contingent liability in respect of the Group and 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 Group and 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 Group and of the Bank to meet their obligations as and when they fall due.

## **CHANGE OF CIRCUMSTANCES**

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



## DIRECTORS

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

Tan Sri Dato' Azman Hashim  
 Tun Mohammed Hanif Omar  
 Tan Sri Datuk Clifford Francis Herbert  
 Dato' Gan Nyap Liou @ Gan Nyap Liow (appointed on 15.06.2006)  
 Tan Kheng Soon  
 Cheah Tek Kuang  
 Mahdi Morad (resigned on 26.07.2006)

In accordance with Article 87 of the Company's Articles of Association, Tan Sri Dato' Azman Hashim retires by rotation at the forthcoming Annual General Meeting and, being eligible offers himself for re-election.

## DIRECTORS' INTERESTS

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

### DIRECT INTERESTS

In the ultimate holding company, AMMB Holdings Berhad

Shares	No. of ordinary shares of RM1.00 each			
	Balance at 1.4.2006	Bought	Sold	Balance at 31.3.2007
Tan Kheng Soon	18,000	–	–	18,000
Cheah Tek Kuang	23,800	–	–	23,800

Warrants 2003/2008	No. of Warrants			
	Balance at 1.4.2006	Bought	Sold/ Exercised	Balance at 31.3.2007
Cheah Tek Kuang	46,189	–	–	46,189

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

<b>Shares</b>	<b>No. of ordinary shares of RM1.00 each</b>			
	<b>Balance at 1.4.2006</b>	<b>Bought</b>	<b>Sold</b>	<b>Balance at 31.3.2007</b>
Tan Sri Dato' Azman Hashim	94,554,848	—	—	94,554,848
Tun Mohammed Hanif Omar	200,000	—	—	200,000
Tan Sri Datuk Clifford Francis Herbert	50,000	—	—	50,000
Tan Kheng Soon	35,000	—	—	35,000
Cheah Tek Kuang	1,120,100	—	750,000	370,100

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

<b>Shares</b>	<b>Name of Company</b>	<b>No. of ordinary shares of RM1.00 each</b>			
		<b>Balance at 1.4.2006</b>	<b>Bought</b>	<b>Sold</b>	<b>Balance at 31.3.2007</b>
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	—

<b>Warrants 2003/2008</b>	<b>Name of Company</b>	<b>No. of Warrants</b>			
		<b>Balance at 1.4.2006</b>	<b>Bought</b>	<b>Sold/ Exercised</b>	<b>Balance at 31.3.2007</b>
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, AmlInvestment Group Berhad**

Shares	Name of Company	No. of ordinary shares of RM1.00 each			
		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 and ultimate 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 Note 36 to the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest, other than for the related party transactions as shown in Note 35 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 and its subsidiary companies. 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 four (4) are Independent Non-Executive Directors. The Directors participate fully in decision making on key issues regarding the Bank and its subsidiary companies. 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	13	3	3	N/A	N/A	17 (Chairman)
Tun Mohammed Hanif Omar	12	3 (Chairman)	3 (Chairman)	10	N/A	17
Tan Sri Datuk Clifford Francis Herbert	13	2	2	10 (Chairman)	6 (Chairman)	N/A
Tan Kheng Soon	13	3	N/A	N/A	6	N/A
Cheah Tek Kuang	13	3	N/A	N/A	N/A	16
Mahdi Morad	3 (Resigned as Executive Director effective 26.7.06)	N/A	N/A	N/A	N/A	5 (Resigned as Executive Director effective 26.7.06)
Dato' Gan Nyap Liou @ Gan Nyap Liow	10 (Independent Non-Executive Director effective 15.6.06)	N/A	N/A	7 (Member effective 25.7.06)	2 (Member effective 15.6.06)	N/A
Number of meetings held in FY2007	13	3	3	10	6	17

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, three (3) meetings were held to consider nominations and to review the membership of the Board and Board Committees. In addition, the Nomination Committee also reviewed the performance of the Committees' and Board's effectiveness as a whole and the contribution of each Director to the effectiveness of the Board.

### **Remuneration Committee**

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, an Executive Director 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 subsidiary companies 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 Group policies.

## **HOLDING AND ULTIMATE HOLDING COMPANIES**

The directors regard AMFB Holdings 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's long term rating and short term rating of A2 (Stable)/P1 was reaffirmed by Rating Agency Malaysia Berhad ("RAM"). Additionally, the Bank's ratings was complemented by international ratings of Baa2 (Stable)/P3 by Moody's Investors Services, BBB- (Stable)/A-3 by Standard and Poor's Rating Group and BBB- (Stable)/F3 by Fitch Ratings Ltd.

The Bank's RM200.0 million Redeemable Unsecured Subordinated Bonds' long-term rating of A3 (Stable) was also reaffirmed by RAM.

The Hybrid Securities are rated Ba2 by Moody's Investor Services, BB by Standard and Poor's Rating Group and BB by Fitch Ratings Ltd.

The Bank's wholly owned Islamic subsidiary AmlIslamic Bank Berhad has been assigned a general bank rating of A2 (stable)/P1 by RAM. Concurrently, a long-term rating of A3 (Stable) has been assigned to AmlIslamic's Subordinated Sukuk Musyarakah.

## **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 assist in the setting up of business and operational procedures with respect to compliance with Shariah principles.

## **AUDITORS**

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

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

---

**TAN SRI DATO' AZMAN HASHIM**  
Chairman

Kuala Lumpur, Malaysia  
18 May 2007

---

**CHEAH TEK KUANG**  
Chief Executive Officer



**AmBank (M) 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 **AmBank (M) Berhad**, do hereby state that, in the opinion of the directors, the accompanying financial statements as set on pages 20 to 114 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 Group and of the Bank as at 31 March 2007 and of the results and the cash flows of the Group and 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**  
Chief Executive Officer

Kuala Lumpur, Malaysia  
18 May 2007

**AmBank (M) 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 **AmBank (M) Berhad**, do solemnly and sincerely declare that the accompanying financial statements set out on pages 20 to 114 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 May 2007

**LIM HOCK AUN**

Before me,

**COMMISSIONER FOR OATHS**

Lodged on behalf by:

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

Telephone Number: 03-20782633/44/55

**REPORT OF THE AUDITORS TO THE MEMBERS OF**  
**AmBank (M) Berhad**  
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 20 to 114. 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 have been 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 guidelines so as to give a true and fair view of:
  - (i) the financial position of the Group and of the Bank as at 31 March 2007 and of the results and the cash flows of the Group and of the Bank for the financial year then ended; 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 and by the subsidiary companies have been properly kept in accordance with the provisions of the Act.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the financial statements of the Bank are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements, and we have received satisfactory information and explanations required by us for these purposes.

The auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

Ernst & Young  
AF: 0039  
Chartered Accountants

Gladys Leong  
No. 1902/04/08(J)  
Partner

Kuala Lumpur, Malaysia  
18 May 2007

**AmBank (M) Berhad**  
(Incorporated in Malaysia)  
**And Its Subsidiary Companies**

**BALANCE SHEETS**  
**AS AT 31 MARCH 2007**

		<b>The Group</b>		<b>The Bank</b>	
	<b>Note</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>
<b>ASSETS</b>					
Cash and short-term funds	5	9,982,586	7,317,898	8,129,295	7,303,343
Deposits and placements with banks and other financial institutions	6	2,244,808	1,121,253	1,838,200	1,121,150
Securities held-for-trading	7	1,117,257	2,269,352	972,646	2,269,329
Securities available-for-sale	8	598,751	331,513	598,751	331,513
Securities held-to-maturity	9	1,117,599	1,361,146	1,117,382	1,360,928
Loans, advances and financing	10	43,465,547	40,736,551	37,095,578	40,736,551
Other assets	11	818,077	685,656	820,125	687,791
Statutory deposit with Bank Negara Malaysia	12	1,638,008	1,532,563	1,389,008	1,532,563
Deferred tax asset	38	826,975	747,278	600,017	594,240
Investment in subsidiary companies	13	—	—	813,849	29,781
Investment in associated companies	14	651	545	137	137
Property and equipment	15	181,948	386,848	154,322	355,253
Intangible assets	16	54,476	36,843	54,412	36,843
<b>TOTAL ASSETS</b>		<b>62,046,683</b>	<b>56,527,446</b>	<b>53,583,722</b>	<b>56,359,422</b>
<b>LIABILITIES AND EQUITY</b>					
Deposits from customers	17	37,135,858	32,494,827	32,481,678	32,496,575
Deposits and placements of banks and other financial institutions	18	16,153,699	13,413,549	13,608,725	13,413,549
Obligation on securities sold under repurchase agreements	19	444,319	1,104,621	444,319	1,104,621
Bills and acceptances payable	20	1,461,577	909,620	1,014,963	909,620
Recourse obligation of loans sold to Cagamas Berhad	21	702,640	1,778,955	702,640	1,778,955
Other liabilities	22	1,223,710	1,218,297	1,068,469	1,212,680
Subordinated term loan	23(a)	460,000	1,140,000	1,144,167	1,867,734
Hybrid securities	23(b)	684,167	727,734	—	—
Subordinated bonds	24	600,000	200,000	200,000	200,000
<b>Total Liabilities</b>		<b>58,865,970</b>	<b>52,987,603</b>	<b>50,664,961</b>	<b>52,983,734</b>
Share capital	26	610,364	610,364	610,364	610,364
Reserves	27	2,570,292	2,929,409	2,308,397	2,765,324
Minority Interest	25	57	70	—	—
<b>Total Equity</b>		<b>3,180,713</b>	<b>3,539,843</b>	<b>2,918,761</b>	<b>3,375,688</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>62,046,683</b>	<b>56,527,446</b>	<b>53,583,722</b>	<b>56,359,422</b>
<b>COMMITMENTS AND CONTINGENCIES</b>					
	40	26,299,934	20,182,831	22,260,903	20,182,731
<b>NET ASSETS PER SHARE (RM)</b>	41	<b>5.21</b>	<b>5.80</b>	<b>4.78</b>	<b>5.53</b>

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

**AmBank (M) Berhad**  
(Incorporated in Malaysia)  
**And Its Subsidiary Companies**

**INCOME STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2007**

		<b>The Group</b>		<b>The Bank</b>	
	<b>Note</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>
Revenue		<u>4,301,075</u>	<u>3,406,698</u>	<u>3,551,142</u>	<u>3,388,458</u>
Interest income	28	3,209,298	2,555,969	3,210,337	2,472,959
Interest expense	29	<u>(2,007,456)</u>	<u>(1,357,565)</u>	<u>(2,009,422)</u>	<u>(1,308,267)</u>
Net interest income		1,201,842	1,198,404	1,200,915	1,164,692
Net income from Islamic Banking business	30	518,768	421,954	–	–
Other operating income	31	<u>283,658</u>	<u>163,101</u>	<u>282,606</u>	<u>148,661</u>
Net income		2,004,268	1,783,459	1,483,521	1,313,353
Other operating expenses	32	<u>(748,603)</u>	<u>(717,657)</u>	<u>(591,964)</u>	<u>(548,408)</u>
Operating profit		1,255,665	1,065,802	891,557	764,945
Allowance for losses on loans and financing	33	<u>(1,446,342)</u>	<u>(742,485)</u>	<u>(1,240,618)</u>	<u>(582,797)</u>
Impairment (loss)/written back	34	<u>(225,086)</u>	<u>72,015</u>	<u>(225,124)</u>	<u>70,046</u>
(Loss)/profit before share in results of associated companies and taxation		(415,763)	395,332	(574,185)	252,194
Share in results in associated company		<u>69</u>	<u>88</u>	<u>–</u>	<u>–</u>
<b>(Loss)/profit before taxation</b>		<b>(415,694)</b>	<b>395,420</b>	<b>(574,185)</b>	<b>252,194</b>
Zakat		(786)	–	–	–
Taxation	37	<u>54,071</u>	<u>(122,798)</u>	<u>102,133</u>	<u>(79,373)</u>
<b>(Loss)/profit from continuing operations</b>		<b>(362,409)</b>	<b>272,622</b>	<b>(472,052)</b>	<b>172,821</b>
<b>(Loss)/profit from discontinued operations</b>	46	<u>–</u>	<u>–</u>	<u>11,846</u>	<u>91,267</u>
<b>(Loss)/profit after taxation</b>		<b><u>(362,409)</u></b>	<b><u>272,622</u></b>	<b><u>(460,206)</u></b>	<b><u>264,088</u></b>
Attributable to:					
Equity holder of the Bank		(362,396)	272,638	(460,206)	264,088
Minority interests		<u>(13)</u>	<u>(16)</u>	<u>–</u>	<u>–</u>
(Loss)/profit after taxation		<u><u>(362,409)</u></u>	<u><u>272,622</u></u>	<u><u>(460,206)</u></u>	<u><u>264,088</u></u>
<b>Earnings per share (sen)</b>	39				
Basic, for (loss)/profit from continuing operations		(59.37)	44.67	(77.34)	29.03
Basic, for profit from discontinued operations		<u>–</u>	<u>–</u>	<u>1.94</u>	<u>15.33</u>
Basic for the year		<u><u>(59.37)</u></u>	<u><u>44.67</u></u>	<u><u>(75.40)</u></u>	<u><u>44.36</u></u>

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

**AmBank (M) Berhad**  
(Incorporated in Malaysia)  
**And Its Subsidiary Companies**

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 MARCH 2006**

The Group	Attributable to Equity Holder of the Bank						Distributable		Total RM'000
	Non-distributable						Unappro- priated Profits RM'000	Minority Interest RM'000	
	Share Capital RM'000	Share Premium RM'000	Statutory Reserve RM'000	Merger Reserve RM'000	Capital Reserve RM'000	Securities Available- for-Sale Reserve RM'000			
Balance as at 1 April 2005									
As previously stated	610,364	379,953	624,044	679,757	377,492	31,095	509,119	86	3,211,910
Prior year adjustments (Note 50)	—	—	—	—	—	—	83,678	—	83,678
As restated	610,364	379,953	624,044	679,757	377,492	31,095	592,797	86	3,295,588
Issue of shares	—	330,707	—	(330,707)	—	—	—	—	—
Unrealised net loss on revaluation of securities available-for-sale	—	—	—	—	—	(28,367)	—	—	(28,367)
Transfer to unappropriated profits	—	—	(95,642)	—	—	—	95,642	—	—
Transfer to statutory reserve	—	—	57,430	—	—	—	(57,430)	—	—
Profit/(loss) for the year	—	—	—	—	—	—	272,638	(16)	272,622
Balance as at 31 March 2006	<b>610,364</b>	<b>710,660</b>	<b>585,832</b>	<b>349,050</b>	<b>377,492</b>	<b>2,728</b>	<b>903,647</b>	<b>70</b>	<b>3,539,843</b>

**AmBank (M) Berhad**  
(Incorporated in Malaysia)  
**And Its Subsidiary Companies**

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 MARCH 2007**

	Attributable to Equity Holder of the Bank								
	Non-distributable					Distributable			
The Group	Share Capital RM'000	Share Premium RM'000	Statutory Reserve RM'000	Merger Reserve RM'000	Capital Reserve RM'000	Securities Available-for-Sale Reserve RM'000	Unappropriated Profits RM'000	Minority Interest RM'000	Total RM'000
Balance as at 1 April 2006									
As previously stated	610,364	379,953	585,832	679,757	377,492	2,728	785,600	70	3,421,796
Prior year adjustments (Note 50)	–	330,707	–	(330,707)	–	–	118,047	–	118,047
As restated	610,364	710,660	585,832	349,050	377,492	2,728	903,647	70	3,539,843
Unrealised net gain on revaluation of securities available-for-sale	–	–	–	–	–	3,279	–	–	3,279
Transfer to statutory reserve	–	–	47,390	–	–	–	(47,390)	–	–
Loss for the year	–	–	–	–	–	–	(362,396)	(13)	(362,409)
Balance as at 31 March 2007	610,364	710,660	633,222	349,050	377,492	6,007	493,861	57	3,180,713

**AmBank (M) Berhad**  
(Incorporated in Malaysia)  
**And Its Subsidiary Companies**

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 MARCH 2006**

The Bank	Attributable to Equity Holder of the Bank						Total RM'000
	Non-distributable				Distributable		
	Share Capital RM'000	Share Premium RM'000	Statutory Reserve RM'000	Capital Reserve RM'000	Securities Available- for-Sale Reserve RM'000	Unappro- priated Profits RM'000	
Balance as at <b>1 April 2005</b>							
As previously stated	528,402	379,953	528,402	—	31,095	1,175,768	2,643,620
Prior year adjustments (Note 50)	—	—	—	—	—	83,678	83,678
As restated	528,402	379,953	528,402	—	31,095	1,259,446	2,727,298
Issue of shares	81,962	330,707	—	—	—	—	412,669
Unrealised net loss on revaluation of securities available-for-sale	—	—	—	—	(28,367)	—	(28,367)
Transfer to statutory reserve	—	—	57,430	—	—	(57,430)	—
Profit for the year	—	—	—	—	—	264,088	264,088
Balance as at <b>31 March 2006</b>	<b>610,364</b>	<b>710,660</b>	<b>585,832</b>	<b>—</b>	<b>2,728</b>	<b>1,466,104</b>	<b>3,375,688</b>



**AmBank (M) Berhad**  
(Incorporated in Malaysia)  
**And Its Subsidiary Companies**

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 MARCH 2007**

The Bank	Attributable to Equity Holder of the Bank						Total RM'000
	Non-distributable				Distributable		
	Share Capital RM'000	Share Premium RM'000	Statutory Reserve RM'000	Capital Reserve RM'000	Securities Available- for-Sale Reserve RM'000	Unappro- priated Profits RM'000	
Balance as at <b>1 April 2006</b>							
As previously stated	610,364	379,953	585,832	330,705	2,728	1,348,057	3,257,639
Prior year adjustments (Note 50)	—	330,707	—	(330,705)	—	118,047	118,049
As restated	610,364	710,660	585,832	—	2,728	1,466,104	3,375,688
Unrealised net gain on revaluation of securities available-for-sale	—	—	—	—	3,279	—	3,279
Loss for the year	—	—	—	—	—	(460,206)	(460,206)
Balance as at <b>31 March 2007</b>	<b>610,364</b>	<b>710,660</b>	<b>585,832</b>	<b>—</b>	<b>6,007</b>	<b>1,005,898</b>	<b>2,918,761</b>

The accompanying notes form an integral part of the financial statements

**AmBank (M) Berhad**

(Incorporated in Malaysia)

**And Its Subsidiary Companies****CASH FLOW STATEMENTS****FOR THE YEAR ENDED 31 MARCH 2007**

	<b>The Group</b>		<b>The Bank</b>	
	<b>2007 RM'000</b>	<b>2006 RM'000</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
(Loss)/profit before taxation	(415,694)	395,420	(557,732)	383,171
Adjustments for:				
Loan and financing loss and allowances, net of writeback	1,446,342	742,485	1,251,565	736,735
Interest in suspense - net	108,112	115,900	108,112	114,173
Depreciation of property and equipment	42,450	40,015	41,926	38,488
Amortisation of intangible assets	18,993	14,144	18,984	13,673
Transfer (from)/to profit equalisation reserve	(60,887)	6,414	–	6,098
Accretion of discount less amortisation of premium	(6,487)	(990)	(3,176)	743
Property and equipment written off	679	1,725	883	1,725
Share of profits of associated company	(106)	(88)	–	–
Gross dividend income from securities available-for-sale	(5,825)	(27,257)	(5,825)	(26,314)
Gross dividend income from securities held-for-trading	(4,186)	(2,683)	(4,186)	(2,652)
Gross dividend income from securities held-to-maturity	(1,393)	(3,493)	(1,366)	(3,445)
Net (gain)/loss on sale of securities held-for-trading	(21,018)	25,228	(20,360)	25,284
Net gain on sale of securities available-for-sale	(19,913)	(25,626)	(19,913)	(25,626)
Net (gain)/loss on sale of securities held-to-maturity	(11,042)	39,510	(11,042)	40,050
Net (gain) on revaluation of securities held-for-trading	(14,931)	(32,300)	(12,987)	(33,252)
Impairment loss/(writeback) on securities	213,779	(84,724)	213,817	(82,580)
Impairment loss/(writeback) on foreclosed property	(45)	22	(45)	22
Impairment loss in investment in associated companies	–	–	–	13
Gain on disposal of property and equipment	(1,094)	(1,221)	(271)	(1,221)
Gain on disposal of foreclosed properties	(1,840)	(26)	(1,840)	(26)
Gain on disposal of property held for sale	(33,762)	–	(33,762)	–
Impairment on amount recoverable under asset-backed securitisation transaction	10,000	10,500	10,000	10,500
Allowance for doubtful debts – sundry receivables	1,352	2,187	1,352	1,999
Amortisation of cost capitalised for issue of Hybrid securities	1,853	250	1,853	250

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Unrealised gain on foreign exchange of Hybrid securities	(45,420)	(13,480)	(45,420)	(13,480)
Operating Profit Before Working Capital Changes	1,199,917	1,201,912	930,567	1,184,328
(Increase)/Decrease In Operating Assets:				
Deposits and placements with banks and financial institutions	(1,123,555)	(740,250)	(719,176)	(679,094)
Securities held-for-trading	1,197,951	(768,584)	831,128	(759,641)
Loans, advances and financing	(4,300,477)	(5,958,751)	(4,247,920)	(5,905,026)
Other assets	(163,333)	(63,172)	(129,551)	(67,152)
Statutory deposit with Bank Negara Malaysia	(105,445)	(230,980)	(125,239)	(224,068)
Increase/(Decrease) In Operating Liabilities:				
Deposits from customers	4,641,031	3,333,084	4,308,346	2,978,000
Deposits and placements of banks and other financial institutions	2,740,150	3,544,959	3,147,383	3,306,058
Obligation on securities sold under repurchase agreements	(660,302)	1,000,826	(660,302)	1,045,824
Bills and acceptance payable	551,957	393,868	330,707	306,279
Recourse obligation of loans sold to Cagamas Berhad	(1,076,315)	(874,695)	(1,076,315)	(856,451)
Other liabilities	79,015	357,730	114,442	616,160
Cash Generated From Operations	2,980,594	1,195,947	2,704,070	945,217
Net taxation (paid) / refund	895	5,306	—	5,578
Net Cash Generated From Operating Activities	2,981,489	1,201,253	2,704,070	950,795
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net purchase of securities available-for-sale	(247,459)	—	(244,180)	—
Net sale of securities held-to maturity	40,803	21,399	40,764	14,652
Net dividend received from securities held-for-trading	3,300	2,177	3,300	2,154
Net dividend received from securities available-for-sale	5,551	20,795	5,551	19,852
Net dividend received from securities held-to-maturity	1,003	2,514	984	2,480
Proceeds from disposal of assets held for sale	230,000	—	230,000	—
Proceeds from disposal of property and equipment	5,715	1,489	491	1,489
Purchase of intangible assets	(36,626)	(17,551)	(36,553)	(17,527)
Purchase of property and equipment	(39,088)	(53,935)	(38,336)	(52,933)

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Additional investment in subsidiaries	—	—	784,068	—
Transfer of cash and cash equivalent (from)/to subsidiary company	—	—	(1,160,139)	2,815,260
Net assets transferred from subsidiary company	<u>—</u>	<u>—</u>	<u>(784,068)</u>	<u>(412,667)</u>
Net Cash (Used In)/Generated Investing Activities	<u>(36,801)</u>	<u>(23,112)</u>	<u>(1,198,118)</u>	<u>2,372,760</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Repayment of subordinated term loan	(680,000)	—	(680,000)	—
Proceeds from issue of Hybrid securities	—	750,100	—	—
Proceeds from subordinated bonds	400,000	—	—	—
Proceeds from subordinated term loan	—	—	—	750,100
Issuance expense on Hybrid securities	—	(9,136)	—	(9,136)
Proceeds from issuance of shares	<u>—</u>	<u>—</u>	<u>—</u>	<u>81,962</u>
Net Cash (Used In)/Generated From Financing Activities	<u>(280,000)</u>	<u>740,964</u>	<u>(680,000)</u>	<u>822,926</u>
Net Increase In Cash And Cash Equivalents	2,664,688	1,919,105	825,952	4,146,481
Cash And Cash Equivalents At Beginning Of Year	<u>7,317,898</u>	<u>5,398,793</u>	<u>7,303,343</u>	<u>3,156,862</u>
Cash And Cash Equivalents At End Of Year (Note 5)	<u><u>9,982,586</u></u>	<u><u>7,317,898</u></u>	<u><u>8,129,295</u></u>	<u><u>7,303,343</u></u>

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

**AmBank (M) Berhad**  
(Incorporated in Malaysia)  
**And Its Subsidiary Companies**

**Notes To The Financial Statements**  
**For the year ended 31 March 2007**

**1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION**

The principal activity of the Bank is to carry on the business of a licensed commercial bank and finance company which also includes the provision of Islamic banking services via its 100% owned subsidiary, AmIslamic Bank Berhad.

The principal activities of its subsidiary companies are disclosed in Note 13.

There have been no other significant changes in the nature of the activities of the Bank and its subsidiary companies during the financial year.

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

The financial statements of the Group and of the Bank have been approved and authorised for issue by the Board of Directors on 24 April 2007.

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

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

The financial statements incorporate those activities relating to the Islamic banking business, which have been undertaken by the Group. Islamic banking business refers generally to the acceptance of deposits, dealing in Islamic securities, granting of financing, capital market and treasury activities under the Shariah Principles.

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 Group and the Bank with effect from the period beginning on or after 1 April 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
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 127	Consolidated and Separate Financial Statements
FRS 128	Investment in Associates
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 Group and the Bank has early adopted the following FRSs, amendments to FRSs and IC Interpretations:

<b>FRS</b>	<b>Effective for financial periods beginning on or after</b>
FRS 119 <sub>2004</sub> 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 <sub>2004</sub> : Financial Reporting in Hyperinflationary Economies	1 July 2007
IC Interpretation 8: Scope of FRS 2	1 July 2007

The Group and 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 :

<b>FRS</b>	<b>Effective for financial periods beginning on or after</b>
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, 108, 110, 116, Amendments to FRS 1192004, 121, 128, 132 and 133 does not result in significant changes in accounting policies of the Group. The principal effects of the changes in accounting policies resulting from the adoption of the other new and revised FRSs and BNM's Circular on Handling Fees are disclosed in Note 50.

**(a) Basis of Accounting**

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

**(b) Basis of Consolidation**

The financial statements of the Group include the financial statements of the Bank and all its subsidiary companies listed under Note 13 made up to the end of the financial year.

The Bank adopts the purchase method in preparing the consolidated financial statements except where the criteria for the merger accounting method as permitted under FRS 122: Business Combinations are met.

Under the purchase method, the excess of the cost of investments in the subsidiary companies over the attributable share in the fair value of the net assets of the subsidiary companies at the date of the acquisition is taken up as goodwill on consolidation. The interest of minority shareholders is stated at the minority shareholders' proportion of the fair values of the assets and liabilities recognised. The results of subsidiary companies acquired or disposed during the financial year are included in the consolidated financial statements from the effective date of acquisition or up to the effective date of disposal.

All significant intercompany transactions and balances have been eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

Where the merger accounting method is used, the cost of investment in the Bank's records are recorded at the nominal value of ordinary shares issued and the difference between the carrying value of the investment and the nominal value of ordinary shares acquired is treated as a merger reserve or merger deficit. The results and financial position of companies being merged are included as if the merger had been effected throughout the current financial year and earliest period presented and comparatives have been restated.

The gain or loss on disposal of a subsidiary is the difference between the net disposal proceeds and the Group's share of its net assets as of the date of disposal.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since then.

**(c) Operating Revenue**

Operating revenue of the Group and the Bank comprise of interest income and other operating income.

**(d) Interest and Financing Income and Expense Recognition**

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

Interest and financing income on overdrafts, term loans and housing loans is accounted for on an accrual basis by reference to the rest periods as stipulated in the loan agreements. Interest and financing income from hire purchase financing and block discounting of the Group and 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 tenor of the loan in accordance with BNM Circular on Handling Fees dated 16 October 2006 and is set off against interest income recognised on the hire purchase loans.

When a loan becomes non-performing, interest 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 interest receivable account in the balance sheet. Thereafter, interest 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.

Interest expense and attributable income (pertaining to activities relating to Islamic Banking Business) on deposits and borrowings of the Bank are recognised on an accrual basis.



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

Loan 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.

Property rental are recognised on an accrual basis.

Dividends are recognised when the right to receive payment is established.

**(f) 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 and the Group.

**(ii) Defined Contribution Plan**

As required by law, companies within the Group 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 and the Group have 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 Group and 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.

**(g) Allowance for Doubtful Debts and Financing**

Based on management's evaluation of the portfolio of loans, advances and financing, specific allowances for doubtful debts and 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 loan and financing or portion of a loan and 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 Group 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 Group 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 Group 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 RM493.4 million 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 RM22.1 million 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 loans, advances and financing.

#### **(h) Provisions**

Provisions are recognised when the Group or 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.

#### **(i) 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 Group.

#### **(j) 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 statements 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 statements immediately.

**(k) Income Tax**

Income tax on profit or loss for the financial year comprises current and deferred tax. Income tax is recognised in the income statements 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 Group 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.

**(l) Securities**

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

**(i) Securities held-for-trading**

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

**(ii) Securities available-for-sale**

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

**(iii) Securities held-to-maturity**

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

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

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

**(m) Trade and Other Receivables**

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

**(n) Other Assets**

**(i) Amount Recoverable Under Asset-Backed Securitisation ("ABS") Transactions**

This relates to the balance of sale consideration under ABS transactions due from the Special Purpose Vehicle ('SPV'), which the amount will be recovered upon maturity of the underlying bonds. Under the ABS, portfolios of receivables are sold to a SPV which are funded through the issuance of bonds secured by the receivables.

When an indication of impairment exists, the carrying amount of the amount recoverable under ABS transaction is assessed and written down to its recoverable amount.

The difference between the sale consideration and the receivables sold is recognised to the income statement.

**(ii) Foreclosed Properties**

Foreclosed properties are those acquired in full or partial satisfaction of debts and are stated at cost less impairment losses in value, if any, of such properties.

**(o) Investment in Subsidiary Companies**

A subsidiary company is a company in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities. It is generally accompanied by a shareholding of more than 50.0% of voting rights. Potential voting rights that are exercisable or convertible are considered when determining whether an entity is considered a subsidiary company.

Investment in subsidiary companies, which are eliminated on consolidation, are stated in the Bank's financial statements at cost less impairment, if any.

On disposal of such investments, the difference between the net disposal proceeds and their carrying amounts are recognised in the income statement.

**(p) Investment in Associated Companies**

An associated company is a company in which the Group exercises significant influence, but which it does not control. Significant influence is the power to participate in the financial and operating policy decisions of the associates but not in control over those policies.

Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associated companies includes premium on consolidation identified on acquisition, net of accumulated impairment losses, if any.

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves from the date that significant influence commences and until the date that significant influence ceases. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associated company.

The results of the associated companies are taken from the latest audited accounts or unaudited management accounts of the associated companies, prepared at dates not more than three months prior to the end of the financial year of the Group.

Investments in associated companies are stated at cost less accumulated impairment losses, if any, in the Bank's balance sheet.

On disposal of such investments, the differences between the net disposal proceeds and their carrying amounts are recognised in the income statement.

**(q) Property and Equipment and Depreciation**

Property and equipment are stated at cost or valuation less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with the policy on impairment of assets.

Freehold land and capital work in progress are not depreciated. Short term leasehold land is amortised over the term of leases of between 20 to 49 years. Long term leasehold land is amortised over the term of leases of between 66 to 999 years. Depreciation of other property and equipment 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:

Buildings	2% or over the short term lease of between 20 to 49 years
Leasehold improvements	10% - 20%
Office equipment	10% - 20%
Furniture and fittings	10% - 25%
Computer equipment	20% - 33 <sup>1</sup> / <sub>3</sub> %
Motor vehicles	20% - 25%

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 statements.

**(r) 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 Group, 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.

**(s) Assets Purchased under lease**

Assets purchased under finance leases which in substance transfer the risks and benefits of ownership of the assets to the Group 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 interest rate implicit in the lease, when it is practicable to determine, otherwise the Group'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 Group and the Bank do not have any assets purchased under lease.

**(t) Investment Properties**

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both.

Investment properties of the Group are stated at cost less any accumulated depreciation and impairment losses. Investment properties are depreciated on a straight line basis to write off the cost of the assets to their residual valued over their estimated useful lives.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year in which they arise.

**(u) 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 Group 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.

**(v) Repurchase Agreements**

Securities purchased under resale agreements are securities which the Group and the Bank had purchased with a commitment to resell at future dates. The commitments to resell the securities are reflected as an asset on the balance sheet.

Conversely, obligations on securities sold under repurchase agreements are securities which the Group and the Bank had sold from its portfolio, with commitment to repurchase at future dates for funding purposes. The carrying values of the securities underlying these repurchase agreements remain as assets on the balance sheet of the Group and of the Bank while the obligations to repurchase such securities at agreed prices on specified future dates are accounted for as a liabilities on the balance sheet.

**(w) Bills and Acceptances Payable**

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

**(x) 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.

**(y) 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.

**(z) Interest -Bearing Instruments**

These are interest-bearing loans and bonds with remaining maturity of more than one year, and are recognised at the amount of proceeds received net of related expenses. All financial liabilities are measured at amortised cost using the effective interest method.

**(aa) Hybrid Capital**

Hybrid capital is classified as liabilities in the balance sheet as there is a contractual obligation by the Group to make cash payments of either principal or interest or both to holders of the instruments and the Group is contractually obliged to settle the financial instrument in cash or another financial instrument.

**(ab) Redeemable Unsecured Subordinated Bonds**

These are long-term debts with remaining maturity of more than one year. The issue proceeds are recognised at cost and used to grant an unsecured term loan to its related licensed commercial bank for its capital refinancing. The interest incurred is recognised on a straight-line accrual basis.

**(ac) 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.

**(ad) Foreign Currencies**

**(i) Functional and Presentation Currency**

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia ("RM"), which is also the Bank's functional currency.

**(ii) Foreign Currency Transactions**

In preparing the financial statements of the Bank, subsidiary and associated companies, 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.

**(iii) Foreign Operations**

For the purpose of presenting consolidated financial statements, the assets and liabilities of subsidiary and associated companies expressed in foreign currencies are translated into RM at the rates of exchange ruling at the balance sheet date while income statement is translated into RM at the average exchange rate for the year. Gains or losses arising on translation into RM are classified as equity and transferred to the Group's exchange fluctuation reserve.

The principal exchange rates for every unit of foreign currency ruling at balance sheet date used for translation of foreign operations are as follows:

	<b>31.03.2007</b>	<b>31.03.2006</b>
United States Dollar (USD)	3.46	3.68
Hong Kong Dollar (HKD)	0.44	0.47



**(ae) 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. Interest, dividends and gains and losses relating to a 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.

**(af) Forward Exchange Contracts**

Unmatured forward exchange contracts are valued at forward rates prevailing at balance sheet date, applicable to their respective dates of maturity, and resultant gains and losses are recognised in the income statements.

**(ag) Interest Rate Swap Contracts**

The Bank uses interest rate swaps as a hedging instrument. Interest income or interest expense associated with interest rate swaps is recognised over the life of the swap agreements as a component of interest income or interest expense.

**(ah) Cash Flow Statement**

The Group and the Bank adopt the indirect method in the preparation of the cash flow statements.

**(ai) 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 JUDGEMENTS**

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 Group 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) Classification between investment properties and property and equipment**

The Group has developed certain criteria based on FRS 140 in making judgement whether a property qualifies as an investment property. Investment property is held to earn rentals or for capital appreciation or both.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portion could be sold separately, the Group would account for the portion separately. If the portion could not be sold separately, the property is an investment property only if insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

**c) Deferred tax assets**

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

## 5. CASH AND SHORT-TERM FUNDS

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Cash and balances with banks and other financial institutions	212,007	194,536	202,216	179,981
Money at call and deposits placements maturing within one month	<u>9,770,579</u>	<u>7,123,362</u>	<u>7,927,079</u>	<u>7,123,362</u>
	<u>9,982,586</u>	<u>7,317,898</u>	<u>8,129,295</u>	<u>7,303,343</u>

Included in the above are interbank lending by the Group and the Bank of RM9,770,579,000 (2006: RM7,096,649,000) and RM7,927,079,000 (2006: RM7,096,649,000) respectively.

As at 31 March 2007, the net interbank lending of the Group and of the Bank are as follows:

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Interbank lending				
Cash and short term funds	9,770,579	7,096,649	7,927,079	7,096,649
Deposits with banks and other financial institutions (Note 6)	<u>2,241,880</u>	<u>1,121,150</u>	<u>1,826,880</u>	<u>1,121,150</u>
	12,012,459	8,217,799	9,753,959	8,217,799
Interbank borrowing (Note 18)	<u>(2,233,545)</u>	<u>(1,850,077)</u>	<u>(2,203,545)</u>	<u>(1,850,077)</u>
Net interbank lending	<u>9,778,914</u>	<u>6,367,722</u>	<u>7,550,414</u>	<u>6,367,722</u>

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

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Licensed banks	316,480	321,089	285,073	320,986
Licensed merchant bank	1,600,400	736,620	1,550,400	736,620
Bank Negara Malaysia	327,928	26,713	2,727	26,713
Other financial institutions	<u>—</u>	<u>36,831</u>	<u>—</u>	<u>36,831</u>
	<u>2,244,808</u>	<u>1,121,253</u>	<u>1,838,200</u>	<u>1,121,150</u>

Included in the above are interbank lending by the Group and the Bank of RM2,241,880,000 (2006: RM1,121,150,000) and RM1,826,880,000 (2006: RM1,121,150,000) respectively.

## 7. SECURITIES HELD-FOR-TRADING

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>At fair value</b>				
Money Market Securities:				
Islamic Treasury bills	214,745	48,395	166,303	48,395
Malaysian Government Securities	104,896	43,084	104,896	43,084
Malaysian Government Investment Certificates	39,736	119,975	–	119,975
Cagamas bonds	–	173,848	–	173,848
Negotiable instruments of deposit	–	1,611,642	–	1,611,642
Bank Negara Monetary Notes	167,330	–	167,330	–
	<u>526,707</u>	<u>1,996,944</u>	<u>438,529</u>	<u>1,996,944</u>
Quoted Securities:				
Shares in Malaysia	123,325	93,644	123,301	93,621
	<u>123,325</u>	<u>93,644</u>	<u>123,301</u>	<u>93,621</u>
Unquoted Securities:				
Private debt securities	462,231	178,764	405,822	178,764
Guaranteed private debt securities	4,994	–	4,994	–
	<u>467,225</u>	<u>178,764</u>	<u>410,816</u>	<u>178,764</u>
Total securities held-for-trading	<u>1,117,257</u>	<u>2,269,352</u>	<u>972,646</u>	<u>2,269,329</u>

Certain money market securities held for investment have been sold under repurchase agreements for funding purposes and their carrying values remain in the respective asset accounts while obligations to repurchase such securities at an agreed price on a specified future date are accounted for as a liability as mentioned in Note 19.

## 8. SECURITIES AVAILABLE-FOR-SALE

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>At fair value:</b>				
Money Market Securities:				
Negotiable instruments of deposit	399,995	–	399,995	–
Quoted Securities In Malaysia:				
Quoted shares	33,927	63,250	33,927	63,250
Quoted shares with options and/or collateral	67,643	174,714	67,643	174,714
Quoted Securities Outside Malaysia:				
Quoted shares	229	–	229	–
Unquoted Securities In Malaysia:				
Private debt securities	96,957	93,549	96,957	93,549
Total securities available-for-sale	<u>598,751</u>	<u>331,513</u>	<u>598,751</u>	<u>331,513</u>

## 9. SECURITIES HELD-TO-MATURITY

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>At amortised cost</b>				
Quoted Securities In Malaysia:				
Quoted shares	8,099	9,298	8,001	9,201
Quoted debt securities with options and/or collateral	418,571	486,404	418,571	486,404
Warrants	15	15	15	15
	<u>426,685</u>	<u>495,717</u>	<u>426,587</u>	<u>495,620</u>
Unquoted Securities In Malaysia:				
Unquoted shares	84,587	147,146	84,171	146,729
Unquoted debt securities	132,316	144,219	132,316	144,219
Unquoted debt securities with options and/or collateral	818,940	835,903	818,940	835,903
	<u>1,035,843</u>	<u>1,127,268</u>	<u>1,035,427</u>	<u>1,126,851</u>
Unquoted Securities Outside Malaysia:				
Unquoted shares	16	13	16	13
Total	1,462,544	1,622,998	1,462,030	1,622,484
Less: Accumulated impairment losses	<u>(344,945)</u>	<u>(261,852)</u>	<u>(344,648)</u>	<u>(261,556)</u>
Total securities held-to-maturity	<u><u>1,117,599</u></u>	<u><u>1,361,146</u></u>	<u><u>1,117,382</u></u>	<u><u>1,360,928</u></u>

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>Market value</b>				
Quoted Securities In Malaysia:				
Quoted shares	5,465	4,191	5,422	4,176
Quoted debt securities	—	201	—	201
Quoted debt securities with options and/or collateral	242,921	164,755	242,921	164,755
Warrants	19	136	19	136
	<u>248,405</u>	<u>169,283</u>	<u>248,362</u>	<u>169,268</u>

## 10. LOANS, ADVANCES AND FINANCING

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Overdrafts	1,343,383	1,031,079	1,320,963	1,031,079
Term loan facilities:				
Housing loans/financing	11,074,856	9,791,514	10,218,542	9,791,514
Hire-purchase receivables	28,552,294	26,551,141	20,665,214	26,551,141
Other loans/financing	8,235,822	7,689,487	5,850,985	7,689,487
Card receivables	2,218,724	2,138,331	1,900,253	2,138,331
Bills receivables	17,765	6,878	10,905	6,878
Trust receipts	215,921	200,702	190,337	200,702
Claims on customers under acceptance credits	1,656,939	1,247,649	1,181,820	1,247,649
Revolving credits	1,385,432	1,311,396	1,314,677	1,311,396
Staff loans	159,849	153,310	159,849	153,310
Total	54,860,985	50,121,487	42,813,545	50,121,487
Unearned interest and unearned income	(6,022,061)	(5,478,757)	(3,432,582)	(5,478,757)
	48,838,924	44,642,730	39,380,963	44,642,730
Less: Islamic financing sold to Cagamas Berhad	(2,718,833)	(2,205,827)	—	(2,205,827)
Gross loans, advances and financing	46,120,091	42,436,903	39,380,963	42,436,903
Allowance for bad and doubtful debts and financing:				
– General (Note 10(vii))	(713,761)	(656,794)	(574,763)	(656,794)
– Specific (Note 10(vii))	(1,940,783)	(1,043,558)	(1,710,622)	(1,043,558)
Net loans, advances and financing	43,465,547	40,736,551	37,095,578	40,736,551
(i) The maturity structure of loans, advances and financing is as follows:				
Maturing within one year	13,763,566	12,642,911	11,301,520	12,642,911
One year to three years	9,651,439	9,474,079	8,973,837	9,474,079
Three years to five years	7,391,428	6,854,675	6,082,314	6,854,675
Over five years	15,313,658	13,465,238	13,023,292	13,465,238
Gross loans, advances and financing	46,120,091	42,436,903	39,380,963	42,436,903

(ii) Loans, advances and financing analysed by type of customer are as follows:

	<b>The Group</b>		<b>The Bank</b>	
	<b>2007 RM'000</b>	<b>2006 RM'000</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>
Domestic banking institutions	703	–	703	–
Domestic non-bank financial institutions	668,403	433,938	667,750	433,938
Domestic business enterprises				
– Small medium enterprises	4,592,600	3,417,755	4,073,959	3,417,755
– Others	6,278,504	6,585,074	5,688,351	6,585,074
Government and statutory bodies	82,174	21,201	60,995	21,201
Individuals	34,425,531	31,910,652	28,821,742	31,910,652
Other domestic entities	30,401	29,219	28,030	29,219
Foreign entities	41,775	39,064	39,433	39,064
Gross loans, advances and financing	<u>46,120,091</u>	<u>42,436,903</u>	<u>39,380,963</u>	<u>42,436,903</u>

(iii) Loans, advances and financing analysed by interest/profit rate sensitivity are as follows:

	<b>The Group</b>		<b>The Bank</b>	
	<b>2007 RM'000</b>	<b>2006 RM'000</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>
Fixed rate				
– Housing loans/financing	3,107,892	3,047,954	2,677,486	3,047,954
– Hire purchase receivables	21,050,206	19,925,719	17,243,010	19,925,719
– Other fixed rate loan/financing	6,346,997	5,481,071	3,845,471	5,481,071
Variable rate				
– Base lending rate plus	14,165,941	12,959,713	14,165,941	12,959,713
– Cost plus	1,069,461	642,963	1,069,461	642,963
– Other variable rates	379,594	379,483	379,594	379,483
Gross loans, advances and financing	<u>46,120,091</u>	<u>42,436,903</u>	<u>39,380,963</u>	<u>42,436,903</u>

(iv) Loans, advances and financing analysed by loan purpose are as follows:

	<b>The Group</b>		<b>The Bank</b>	
	<b>2007 RM'000</b>	<b>2006 RM'000</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>
Purchase of securities	495,100	518,119	492,400	518,119
Purchase of transport vehicles	22,736,027	21,234,368	16,372,674	21,234,368
Purchase of landed property				
– Residential	10,726,030	9,521,111	10,293,915	9,521,111
– Non-residential	2,291,003	2,265,999	2,236,663	2,265,999
Purchase of fixed assets other than land and building	1,261,208	1,093,889	1,093,065	1,093,889
Personal use	1,646,300	1,296,466	315,515	1,296,466
Credit card	2,207,352	2,138,423	1,888,882	2,138,423
Purchase of consumer durables	4,648	7,801	3,289	7,801
Construction	328,316	308,359	325,812	308,359
Working capital	6,112,483	4,494,729	5,390,733	4,494,729
Other purpose	1,030,457	1,763,466	968,015	1,763,466
	<u>48,838,924</u>	<u>44,642,730</u>	<u>39,380,963</u>	<u>44,642,730</u>
Less: Islamic financing sold to Cagamas Berhad	<u>(2,718,833)</u>	<u>(2,205,827)</u>	<u>–</u>	<u>(2,205,827)</u>
Gross loans, advances and financing	<u>46,120,091</u>	<u>42,436,903</u>	<u>39,380,963</u>	<u>42,436,903</u>

(v) Non-performing loans analysed by loan purpose are as follows:

	<b>The Group</b>		<b>The Bank</b>	
	<b>2007 RM'000</b>	<b>2006 RM'000</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>
Purchase of securities	139,249	163,196	138,008	163,196
Purchase of transport vehicles	806,759	854,954	554,728	854,954
Purchase of landed property				
– Residential	1,372,806	1,344,486	1,274,591	1,344,486
– Non-residential	764,376	836,578	728,290	836,578
Purchase of fixed assets other than land and building	62,217	95,832	52,330	95,832
Personal use	50,004	63,859	49,029	63,859
Credit card	216,850	153,751	162,239	153,751
Purchase of consumer durables	327	895	327	895
Construction	166,814	178,132	164,310	178,132
Working capital	952,330	932,137	933,986	932,137
Other purpose	300,067	369,030	294,414	369,030
	<u>4,831,799</u>	<u>4,992,850</u>	<u>4,352,252</u>	<u>4,992,850</u>



- (vi) Movements in the non-performing loans, advances and financing ("NPL") (including interest and income receivable) are as follows:

	<b>The Group</b>		<b>The Bank</b>	
	<b>2007 RM'000</b>	<b>2006 RM'000</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>
Gross				
Balance at 1 April	4,992,850	6,378,449	4,992,850	4,308,184
Non-performing during the year	1,800,547	1,944,974	1,577,054	1,834,296
Reclassification to performing loans, advances and financing	(809,969)	(1,626,684)	(767,214)	(1,250,279)
Amount recovered	(383,958)	(472,071)	(304,775)	(449,610)
Debt equity conversion	(6,182)	(7,088)	(6,182)	(7,088)
Amount written off	(761,489)	(1,224,730)	(628,505)	(1,222,117)
Amount vested (to)/from subsidiary company	—	—	(510,976)	1,779,464
Balance at end of year	4,831,799	4,992,850	4,352,252	4,992,850
Less: Specific allowance	(1,940,783)	(1,043,558)	(1,710,622)	(1,043,558)
Non-performing loans, advances and financing – net	<u>2,891,016</u>	<u>3,949,292</u>	<u>2,641,630</u>	<u>3,949,292</u>
Gross loans, advances and financing	46,120,091	42,436,903	39,380,963	42,436,903
Add: Islamic financing sold to Cagamas Berhad	<u>2,718,833</u>	<u>2,205,827</u>	—	<u>2,205,827</u>
Balance at end of year	48,838,924	44,642,730	39,380,963	44,642,730
Less: Specific allowance	(1,940,783)	(1,043,558)	(1,710,622)	(1,043,558)
Net loans, advances and financing (including Islamic financing sold to Cagamas Berhad)	<u>46,898,141</u>	<u>43,599,172</u>	<u>37,670,341</u>	<u>43,599,172</u>
Ratio of non-performing loans, advances and financing to total loans, advances and financing (including Islamic financing sold to Cagamas Berhad) – net	<u>6.16%</u>	<u>9.06%</u>	<u>7.01%</u>	<u>9.06%</u>

On 18 May 2007, the Group obtained approval from BNM for the sale of its portfolio of non-performing loans (net) totalling RM574 million. Upon the completion of the sale, the Group's non-performing loans (net) ratio will further reduce to 5.38% from 6.16% as at 31 March 2007.

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

	<b>The Group</b>		<b>The Bank</b>	
	<b>2007 RM'000</b>	<b>2006 RM'000</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>
<b>General Allowance</b>				
Balance at 1 April	656,794	556,695	656,794	429,408
Allowance made during the year (Note 33)				
– Continuing operations	56,967	100,099	49,502	81,175
– Discontinued operations	–	–	775	17,925
Amount vested (to)/from subsidiary company	–	–	(132,308)	128,286
Balance at end of year	<u>713,761</u>	<u>656,794</u>	<u>574,763</u>	<u>656,794</u>
 % of net loans, advances and financing (including Islamic financing sold to Cagamas Berhad)	 <u>1.5%</u>	 <u>1.5%</u>	 <u>1.5%</u>	 <u>1.5%</u>
<b>Specific Allowance</b>				
Balance at 1 April	<u>1,043,558</u>	<u>1,365,519</u>	<u>1,043,558</u>	<u>887,640</u>
Allowance made during the year (Note 33)				
– Continuing operations	2,029,923	1,315,891	1,729,271	1,054,426
– Discontinued operations	–	–	18,509	227,389
Amount written back in respect of recoveries (Note 33)				
– Continuing operations	(383,975)	(429,035)	(295,188)	(322,091)
– Discontinued operations	–	–	(7,732)	(84,483)
Net charge to income statements	1,645,948	886,856	1,444,860	875,241
Debt equity conversion	(3,182)	(3,251)	(3,182)	(3,251)
Amount written off/ Adjustment to Asset Deficiency Account	(745,541)	(1,205,566)	(620,567)	(1,202,954)
Amount vested (to)/from subsidiary company	–	–	(154,047)	486,882
Balance at end of year	<u>1,940,783</u>	<u>1,043,558</u>	<u>1,710,622</u>	<u>1,043,558</u>

## 11. OTHER ASSETS

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Deferred assets	43,939	64,578	43,939	64,578
Other receivables, deposits and prepayments (net)	605,082	439,048	607,130	441,183
Amount recoverable under asset-backed securitisation transaction net of impairment loss of RM20,500,000 (2006: RM10,500,000)	77,066	87,066	77,066	87,066
Foreclosed properties net of impairment loss of RM94,329,000 (2006: RM92,986,000)	91,990	94,964	91,990	94,964
	<u>818,077</u>	<u>685,656</u>	<u>820,125</u>	<u>687,791</u>

**The Group and Bank**  
**2007**  
**RM'000**

**2006**  
**RM'000**

(i) **Deferred Assets**

Arising from takeover of Kewangan Usahasama Makmur Berhad	39,891	61,184
Arising from takeover of Abrar Finance Berhad	<u>4,048</u>	<u>3,394</u>
Balance at end of year	<u>43,939</u>	<u>64,578</u>

- (a) In 1988, the Bank took over the operations of Kewangan Usahasama Makmur Berhad ("KUMB"), a deposit taking co-operative in Malaysia. The Government of Malaysia granted to KUMB a future tax benefit amounting to RM434 million; subsequently adjusted to RM426.69 million upon finalisation of KUMB's tax credit in consideration of the deficit in assets taken over from the deposit taking co-operatives. The tax benefit is a fixed monetary sum and is not dependent on any changes in tax rates.

The net tax benefit is shown as a deferred asset and the utilisation of the deferred tax benefit is based on the receipt of notices of assessment and subsequent remission of the tax liabilities by the relevant authority net of the amount payable to the tax authorities for purposes of Section 108 tax credit.

- (b) In 1998, the holding company, AMFB Holdings Berhad ("AMFB"), participated in a scheme approved by the Minister of Finance and sanctioned by the High Court of Malaya, whereby certain assets and liabilities of Abrar Finance Berhad ("AFB"), a licensed finance company incorporated in Malaysia, were transferred with effect from 18 December 1998 to AMFB with financial assistance from BNM.

Subsequent to the vesting of assets and liabilities from AMFB to the Bank, the deferred assets arising from the takeover of AFB were vested over to the Bank.

The net asset deficiency representing the excess of liabilities over the assets transferred from AFB arising from the scheme, is shown as deferred asset, and is reduced progressively by net income derived from the utilisation of the deposit placed by BNM, as mentioned in Note 18, and net recoveries of defaulted loans of AFB computed based on a formula determined by BNM.

- (ii) Included under the gross amount of other receivables, deposits and prepayments of the Group and Bank are outstanding balances totalling RM361,000 (2006: RM4,320,000) and RM95,034,000 (2006: RM8,431,000) respectively owing by other related companies. These amounts are interest-free and represent amounts paid on behalf.
- (iii) Other receivables, deposits and prepayments are net of allowance for doubtful debts of the Group and Bank which amounted to RM14,896,000 (2006: RM9,414,000) and RM12,793,000 (2006: RM7,311,000) respectively.

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

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

**13. INVESTMENT IN SUBSIDIARY COMPANIES**

	<b>The Bank</b>	
	<b>2007 RM'000</b>	<b>2006 RM'000</b>
Unquoted shares at cost	823,849	39,781
Impairment losses	(10,000)	(10,000)
Net	<u>813,849</u>	<u>29,781</u>

Details of the subsidiary companies are as follows:

<b>Name of Company</b>	<b>Country of Incorporation</b>	<b>Principal Activities</b>	<b>Effective Equity Interest</b>	
			<b>2007</b>	<b>2006</b>
			<b>%</b>	<b>%</b>
Amlslamic Bank Berhad	Malaysia	Islamic Banking	100.0	100.0
AmTrade Services Limited *	Hong Kong	Trade finance services	100.0	100.0
AMBB Capital (L) Limited	Labuan, Malaysia	Special purpose vehicle	100.0	100.0
AmProperty Holdings Sdn. Bhd.	Malaysia	Property investment	100.0	100.0
Bougainvillea Development Sdn. Bhd.	Malaysia	Property holding	100.0	100.0
MBf Information Services Sdn. Bhd.	Malaysia	Property holding	100.0	100.0
MBf Trustees Berhad	Malaysia	Trustee services	60.0	60.0
MBf Nominees (Tempatan) Sdn. Bhd.	Malaysia	Nominee company	100.0	100.0
MBf Equity Partners Sdn. Bhd.	Malaysia	Dormant	100.0	100.0
Natprop Sdn. Bhd.	Malaysia	Dormant	100.0	100.0
Teras Oak Pembangunan Sdn. Bhd.	Malaysia	Dormant	100.0	100.0
Komuda Credit & Leasing Sdn. Bhd.	Malaysia	Dormant	100.0	100.0
Everflow Credit & Leasing Corporation Sdn. Bhd.	Malaysia	Dormant	100.0	100.0
AmCredit & Leasing Sdn Bhd	Malaysia	Dormant	100.0	100.0
Li & Ho Sdn. Bhd.	Malaysia	Dormant	100.0	100.0
Annlng Sdn. Bhd.	Malaysia	Dormant	100.0	100.0
MBf Nominees (Asing) Sdn. Bhd.	Malaysia	Dormant	100.0	100.0
Malco Properties Sdn. Bhd.	Malaysia	Dormant	51.0	51.0
Lekir Development Sdn. Bhd.	Malaysia	Dormant	100.0	100.0
Crystal Land Sdn. Bhd.	Malaysia	Dormant	80.0	80.0

\* Audited by an affiliate of Ernst & Young

## 14. INVESTMENT IN ASSOCIATED COMPANIES

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Unquoted shares, at cost	100	100	150	150
Less: Impairment loss	—	—	(13)	(13)
	<u>100</u>	<u>100</u>	<u>137</u>	<u>137</u>
Share of post-acquisition results, net of tax	551	445	—	—
	<u>651</u>	<u>545</u>	<u>137</u>	<u>137</u>

The associated companies, which are incorporated in Malaysia are as follows:

	Principal Activity
AmTrustee Berhad	Trustee Services
MBf Trustees Berhad	Trustee Services

The effective equity interests are as follows:

	The Group		The Bank	
	Effective Equity Interest 2007	2006	Effective Equity Interest 2007	2006
AmTrustee Berhad	20%	20%	20%	20%
MBf Trustees Berhad	<u>60%</u>	<u>60%</u>	<u>20%</u>	<u>20%</u>

The investment in MBf Trustees Berhad is classified as investment in subsidiary companies at Group level through additional equity interest held by another subsidiary company.

As at 31 March 2007, the carrying value of the investment in associated companies is represented by:

	The Group	
	Effective Equity Interest 2007 RM'000	2006 RM'000
Group's share of aggregate net tangible assets	<u>993</u>	<u>941</u>

## 15. PROPERTY AND EQUIPMENT

## The Group

	Freehold land RM'000	Freehold buildings RM'000	Leasehold land RM'000	Leasehold buildings RM'000	Leasehold improve- ments RM'000	Office equipment, furniture and fittings RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
<b>COST</b>									
As at 1 April 2006									
– As previously stated	42,838	256,193	5,523	17,058	169,190	117,168	480,791	7,050	1,095,811
– Effects of adoption of FRS 138	–	–	–	–	–	–	(103,451)	–	(103,451)
	42,838	256,193	5,523	17,058	169,190	117,168	377,340	7,050	992,360
Additions	–	–	150	100	8,663	9,362	19,522	1,291	39,088
Reclassified as held for sale	(27,738)	(228,871)	–	–	(1,749)	(2,260)	–	–	(260,618)
Disposals	(2,279)	(4,747)	–	–	–	(980)	(1,993)	(335)	(10,334)
Write offs	–	–	–	–	(3,313)	(7)	(23)	–	(3,343)
Adjustments	71	142	(71)	(142)	(3,117)	4,214	(1,752)	–	(655)
As at 31 March 2007	12,892	22,717	5,602	17,016	169,674	127,497	393,094	8,006	756,498
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES</b>									
As at 1 April 2006									
Accumulated depreciation									
– As previously stated	–	72,012	999	3,014	122,181	87,945	380,225	5,744	672,120
– Effects of adoption of FRS 138	–	–	–	–	–	–	(66,608)	–	(66,608)
	–	72,012	999	3,014	122,181	87,945	313,617	5,744	605,512
Current depreciation charge	–	1,187	105	317	11,732	11,440	16,839	830	42,450
Reclassified as held for sale	–	(64,238)	–	–	(29)	(113)	–	–	(64,380)
Disposals	–	(2,484)	–	–	–	(930)	(1,964)	(335)	(5,713)
Write offs	–	–	–	–	(3,289)	(7)	(23)	–	(3,319)
Adjustments	–	32	(11)	(21)	–	–	–	–	–
As at 31 March 2007	–	6,509	1,093	3,310	130,595	98,335	328,469	6,239	574,550
<b>NET BOOK VALUE</b>									
As at 31 March 2007	12,892	16,208	4,509	13,706	39,079	29,162	64,625	1,767	181,948

**The Group**

	Freehold land RM'000	Freehold buildings RM'000	Leasehold land RM'000	Leasehold buildings RM'000	Leasehold improve- ments RM'000	Office equipment, furniture and fittings RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
<b>COST</b>									
As at 1 April 2005									
– As previously stated	42,975	256,273	14,306	17,058	153,858	105,828	445,851	6,954	1,043,103
– Effects of adoption of FRS 138	–	–	–	–	–	–	(85,935)	–	(85,935)
	42,975	256,273	14,306	17,058	153,858	105,828	359,916	6,954	957,168
Additions	–	–	–	–	15,382	12,527	25,930	96	53,935
Disposals	(77)	–	–	–	(50)	(1,161)	(6,909)	–	(8,197)
Write offs	(60)	(80)	–	–	–	(26)	(1,597)	–	(1,763)
Adjustments	–	–	(8,783)	–	–	–	–	–	(8,783)
As at 31 March 2006	42,838	256,193	5,523	17,058	169,190	117,168	377,340	7,050	992,360
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES</b>									
As at 1 April 2005									
– Accumulated depreciation & impairment	–	66,904	1,584	2,693	112,393	78,480	359,579	5,021	626,654
– Effects of adoption of FRS 138	–	–	–	–	–	–	(52,499)	–	(52,499)
	–	66,904	1,584	2,693	112,393	78,480	307,080	5,021	574,155
Current depreciation charge	–	5,120	118	321	9,838	10,450	13,445	723	40,015
Disposals	–	–	–	–	(50)	(970)	(6,909)	–	(7,929)
Write offs	–	(12)	–	–	–	(26)	–	–	(38)
Adjustments	–	–	(703)	–	–	12	–	–	(691)
As at 31 March 2006	–	72,012	999	3,014	122,181	87,946	313,616	5,744	605,512
<b>NET BOOK VALUE</b>									
As at 31 March 2006	42,838	184,181	4,524	14,044	47,009	29,222	63,724	1,306	386,848

**The Bank**

	Freehold land RM'000	Freehold buildings RM'000	Leasehold land RM'000	Leasehold buildings RM'000	Leasehold improve- ments RM'000	Office equipment, furniture and fittings RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
<b>COST</b>									
As at 1 April 2006									
– As previously stated	31,320	232,116	3,959	13,678	169,156	117,163	480,792	7,050	1,055,234
– Effects of adoption of FRS 138	–	–	–	–	–	–	(103,451)	–	(103,451)
	31,320	232,116	3,959	13,678	169,156	117,163	377,341	7,050	951,783
Additions	–	–	150	100	8,660	9,192	18,943	1,291	38,336
Reclassified as held for sale	(27,738)	(228,871)	–	–	(1,749)	(2,260)	–	–	(260,618)
Disposals	–	(190)	–	–	–	(980)	(1,993)	(335)	(3,498)
Write offs	–	–	–	–	(3,313)	(7)	(23)	–	(3,343)
Adjustments	–	–	–	–	(3,321)	4,214	(1,752)	–	(859)
As at 31 March 2007	3,582	3,055	4,109	13,778	169,433	127,322	392,516	8,006	721,801

**ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES**

As at 1 April 2006									
– As previously stated	–	63,991	746	2,333	122,162	87,937	380,225	5,744	663,138
– Effects of adoption of FRS 138	–	–	–	–	–	–	(66,608)	–	(66,608)
	–	63,991	746	2,333	122,162	87,937	313,617	5,744	596,530
Current depreciation charge	–	810	85	277	11,707	11,381	16,836	830	41,926
Reclassified as held for sale	–	(64,238)	–	–	(29)	(113)	–	–	(64,380)
Disposals	–	(49)	–	–	–	(930)	(1,964)	(335)	(3,278)
Write offs	–	–	–	–	(3,289)	(7)	(23)	–	(3,319)
Adjustments	–	–	–	–	–	–	–	–	–
As at 31 March 2007	–	514	831	2,610	130,551	98,268	328,466	6,239	567,479

**NET BOOK VALUE**

As at 31 March 2007	3,582	2,541	3,278	11,168	38,882	29,054	64,050	1,767	154,322
---------------------	-------	-------	-------	--------	--------	--------	--------	-------	---------



**The Bank**

	Freehold land RM'000	Freehold buildings RM'000	Leasehold land RM'000	Leasehold buildings RM'000	Leasehold improve- ments RM'000	Office equipment, furniture and fittings RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
<b>COST</b>									
As at 1 April 2005									
– As previously stated	31,457	232,196	12,742	13,678	132,598	93,072	375,977	5,685	897,405
– Effects of adoption of FRS 138	–	–	–	–	–	–	(57,620)	–	(57,620)
	31,457	232,196	12,742	13,678	132,598	93,072	318,357	5,685	839,785
Amount vested from subsidiary company	–	–	–	–	21,241	12,787	42,511	1,269	77,808
Additions	–	–	–	–	15,367	12,491	24,979	96	52,933
Disposals	(77)	–	–	–	(50)	(1,161)	(6,909)	–	(8,197)
Write offs	(60)	(80)	–	–	–	(26)	(1,597)	–	(1,763)
Adjustments	–	–	(8,783)	–	–	–	–	–	(8,783)
As at 31 March 2006	31,320	232,116	3,959	13,678	169,156	117,163	377,341	7,050	951,783
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES</b>									
As at 1 April 2005									
– Accumulated depreciation	–	59,375	1,351	2,056	96,630	67,868	314,111	4,124	545,515
– Effects of adoption of FRS 138	–	–	–	–	–	–	(32,735)	–	(32,735)
	–	59,375	1,351	2,056	96,630	67,868	281,376	4,124	512,780
Amount vested from subsidiary company	–	–	–	–	16,021	10,781	26,194	924	53,920
Current depreciation charge	–	4,628	98	277	9,561	10,272	12,956	696	38,488
Disposals	–	–	–	–	(50)	(970)	(6,909)	–	(7,929)
Write offs	–	(12)	–	–	–	(26)	–	–	(38)
Adjustments	–	–	(703)	–	–	12	–	–	(691)
As at 31 March 2006	–	63,991	746	2,333	122,162	87,937	313,617	5,744	596,530
<b>NET BOOK VALUE</b>									
As at 31 March 2006	31,320	168,125	3,213	11,345	46,994	29,226	63,724	1,306	355,253

(a) Details of leasehold land and buildings are as follows:

<b>The Group</b>	<b>Long term leasehold land and buildings RM'000</b>	<b>Short term leasehold land and buildings RM'000</b>	<b>Total RM'000</b>
Cost	21,420	1,198	22,618
Accumulated Depreciation	(3,960)	(443)	(4,403)
	<u>17,460</u>	<u>755</u>	<u>18,215</u>
<b>The Bank</b>			
Cost	17,382	505	17,887
Accumulated Depreciation	(3,193)	(248)	(3,441)
	<u>14,189</u>	<u>257</u>	<u>14,446</u>

The long term leasehold properties for the Group and the Bank are for lease periods of 66-999 years and 85-855 years respectively and with unexpired lease periods of 53-874 years and 62-787 years respectively.

The short term leasehold properties for the Group and the Bank are for lease periods of 20-49 years and 20 years respectively and with unexpired lease periods of 1-33 years.

- (b) Included in the net book value of computer equipment and capital work-in-progress for the Group and Bank of RM34,356,000 (2006: RM39,033,000).
- (c) Details of fully depreciated property and equipment of the Group and the Bank, which are still in use are as follows:

<b>The Group and the Bank</b>	<b>Freehold building RM'000</b>	<b>Leasehold improvements RM'000</b>	<b>Office equipment, furniture and fittings RM'000</b>	<b>Computer equipment RM'000</b>	<b>Motor vehicles RM'000</b>	<b>Total RM'000</b>
Cost	<u>75</u>	<u>89,371</u>	<u>59,975</u>	<u>293,126</u>	<u>4,605</u>	<u>447,152</u>

**16. Intangible Assets**

The net carrying amount of intangible assets are as follows:-

	<b>The Group</b>		<b>The Bank</b>	
	<b>2007 RM'000</b>	<b>2006 RM'000</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>
Computer Software				
<u>Costs</u>				
At the beginning of the year	103,451	—	103,451	—
Transfer from property and equipment	—	85,935	—	57,620
Amount vested from subsidiary company	—	—	—	28,339
Additions	36,626	17,551	36,553	17,527
Disposal	—	(35)	—	(35)
At the end of the year	<u>140,077</u>	<u>103,451</u>	<u>140,004</u>	<u>103,451</u>
<u>Accumulated Amortisation</u>				
At the beginning of the year	66,608	—	66,608	—
Transfer from property and equipment	—	52,499	—	32,735
Amount vested from subsidiary company	—	—	—	20,235
Amortisation for the year	18,993	14,144	18,984	13,673
Disposal	—	(35)	—	(35)
At the end of the year	<u>85,601</u>	<u>66,608</u>	<u>85,592</u>	<u>66,608</u>
	<u>54,476</u>	<u>36,843</u>	<u>54,412</u>	<u>36,843</u>

**17. DEPOSITS FROM CUSTOMERS**

	<b>The Group</b>		<b>The Bank</b>	
	<b>2007 RM'000</b>	<b>2006 RM'000</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>
Current deposits	2,160,052	1,558,199	1,806,032	1,558,199
Savings deposits	3,160,423	2,940,219	2,492,693	2,940,219
Other deposits	634,217	—	634,217	—
Fixed/Investment deposits	31,164,516	26,690,987	27,538,634	26,692,735
Negotiable certificates of deposits	16,650	1,305,422	10,102	1,305,422
	<u>37,135,858</u>	<u>32,494,827</u>	<u>32,481,678</u>	<u>32,496,575</u>

(i) The maturity structure of deposits from customers is as follows:

Due within six months	26,268,775	24,902,065	22,079,547	24,903,813
Six months to one year	7,069,385	6,044,164	6,723,767	6,044,164
One year to three years	2,939,042	798,764	2,896,396	798,764
Three years to five years	858,656	749,834	781,968	749,834
	<u>37,135,858</u>	<u>32,494,827</u>	<u>32,481,678</u>	<u>32,496,575</u>

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

Individuals	22,993,524	19,888,946	21,573,627	19,888,946
Business enterprises	9,288,795	8,556,161	7,686,515	8,557,910
Government and other statutory bodies	4,139,864	3,537,375	2,711,873	3,537,374
Others	713,675	512,345	509,663	512,345
	<u>37,135,858</u>	<u>32,494,827</u>	<u>32,481,678</u>	<u>32,496,575</u>

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

	<b>The Group</b>		<b>The Bank</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Licensed banks	2,560,370	2,502,692	2,397,952	2,502,692
Licensed merchant banks	5,124,316	4,141,430	4,080,536	4,141,430
Non-banking institutions	7,199,793	5,611,948	5,869,102	5,611,948
Bank Negara Malaysia ("BNM")	1,269,220	1,157,479	1,261,135	1,157,479
	<u>16,153,699</u>	<u>13,413,549</u>	<u>13,608,725</u>	<u>13,413,549</u>

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

Negotiable instruments of deposits	6,500,933	6,589,820	4,960,317	6,589,820
Interbank borrowing (Note 5)	2,233,545	1,850,077	2,203,545	1,850,077
	<u>8,734,478</u>	<u>8,439,897</u>	<u>7,163,862</u>	<u>8,439,897</u>

Included under deposits from BNM are long-term deposits and interest-free loans placed with the Group and the Bank in connection with the transfer of certain assets and liabilities of Abrar Finance Berhad (AFB) and Kewangan Usahasama Makmur Berhad (KUMB) to the Bank as mentioned in Note 11.

	<b>The Group</b>		<b>The Bank</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Soft deposit	135,000	135,000	135,000	135,000
Soft loan	493,000	493,000	493,000	493,000
Commercial loan	180,000	180,000	180,000	180,000
	<u>808,000</u>	<u>808,000</u>	<u>808,000</u>	<u>808,000</u>

The above soft deposit and soft loan of RM180,000,000 (2006: RM180,000,000) bear interest of 1% (2006: 1%) per annum whilst the remaining soft loan and the commercial loan are interest free. The soft loan of RM180,000,000 (2006: RM180,000,000) is repayable on 18 December 2008 or when the deferred assets relating to AFB referred to in Note 11 are fully utilised, whichever is earlier. The remaining loans and soft deposit are repayable when the deferred assets relating to KUMB referred to in Note 11 are fully utilised.

**19. OBLIGATION ON SECURITIES SOLD UNDER REPURCHASE AGREEMENTS**

Securities sold under repurchase agreements represent the obligations to repurchase these securities sold as mentioned in Note 7.

**20. BILLS AND ACCEPTANCES PAYABLE**

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

**21. RECOURSE OBLIGATION OF LOANS SOLD TO CAGAMAS BERHAD**

Recourse obligation of loans sold to Cagamas Berhad represents the proceeds received from loans (excluding Islamic financing) sold directly and indirectly to Cagamas Berhad with recourse to the Bank. Under this arrangement, the Bank undertakes to administer the loans on behalf of Cagamas Berhad and to buy back any loans, which are regarded as defective based on prudential criteria.

**22. OTHER LIABILITIES**

	<b>The Group</b>		<b>The Bank</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Interest payable	377,714	301,540	338,157	301,542
Other creditors and accruals	742,155	760,431	690,119	754,829
Profit equalisation reserve	55,593	116,480	–	116,480
Lease deposits and advance rentals	47,444	39,829	40,193	39,829
Zakat payable	786	–	–	–
Tax payable	18	17	–	–
	<u>1,223,710</u>	<u>1,218,297</u>	<u>1,068,469</u>	<u>1,212,680</u>

Included under other creditors and accruals of the Group and of the Bank are outstanding balances totalling RM7,381,000 (2006: RM10,067,000) and RM6,853,000 (2006: RM11,363,000) respectively owing to other related companies. The amounts are interest-free and represent amounts paid on behalf.

**23(a). SUBORDINATED TERM LOANS**

		<b>The Group</b>		<b>The Bank</b>	
	<b>Note</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
		<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Subordinated term loan					
– RM680 million	(i)	–	680,000	–	680,000
– RM460 million	(ii)	460,000	460,000	460,000	460,000
– USD 200 million (net of capitalised issuance expense of RM7,033,000 (2006: RM8,886,000))	(iii)	–	–	684,167	727,734
		<u>460,000</u>	<u>1,140,000</u>	<u>1,144,167</u>	<u>1,867,734</u>

- (i) The subordinated term loan is unsecured, subordinated to all other liabilities and was obtained from Danamodal Nasional Berhad ("Danamodal"), a company incorporated for the purpose of recapitalising the local banking and financial institutions, to strengthen the Bank's capital base.

Pursuant to the acquisition of the Bank by AMFB Holdings on 20 December 2001, Danamodal extended the loan for a further period of ten (10) years to be repaid on 20 December 2011. The loan bore interest at 6.5% per annum for the first five years and at 7.5% per annum or 1.0% above 3 months KLIBOR, whichever is higher, for the next five years. The interest is payable on a half yearly basis.

On 28 October 2003, the Bank entered into a Supplemental Facility Agreement with Danamodal whereby the subordinated term loan was novated to Astute Assets Berhad, a special purpose vehicle. In accordance with the new terms of agreement, interest on the loan is charged at 6.5% per annum until 19 December 2006, 7.0% per annum from 20 December 2006 until 19 December 2007, and 7.5% per annum from 20 December 2007 until 19 December 2011.

On 20 December 2006, AmBank (M) Berhad prepaid the entire RM680 million Subordinated Term Loan facility with Astute Assets Berhad.

- (ii) The subordinated term loan represents an unsecured loan obtained from a related company, AmlInvestment Bank Berhad (formerly known as AmMerchant Bank Bhd) for the purpose of supplementing the Bank's capital adequacy position and it is subordinated to all other liabilities. The term loan is repayable in a lump sum at the end of ten (10) years from the date of drawdown and interest is charged at a rate of 6.875% per annum for the first 5 years and 7.00% to 9.00% per annum or 3% per annum plus yield of 5-year Malaysian Government Securities, whichever is the higher for the next 5 years. The term loan was drawdown on 30 September 2003.

On 19 May 2006, the Bank entered into a Supplemental Facility Agreement with AmlInvestment Bank Bhd whereby the Subordinated term loan was novated to Quanto Assets Bhd, a special purpose vehicle. In accordance with the new terms of agreement, interest on the loan remains unchanged at 6.875% per annum for the primary period which ends on 30 September 2008 and 7.375% to 9.375% per annum for the next 5 years.

- (iii) The subordinated term loan which was on-lent from the proceeds of the issue of the Hybrid Securities as explained in Note 23(b) is for a period of 50 years to mature on 27 January 2056 with an option to make a first call on 27 January 2016.

The interest rate of the subordinated term loan has been fixed at 6.77% per annum from the date of issue to the date of the first call on 27 January 2016. For interest thereafter to 27 January 2056, a floating rate per annum of 3 month US Dollar LIBOR plus 2.9% will be charged.

## 23(b). HYBRID SECURITIES

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Non-cumulative Non-Voting Guaranteed Preference Shares – USD200 million (net of capitalised issuance expense of RM7,033,000 (2006: RM8,886,000))	<u>684,167</u>	<u>727,734</u>	<u>–</u>	<u>–</u>

On 27 January 2006, AMBB Capital (L) Ltd, a wholly-owned subsidiary of the Bank issued United States ("USD") 200,000,000 Hybrid Tier 1 Capital comprising 2,000 preference shares of USD100,000 each ("Hybrid Securities"). The Hybrid Securities are guaranteed by the Bank on a subordinated basis. The gross proceeds of USD200,000,000 from the issue of Hybrid Securities were on-lent to the Bank in the form of a subordinated term loan on 27 January 2006 for the purpose of supplementing Bank's working capital requirements.

The salient features of the Hybrid Securities are as follows:

- (a) The Hybrid Securities bear non-cumulative dividends from the issue date to (but excluding) 27 January 2016 at 6.77% per annum and thereafter, at a floating rate equal to three (3) months US dollar LIBOR plus 2.90% if not redeemed on 27 January 2016. The non-cumulative dividends are payable on semi-annual basis.
- (b) The Hybrid Securities are perpetual securities and have no fixed final redemption date. The Hybrid Securities may be redeemed in whole but not in part at the option of the issuer (but not the holders) under certain circumstances.

The Hybrid Securities are listed on both the Labuan International Financial Exchange Inc. and the Singapore Exchange Securities Trading Limited and are offered to international institutional investors outside Malaysia.

The Hybrid Securities are classified as liabilities in accordance with FRS 132: Financial Instruments - Disclosure and Presentation. FRS132 requires the issuer of a financial instrument to classify the instrument either as a liability or equity in accordance with the substance of the contractual arrangement on initial recognition. As the coupon of the Hybrid Securities will step up at the end of year ten to a level that is considered to be sufficiently higher than market rate, AMBB Capital (L) Ltd is deemed likely to redeem the Hybrid Securities at that time. As such, they have been accounted for as long-term liabilities.

## 24. REDEEMABLE UNSECURED SUBORDINATED BONDS

		The Group		The Bank	
	Note	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Subordinated bonds					
– RM200 million	(i)	200,000	200,000	200,000	200,000
Subordinated Sukuk Musyarakah					
– RM400 million	(ii)	400,000	–	–	–
		<u>600,000</u>	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>

- (i) Pursuant to a Trust Deed dated 24 April 2003, the Bank issued RM200,000,000 nominal amount of Negotiable Interest-bearing Redeemable Unsecured Subordinated Bonds ("Subordinated Bonds") for the purpose of increasing the Bank's capital funds.

The salient features of the Subordinated Bonds are as follows:

- (a) The Subordinated Bonds bear interest at 7.95% per annum for the first five years and subsequently at 8.45% to 10.45% per annum. The interest is payable on a semi-annual basis.
- (b) The Subordinated Bonds are for a period of ten years maturing on 30 April 2013. However, subject to the prior approval of Bank Negara Malaysia, the Bank may redeem the Subordinated Bonds on 30 April 2008 or on each anniversary date thereafter, at nominal value together with interest accrued to the date of redemption.
- (ii) On 21 December 2006, Amlslamic 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"), Amlslamic 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 0.5% 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 Amlslamic Bank.



25. **MINORITY INTERESTS**

Minority interests in the Group represent that part of the net results of operations, or of net assets, of subsidiary companies attributable to shares owned, directly or indirectly other than by the Bank or subsidiary companies.

The movements in minority interests in subsidiary companies are as follows:

	<b>The Group</b>	
	<b>2007 RM'000</b>	<b>2006 RM'000</b>
Balance at beginning of year	70	86
Share in net results of subsidiary companies	(13)	(16)
Balance at end of year	<u>57</u>	<u>70</u>

26. **SHARE CAPITAL**

<b>The Bank</b>	<b>Group</b>		<b>Company</b>	
	<b>2007 RM'000</b>	<b>2006 RM'000</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>
<b>Authorised</b>				
Balance at beginning and end of year				
Ordinary shares of RM1.00 each	1,386,250	1,386,250	1,386,250	1,386,250
8% Irredeemable Non-Cumulative Convertible Preference Shares of RM1.00 each	<u>2,500,000</u>	<u>2,500,000</u>	<u>2,500,000</u>	<u>2,500,000</u>
	<u>3,886,250</u>	<u>3,886,250</u>	<u>3,886,250</u>	<u>3,886,250</u>
<b>Issued and fully paid</b>				
Ordinary shares of RM1.00 each				
Balance at beginning of year	610,364	610,364	610,364	528,402
Issued during the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>81,962</u>
<b>Balance at end of year</b>	<u>610,364</u>	<u>610,364</u>	<u>610,364</u>	<u>610,364</u>

In the previous financial year, the Bank issued 81,961,462 new ordinary shares of RM1.00 each at an issue price of RM5.035 per ordinary share amounting RM412,677,000 as settlement of purchase consideration for the acquisition of Amlslamic Bank. The resulting share premium amounting to RM330,707,000 was credited to the share premium account as shown in the statement of changes in equity in compliance with FRS 127: Consolidated and separate financial statements. The new ordinary shares rank pari passu in all respects with the existing ordinary shares of the Bank.

## 27. RESERVES

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>Non-distributable Reserves:</b>				
Share premium	710,660	710,660	710,660	710,660
Statutory reserve	633,222	585,832	585,832	585,832
Capital reserve	377,492	377,492	—	—
Securities available-for-sale reserve	6,007	2,728	6,007	2,728
Merger reserve	349,050	349,050	—	—
Total non-distributable reserves	2,076,431	2,025,762	1,302,499	1,299,220
<b>Distributable Reserves:</b>				
Unappropriated profits	493,861	903,647	1,005,898	1,466,104
	<u>2,570,292</u>	<u>2,929,409</u>	<u>2,308,397</u>	<u>2,765,324</u>

Movements in reserves are shown in the statements of changes in equity on pages 22 to 25.

Share premium is used to record premium arising from new shares issued in the Bank.

The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and is not distributable as cash dividends.

The capital reserve of the Group represents reserve arising from the acquisition of Amlslamic Bank which is accounted for using the merger accounting method. The capital reserve of the Bank is in respect of reserves arising from return of capital by Amlslamic Bank.

Securities available-for-sale reserve is in respect of unrealised fair value gains and losses on securities available-for sale.

Distributable reserves are those available for distribution by way of dividends. There is no tax credit available under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends out of the Bank's distributable reserves as at 31 March 2007.

28. **INTEREST INCOME**

	<b>The Group</b>		<b>The Bank</b>	
	<b>2007 RM'000</b>	<b>2006 RM'000</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>
Loans and advances				
– Interest income other than recoveries from NPL	2,264,050	2,065,112	2,264,050	2,005,748
– Recoveries from NPLs	275,950	261,596	275,950	254,366
Money at call, deposits and placements with financial institutions	291,043	154,762	292,082	142,427
Securities held-for-trading	34,519	41,421	34,519	39,542
Securities available-for-sale	13,571	2,247	13,571	1,624
Securities held-to-maturity	60,521	52,579	60,521	49,882
Others	375,784	104,588	375,784	103,953
	<u>3,315,438</u>	<u>2,682,305</u>	<u>3,316,477</u>	<u>2,597,542</u>
Net interest suspended	(108,112)	(115,900)	(108,112)	(114,173)
Amortisation of premiums less accretion of discounts	1,972	(10,436)	1,972	(10,410)
	<u><u>3,209,298</u></u>	<u><u>2,555,969</u></u>	<u><u>3,210,337</u></u>	<u><u>2,472,959</u></u>

29. **INTEREST EXPENSE**

	<b>The Group</b>		<b>The Bank</b>	
	<b>2007 RM'000</b>	<b>2006 RM'000</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>
Deposit from customers	998,398	827,524	1,002,134	799,101
Deposits and placements of banks and other financial institutions	404,252	223,010	401,183	209,195
Recourse obligation of loans sold to Cagamas Berhad	47,012	77,349	47,012	76,076
Subordinated term loans and bonds	79,373	91,875	128,646	95,644
Hybrid securities	49,273	9,204	–	–
Others	429,148	128,603	430,447	128,251
	<u>2,007,456</u>	<u>1,357,565</u>	<u>2,009,422</u>	<u>1,308,267</u>

## 30. NET INCOME FROM ISLAMIC BANKING BUSINESS

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Income derived from investment of depositors' funds and others	670,506	630,811	–	–
Income derived from investment of shareholders' funds	137,627	52,836	–	–
Transfer from/(to) profit equalisation reserve	60,887	(6,414)	–	–
Income attributable to the depositors	(344,939)	(255,279)	–	–
Finance cost	(5,313)	–	–	–
	<u>518,768</u>	<u>421,954</u>	<u>–</u>	<u>–</u>

## 31. OTHER OPERATING INCOME

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>(a) Fee Income:</b>				
Commissions	33,156	29,463	33,156	28,336
Guarantee fees	8,581	7,622	8,581	6,934
Other fee income	109,467	86,423	109,246	75,957
	<u>151,204</u>	<u>123,508</u>	<u>150,983</u>	<u>111,227</u>
<b>(b) Investment income:</b>				
Net gain/(loss) on sale of:				
Securities held-for-trading	20,337	(26,095)	20,337	(26,101)
Securities available-for-sale	19,913	25,626	19,913	25,626
Securities held-to-maturity	11,042	(39,510)	11,042	(40,050)
Net gain on revaluation of securities held-for-trading	14,216	30,400	14,216	31,237
Gross dividend income from:				
Securities held-for-trading	4,186	2,683	4,186	2,652
Securities available-for-sale	5,825	27,257	5,825	26,314
Securities held-to-maturity	1,393	3,493	1,366	3,445
	<u>76,912</u>	<u>23,854</u>	<u>76,885</u>	<u>23,123</u>
<b>(c) Other Income:</b>				
Gain on disposal of foreclosed properties	1,840	26	1,840	26
Rental income	7,084	8,105	6,549	7,468
Gain on disposal of property held for sale	33,762	–	33,762	–
Gain on disposal of property and equipment	1,094	1,221	271	1,221
Foreign exchange gain	11,734	6,230	12,316	5,476
Other operating income	28	157	–	120
	<u>55,542</u>	<u>15,739</u>	<u>54,738</u>	<u>14,311</u>
	<u>283,658</u>	<u>163,101</u>	<u>282,606</u>	<u>148,661</u>

## 32. OTHER OPERATING EXPENSES

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Personnel costs				
Salaries, allowances and bonuses	360,058	348,857	355,226	328,489
Others	24,564	19,944	24,273	16,725
Establishment costs				
Depreciation	42,450	40,015	41,926	38,488
Rental	33,645	29,583	35,476	29,622
Cleaning, maintenance & security	18,480	21,746	17,851	20,919
Computerisation cost	51,878	58,658	51,520	55,878
Others	16,314	15,401	15,612	14,222
Amortisation of intangible assets	18,993	14,144	18,984	13,673
Marketing and communication expenses				
Commission	8,333	5,946	4,761	5,235
Advertising & marketing expenses	45,393	63,211	44,123	55,663
Communication	41,844	43,763	41,814	42,490
Others	6,615	5,977	6,567	5,701
Administration and general expenses				
Professional services	55,001	23,161	52,766	21,781
Others	25,035	27,251	21,070	19,870
Shared service cost recoveries (Subsidiary)	—	—	(140,005)	—
Shared service cost recoveries (SPI Operations)	—	—	—	(120,348)
	<u>748,603</u>	<u>717,657</u>	<u>591,964</u>	<u>548,408</u>

The above expenditure includes the following statutory disclosure:

Directors' remuneration (Note 36)	1,664	3,154	1,355	3,060
Amortisation of intangible assets	18,993	14,144	18,984	13,673
Depreciation	42,450	40,015	41,926	38,488
Rental of premises				
– subsidiary companies	—	—	2,277	1,852
– others	33,645	29,583	33,199	27,770
Hire of equipment	6,999	3,081	6,999	2,937
Auditors' remuneration:				
Statutory audit	520	485	450	450
Special audit	200	385	180	385
Reporting accountants	—	635	—	635
Others	36	95	36	95
Property and equipment written off	<u>679</u>	<u>1,725</u>	<u>883</u>	<u>1,725</u>

The total number of employees of the Group and of the Bank as at 31 March 2007 were 7,204 (2006: 7,101) and 7,157 (2006: 7,101), respectively.

Staff costs include salaries, bonuses, contributions to Employees' Provident Fund and all other staff related expenses. Contributions to Employees' Provident Fund of the Group and the Bank amounted to RM47,797,000 (2006: RM44,597,000) and RM47,169,000 (2006: RM42,208,000), respectively.

## 33. ALLOWANCE FOR LOSSES ON LOANS AND FINANCING

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>Continuing operations</b>				
Allowance for bad and doubtful debts and financing:				
Specific allowance (net)				
– made in the financial year	2,029,923	1,315,891	1,729,271	1,054,426
– written back	(383,975)	(429,035)	(295,188)	(322,091)
General allowance	56,967	100,099	49,502	81,175
Bad debts and financing recovered	(239,546)	(244,470)	(225,940)	(230,713)
Amount recovered from Danaharta	(17,027)	–	(17,027)	–
	<u>1,446,342</u>	<u>742,485</u>	<u>1,240,618</u>	<u>582,797</u>
<b>Discontinued operations</b>				
Allowance for bad and doubtful debts and financing:				
Specific allowance (net)				
– made in the financial year	–	–	18,509	227,389
– written back	–	–	(7,732)	(84,483)
General allowance	–	–	775	17,925
Bad debts and financing recovered	–	–	(605)	(6,893)
	<u>–</u>	<u>–</u>	<u>10,947</u>	<u>153,938</u>

## 34. IMPAIRMENT (LOSS)/WRITTEN BACK

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Securities	(213,779)	84,724	(213,817)	82,580
Foreclosed properties	45	(22)	45	(22)
Amount recoverable under asset-backed securitisation transaction	(10,000)	(10,500)	(10,000)	(10,500)
Sundry receivables	(1,352)	(2,187)	(1,352)	(1,999)
Investment in associated companies	–	–	–	(13)
	<u>(225,086)</u>	<u>72,015</u>	<u>(225,124)</u>	<u>70,046</u>

35. **HOLDING AND ULTIMATE HOLDING COMPANIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES**

The holding and ultimate holding companies are AMFB Holdings Berhad and AMMB Holdings Berhad respectively, both of which are incorporated in Malaysia.

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 and ultimate holding companies and related companies are as follows:

	<b>The Group</b>		<b>The Bank</b>	
	<b>2007 RM'000</b>	<b>2006 RM'000</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>
<b>Income</b>				
<u>Related companies</u>				
Interest on deposits and placement	108,958	22,167	106,983	22,167
Interest on investment securities	17,440	—	17,440	—
Interest on loans and advances	6,182	6,634	6,182	6,634
Other income	25,200	19,143	24,021	18,403
<u>Subsidiary companies</u>				
Interest on deposits and placement	—	—	1,041	167
Interest on investment securities	—	—	—	—
Interest on loans and advances	—	—	—	276
Shared service costs	—	—	140,005	—
<b>Expenditure</b>				
<u>Ultimate holding company</u>				
Interest on deposits and placements	—	628	—	628
<u>Related companies</u>				
Interest on subordinated loans	5,285	36,910	5,285	31,625
Interest on deposits and placements	78,119	25,865	75,942	25,865
Other expenses	—	13,027	—	13,027
Shared service costs	9,093	—	9,093	—
<u>Subsidiary companies</u>				
Interest on subordinated loans	—	—	49,272	9,204
Interest on deposits and placements	—	—	340	56
Other expenses	—	—	2,277	1,852
<u>Associated company</u>				
Interest on deposits and placements	2	4	6	4

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>Amount due from</b>				
<u>Related companies</u>				
Loans and advances	110,170	130,224	110,170	130,224
Cash and short-term fund	2,395,187	–	2,165,187	–
Deposits and placements	1,600,400	1,160,282	1,550,400	1,160,282
Securities held-for-trading	–	1,315,518	–	1,315,518
Securities available-for-sale	399,995	–	399,995	–
Interest receivable	85,582	10,264	22,883	10,264
<u>Subsidiary companies</u>				
Deposits and placements	–	–	8,593	–
<b>Amount due to</b>				
<u>Related companies</u>				
Deposits and placements	4,658,125	4,138,109	3,690,422	4,138,109
Subordinated term loan	–	460,000	–	460,000
Interest payable	14,018	23,919	14,012	23,919
Commitments and contingencies	9,820,463	4,183,932	9,820,463	4,183,932
<u>Subsidiary companies</u>				
Deposits and placements	–	–	16,775	392
Subordinated term loan	–	–	691,200	727,734
Interest payable	–	–	8,451	8,747
<u>Associated company</u>				
Deposits and placements	200	100	200	100
Interest payable	7	1	7	1

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.



## (b) Directors related transactions

The significant non-banking transactions of the Group and the Bank with companies in which Tan Sri Dato' Azman Hashim is deemed to have a substantial interest, are as follows:

The Group	Types of transactions	2007 RM'000	2006 RM'000
<b>Expenses</b>			
MCM Systems Sdn Bhd	Computer maintenance and consultancy services	4,315	7,326
MCM Horizon Sdn Bhd	Computer maintenance and consultancy services	1,303	1,894
MCM Consulting Sdn Bhd	Computer maintenance and consultancy services	712	1,504
Dion Realities Sdn Bhd	Rental of premises and car park	3,452	3,469
Troosts Sdn Bhd	Rental of premises	277	253
Modular Corp. (M) Sdn Bhd	EMV card personalization and fulfillment services	1,400	5,608
AmProperty Trust Management Bhd	Management fees, miscellaneous charges and rental of premises	3,965	—
Arab-Malaysian Realty Sdn Bhd	Rental of premises and property maintenance costs	—	234
AON Insurance Brokers (M) Sdn Bhd	Brokerage for insurance brokers' services	—	3,133
Harpers Travel (M) Sdn Bhd	Provision of airline ticketing services	532	297
Melawangi Sdn Bhd	Rental-Amcorp Mall ATM, Roadshow Booth Rental and monthly license fee	212	—
<b>Capital Expenditure</b>			
MCM Systems Sdn Bhd	Purchase of computer hardware, software and related consultancy services	9,377	12,886
MCM Consulting Sdn Bhd	Purchase of computer hardware and related consultancy services	3,179	840
MCM Horizon Sdn Bhd	Purchase of computer hardware, software and related consultancy services	60	48

<b>The Bank</b>	<b>Types of transactions</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>
<b>Expenses</b>			
MCM Horizon Sdn Bhd	Computer maintenance and consultancy services	1,303	1,894
MCM Systems Sdn Bhd	Purchase of computer hardware, software and related consultancy services	4,315	7,326
MCM Consulting Sdn Bhd	Computer maintenance and consultancy services	712	1,504
Dion Realities Sdn Bhd	Rental of premises and car park	3,452	2,821
Troosts Sdn Bhd	Rental of premises	277	201
Modular Corporation (M) Sdn Bhd	Provision of PMPC cards	1,400	5,608
AmProperty Trust Management Bhd	Management fees, miscellaneous charges and rental of premises	3,965	–
Arab-Malaysian Realty Sdn Bhd	Rental of premises and property maintenance costs	–	234
AON Insurance Brokers (M) Sdn Bhd	Insurance brokerage fees	–	3,133
Melawangi Sdn Bhd	Rental-Amcorp Mall ATM, Roadshow Booth Rental and monthly license fee	212	–
Harpers Travel (M) Sdn Bhd	Provision of airline ticketing services	532	297
<b>Capital expenditure</b>			
MCM Consulting Sdn Bhd	Purchase of computer hardware, software and related consultancy services	3,179	840
MCM Systems Sdn Bhd	Purchase of computer hardware, software and related consultancy services	9,377	12,886
MCM Horizon Sdn Bhd	Purchase of computer hardware, software and related consultancy services	60	48

The significant non-banking transactions of the Group and the Bank with companies in which Tun Mohammed Hanif Omar is also a director is as follows:

<b>The Bank</b>	<b>Types of transactions</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>
<b>Expense</b>			
Unigaya Protection Systems Sdn Bhd	Provision of security services	149	254

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

As at 31 March 2007 and 31 March 2006, there are no outstanding balances arising from directors related transactions.

**36. DIRECTORS' REMUNERATION**

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

	<b>The Group</b>		<b>The Bank</b>	
	<b>2007 RM'000</b>	<b>2006 RM'000</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>
Executive directors				
Fees	30	74	–	14
Bonuses	300	897	300	897
Salaries and other remuneration	401	1,490	380	1,478
Benefits-in-kind	12	125	12	125
	<u>743</u>	<u>2,586</u>	<u>692</u>	<u>2,514</u>
Non-executive directors				
Fees	170	75	114	60
Other remuneration	751	493	549	486
	<u>921</u>	<u>568</u>	<u>663</u>	<u>546</u>
Total	<u>1,664</u>	<u>3,154</u>	<u>1,355</u>	<u>3,060</u>
Total (excluding benefits-in-kind)	<u>1,652</u>	<u>3,029</u>	<u>1,343</u>	<u>2,935</u>

Directors' fees for directors who are executives of companies of the Group 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:

	<b>Number of Directors</b>	
	<b>2007</b>	<b>2006</b>
Executive director		
Below RM50,000	–	1
RM50,001 – RM750,000	1	–
RM750,001 – RM1,000,000	–	1
RM1,500,001 – RM1,750,000	–	1
Non-executive director		
Below RM50,000	1	2
RM50,001 – RM100,000	3	1
RM300,001 – RM500,000	1	1

## 37. TAXATION

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>Taxation on profit from continuing operations</b>				
Estimated current tax payable	428	315	–	–
Net transfer (to)/from deferred tax assets (Note 38)	(76,297)	128,061	(132,734)	84,951
	(75,869)	128,376	(132,734)	84,951
Under/(Over) provision of current taxation in respect of prior years	21,798	(5,578)	30,601	(5,578)
Taxation	(54,071)	122,798	(102,133)	79,373
Zakat	786	–	–	–
Taxation and zakat	(53,285)	122,798	(102,133)	79,373

Taxation of the Group is in respect of estimated taxable income of certain subsidiary companies. There is no tax charge for the Bank for the current year and prior year due to the losses incurred in the current financial year and utilisation of unabsorbed tax losses in the prior year.

As at 31 March 2007, the Bank has unabsorbed tax losses and unutilised capital allowances amounting to approximately RM1,646.2 million (2006: RM1,226 million) and RM190.6 million (2006: RM140.4 million) respectively, which can be used to offset future taxable profits subject to agreement with 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 Group and of the Bank is as follows:

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>Continuing operations</b>				
(Loss)/profit before taxation	(415,694)	395,420	(574,185)	252,194
Taxation at Malaysian statutory tax rate of 27% (2006: 28%)	(112,237)	110,718	(155,030)	70,614
Deferred tax relating to changes in tax rates	25,759	–	16,166	–
Income not subject to tax	(10,696)	(14,036)	(10,696)	(14,036)
Expenses not deductible for tax purposes	9,421	5,345	4,942	2,024
Under/(Over) provision of tax expense in prior years	21,798	(5,578)	30,601	(5,578)
Deferred tax assets charged out/(not recognised in prior years)	–	26,349	–	26,349
Unutilised capital allowance	11,884	–	11,884	–
	(54,071)	122,798	(102,133)	79,373

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>Discontinued operations</b>				
Profit before taxation	—	—	16,453	130,977
Taxation at Malaysian statutory tax rate of 27% (2006: 28%)	—	—	4,442	36,674
Expenses not deductible for tax purposes	—	—	165	3,036
Tax charge for the year	—	—	4,607	39,710

## 38. DEFERRED TAX ASSET

	The Group		The Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Balance at beginning of year				
As previously reported	(793,184)	(907,881)	(640,146)	(616,284)
Prior year adjustments (Note 50) *	45,906	32,542	45,906	32,542
As restated	(747,278)	(875,339)	(594,240)	(583,742)
Amount vested to/(from) subsidiary company	—	—	68,501	(135,159)
Amount transferred to/(from) subsidiary company	—	—	53,849	—
Transfer (from)/to income statements				
Continuing operations	(102,056)	128,061	(148,900)	84,951
Discontinuing operations	—	—	4,607	39,710
Effects on change in tax rate	25,759	—	16,166	—
Others	(3,400)	—	—	—
Balance at end of year	(826,975)	(747,278)	(600,017)	(594,240)

\* The prior year adjustment is in respect of the increase in utilisation of unabsorbed tax losses resulting from the change in accounting policy as a result of adoption of the revised guideline from BNM on Accounting Treatment of Handling Fees for Hire Purchase Loans.

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

	<b>The Group</b>		<b>The Bank</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Unabsorbed tax losses	(629,518)	(317,104)	(444,490)	(164,066)
Temporary differences between depreciation and tax allowances on property and equipment	23,087	21,159	23,059	21,159
Temporary differences arising from impairment loss on foreclosed properties	(25,469)	(26,036)	(25,469)	(26,036)
Temporary differences arising from allowance on amount recoverable from Danaharta	–	(114,541)	–	(114,541)
Temporary difference arising from impairment on securities held-to-maturity	–	(137,464)	–	(137,464)
Temporary difference arising from securities held-for-trading	–	275	–	275
General allowance for bad and doubtful debts and financing	(192,716)	(183,902)	(155,186)	(183,902)
Temporary difference arising from deferred charges	49,322	45,906	35,319	45,906
Unabsorbed capital allowances	(25,999)	–	(25,999)	–
Others	(25,682)	(35,571)	(7,251)	(35,571)
	<u>(826,975)</u>	<u>(747,278)</u>	<u>(600,017)</u>	<u>(594,240)</u>

39. **EARNINGS PER SHARE**

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

	<b>The Group</b>		<b>The Bank</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM'000'000</b>	<b>RM'000'000</b>	<b>RM'000'000</b>	<b>RM'000'000</b>
<b>Basic, for profit from continuing operations</b>				
Net (loss)/profit attributable to shareholder of the Bank	(362,396)	272,638	(472,052)	172,821
Number of ordinary shares at beginning of year	610,364	610,364	610,364	528,402
Effect of the issuance of shares	–	–	–	66,949
Weighted average number of ordinary shares in issue	610,364	610,364	610,364	595,351
Basic (loss)/earnings per share (sen)	(59.37)	44.67	(77.34)	29.03
<b>Basic, for profit from discontinued operations</b>				
Net profit attributable to shareholder of the Bank	–	–	11,846	91,267
Number of ordinary shares at beginning of year	–	–	610,364	528,402
Effect of the issuance of shares	–	–	–	66,949
Weighted average number of ordinary shares in issue	–	–	610,364	595,351
Basic earnings per share (sen)	–	–	1.94	15.33

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

## 40. COMMITMENTS AND CONTINGENCIES

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

The risk-weighted exposure of the Group and the Bank is as follows:

The Group	2007			2006		
	Principal	Credit	Risk	Principal	Credit	Risk
	Amount	Equivalent	Weighted	Amount	Equivalent	Weighted
	RM'000	Amount*	Amount	RM'000	Amount*	Amount
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	703,510	703,510	613,274	540,826	540,826	438,374
Certain transaction-related contingent items	375,291	187,646	187,646	206,010	103,005	103,005
Short-term self liquidating trade-related contingencies	283,789	56,757	56,757	345,374	69,075	69,075
Obligations under underwriting agreements	20,000	10,000	10,000	140,000	70,000	70,000
Unpaid portion of partly paid shares	250	250	250	250	250	250
Irrevocable commitments to extend credit:						
– maturing less than one year	9,027,360	–	–	8,811,423	–	–
– maturing more than one year	1,033,415	516,708	516,708	1,279,823	639,911	639,911
Foreign exchange related contracts:						
– less than one year	1,356,741	25,085	6,158	1,695,579	16,466	4,143
Interest rate swap contracts:						
– maturing within one year	1,432,067	2,790	558	550,000	1,311	262
– maturing more than one year to less than five years	8,489,797	111,428	22,286	3,562,189	74,100	14,820
– maturing more than five years	732,693	57,371	11,474	736,620	66,296	13,259
Islamic financing sold to Cagamas Berhad with recourse	2,718,833	2,718,833	2,718,833	2,205,827	2,205,827	2,205,827
Other commitments	126,188	–	–	108,910	–	–
<b>Total</b>	<b>26,299,934</b>	<b>4,390,378</b>	<b>4,143,944</b>	<b>20,182,831</b>	<b>3,787,067</b>	<b>3,558,926</b>



The Bank	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	583,562	583,562	510,737	540,826	540,826	438,374
Certain transaction-related contingent items	330,273	165,137	165,137	206,010	103,005	103,005
Short-term self liquidating trade-related contingencies	209,612	41,922	41,922	345,374	69,075	69,075
Obligations under underwriting agreements	20,000	10,000	10,000	140,000	70,000	70,000
Unpaid portion of partly paid shares	150	150	150	150	150	150
Irrevocable commitments to extend credit:						
– maturing less than one year	8,005,411	–	–	8,811,423	–	–
– maturing more than one year	1,018,327	509,164	509,164	1,279,823	639,911	639,911
Foreign exchange related contracts:						
– less than one year	1,356,741	25,085	6,158	1,695,579	16,466	4,143
Interest rate swap contracts:						
– maturing within one year	1,432,067	2,790	558	550,000	1,311	262
– maturing more than one year to less than five years	8,489,797	111,428	22,286	3,562,189	74,100	14,820
– maturing more than five years	732,693	133,403	26,681	736,620	66,296	13,259
Islamic financing sold to Cagamas Berhad with recourse	–	–	–	2,205,827	2,205,827	2,205,827
Other commitments	82,270	–	–	108,910	–	–
<b>Total</b>	<b>22,260,903</b>	<b>1,582,641</b>	<b>1,292,793</b>	<b>20,182,731</b>	<b>3,786,967</b>	<b>3,558,826</b>

\* The credit equivalent amount is arrived at using the credit conversion factor as per Bank Negara Malaysia guidelines.

**41. NET ASSETS PER SHARE (RM)**

Net assets per share represent the balance sheet total assets value less total liabilities and minority interests expressed as an amount per ordinary share.

Net assets per share is calculated as follows:

	<b>The Group</b>		<b>The Bank</b>	
	<b>2007 RM'000</b>	<b>2006 RM'000</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>
Total assets	62,046,683	56,527,446	53,583,722	56,359,422
Less:				
Total Liabilities	58,865,970	52,987,603	50,664,961	52,983,734
Minority interests	57	70	–	–
	<u>58,866,027</u>	<u>52,987,673</u>	<u>50,664,961</u>	<u>52,983,734</u>
Net assets	<u>3,180,656</u>	<u>3,539,773</u>	<u>2,918,761</u>	<u>3,375,688</u>
Issued and fully paid up ordinary shares of RM1.00 each ('000)	<u>610,364</u>	<u>610,364</u>	<u>610,364</u>	<u>610,364</u>
Net assets per share (RM)	<u>5.21</u>	<u>5.80</u>	<u>4.78</u>	<u>5.53</u>

42. **SEGMENT INFORMATION ON OPERATING REVENUE, PROFIT BEFORE TAX EXPENSE AND ASSETS**

<b>By Business Segments The Group 31 March 2007</b>	<b>Conventional Bank RM'000</b>	<b>Islamic Banking RM'000</b>	<b>Others RM'000</b>	<b>Elimination RM'000</b>	<b>Consolidated RM'000</b>
<b>Revenue</b>					
<u>External revenue</u>					
Interest income (net of IIS)	3,209,992	—	—	—	3,209,992
Fee income	150,508	—	—	—	150,508
Investment & other operating income	128,062	—	2,008	—	130,070
Income from Islamic Banking					
Financing income	—	771,885	—	—	771,885
Investment and Fees on financing	—	36,247	—	—	36,247
Others (Subsidiaries)					
– Rental	—	—	2,373	—	2,373
	<u>3,488,562</u>	<u>808,132</u>	<u>4,381</u>	<u>—</u>	<u>4,301,075</u>
<u>Internal revenue</u>					
Interest income (net of IIS)	1,041	—	344	(1,385)	—
Others (Subsidiaries)					
– Rental	—	—	2,148	(2,148)	—
	<u>1,041</u>	<u>—</u>	<u>2,492</u>	<u>(3,533)</u>	<u>—</u>
<b>Total revenue</b>	<u><u>3,489,603</u></u>	<u><u>808,132</u></u>	<u><u>6,873</u></u>	<u><u>(3,533)</u></u>	<u><u>4,301,075</u></u>
<b>Results</b>					
(Loss)/profit before share in results of associated companies and taxation	(574,185)	156,396	2,040	(14)	(415,763)
Share of profits of associated company	—	—	—	69	69
<b>Profit before tax</b>	(574,185)	156,396	2,040	55	(415,694)
Zakat	—	(786)	—	—	(786)
Taxation	102,133	(48,985)	924	(1)	54,071
<b>Profit after taxation</b>	<u>(472,052)</u>	<u>106,625</u>	<u>2,964</u>	<u>54</u>	<u>(362,409)</u>
<b>Total Assets</b>	<u><u>53,583,722</u></u>	<u><u>9,340,627</u></u>	<u><u>778,765</u></u>	<u><u>(1,656,431)</u></u>	<u><u>62,046,683</u></u>
<b>Other information</b>					
Capital additions	38,336	956	—	(204)	39,088
Depreciation	41,926	43	445	36	42,450
Loan and financing loss and allowance (net of recoveries)	1,240,618	205,724	—	—	1,446,342
Impairment writeback/(loss) on securities	(213,817)	—	—	38	(213,779)
Accretion of discounts less amortisation of premium	1,972	3,311	—	—	5,283
Property and equipment written off	883	—	—	(204)	679
Impairment on amount recoverable under asset- backed securitisation transaction	10,000	—	—	—	10,000

<b>The Group 31 March 2006</b>	<b>Conventional Bank RM'000</b>	<b>Islamic Banking RM'000</b>	<b>Others RM'000</b>	<b>Elimination RM'000</b>	<b>Consolidated RM'000</b>
<b>Revenue</b>					
<u>External revenue</u>					
Interest income (net of IIS)	2,558,244	—	—	—	2,558,244
Fee income	127,317	—	—	—	127,317
Investment & other operating income	34,880	—	402	—	35,282
Income from Islamic Banking					
Financing income	—	656,880	—	—	656,880
Investment and Fees on financing	—	26,766	—	—	26,766
Others (Subsidiaries)					
– Rental	—	—	2,209	—	2,209
	<u>2,720,441</u>	<u>683,646</u>	<u>2,611</u>	<u>—</u>	<u>3,406,698</u>
<u>Internal revenue</u>					
Interest income (net of IIS)	443	—	57	(500)	—
Others (Subsidiaries)					
– Rental	—	—	1,852	(1,852)	—
	<u>443</u>	<u>—</u>	<u>1,909</u>	<u>(2,352)</u>	<u>—</u>
<b>Total revenue</b>	<u>2,720,884</u>	<u>683,646</u>	<u>4,520</u>	<u>(2,352)</u>	<u>3,406,698</u>
<b>Results</b>					
Profit before share in results of associated companies and taxation	252,194	138,423	11	4,704	395,332
Share of profits of associated company	—	—	—	88	88
<b>Profit before tax</b>	<u>252,194</u>	<u>138,423</u>	<u>11</u>	<u>4,792</u>	<u>395,420</u>
Taxation	<u>(79,373)</u>	<u>(39,710)</u>	<u>(314)</u>	<u>(3,401)</u>	<u>(122,798)</u>
<b>Profit after taxation</b>	<u>172,821</u>	<u>98,713</u>	<u>(303)</u>	<u>1,391</u>	<u>272,622</u>
<b>Total Assets</b>	<u>47,807,310</u>	<u>8,705,150</u>	<u>825,327</u>	<u>(810,341)</u>	<u>56,527,446</u>
<b>Other information</b>					
Capital additions	53,935	—	—	—	53,935
Depreciation	39,451	—	528	36	40,015
Loan and financing loss and allowance (net of recoveries)	586,836	155,649	—	—	742,485
Impairment writeback/(loss) on securities	84,630	94	—	—	84,724
Accretion of discounts less amortisation of premium	(10,436)	11,426	—	—	990
Property and equipment written off	1,725	—	—	—	1,725
Impairment on amount recoverable under asset-backed securitisation transaction	10,500	—	—	—	10,500

The directors are of the opinion that all inter-segment 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.

The financial information by geographical segment is not presented as the Group's activities are principally conducted in Malaysia.

**43. CAPITAL COMMITMENTS**

As at the balance sheet date, the Group and the Bank have the following commitments:

	<b>The Group</b>		<b>The Bank</b>	
	<b>2007 RM'000</b>	<b>2006 RM'000</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>
Authorised and contracted for:				
Purchase of computer equipment and software	24,700	32,886	24,508	32,886
Leasehold improvements	4,448	6,949	4,448	6,949
	<u>29,148</u>	<u>39,835</u>	<u>28,956</u>	<u>39,835</u>
Authorised but not contracted for:				
Purchase of computer equipment and software	20,201	14,127	20,088	14,127
	<u>49,349</u>	<u>53,962</u>	<u>49,044</u>	<u>53,962</u>

**44. LEASE COMMITMENTS**

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

	<b>The Group</b>		<b>The Bank</b>	
	<b>2007 RM'000</b>	<b>2006 RM'000</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>
Year ending				
2007	—	28,416	—	28,416
2008	28,173	25,075	28,173	25,075
2009	22,756	20,702	22,756	20,702
2010	20,602	18,733	20,602	18,733
2011 and thereafter	129,283	119,099	129,283	119,099
	<u>200,814</u>	<u>212,025</u>	<u>200,814</u>	<u>212,025</u>

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

45. **CAPITAL ADEQUACY RATIO**

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

The risk weighted capital adequacy ratio of the Bank of 9.16% (2006: 12.14%) exceeds the minimum requirements of BNM.

	<b>The Bank</b>	
	<b>2007 RM'000</b>	<b>2006* RM'000</b>
<u>Tier 1 capital</u>		
Paid-up share capital	610,364	610,364
Innovative Tier 1 capital	408,198	461,506
Share premium	710,660	379,953
Statutory reserve	585,832	585,832
Capital reserve	—	330,705
Unappropriated profit at end of year	<u>1,005,898</u>	<u>1,348,057</u>
	3,320,952	3,716,417
Less: Deferred tax asset	<u>(600,017)</u>	<u>(640,146)</u>
Total Tier 1 capital	<u>2,720,935</u>	<u>3,076,271</u>
<u>Tier 2 capital</u>		
Innovative Tier 1 capital	283,002	275,114
Subordinated term loans	460,000	1,140,000
Subordinated bonds	200,000	200,000
General allowance for bad and doubtful debts and financing	<u>574,053</u>	<u>655,374</u>
Total Tier 2 capital	<u>1,517,055</u>	<u>2,270,488</u>
	4,237,990	5,346,759
Less: Investment in subsidiary companies	<u>(813,849)</u>	<u>(29,779)</u>
Capital base	<u><u>3,424,141</u></u>	<u><u>5,316,980</u></u>

	The Bank			
	2007		2006	
	Principal RM'000	Risk - Weighted RM'000	Principal RM'000	Risk - Weighted RM'000
Notional risk-weighted assets:				
Categories				
0%	7,817,721	–	8,328,926	–
10%	2,059	206	67,059	6,706
20%	5,127,377	1,025,476	4,222,296	844,459
50%	9,013,411	4,506,705	8,119,385	4,059,693
100%	31,231,608	31,231,608	38,471,369	38,471,369
	53,192,176	36,763,995	59,209,035	43,382,227
Market risk	–	631,046	–	399,777
	53,192,176	37,395,041	59,209,035	43,782,004

**Capital Ratios**

Core capital ratio	7.27%	7.03%
Risk-weighted capital ratio	9.16%	12.14%

The risk weighted capital adequacy ratio of the Group are as follows:

	The Group	
	2007 RM'000	2006* RM'000
<u>Tier 1 capital</u>		
Paid-up share capital	610,364	610,364
Innovative Tier 1 capital	414,374	463,469
Share premium	710,660	379,953
Statutory reserve	633,222	585,832
Capital reserve	377,492	377,492
Merger reserve	349,050	679,757
Unappropriated profit at end of year	493,861	785,600
Minority interests	57	70
	3,589,080	3,882,537
Less: Deferred tax asset	(826,975)	(793,184)
Total Tier 1 capital	2,762,105	3,089,353
<u>Tier 2 capital</u>		
Innovative Tier 1 capital	276,826	273,151
Subordinated term loans	460,000	1,140,000
Subordinated bonds	600,000	200,000
General allowance for bad and doubtful debts and financing	713,051	655,374
Total Tier 2 capital	2,049,877	2,268,525
Capital base	4,811,982	5,357,878

	The Group			
	2007	Risk -	2006	Risk -
	Principal	Weighted	Principal	Weighted
	RM'000	RM'000	RM'000	RM'000
Notional risk-weighted assets:				
Categories				
0%	9,836,538	—	8,328,926	—
10%	2,059	206	67,059	6,706
20%	5,678,318	1,135,664	4,236,954	847,390
50%	9,344,174	4,672,087	8,119,385	4,059,693
100%	40,258,917	40,258,917	38,501,555	38,501,555
	65,120,006	46,066,874	59,253,879	43,415,344
Market Risk	—	673,104	—	399,777
	65,120,006	46,739,978	59,253,879	43,815,121

**Capital Ratios**

Core capital ratio	5.91%	7.05%
Risk-weighted capital ratio	10.29%	12.23%

\* The capital ratios are compliance ratios, as such the comparatives are not adjusted for prior year adjustments.

Subsequent to the financial year, AHB, AMFB and the Bank have completed the Equity Participation by ANZ and the issuance of INCPS and ICULS (Capital Injection) as mentioned in Note 47. Had the Capital Injection be completed and issued on 31 March 2007, the core capital and risk-weighted capital ratios for the Group and the Bank will be as follows:

	The Group		The Bank	
	Before Capital Injection	After Capital Injection	Before Capital Injection	After Capital Injection
Core capital ratio	5.91%	6.28%	7.27%	7.74%
Risk-weighted capital ratio	10.29%	12.48%	9.16%	11.89%



46. (i) **TRANSFER OF ISLAMIC BANKING BUSINESS OF AMBANK (M) BERHAD TO AMISLAMIC BANK BERHAD**

On 1 May 2006, the Islamic banking business of AmBank (M) Berhad was transferred to and vested into Amlslamic Bank Berhad 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 amounts of assets and liabilities vested are as follows:

	<b>1 May 2006 RM'000</b>
<b>ASSETS</b>	
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
Loans, advances and financing	6,512,189
Deferred tax asset	68,501
Other assets	29,567
Statutory deposit with Bank Negara Malaysia	<u>268,794</u>
<b>TOTAL ASSETS</b>	<u><u>8,543,535</u></u>
<b>LIABILITIES AND EQUITY</b>	
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>
<b>Total Liabilities</b>	<u><u>7,759,467</u></u>
<b>Net Assets vested</b>	<u><u>784,068</u></u>

(ii) **Purchase Consideration**

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 Amlslamic Bank Berhad to the Bank at RM3.14 per share.

**(iii) Impact to Income Statement**

The results of the Islamic Banking operations of the Bank reported as discontinued operations were as follows:

<b>The Bank</b>	<b>1 Month Ended April 2006 RM'000</b>	<b>Year Ended March 2006 RM'000</b>
Income derived from investment of depositors' funds	52,287	615,147
Income derived from investment of Islamic Banking Capital Fund	9,252	52,427
Allowance for losses on financing, advances and other loans (Note 33)	(10,947)	(153,938)
Impairment writeback on securities held-to-maturity	—	94
Transfer from/(to) profit equalisation reserve	1,739	(6,098)
Total attributable income	52,331	507,632
Income attributable to the depositors	(25,402)	(248,690)
Total net income	26,929	258,942
Other operating expenses	(10,476)	(127,965)
Profit before taxation	16,453	130,977
Taxation	(4,607)	(39,710)
Profit after taxation	11,846	91,267

The other operating expenses above includes the following statutory disclosure.

	<b>1 Month Ended April 2006 RM'000</b>	<b>Year Ended March 2006 RM'000</b>
Rental of premises		
– Others	29	57
Hire of equipment	—	19

#### 47. OTHER SIGNIFICANT AND SUBSEQUENT EVENTS

##### SIGNIFICANT EVENTS

- (i) On 1 May 2006, Amlslamic Bank Berhad ("Amlslamic Bank") received its licence to transact Islamic banking business with immediate effect.

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 Islamic Banking business of AmBank (M) Berhad ("AmBank") had been vested to Amlslamic Bank on 1 May 2006. 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 an issue of 250.0 million new ordinary shares of RM1.00 each by Amlslamic Bank to AmBank at RM3.14 per share.

- (ii) On 11 May 2006, the Bank announced the proposal to dispose its freehold land together with its 46-storey office building known as Menara AmBank to AmFIRST Real Estate Investment Trust ("AmFIRST REIT") for a proposed consideration of RM230 million. The sale was completed and the consideration was satisfied through the issuance of 230 million AmFIRST REIT units at an issue price of RM1.00 per unit which the Bank had sold to its ultimate holding company, AMMB Holdings Berhad ("AHB") for a cash consideration of RM230 million. The cash proceeds of RM230 million had been received from AHB on 29 December 2006 and a gain on disposal of RM33.7 million was recognized in the income statement
- (iii) On 19 May 2006, AmInvestment Bank Berhad ("AmInvestment Bank") (formerly known as AmMerchant Bank Berhad) entered into a Novation Agreement with Quanto Assets Berhad ("Quanto Assets") (formerly known as CLO Assets Berhad) and the Bank, whereby the RM460.0 million 10-year Unsecured Subordinated Term Loan ("Subloan") to the Bank was novated to Quanto Assets. Quanto Assets has funded the acquisition of the Subloan through the issuance of private debt securities in the debt capital market.
- (iv) On 21 November 2006, upon obtaining the approval from Bank Negara Malaysia, the ultimate holding company, AMMB Holdings Berhad ("AHB") entered into a Heads of Agreement ("HOA") with Australia and New Zealand Banking Group Limited ("ANZ") on 23 November 2006 in relation to the involvement of ANZ as an investor and partner of AHB Group which will be via a proposed equity participation by ANZ valued at RM1.075 billion as follows:-
- (a) proposed issue of 163,934,426 convertible preference shares of RM1.00 each by AHB Group ("CPS") to ANZ Funds Pty Ltd ("ANZ Funds"), a wholly-owned subsidiary company of ANZ at an issue price of RM3.05 per CPS which will convert into 163,934,426 new ordinary shares of RM1.00 each in AHB ("Proposed CPS Transaction"); and
- (b) proposed issue of 188,524,590 new ordinary shares in AHB arising from the exchange of RM575,000,000 nominal value 10 Year Unsecured Exchangeable Bonds ("EBs") arising from the proposed issue of the EBs by the Bank to ANZ Funds which are exchangeable into 188,524,590 new ordinary shares in AHB at an exchange price of RM3.05 per share ("Proposed Exchangeable Bond Transaction").

The Proposed CPS Transaction and Proposed Exchangeable Bond Transaction are collectively referred to as the "Proposed Equity Participation".

Concurrently with the Proposed Equity Participation, AmCorpGroup Berhad ("AmCorp"), the principal shareholder of AHB, had also on 30 November 2006 entered into a HOA with ANZ for the disposal by AmCorp of 300 million ordinary shares held in AHB representing approximately 14.1% of the existing issued and paid up share capital of AHB to ANZ at RM4.30 per ordinary share valued at RM1.29 billion ("Proposed AmCorp Transaction").

## **SIGNIFICANT EVENTS (CONTD.)**

The Proposed Equity Participation and the Proposed AmCorp Transaction are inter-conditional with each other and shall be undertaken concurrently.

The Proposed Equity Participation and the Proposed AmCorp Transaction are conditional upon the approval, inter alia, of Bank Negara Malaysia ("BNM"), Minister of Finance ("MOF"), Securities Commission, shareholders and any other relevant authorities.

Upon completion of the Proposed Equity Participation and Proposed AmCorp Transaction, ANZ would emerge as a substantial strategic investor with an equity interest of up to 24.9% in AHB. This is in line with BNM's requirement for AmCorp to institutionalize its shareholdings in AHB by May 2007.

On 2 March 2007, following the receipt of approval of BNM on 28 February 2007, AHB and ANZ Funds executed Sale and Purchase Agreement, Subscription and Relationship Agreement, Exchangeable Bond Subscription Agreement and Technical Services Agreement for the Proposed Equity Participation pursuant to Section 45 of the Banking and Financial Institutions Act, 1989 and terms of the respective HOAs.

Further, AmCorp and ANZ Funds have in accordance with the terms of the AmCorp HOAs, on 2 March 2007 executed a Sale and Purchase Agreement in relation to the Proposed AmCorp Transaction.

The Proposed CPS Transaction and Proposed Exchangeable Bond Transaction have received the approval of all relevant authorities and the shareholders of AHB at an Extraordinary General Meeting held on April 2007.

- (v) On 20 December 2006, the Bank prepaid the RM680 million loan facility to Astute Assets Berhad after obtaining the necessary approvals from Bank Negara Malaysia on 12 December 2006.
- (vi) On 21 December 2006, Amlslamic Bank issued RM400 million of Subordinated Sukuk Musyarakah ("Sukuk Musyarakah") for the purpose of increasing Amlslamic Bank's capital funds. The Sukuk Musyarakah carries profit rate of 4.80% per annum for the first five (5) years and shall be stepped up by 0.5% per annum every subsequent year to maturity date. The profit is payable on a semi-annual basis. The Sukuk Musyarakah is for a period of ten (10) years. Amlslamic Bank may exercise its call option and redeem in whole (but not in part) the 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.

## **SUBSEQUENT EVENTS**

- (a) Upon obtaining the necessary approvals from the shareholders and the relevant authorities, AHB has on 18 May 2007 implemented the following:
- (i) Increase in the authorised share capital of AHB from 5,000,000,000 comprising 5,000,000,000 ordinary shares of RM1.00 each to RM5,200,000,000 comprising 5,000,000,000 ordinary shares of RM1.00 each and 200,000,000 CPS of RM1.00 each;
  - (ii) Issue of 163,934,426 CPS to ANZ Funds at an issue price of RM3.05 per CPS amounting to RM500,000,000, which shall be converted into 163,934,426 new ordinary shares of RM1.00 each in AHB; and
  - (iii) Issue of the RM575,000,000 EBs by the Bank to ANZ Funds which are exchangeable into 188,524,590 new ordinary shares in AHB at an exchange price of RM3.05 per share.
- (b) AHB has utilised a total of RM450,000,000 from the proceed of CPS for the subscription of AMFB Holdings Berhad ("AMFB")'s rights issue of 30,000,000 new ordinary shares of RM1.00 each at an issue price RM5.00 per share amounting to RM150,000,000 and RM300,000,000 interest bearing Irredeemable Convertible Unsecured Loan Stocks issued by AMFB on rights entitlement basis. The issue price of RM5.00 per share is derived at based on 17.6% premium on the net tangible assets per share of AMFB of approximately RM4.25 as at 31 March 2007.
- (c) AMFB has subscribed for RM150,000,000 nominal amount Irredeemable Non-cumulative Convertible Preference Shares ("AmBank INCPS") of RM1.00 each and RM300,000,000 Interest Bearing Irredeemable Convertible Unsecured Loan Stock ("AmBank ICULS") issued by the Bank on rights entitlements basis to further increase the capital funds of the Bank.
- (d) On 18 May 2007, the Group obtained approval from BNM for the sale of its portfolio of non-performing loans (net) totalling RM574 million. Upon the completion of the sale, the Group's non-performing loans (net) ratio will further reduce to 5.38% from 6.16% as at 31 March 2007.

#### 48. **RISK MANAGEMENT POLICY**

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

Every risk assumed by the Group carries with it potential for gains as well as potential to erode shareholders' value. The Group'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 Group 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 interest 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 Group to reduce its position without incurring potential loss that is beyond the sustainability of the Group.

The market risk of the Group'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 Group's trading portfolio, the Group'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 Group also institutes a set of scenario analysis under various potential market conditions such as shifts in currency rates, general equity prices and interest rate movements to assess the changes in portfolio value.

The Group 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.

# Company No. 8515-D

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

The Group	Non-Trading Book						Non-interest sensitive	Trading Book	Total	Effective interest rate
	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	>1 to 5 years	Over 5 years				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
<b>ASSETS</b>										
Cash and short-term funds	7,927,079	—	—	—	—	—	2,055,507	—	9,982,586	3.80
Deposits and placements with banks and other financial institutions	—	832,000	202,727	103,680	—	691,200	415,201	—	2,244,808	3.64
Securities held-for -trading	—	—	—	—	—	—	267,912	849,345	1,117,257	2.85
Securities available-for-sale	350,000	49,995	—	—	55,153	41,803	101,800	—	598,751	3.51
Securities held-to-maturity	—	—	—	—	406,059	595,505	116,035	—	1,117,599	2.68
Loans, advances and financing										
– Performing	12,338,768	645,413	1,430,721	227,183	6,982,770	13,403,856	6,259,581	—	41,288,292	6.85
– Non-performing *	—	—	—	—	—	—	2,177,255	—	2,177,255	—
Other non-interest sensitive balances	—	—	—	—	—	—	3,520,135	—	3,520,135	—
<b>TOTAL ASSETS</b>	<b>20,615,847</b>	<b>1,527,408</b>	<b>1,633,448</b>	<b>330,863</b>	<b>7,443,982</b>	<b>14,732,364</b>	<b>14,913,426</b>	<b>849,345</b>	<b>62,046,683</b>	—
<b>LIABILITIES AND EQUITY</b>										
Deposits from customers	11,084,120	4,968,367	4,201,753	6,723,767	3,678,364	—	6,479,487	—	37,135,858	3.33
Deposits and placements of banks and other financial institutions	5,236,620	3,383,123	2,018,254	388,885	800,498	1,657,500	2,668,819	—	16,153,699	3.71
Obligation on securities sold under repurchase agreements	444,319	—	—	—	—	—	—	—	444,319	3.23
Bills and acceptances payables	278,359	547,637	188,967	—	—	—	446,614	—	1,461,577	3.57
Recourse obligation of loans sold to Cagamas Berhad	18,934	38,037	192,329	242,016	211,324	—	—	—	702,640	3.67
Subordinated term loans	—	—	—	—	460,000	—	—	—	460,000	6.87
Hybrid securities	—	—	—	—	—	684,167	—	—	684,167	6.77
Subordinates bonds	—	—	—	—	200,000	—	400,000	—	600,000	5.85
Other non-interest sensitive balances	—	—	—	—	—	—	1,223,710	—	1,223,710	—
Total Liabilities	17,062,352	8,937,164	6,601,303	7,354,668	5,350,186	2,341,667	11,218,630	—	58,865,970	
Minority interests	—	—	—	—	—	—	57	—	57	
Shareholder's Equity	—	—	—	—	—	—	3,180,656	—	3,180,656	
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>17,062,352</b>	<b>8,937,164</b>	<b>6,601,303</b>	<b>7,354,668</b>	<b>5,350,186</b>	<b>2,341,667</b>	<b>14,399,343</b>	<b>—</b>	<b>62,046,683</b>	
On-balance sheet interest sensitivity gap	3,553,495	(7,409,756)	(4,967,855)	(7,023,805)	2,093,796	12,390,697	514,083	849,345	—	
Off-balance sheet interest sensitivity gap	2,551,357	6,920,000	(520,000)	(832,067)	(8,089,797)	(29,493)	—	—	—	
<b>Total interest sensitivity gap</b>	<b>6,104,852</b>	<b>(489,756)</b>	<b>(5,487,855)</b>	<b>(7,855,872)</b>	<b>(5,996,001)</b>	<b>12,361,204</b>	<b>514,083</b>	<b>849,345</b>	<b>—</b>	

2006	Non-Trading Book						Non-interest sensitive	Trading Book	Total	Effective interest rate %
	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	>1 to 5 years	Over 5 years				
The Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>ASSETS</b>										
Cash and short-term funds	5,973,362	–	–	–	–	–	1,344,536	–	7,317,898	3.42
Deposits and placements with banks and other financial institutions	–	128,908	116,665	36,934	736,620	–	102,126	–	1,121,253	3.37
Securities held-for -trading	–	–	–	–	–	–	511,272	1,758,080	2,269,352	3.28
Securities available-for-sale	–	–	–	–	19,848	73,701	237,964	–	331,513	4.85
Securities held-to-maturity	–	–	21,902	83,401	441,251	705,936	108,656	–	1,361,146	3.41
Loans, advances and financing										
– Performing	11,069,819	580,017	902,780	206,669	6,788,679	11,680,037	6,216,052	–	37,444,053	6.65
– Non-performing *	–	–	–	–	–	–	3,292,498	–	3,292,498	–
Other non-interest sensitive balances	–	–	–	–	–	–	3,389,733	–	3,389,733	–
<b>TOTAL ASSETS</b>	<b>17,043,181</b>	<b>708,925</b>	<b>1,041,347</b>	<b>327,004</b>	<b>7,986,398</b>	<b>12,459,674</b>	<b>15,202,837</b>	<b>1,758,080</b>	<b>56,527,446</b>	
<b>LIABILITIES AND EQUITY</b>										
Deposits from customers	12,533,107	4,764,273	3,759,426	5,721,536	1,502,264	–	4,214,221	–	32,494,827	3.09
Deposits and placements of banks and other financial institutions	3,584,735	2,152,032	781,105	1,345,291	793,656	1,657,500	3,099,230	–	13,413,549	3.41
Obligation on securities sold under repurchase agreements	1,011,886	92,735	–	–	–	–	–	–	1,104,621	3.19
Bills and acceptances payables	223,500	364,670	92,996	–	–	–	228,454	–	909,620	–
Recourse obligation of loans sold to Cagamas Berhad	141,141	55,928	14,520	647,849	919,517	–	–	–	1,778,955	3.89
Subordinated term loans	–	–	–	–	1,140,000	–	–	–	1,140,000	6.65
Hybrid securities	–	–	–	–	–	727,734	–	–	727,734	6.77
Subordinates bonds	–	–	–	–	200,000	–	–	–	200,000	7.95
Other non-interest sensitive balances	–	–	–	–	–	–	1,218,297	–	1,218,297	–
Total Liabilities	17,494,369	7,429,638	4,648,047	7,714,676	4,555,437	2,385,234	8,760,202	–	52,987,603	
Minority interests	–	–	–	–	–	–	70	–	70	
Shareholder's Equity	–	–	–	–	–	–	3,539,773	–	3,539,773	
<b>TOTAL ASSETS</b>	<b>17,494,369</b>	<b>7,429,638</b>	<b>4,648,047</b>	<b>7,714,676</b>	<b>4,555,437</b>	<b>2,385,234</b>	<b>12,300,045</b>	<b>–</b>	<b>56,527,446</b>	
On-balance sheet interest sensitivity gap	(451,188)	(6,720,713)	(3,606,700)	(7,387,672)	3,430,961	10,074,440	2,902,792	1,758,080	–	
Off-balance sheet interest sensitivity gap	967,189	2,695,000	(50,000)	(450,000)	(3,162,189)	–	–	–	–	
Total interest sensitivity gap	516,001	(4,025,713)	(3,656,700)	(7,837,672)	268,772	10,074,440	2,902,792	1,758,080	–	



2007

The Bank	Non-Trading Book							Trading Book	Total	Effective interest rate
	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	>1 to 5 years	Over 5 years	Non-interest sensitive			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
<b>ASSETS</b>										
Cash and short-term funds	7,927,079	–	–	–	–	–	202,216	–	8,129,295	3.80
Deposits and placements with banks and other financial institutions	7,971	832,000	202,727	103,680	–	691,822	–	–	1,838,200	3.64
Securities held-for-trading	–	–	–	–	–	–	123,301	849,345	972,646	2.85
Securities available-for-sale	350,000	49,995	–	–	55,153	41,803	101,800	–	598,751	3.51
Securities held-to-maturity	–	–	–	–	406,059	595,506	115,817	–	1,117,382	2.68
Loans, advances and financing										
– Performing	12,338,768	645,413	1,430,721	227,183	6,982,770	13,403,856	–	–	35,028,711	6.85
– Non-performing *	–	–	–	–	–	–	2,066,867	–	2,066,867	–
Other non-interest sensitive balances	–	–	–	–	–	–	3,831,870	–	3,831,870	–
<b>TOTAL ASSETS</b>	<b>20,623,818</b>	<b>1,527,408</b>	<b>1,633,448</b>	<b>330,863</b>	<b>7,443,982</b>	<b>14,732,987</b>	<b>6,441,871</b>	<b>849,345</b>	<b>53,583,722</b>	
<b>LIABILITIES AND EQUITY</b>										
Deposits from customers	11,100,994	4,968,367	4,201,753	6,723,767	3,678,364	–	1,808,433	–	32,481,678	3.33
Deposits and placements of banks and other financial institutions	5,244,591	3,383,123	2,018,254	388,885	801,120	1,657,500	115,252	–	13,608,725	3.71
Obligation on securities sold under repurchase agreements	444,319	–	–	–	–	–	–	–	444,319	3.23
Bills and acceptances payables	278,359	547,637	188,967	–	–	–	–	–	1,014,963	3.57
Recourse obligation of loans sold to Cagamas Berhad	18,934	38,037	192,329	242,016	211,324	–	–	–	702,640	3.67
Subordinated term loans	–	–	–	–	460,000	684,167	–	–	1,144,167	6.83
Subordinated bonds	–	–	–	–	200,000	–	–	–	200,000	7.95
Other non-interest sensitive balances	–	–	–	–	–	–	1,068,469	–	1,068,469	–
Total Liabilities	17,087,197	8,937,164	6,601,303	7,354,668	5,350,808	2,341,667	2,992,154	–	50,664,961	
Shareholder's Equity	–	–	–	–	–	–	2,918,761	–	2,918,761	
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>17,087,197</b>	<b>8,937,164</b>	<b>6,601,303</b>	<b>7,354,668</b>	<b>5,350,808</b>	<b>2,341,667</b>	<b>5,910,915</b>	<b>–</b>	<b>53,583,722</b>	
On-balance sheet interest sensitivity gap	3,536,621	(7,409,756)	(4,967,855)	(7,023,805)	2,093,174	12,391,320	530,956	849,345	–	
Off-balance sheet interest sensitivity gap	2,551,357	6,920,000	(520,000)	(832,067)	(8,089,797)	(29,493)	–	–	–	
Total interest sensitivity gap	<b>6,087,978</b>	<b>(489,756)</b>	<b>(5,487,855)</b>	<b>(7,855,872)</b>	<b>(5,996,623)</b>	<b>12,361,827</b>	<b>530,956</b>	<b>849,345</b>	<b>–</b>	

2006

The Bank	Non-Trading Book						Non-interest sensitive RM'000	Trading Book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 to 5 years RM'000	Over 5 years RM'000				
<b>ASSETS</b>										
Cash and short-term funds	5,973,362	—	—	—	—	—	1,329,981	—	7,303,343	3.42
Deposits and placements with banks and other financial institutions	—	128,908	116,665	36,831	736,620	—	102,126	—	1,121,150	3.37
Securities held-for-trading	—	—	—	—	—	—	511,248	1,758,081	2,269,329	3.28
Securities available-for-sale	—	—	—	—	19,848	73,701	237,964	—	331,513	4.85
Securities held-to-maturity	—	—	21,902	83,401	441,251	705,936	108,438	—	1,360,928	3.41
Loans, advances and financing										
— Performing	11,069,819	580,017	902,780	206,669	6,788,679	11,680,037	6,216,052	—	37,444,053	6.65
— Non-performing *	—	—	—	—	—	—	3,292,498	—	3,292,498	—
Other non-interest sensitive balances	—	—	—	—	—	—	3,236,608	—	3,236,608	—
<b>TOTAL ASSETS</b>	<b>17,043,181</b>	<b>708,925</b>	<b>1,041,347</b>	<b>326,901</b>	<b>7,986,398</b>	<b>12,459,674</b>	<b>15,034,915</b>	<b>1,758,081</b>	<b>56,359,422</b>	
<b>LIABILITIES AND EQUITY</b>										
Deposits from customers	12,534,855	4,764,273	3,759,426	5,721,536	1,502,264	—	4,214,221	—	32,496,575	3.09
Deposits and placements of banks and other financial institutions	3,584,735	2,152,032	781,105	1,345,291	793,656	1,657,500	3,099,230	—	13,413,549	3.41
Obligation on securities sold under repurchase agreements	1,011,886	92,735	—	—	—	—	—	—	1,104,621	3.19
Bills and acceptances payables	223,500	364,670	92,996	—	—	—	228,454	—	909,620	
Recourse obligation of loans sold to Caqamas Berhad	141,141	55,928	14,520	647,849	919,517	—	—	—	1,778,955	3.89
Subordinated term loans	—	—	—	—	1,140,000	727,734	—	—	1,867,734	6.65
Subordinated bonds	—	—	—	—	200,000	—	—	—	200,000	7.95
Other non-interest sensitive balances	—	—	—	—	—	—	1,212,680	—	1,212,680	—
Total Liabilities	17,496,117	7,429,638	4,648,047	7,714,676	4,555,437	2,385,234	8,754,585	—	52,983,734	
Shareholder's Equity	—	—	—	—	—	—	3,375,688	—	3,375,688	
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>17,496,117</b>	<b>7,429,638</b>	<b>4,648,047</b>	<b>7,714,676</b>	<b>4,555,437</b>	<b>2,385,234</b>	<b>12,130,273</b>	<b>—</b>	<b>56,359,422</b>	
On-balance sheet interest sensitivity gap	(452,936)	(6,720,713)	(3,606,700)	(7,387,775)	3,430,961	10,074,440	2,904,642	1,758,081	—	
Off-balance sheet interest sensitivity gap	967,189	2,695,000	(50,000)	(450,000)	(3,162,189)	—	—	—	—	
Total interest sensitivity gap	<b>514,253</b>	<b>(4,025,713)</b>	<b>(3,656,700)</b>	<b>(7,837,775)</b>	<b>268,772</b>	<b>10,074,440</b>	<b>2,904,642</b>	<b>1,758,081</b>	<b>—</b>	

\* This is arrived at after deducting the general allowance, specific allowance and interest/income-in-suspense from gross non-performing 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 Group 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 Group.

# Company No. 8515-D

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

2007

The Group	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- specific maturity RM'000	Total RM'000
<b>ASSETS</b>								
Cash and short-term funds	9,982,586	—	—	—	—	—	—	9,982,586
Deposits and placements with banks and other financial institutions	—	1,247,000	202,928	103,680	—	691,200	—	2,244,808
Securities held-for-trading	—	41,721	19,656	391,814	379,928	160,813	123,325	1,117,257
Securities available-for-sale	350,000	49,995	—	—	55,153	41,803	101,800	598,751
Securities held-to-maturity	—	—	—	—	406,059	595,506	116,034	1,117,599
Loans, advances and financing	4,767,087	2,609,063	2,487,424	3,817,816	13,535,049	16,249,108	—	43,465,547
Other assets	—	—	—	—	—	—	818,077	818,077
Statutory deposit with Bank Negara Malaysia	—	—	—	—	—	—	1,638,008	1,638,008
Deferred tax asset	—	—	—	—	—	—	826,975	826,975
Investment in associated companies	—	—	—	—	—	—	651	651
Property and equipment	—	—	—	—	—	—	181,948	181,948
Intangible assets	—	—	—	—	—	—	54,476	54,476
<b>TOTAL ASSETS</b>	<b>15,099,673</b>	<b>3,947,779</b>	<b>2,710,008</b>	<b>4,313,310</b>	<b>14,376,189</b>	<b>17,738,430</b>	<b>3,861,294</b>	<b>62,046,683</b>
<b>LIABILITIES AND EQUITY</b>								
Deposits from customers	15,785,839	5,862,264	4,620,672	7,069,385	3,797,698	—	—	37,135,858
Deposits and placements of banks and other financial institutions	5,799,621	3,908,864	2,361,050	801,330	1,625,334	1,657,500	—	16,153,699
Obligation on securities sold under repurchase agreements	444,319	—	—	—	—	—	—	444,319
Bills and acceptances	449,604	747,675	264,298	—	—	—	—	1,461,577
Recourse obligation of loans sold to Cagamas Berhad	18,934	38,037	192,329	242,016	211,324	—	—	702,640
Other liabilities	—	—	—	—	—	—	1,223,710	1,223,710
Subordinated term loans	—	—	—	—	—	460,000	—	460,000
Hybrid securities	—	—	—	—	—	684,167	—	684,167
Subordinated bonds	—	—	—	—	—	600,000	—	600,000
Total Liabilities	22,498,317	10,556,840	7,438,349	8,112,731	5,634,356	3,401,667	1,223,710	58,865,970
Minority interests	—	—	—	—	—	—	57	57
Shareholder's Equity	—	—	—	—	—	—	3,180,656	3,180,656
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>22,498,317</b>	<b>10,556,840</b>	<b>7,438,349</b>	<b>8,112,731</b>	<b>5,634,356</b>	<b>3,401,667</b>	<b>4,404,423</b>	<b>62,046,683</b>
Net maturity mismatch	(7,398,644)	(6,609,061)	(4,728,341)	(3,799,421)	8,741,833	14,336,763	(543,129)	—

Company No. 8515-D

2006

The Group	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	>1 to 5 years	Over 5 years	Non- specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>ASSETS</b>								
Cash and short-term funds	7,317,898	—	—	—	—	—	—	7,317,898
Deposits and placements with banks and other financial institutions	—	231,034	116,665	36,934	736,620	—	—	1,121,253
Securities held-for-trading	1,032,971	402,077	128,812	263,059	291,636	57,153	93,644	2,269,352
Securities available-for-sale	—	—	—	—	19,848	73,701	237,964	331,513
Securities held-to-maturity	—	—	21,902	83,401	441,251	705,936	108,656	1,361,146
Loans, advances and financing	4,978,148	2,332,744	2,329,995	3,569,140	14,175,905	13,350,619	—	40,736,551
Other assets	—	—	—	—	—	—	685,656	685,656
Statutory deposit with Bank Negara Malaysia	—	—	—	—	—	—	1,532,563	1,532,563
Deferred tax asset	—	—	—	—	—	—	747,278	747,278
Investment in associated companies	—	—	—	—	—	—	545	545
Property and equipment	—	—	—	—	—	—	386,848	386,848
Intangible assets	—	—	—	—	—	—	36,843	36,843
<b>TOTAL ASSETS</b>	<b>13,329,017</b>	<b>2,965,855</b>	<b>2,597,374</b>	<b>3,952,534</b>	<b>15,665,260</b>	<b>14,187,409</b>	<b>3,829,997</b>	<b>56,527,446</b>
<b>LIABILITIES AND EQUITY</b>								
Deposits from customers	15,129,574	5,498,498	4,293,728	6,014,429	1,558,598	—	—	32,494,827
Deposits and placements of banks and other financial institutions	4,413,839	2,762,840	1,303,386	1,473,225	1,802,759	1,657,500	—	13,413,549
Obligation on securities sold under repurchase agreements	1,011,886	92,735	—	—	—	—	—	1,104,621
Bills and acceptances	291,371	497,626	120,623	—	—	—	—	909,620
Recourse obligation of loans sold to Cagamas Berhad	141,141	55,928	14,520	647,849	919,517	—	—	1,778,955
Other liabilities	—	—	—	—	—	—	1,218,297	1,218,297
Subordinated term loans	—	—	—	—	—	1,140,000	—	1,140,000
Hybrid securities	—	—	—	—	—	727,734	—	727,734
Subordinated bonds	—	—	—	—	—	200,000	—	200,000
Total Liabilities	20,987,811	8,907,627	5,732,257	8,135,503	4,280,874	3,725,234	1,218,297	52,987,603
Minority interests	—	—	—	—	—	—	70	70
Shareholder's Equity	—	—	—	—	—	—	3,539,773	3,539,773
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>20,987,811</b>	<b>8,907,627</b>	<b>5,732,257</b>	<b>8,135,503</b>	<b>4,280,874</b>	<b>3,725,234</b>	<b>4,758,140</b>	<b>56,527,446</b>
Net maturity mismatch	(7,658,794)	(5,941,772)	(3,134,883)	(4,182,969)	11,384,386	10,462,175	(928,143)	—

Company No. 8515-D

2007

The Bank	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	>1 to 5 years	Over 5 years	Non-specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>ASSETS</b>								
Cash and short-term funds	8,129,295	—	—	—	—	—	—	8,129,295
Deposits and placements with financial institutions	7,971	832,000	202,727	103,680	—	691,822	—	1,838,200
Securities held-for-trading	—	1,985	19,656	343,372	323,519	160,813	123,301	972,646
Securities available-for-sale	350,000	49,995	—	—	55,153	41,803	101,800	598,751
Securities held-to-maturity	—	—	—	—	406,059	595,506	115,817	1,117,382
Loans, advances and financing	4,240,900	2,015,028	1,863,253	3,035,512	12,330,074	13,610,811	—	37,095,578
Other assets	—	—	—	—	—	—	820,125	820,125
Statutory deposit with Bank Negara Malaysia	—	—	—	—	—	—	1,389,008	1,389,008
Deferred tax asset	—	—	—	—	—	—	600,017	600,017
Investment in subsidiary companies	—	—	—	—	—	—	813,849	813,849
Investment in associated companies	—	—	—	—	—	—	137	137
Property and equipment	—	—	—	—	—	—	154,322	154,322
Intangible assets	—	—	—	—	—	—	54,412	54,412
<b>TOTAL ASSETS</b>	<b>12,728,166</b>	<b>2,899,008</b>	<b>2,085,636</b>	<b>3,482,564</b>	<b>13,114,805</b>	<b>15,100,755</b>	<b>4,172,788</b>	<b>53,583,722</b>
<b>LIABILITIES AND EQUITY</b>								
Deposits from customers	12,909,427	4,968,367	4,201,753	6,723,767	3,678,364	—	—	32,481,678
Deposits and placements of banks and other financial institutions	5,359,843	3,383,123	2,018,254	388,885	801,120	1,657,500	—	13,608,725
Obligation on securities sold under repurchase agreements	444,319	—	—	—	—	—	—	444,319
Bills and acceptances	278,359	547,637	188,967	—	—	—	—	1,014,963
Recourse obligation of loans sold to Cagamas Berhad	18,934	38,037	192,329	242,016	211,324	—	—	702,640
Other liabilities	—	—	—	—	—	—	1,068,469	1,068,469
Subordinated term loans	—	—	—	—	—	1,144,167	—	1,144,167
Subordinated bonds	—	—	—	—	—	200,000	—	200,000
Total Liabilities	19,010,882	8,937,164	6,601,303	7,354,668	4,690,808	3,001,667	1,068,469	50,664,961
Shareholder's Equity	—	—	—	—	—	—	2,918,761	2,918,761
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>19,010,882</b>	<b>8,937,164</b>	<b>6,601,303</b>	<b>7,354,668</b>	<b>4,690,808</b>	<b>3,001,667</b>	<b>3,987,230</b>	<b>53,583,722</b>
Net maturity mismatch	(6,282,716)	(6,038,156)	(4,515,667)	(3,872,104)	8,423,997	12,099,088	185,558	—

Company No. 8515-D

2006

The Bank	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	>1 to 5 years	Over 5 years	Non- specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>ASSETS</b>								
Cash and short-term funds	7,303,343	–	–	–	–	–	–	7,303,343
Deposits and placements with financial institutions	–	231,034	116,665	36,831	736,620	–	–	1,121,150
Securities held-for -trading	1,032,971	402,077	128,812	263,059	291,636	57,153	93,621	2,269,329
Securities available-for-sale	–	–	–	–	19,848	73,701	237,964	331,513
Securities held-to-maturity	–	–	21,902	83,401	441,251	705,936	108,438	1,360,928
Loans, advances and financing	4,978,148	2,332,744	2,329,995	3,569,140	14,175,905	13,350,619	–	40,736,551
Other assets	–	–	–	–	–	–	687,791	687,791
Statutory deposit with								
Bank Negara Malaysia	–	–	–	–	–	–	1,532,563	1,532,563
Deferred tax asset	–	–	–	–	–	–	594,240	594,240
Investment in subsidiary companies	–	–	–	–	–	–	29,781	29,781
Investment in associated companies	–	–	–	–	–	–	137	137
Property and equipment	–	–	–	–	–	–	355,253	355,253
Intangible assets	–	–	–	–	–	–	36,843	36,843
<b>TOTAL ASSETS</b>	<b>13,314,462</b>	<b>2,965,855</b>	<b>2,597,374</b>	<b>3,952,431</b>	<b>15,665,260</b>	<b>14,187,409</b>	<b>3,676,631</b>	<b>56,359,422</b>
<b>LIABILITIES AND EQUITY</b>								
Deposits from customers	15,131,322	5,498,498	4,293,728	6,014,429	1,558,598	–	–	32,496,575
Deposits and placements of banks and other financial institutions	4,413,839	2,762,840	1,303,386	1,473,225	1,802,759	1,657,500	–	13,413,549
Obligation on securities sold under repurchase agreements	1,011,886	92,735	–	–	–	–	–	1,104,621
Bills and acceptances	291,371	497,626	120,623	–	–	–	–	909,620
Recourse obligation of loans sold to Cagamas Berhad	141,141	55,928	14,520	647,849	919,517	–	–	1,778,955
Other liabilities	–	–	–	–	–	–	1,212,680	1,212,680
Subordinated term loans	–	–	–	–	–	1,867,734	–	1,867,734
Subordinated bonds	–	–	–	–	–	200,000	–	200,000
<b>Total Liabilities</b>	<b>20,989,559</b>	<b>8,907,627</b>	<b>5,732,257</b>	<b>8,135,503</b>	<b>4,280,874</b>	<b>3,725,234</b>	<b>1,212,680</b>	<b>52,983,734</b>
Shareholder's Equity	–	–	–	–	–	–	3,375,688	3,375,688
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>20,989,559</b>	<b>8,907,627</b>	<b>5,732,257</b>	<b>8,135,503</b>	<b>4,280,874</b>	<b>3,725,234</b>	<b>4,588,368</b>	<b>56,359,422</b>
Net maturity mismatch	(7,675,097)	(5,941,772)	(3,134,883)	(4,183,072)	11,384,386	10,462,175	(911,737)	–

## **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 points 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 Group 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 Group 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 disseminating 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 Group both for revenue purposes as well as to manage the Group's own market risk exposure. The Group's involvement in financial derivatives is currently focused on interest rate derivatives and 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.

The principal interest rate contracts used are interest rate swaps. Interest rate swap transactions generally involve the exchange of fixed and floating interest payment obligations without the exchange of the underlying principal amounts.

For revenue purposes, the Group maintains trading positions in these instruments and engages in transactions with customers to satisfy their needs in managing their respective interest rate and foreign exchange rate exposure. Derivative transactions generate income for the Group from the buy-sell spreads.

As part of the assets and liability exposure management, the Group uses derivatives to manage the Group's market risk exposure. As the value of these financial derivatives are principally driven by interest rate and foreign rate factors, the Group uses them to reduce the overall interest rate and foreign exchange rate exposures of the Group. 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 Group. The Group 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 Group.

### Fair value of financial derivatives

The estimated fair values of the Group's outstanding derivative financial instruments are as below.

These values are stand alone without taking into account their potential offsetting relationship with other non-derivatives exposures of the Group.

	2007		2006	
	Principal Amount RM'000	Fair Value Assets/ (Liabilities)* RM'000	Principal Amount RM'000	Fair Value Assets/ (Liabilities)* RM'000
Interest rate related contracts:				
– Interest rate swaps	<u>10,654,557</u>	<u>(118,693)</u>	<u>4,848,809</u>	<u>(10,249)</u>

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

## **Risk associated with financial derivatives**

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

### **Market risk of derivatives used for trading purpose s**

Market risk arising from the above interest rate-related and foreign exchange-related derivatives contracts measures the potential losses to the value of these contracts due to changes in market rate/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 Group'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 Group will only suffer a replacement cost if the contract carries a fair value gain at time of default.

As at 31 March 2007, the Group and the Bank has a counterparty credit risk of NIL (2006: RM16,519,000) being the cost to replace the positive value contracts. This may vary over the life of the contracts, mainly as a function of movement in market rates and time.

The Group 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.

## **49. 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 investments in subsidiary companies and 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 Group's and the Bank's financial instruments are as follows:

	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
The Group	RM'000	RM'000	RM'000	RM'000
<b>Financial Assets</b>				
Cash and short-term funds	9,982,586	9,982,586	7,317,898	7,317,898
Deposits and placements with banks and other financial institutions	2,244,808	1,919,804	1,121,253	1,121,253
Securities held-for-trading	1,117,257	1,117,327	2,269,352	2,269,352
Securities available-for-sale	598,751	701,803	331,513	351,311
Securities held-to-maturity	1,117,599	1,329,506	1,361,146	1,580,796
Loans, advances and financing *	44,179,308	44,711,647	41,393,345	41,912,182
Other financial assets	774,138	774,138	621,078	621,078
	<u>60,014,447</u>	<u>60,536,811</u>	<u>54,415,585</u>	<u>55,173,870</u>
Non-financial assets	<u>2,032,236</u>	<u>2,032,236</u>	<u>2,111,861</u>	<u>2,111,861</u>
<b>TOTAL ASSETS</b>	<u>62,046,683</u>	<u>62,569,047</u>	<u>56,527,446</u>	<u>57,285,731</u>
<b>Financial Liabilities</b>				
Deposits from customers	37,135,858	37,288,684	32,494,827	32,566,718
Deposits and placements of banks and other financial institutions	16,153,699	15,942,647	13,413,549	12,994,386
Obligation on securities sold under repurchase agreements	444,319	444,319	1,104,621	1,104,621
Bills and acceptances payables	1,461,577	1,461,577	909,620	909,620
Recourse obligation of loans sold to Cagamas Berhad	702,640	702,108	1,778,955	1,768,802
Other financial liabilities	1,168,099	1,168,117	1,101,800	1,101,800
Subordinated term loans	460,000	535,701	1,140,000	1,224,654
Hybrid securities	684,167	710,782	727,734	767,499
Subordinated bonds	600,000	633,738	200,000	211,381
	<u>58,810,359</u>	<u>58,887,673</u>	<u>52,871,106</u>	<u>52,649,481</u>
<b>Non-Financial Liabilities</b>				
Other non-financial liabilities	55,611	55,593	116,497	116,497
Minority interests	57	57	70	70
Shareholder's equity	<u>3,180,656</u>	<u>3,180,656</u>	<u>3,539,773</u>	<u>3,539,773</u>
	<u>3,236,324</u>	<u>3,236,306</u>	<u>3,656,340</u>	<u>3,656,340</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>62,046,683</u>	<u>62,123,979</u>	<u>56,527,446</u>	<u>56,305,821</u>

\* The general allowance for the Group amounting to RM713,761,000 (2006: RM656,794,000) has been included under non-financial assets.

	2007		2006	
	Carrying Value RM'000	Fair Value RM'000	Carrying Value RM'000	Fair Value RM'000
<b>The Bank</b>				
<b>Financial Assets</b>				
Cash and short-term funds	8,129,295	8,129,295	7,303,343	7,303,343
Deposits and placements with banks and other financial institutions	1,838,200	1,513,195	1,121,150	1,121,150
Securities held-for-trading	972,646	972,646	2,269,329	2,269,329
Securities available-for-sale	598,751	701,803	331,513	351,311
Securities held-to-maturity	1,117,382	1,329,288	1,360,928	1,580,578
Loans, advances and financing *	37,670,341	37,988,217	41,393,345	41,912,182
Other financial assets	776,186	776,186	623,213	623,213
	<u>51,102,801</u>	<u>51,410,630</u>	<u>54,402,821</u>	<u>55,161,106</u>
Non-financial assets	<u>2,480,921</u>	<u>2,480,921</u>	<u>1,956,601</u>	<u>1,956,601</u>
<b>TOTAL ASSETS</b>	<u>53,583,722</u>	<u>53,891,551</u>	<u>56,359,422</u>	<u>57,117,707</u>
<b>Financial Liabilities</b>				
Deposits from customers	32,481,678	32,625,027	32,496,575	32,568,467
Deposits and placements of banks and other financial institutions	13,608,725	13,392,342	13,413,549	12,994,386
Obligation on securities sold under repurchase agreements	444,319	444,319	1,104,621	1,104,621
Bills and acceptances payables	1,014,963	1,014,962	909,620	909,620
Recourse obligation of loans sold to Cagamas Berhad	702,640	702,109	1,778,955	1,768,802
Other financial liabilities	1,068,469	1,068,468	1,096,200	1,096,200
Subordinated term loans	1,144,167	1,246,483	1,867,734	1,992,153
Subordinated bonds	200,000	211,131	200,000	211,382
	<u>50,664,961</u>	<u>50,704,841</u>	<u>52,867,254</u>	<u>52,645,631</u>
<b>Non-Financial Liabilities</b>				
Other non-financial liabilities	—	—	116,480	116,480
Shareholder's equity	<u>2,918,761</u>	<u>2,918,761</u>	<u>3,375,688</u>	<u>3,375,688</u>
	<u>2,918,761</u>	<u>2,918,761</u>	<u>3,492,168</u>	<u>3,492,168</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>53,583,722</u>	<u>53,623,602</u>	<u>56,359,422</u>	<u>56,137,799</u>

\* The general allowance for the Bank amounting to RM574,763,000 (2006: RM656,794,000) has been included under non-financial assets.

The fair value of derivatives financial instruments are shown in Note 48.

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 Group assess that their respective fair values are unlikely to be significant given that the overall level of fees involved is not significant and no allowances is necessary to be made.

The following methods and assumptions were used to estimate the fair value of assets and liabilities as at 31 March 2007:

**(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) Securities Purchased Under Repurchased Agreements And Deposits With Financial Institutions**

The fair values of securities purchased under repurchased agreements and deposits with financial institutions with remaining maturities less than six months are estimated to approximate their carrying values. For securities purchased under repurchase agreements and deposits with financial institutions with maturities of more than six months, the fair value are estimated based on discounted cash flows using the prevailing KLIBOR rates and interest rate swap rates.

**(c) Securities Held-For-Trading, Securities Available-For-Sale And Securities Held-To-Maturity**

The estimated fair value is based on quoted or observable market prices at the balance sheet date. Where such quoted or observable market prices are not available, the fair value is estimated using net tangible assets techniques. The fair values of unquoted debt equity conversion securities which are not actively traded, are estimated to be at par value, taking into consideration the underlying collateral values or their carrying amount at the balance sheet date.

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

The fair value of variable rate loans and financing are estimated to approximate their carrying values. For fixed rate loans and 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 loans and financing, the fair values are deemed to approximate the carrying value, net of specific allowance for bad and doubtful debts and financing.

**(e) Deposits From Customers, Deposits Of Banks And Other Financial Institutions And Securities Sold Under Repurchase Agreements**

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 value of term deposits, negotiable instrument of deposits and securities sold under repurchase agreements with remaining maturities of more than six months are estimated based on discounted cash flows using KLIBOR rates and interest rate swap rates.

**(f) Recourse Obligation on Loans Sold To Cagamas Berhad**

The fair values for amount due to Cagamas Berhad are determined based on discounted cash flows of future instalment payments at prevailing rates quoted by Cagamas Berhad as at balance sheet date.

**(g) Bills and Acceptances Payables**

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

**(h) Subordinated Term Loans, Redeemable Unsecured Subordinated Bonds and Hybrid Securities ("Borrowings")**

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

**(i) Interest Rate Swaps**

The estimated fair value is based on the market price to enter into an offsetting contract at balance sheet date.

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.

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

**50. CHANGE IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS**

**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:

- (i) New and revised Financial Reporting Standards ("FRS") issued by MASB that are applicable to the Group and the Bank with effect from the financial period beginning on or after 1 April 2006 which have resulted in changes in accounting policies as follows:

- (a) FRS 101: Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of minority interests and other disclosures. Prior to 1 April 2006, minority interests at the balance sheet date are presented in the consolidated balance sheet separately from the liabilities and equity. Upon the adoption of the revised FRS 101, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the year. A similar requirement is also applicable to the statement of changes in equity. The revised FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the year, showing separately the amounts attributable to equity holders of the Bank and to minority interests.

Prior to 1 April 2006, the Group's share in taxation of associated companies accounted for using the equity method was included as part of the Group's income tax expense in the consolidated income statement. Upon the adoption of revised FRS 101, the share in taxation of associated companies accounted for using the equity method is now included in the share in results of associated companies in the consolidated income statement before arriving at the Group's profit before taxation.

These changes in presentation have been applied retrospectively and certain comparative figures have been restated. These changes in presentation has no impact on the Bank's financial statements.

(b) 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 Group's and Bank's financial statements.

(c) FRS 127: Consolidated and Separate Financial Statements

Prior to 1 April 2006, certain of the Group's investments in subsidiary companies are stated in the Bank's financial statements at directors' valuation, and written down when the directors consider that there is an impairment loss that is other than temporary on the value of such investments. The impairment loss is charged to the income statements unless it reverses a previous revaluation in which case it is treated as a revaluation decrease. The directors' valuation is arrived at after taking into account the underlying net tangible assets value of the subsidiary companies and the surplus on revaluation is credited to the revaluation reserve account. The valuation of the investments in subsidiary companies was carried out at a regular interval of at least once in every five years. FRS 127 now requires that investments in subsidiaries be recorded at cost. This change in accounting policy is applied retrospectively.

In addition, when merger accounting was previously applied in the Group, FRS 122<sub>2004</sub>: Business Combinations required that the investment in the relevant subsidiary be recorded at the aggregate of the nominal value of equity shares issued, cash and cash equivalents and fair value of other consideration. FRS 127 now requires the equity shares issued to be recorded at cost and not nominal values. This change in accounting policy is applied retrospectively.

There were no effects on the Group's and Bank's income statement in respect of the above changes.

(d) FRS 140: Investment Property

The adoption of FRS 140 has resulted in a change in the accounting policy for investment properties, as well as the reclassification of certain properties previously recognised as property and equipment to investment properties.

As a result of the adoption of FRS 140, certain properties of the Group which are held for rental to external parties have been reclassified to investment properties. Investment properties of the Group are stated at cost less any accumulated depreciation and impairment losses. Investment properties are depreciated on a straight line basis to write off the cost of the assets to their residual value over their estimated useful lives.

The change in accounting policy has been applied prospectively in accordance with the transitional provisions of FRS 140. Because 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 Group's financial statements.

(e) 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.

The change in accounting policy has been applied prospectively in accordance with the transitional provisions of FRS 138. Certain of the Group's assets have been identified and classified as assets held for sale. Prior to adoption of FRS 5, these assets were classified as property and equipment.

This change has no impact on the Bank's financial statements.

- (ii) BNM's Circular on Handling Fees dated 16 October 2006 which has resulted in the Group capitalising handling fees paid for hire purchase loans in the balance sheet and amortising the amount in the income statement over the life of the loans with retrospective effect. The amount amortised is offset against interest income earned on hire purchase loans. Previously, such handling fees were expensed off in the income statement as other operating expenses when incurred.

**Summary of effects of adoption of new and revised FRSs and BNM's Circular on Handling Fees on current year's financial statements:**

- (i) The following tables provide estimates of the extent to which each of the line items in the balance sheets and income statements for the year ended 31 March 2007 is higher or lower than it would have been had the previous policies been applied in the current year.

(a) Effects on Balance Sheets as at 31 March 2007

Description of change	Increase / (Decrease)		
	BNM's Circular on Handling Fees RM'000 Note 50 (ii)	FRS 127 RM'000 Note 50 (i)c	Total RM'000
<b>Group</b>			
Other assets	(18,721)	—	(18,721)
Unappropriated profits	(13,666)	—	(13,666)
Deferred tax assets	5,055	—	5,055
<b>Bank</b>			
Other assets	(15,507)	—	(15,507)
Unappropriated profits	(11,320)	—	(11,320)
Deferred tax assets	4,187	—	4,187
Share premium	—	330,707	330,707
Capital reserve	—	(330,707)	(330,707)



(b) Effects on Income Statement for the year ended 31 March 2007 and 2006

	<b>The Group</b>		<b>The Bank</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Profit after taxation, before changes in accounting policies	(376,075)	238,253	(471,526)	229,719
Effects of adoption of BNM Circular on handling fees	13,666	34,369	11,320	34,369
Profit after taxation, before changes in accounting policies	<u>(362,409)</u>	<u>272,622</u>	<u>(460,206)</u>	<u>264,088</u>

(ii) Restatement of comparative figures

Changes in comparative figures arising from the adoption of the new and revised Financial Reporting Standards that are applicable to the Group and Bank as well as BNM's guidelines on Accounting Treatment for handling fees. These comparative amounts which have been reclassified to conform with the current year's presentation are as follows.

	<b>As previously stated</b>	<b>Effect of change</b>	<b>As restated</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>The Group</b>			
<b>Balance Sheet as at 31 March 2006</b>			
<b>Assets</b>			
Other assets	521,703	163,953	685,656
Deferred tax assets	793,184	(45,906)	747,278
Property and equipment	423,691	(36,843)	386,848
Intangible assets	—	36,843	36,843
<b>Liabilities and Equity</b>			
Reserves and minority interest	2,811,432	118,047	2,929,479
<b>Income Statement for the year ended 31 March 2006</b>			
Interest Income	2,625,588	(69,619)	2,555,969
Other operating income	171,943	(8,842)	163,101
Net Income from Islamic Banking Business	458,121	(36,167)	421,954
Other operating expenses	(880,018)	162,361	(717,657)
Share of results in associated company	185	(97)	88
Taxation	(109,531)	(13,267)	(122,798)
Profit after taxation	238,253	34,369	272,622

	As previously stated RM'000	Effect of change RM'000	As restated RM'000
<b>The Bank</b>			
<b>Balance Sheet as at 31 March 2006</b>			
<b>Assets</b>			
Other assets	523,838	163,953	687,791
Deferred tax assets	640,146	(45,906)	594,240
Property and equipment	392,096	(36,843)	355,253
Intangible assets	—	36,843	36,843
<b>Liabilities and Equity</b>			
Reserves	2,647,275	118,049	2,765,324
<b>Income Statement for the year ended 31 March 2006</b>			
<b><u>Continuing operations</u></b>			
Interest Income	2,540,536	(67,577)	2,472,959
Net Income from Islamic Banking			
Business	448,644	(448,644)	—
Other operating income	155,990	(7,329)	148,661
Other operating expenses	(834,870)	286,462	(548,408)
Allowances for losses on loans and financing	(736,735)	153,938	(582,797)
Impairment written back/(loss)	70,140	(94)	70,046
Taxation	(105,719)	26,346	(79,373)
Profit after taxation	229,719	(56,898)	172,821
<b><u>Discontinued operations</u></b>			
Net Income from Islamic Banking			
Business	—	412,786	412,786
Other operating expenses	—	(127,965)	(127,965)
Allowances for losses on loans and financing	—	(153,938)	(153,938)
Impairment written back	—	94	94
Taxation	—	(39,710)	(39,710)
Profit after taxation	—	91,267	91,267