AmIslamic Bank Berhad

(Company No. 295576–U)
(Incorporated in Malaysia)

Financial Statements
For the Financial Year Ended
31 March 2010

(In Ringgit Malaysia)

AmIslamic Bank Berhad
(Incorporated in Malaysia)

CONTENTS

AmIslamic Bank Berhad
(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors have pleasure in presenting their report and the audited financial statements of the Bank for the financial year ended 31 March 2010.

PRINCIPAL ACTIVITIES

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

FINANCIAL RESULTS

	RM'000
Profit before zakat and taxation	356,610
Zakat	(1,270)
Taxation	(93,995)
Profit after zakat and taxation	261,345

BUSINESS PLAN AND STRATEGY

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

BUSINESS PLAN AND STRATEGY (CONTD.)

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

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

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

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

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

BUSINESS PLAN AND STRATEGY (CONTD.)

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

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

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

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

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

BUSINESS PLAN AND STRATEGY (CONTD.)

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

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

(i) Continue implementation of the dual signage (comprising signages of AmIslamic Bank Berhad and AmBank (M) Berhad) strategy throughout the AmBank (M) Berhad Group shared branches network.

(ii) On-going product development, business tie-ups and dealings.

(iii) Gear up the development and business opportunities in the equity business based on the Musharakah concept.

(iv) Increase business penetration for government and government linked companies for both deposits and financing.

OUTLOOK FOR NEXT FINANCIAL YEAR

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

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

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

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

ITEMS OF AN UNUSUAL NATURE

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

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

DIVIDENDS

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

	RM'000
In respect of the financial year ended 31 March 2010:	
First interim dividend of 33.08% less 25% tax on 403,038,000 ordinary shares, approved by the Board of Directors on 15 September 2009 and paid on 17 November 2009	100,000
Second interim dividend, approved by the Board of Directors on 7 December 2009 and paid on 25 February 2010, consisting of:	
- Gross dividends of 16.56% less 25% tax on 403,038,000 ordinary shares	50,060
- Single tier dividend of 12.39% on 403,038,000 ordinary shares	49,940
	200,000

The directors do not recommend the payment of final dividend in respect of the current financial year.

RESERVES AND ALLOWANCES

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

ISSUANCE OF SHARES

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

SHARE OPTIONS

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

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

BAD AND DOUBTFUL DEBTS AND FINANCING

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

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

CURRENT ASSETS

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

At the date of this report, the directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Bank misleading.

VALUATION METHODS

At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities in the Bank's financial statements misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

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

(a) any charge on the assets of the Bank which has arisen since the end of the financial year and which secures the liability of any other person; or

(b) any contingent liability in respect of the Bank that has arisen since the end of the financial year, other than those incurred in the normal course of business.

No contingent or other liability of the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Bank to meet its obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

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

DIRECTORS

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

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

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

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

DIRECTORS' INTERESTS

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

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

DIRECT INTERESTS

In the ultimate holding company,
AMMB Holdings Berhad ("AHB")

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

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

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

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

DIRECTORS' INTERESTS (CONTD.)

INDIRECT INTERESTS

In the ultimate holding company, AMMB Holdings Berhad

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

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

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

DIRECTORS’ BENEFITS

Since the end of the previous financial year, no director of the Bank has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by directors as shown in Note 28 to the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm in which the director is a member, or with a company in which the director has a substantial financial interest except for related party transactions as shown in Note 27 to the financial statements.

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

CORPORATE GOVERNANCE

(a) BOARD RESPONSIBILITY AND OVERSIGHT

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

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

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

The Board currently comprises seven (7) directors with wide skills and experience, four (4) of whom are Independent Non-Executive Directors. The Directors participate fully in decision making on key issues regarding the Bank. The Independent Non-Executive Directors ensure strategies proposed by the management are fully discussed and examined, as well as taking into account the long term interests of various stakeholders.

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

(b) COMMITTEES OF THE BOARD

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

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

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

CORPORATE GOVERNANCE (CONTD.)

(b) COMMITTEES OF THE BOARD (CONTD.)

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

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

Notes:

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

   ** Resigned as member on 21.5.2009

CORPORATE GOVERNANCE (CONTD.)

Nomination Committee

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

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

Remuneration Committee

The Committee comprises four (4) members, all of whom are Non-Executive Directors. The Committee is responsible for determining and recommending to the Board the framework or broad policy for the remuneration of the Directors, the Chief Executive Officer and other Senior Management staff.

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

Audit and Examination Committee

The Committee comprises three (3) members, all of whom are Independent Non-Executive Directors. The Board has appointed the Audit and Examination Committee ("AEC") to assist in discharging its duties of maintaining a sound system of internal control to safeguard the Bank's assets and shareholder's investments.

The AEC met during the year to review the scope of work of both the internal audit function and the statutory auditors, the results arising thereafter as well as their evaluation of the system of internal controls. The AEC also followed up on the resolution of major issues raised by the internal auditors, statutory auditors as well as the regulatory authorities in the examination reports. The financial statements were reviewed by the AEC prior to their submission to the Board of the Bank for adoption.

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

CORPORATE GOVERNANCE (CONTD.)

Risk Management Committee

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

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

The Committee is independent from management and comprises three (3) members, all of whom are Independent Non-Executive Directors. The Committee ensures that the Board's risk tolerance level is effectively enforced, the risk management process is in place and functioning and reviews high-level risk exposures to ensure that they are within the overall interests of the Bank. It also assesses the Bank's ability to accommodate risks under normal and stress scenarios.

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

Internal Audit and Internal Control Activities

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

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

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

CORPORATE GOVERNANCE (CONTD.)

Internal Audit and Internal Control Activities (Contd.)

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

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

MANAGEMENT INFORMATION

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

These reports are issued giving sufficient time before the meeting to enable the Directors to be prepared and to obtain further explanations, where necessary, and provides input on Bank policies.

HOLDING AND ULTIMATE HOLDING COMPANY

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

RATING BY EXTERNAL AGENCIES

Rating Agency Malaysia Berhad ("RAM") had upgraded the financial institution rating of the Bank at AA3/P1/Stable.

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

SHARIAH COMMITTEE

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

AUDITORS

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

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

TAN SRI AZMAN HASHIM	**CHEAH TEK KUANG**
Chairman	Director

Kuala Lumpur, Malaysia
12 May 2010

AmIslamic Bank Berhad
(Incorporated in Malaysia)

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

We, **TAN SRI AZMAN HASHIM** and **CHEAH TEK KUANG**, being two of the directors of **AmIslamic Bank Berhad**, do hereby state that, in the opinion of the directors, the accompanying financial statements as set on pages 22 to 91 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Bank as at 31 March 2010 and of the results and the cash flows of the Bank for the financial year then ended.

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

TAN SRI AZMAN HASHIM
Chairman

CHEAH TEK KUANG
Director

Kuala Lumpur, Malaysia
12 May 2010

AmIslamic Bank Berhad
(Incorporated in Malaysia)

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

I, **LIM HOCK AUN**, being the Officer primarily responsible for the financial management of **AmIslamic Bank Berhad**, do solemnly and sincerely declare that the accompanying financial statements as set out on pages 22 to 91 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed **LIM HOCK AUN** at Kuala Lumpur
in the Wilayah Persekutuan on 12 May 2010

LIM HOCK AUN

Before me,

COMMISSIONER FOR OATHS

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

AmIslamic Bank Berhad
(Incorporated in Malaysia)

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

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

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

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

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

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

a) The contracts, transactions and dealings entered into by the Bank during the year ended 31 March 2010, that we have reviewed are in compliance with the Shariah rules and principles;

b) The main sources and investments of the Bank disclosed to us conform to the basis that had been approved by us in accordance with the Shariah rules and principles.

We beg Allah the Almighty to grant us all the success and straight-forwardness and Allah knows best.

ASSOC. PROF. DR. AMIR HUSIN MOHD NOR
Chairman of the Committee

ASSOC. PROF. DATIN DR. NOOR NAEMAH ABD. RAHMAN
Member of the Committee

ENCIK ADNAN YUSOFF
Member of the Committee

Kuala Lumpur, Malaysia
12 May 2010

Company No. 295576–U

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

Report on the financial Statements

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

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Independent auditors' report to the member of AmIslamic Bank Berhad (Contd.)

Opinion

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

Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

Other matters

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

Ernst & Young	Yap Seng Chong
AF: 0039	No. 2190/12/11(J)
Chartered Accountants	Chartered Accountant

Kuala Lumpur, Malaysia
12 May 2010

AmIslamic Bank Berhad
(Incorporated in Malaysia)

BALANCE SHEET
AS AT 31 MARCH 2010

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

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

AmIslamic Bank Berhad
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2010

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

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

Company No. 295576–U

AmIslamic Bank Berhad
(Incorporated in Malaysia)

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

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

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

AmIslamic Bank Berhad
(Incorporated in Malaysia)

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2010

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

AmIslamic Bank Berhad
(Incorporated in Malaysia)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

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

The Bank is a licensed Islamic Bank under the Islamic Banking Act, 1983, incorporated and domiciled in Malaysia. The registered office of the Bank is located at 22nd Floor, Bangunan AmBank Group, No. 55, Jalan Raja Chulan, 50200 Kuala Lumpur. The principal place of business for the Retail and Business Banking Divisions are located at Menara AmBank, Jalan Yap Kwan Seng, 50450 Kuala Lumpur and Menara Dion, Jalan Sultan Ismail, 50250 Kuala Lumpur respectively.

The financial statements of the Bank have been approved and authorised for issue by the Board of Directors on 26 April 2010.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Effective for financial periods beginning on or after 1 January 2010

FRS 4: Insurance Contracts
FRS 7: Financial Instruments: Disclosure
FRS 101: Presentation of Financial Statements (revised)
FRS 123: Borrowing Costs
FRS 139: Financial Instruments: Recognition and Measurement
Amendments to FRS 1: First-time Adoption of Financial Reporting Standards and FRS 127: Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
Amendments to FRS 2: Share-based Payment: Vesting Conditions and Cancellation
Amendments to FRS 132: Financial Instruments: Presentation
Amendments to FRS 139: Financial Instruments: Recognition and Measurement, FRS 7: Financial Instruments: Disclosure and IC Interpretation 9: Reassessment of Embedded Derivatives
Amendments to FRSs "Improvements to FRSs (2009)"
IC Interpretation 9: Reassessment of Embedded Derivatives
IC Interpretation 10: Interim Financial Reporting and Impairment
IC Interpretation 11: FRS 2 - Group and Treasury Share Transactions
IC Interpretation 13: Customer Loyalty Programmes
IC Interpretation 14: FRS 119 -The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
TR i-3: Presentation of Financial Statements of Islamic Financial Institutions

Effective for financial periods beginning on or after 1 March 2010

Amendments to FRS 132: Financial Instruments: Presentation

Effective for financial periods beginning on or after 1 July 2010

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

Effective for financial periods beginning on or after 1 January 2011

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

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

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

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

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

(ii) FRS 123: Borrowing Costs

This Standard supersedes FRS 123_{2004}: Borrowing Costs that removes the option of expensing borrowing costs and requires capitalisation of such costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognised as an expense. The Bank's current accounting policy is to expense the borrowing costs in the period which they are incurred. In accordance with the transitional provisions of the Standard, the Bank will apply the change in accounting policy prospectively for which the commencement date for capitalisation of borrowing cost on qualifying assets is on or after the financial period 1 January 2010.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

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

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

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

(vii) IC Interpretation 13: Customer Loyalty Programme

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(a) Basis Of Accounting

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

(b) Operating Revenue

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

(c) Financing Income and Expense Recognition

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

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

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

When a financing becomes non-performing, profit accrued and recognised as income prior to the date the financing is classified as non-performing is reversed out of income and set-off against the accrued profit receivable account in the balance sheet. Thereafter, profit on the non-performing financing shall be recognised as income on a cash basis. Customers’ accounts are deemed to be non-performing where repayments are in arrears for more than three (3) months from first day of default or after maturity date for trade bills, bankers’ acceptances and trust receipts.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(d) Recognition of Fees and Other Income

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

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

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

(e) Employee Benefits

(i) Short-term Benefits

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

(ii) Defined Contribution Plan

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

(iii) Termination Benefits

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(e) Employee Benefits (Contd.)

(iv) Share-based Compensation Benefits

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(f) Allowance for Bad and Doubtful Financing

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

A general allowance based on a percentage of total outstanding financing and advances (including accrued profit), net of specific allowance for bad and doubtful financing, is maintained by the Bank against risks which are not specifically identified.

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

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

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

(i) Values assigned to collateral held for non-performing financing secured by properties is determined based on the realisable values of the properties on the following basis:

(a) assigning only fifty percent (50%) of the realisable value of the properties held as collateral for non-performing financing which are in arrears for more than five (5) years but less than seven (7) years; and

(b) no value assigned to the realisable value of the properties held as collateral for non-performing financing which are in arrears for more than seven (7) years.

(ii) Specific allowance of 20% is provided on non-performing financing which are four (4) to less than six (6) months-in-arrears.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(g) Provisions

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

(h) Profit Equalisation Reserve ("PER")

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

(i) Impairment of Assets

(i) Securities Available-for-sale

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(i) Impairment of Assets (Contd.)

(ii) Securities held-to-maturity

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

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

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

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

(iii) Other assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(j) Income Tax

Tax expense comprises current and deferred tax. Income tax is recognised in the income statement except to the extent it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

(k) Zakat

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

(l) Securities

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

(i) Securities held-for-trading

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(l) Securities (Contd.)

(ii) Securities available-for-sale

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

(iii) Securities held-to-maturity

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

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

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

(m) Trade and Other Receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(n) Property and Equipment and Depreciation

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

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

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

Leasehold improvements	20.0%
Office equipment, furniture and fittings	10.0% - 25.0%
Computer hardware	20.0% - 33 1/3%

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

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

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

(o) Intangible Assets

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

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

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

(p) Bills and Acceptances Payable

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(q) Liabilities

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

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

(r) Provision for Commitments and Contingencies

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

(s) Subordinated Sukuk Musyarakah

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

(t) Equity Instruments

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

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

(u) Foreign Currency Transactions

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(v) Derivative Financial Instruments and Hedge Accounting

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

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

(i) Fair value hedge

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

(ii) Cash flow hedge

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

(w) Sell and Buy Back Agreements

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

(x) Cash Flow Statement

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(y) Cash and Cash Equivalents

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

(z) Contingent Liabilities and Contingent Assets

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

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Fair Value Estimation

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTD.)

(b) Impairment of Intangible Assets

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

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

(c) Deferred Tax Assets

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

(d) Allowance for Bad and Doubtful Debts and Financing

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

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

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

5. CASH AND SHORT-TERM FUNDS

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

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

	2010 RM'000	2009 RM'000
Interbank financing:		
Cash and short-term funds	3,882,900	3,210,100
Deposits and placements with banks and other financial institutions (Note 6)	150,000	-
	4,032,900	3,210,100
Interbank borrowing (Note 16)	(296,931)	(43,054)
Net interbank financing	3,735,969	3,167,046

6. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2010 RM'000	2009 RM'000
Other financial institutions	150,000	-

7. SECURITIES HELD-FOR-TRADING

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

8. SECURITIES AVAILABLE-FOR-SALE

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

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

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

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

9. DERIVATIVE FINANCIAL ASSETS/LIABILITIES

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

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

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

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

10. FINANCING AND ADVANCES

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

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

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

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

	2010 RM'000	2009 RM'000
Maturing within one year	1,982,230	1,268,161
One year to three years	804,687	759,163
Three years to five years	2,074,631	1,536,020
Over five years	7,146,717	6,512,693
Gross financing and advances	12,008,265	10,076,037

10. FINANCING AND ADVANCES (CONTD.)

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

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

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

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

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

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

10. FINANCING AND ADVANCES (CONTD.)

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

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

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

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

10. FINANCING AND ADVANCES (CONTD.)

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

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

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

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

10. FINANCING AND ADVANCES (CONTD.)

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

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

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

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

11. OTHER ASSETS

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

12. STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA

The non-profit bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (revised 1994), the amounts of which are determined as a set percentage of total eligible liabilities. As at 31 March 2010, a total of RM75.26 million nominal value of Government Investment Certificates, classified as securities available-for-sale, was used for Statutory Reserve Requirement purposes, as mentioned in Note 8 (2009: RM Nil).

13. PROPERTY AND EQUIPMENT

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

14. INTANGIBLE ASSETS

The net carrying amount of intangible assets are as follows:

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

15. DEPOSITS FROM CUSTOMERS

	2010 RM'000	2009 RM'000
(i) By type of deposit:		
Non-Mudharabah		
Demand deposits	910,759	645,865
Savings deposits	1,154,413	945,950
Negotiable instruments of deposits	155,782	266,985
Other deposits	9,544	-
	2,230,498	1,858,800
Mudharabah		
General investment deposits	11,088,972	8,251,420
Structured deposits	78,570	44,850
	11,167,542	8,296,270
Total	13,398,040	10,155,070

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

	2010 RM'000	2009 RM'000
Due within six months	12,691,088	9,180,168
Six months to one year	411,653	525,255
One year to three years	232,968	379,264
Three years to five years	62,331	70,383
	13,398,040	10,155,070

15. DEPOSITS FROM CUSTOMERS (CONTD.)

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

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

16. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

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

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

Negotiable instruments of deposits	610,619	820,736
Interbank borrowings (Note 5)	296,931	43,054

17. BILLS AND ACCEPTANCES PAYABLE

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

18. OTHER LIABILITIES

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

Profit equalisation reserve

The movements in profit equalisation reserve are as follows:

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

19. SUBORDINATED SUKUK MUSYARAKAH

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

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

The Subordinated Sukuk Musyarakah which has been awarded a long term rating of A1 by Rating Agency Malaysia is not listed on Bursa Securities Malaysia Berhad or on any other stock exchange but is traded and prescribed under the Scripless Securities Trading System maintained by BNM.

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

20. SHARE CAPITAL

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

21. RESERVES

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

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

(a) Share premium is used to record premium arising from new shares issued by the Bank.

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

(c) The available-for-sale reserve is in respect of unrealised fair value gains and losses on securities available-for sale.

(d) Unappropriated profits are those reserves available for distribution by way of dividends. During the financial year, the Bank has fully utilised the tax credit under Section 108 of the Income Tax Act, 1967 to distribute cash dividend payments (2009: The Section 108 balance was RM49.9 million). The Bank may distribute dividends out of its entire unappropriated profits under the single tier system.

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

	2010 RM'000	2009 RM'000
Income derived from investment of:		
(i) General investment deposits	647,960	476,716
(ii) Other deposits	236,745	331,223
	884,705	807,939

(i) **Income derived from investment of general investment deposits**

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

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

(ii) Income derived from investment of other deposits

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

23. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

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

24. ALLOWANCE FOR LOSSES ON FINANCING AND ADVANCES

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

25. INCOME ATTRIBUTABLE TO THE DEPOSITORS

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

26. OTHER OPERATING EXPENSES

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

26. OTHER OPERATING EXPENSES (CONTD.)

The above expenditure includes the following statutory disclosures:

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

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

27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

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

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

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

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

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

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

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

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

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

Directors related transactions

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

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

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

28. DIRECTORS' REMUNERATION

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

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

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

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

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

29. SHARIAH COMMITTEE'S MEMBERS' REMUNERATION

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

30. FINANCE COST

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

31. TAXATION

Taxation consists of the following:

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

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

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

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

32. DEFERRED TAX ASSET

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

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

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

Deferred tax liability recognised directly in equity:

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

33. EARNINGS PER SHARE

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

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

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

34. NET ASSETS PER SHARE (RM)

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

Net assets per share is calculated as follows:

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

35. CAPITAL COMMITMENTS

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

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

36. LEASE COMMITMENTS

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

	2010 RM'000	2009 RM'000
Within one year	1,216	906
Between one and five years	2,547	1,766
More than five years	756	854
	4,519	3,526

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

37. CAPITAL ADEQUACY RATIO

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

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

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

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

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

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

37. CAPITAL ADEQUACY RATIO (CONTD.)

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

2010
Exposure Class

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

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

37. CAPITAL ADEQUACY RATIO (CONTD.)

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

2009
Exposure Class

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

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

37. CAPITAL ADEQUACY RATIO (CONTD.)

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

2010

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

37. CAPITAL ADEQUACY RATIO (CONTD.)

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

2009

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

37. CAPITAL ADEQUACY RATIO (CONTD.)

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

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

37. CAPITAL ADEQUACY RATIO (CONTD.)

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

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

38. RISK MANAGEMENT POLICY

Risk management is about managing uncertainties such that deviations from the Bank's intended objectives are kept within acceptable levels. Sustainable profitability forms the core objectives of the Bank's risk management strategy. The Bank's current strategic goals are for top quartile shareholder returns and target return on equity wherein the Bank will de-risk, further diversify and have a differentiated growth strategy within its various business lines.

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

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

MARKET RISK MANAGEMENT

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

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

The market risk of the Bank's trading and non-trading portfolio is managed separately using value at risk approach to compute the market risk exposure of non-trading portfolio and trading portfolio. Value at risk is a statistical measure that estimates the potential changes in portfolio value that may occur brought about by daily changes in market rates over a specified holding period at a specified confidence level under normal market condition.

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

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

38. RISK MANAGEMENT POLICY (CONTD.)

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

2010

	<----------	----------	----------	Non Trading Book	----------	----------	---------->			
	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	1 to 5 years	Over 5 years	Non-profit sensitive	Trading Book	Total	Effective profit rate
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
ASSETS										
Cash and short-term funds	3,882,900	-	-	-	-	-	3,553	-	3,886,453	2.03
Deposits and placements with banks and other financial institutions	-	150,000	-	-	-	-	-	-	150,000	2.03
Securities held-for-trading	-	-	-	-	-	-	-	350,934	350,934	3.00
Securities available-for-sale	-	433,336	151,873	10,231	178,735	133,755	-	-	907,930	3.42
Derivative financial assets	-	-	-	-	-	-	3,461	-	3,461	-
Financing and advances										
– Performing *	1,130,778	484,421	355,019	(197,007)	3,143,706	6,909,116	-	-	11,826,033	7.66
– Non-performing **	-	-	-	-	-	-	(67,355)	-	(67,355)	-
Other non-profit sensitive balances	-	-	-	-	-	-	155,971	-	155,971	-
TOTAL ASSETS	5,013,678	1,067,757	506,892	(186,776)	3,322,441	7,042,871	95,630	350,934	17,213,427	
LIABILITIES AND EQUITY										
Deposits from customers	6,980,417	3,757,758	1,032,610	411,653	295,299	-	920,303	-	13,398,040	2.13
Deposits and placements of banks and other financial institutions	982,646	106,915	102,585	6,543	286,768	-	293	-	1,485,750	2.70
Derivative financial liabilities	-	-	-	-	-	-	3,458	-	3,458	-
Bills and acceptances payable	185,269	176,432	33,285	-	-	-	-	-	394,986	2.54
Subordinated Sukuk Musyarakah	-	-	-	-	400,000	-	-	-	400,000	4.80
Other non-profit sensitive balances	-	-	-	-	-	-	193,046	-	193,046	-
Total Liabilities	8,148,332	4,041,105	1,168,480	418,196	982,067	-	1,117,100	-	15,875,280	
Equity attributable to equity holder of the Bank	-	-	-	-	-	-	1,338,147	-	1,338,147	
TOTAL LIABILITIES AND EQUITY	8,148,332	4,041,105	1,168,480	418,196	982,067	-	2,455,247	-	17,213,427	
On-balance sheet profit sensitivity gap	(3,134,654)	(2,973,348)	(661,588)	(604,972)	2,340,374	7,042,871	(2,359,617)	350,934	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(3,134,654)	(2,973,348)	(661,588)	(604,972)	2,340,374	7,042,871	(2,359,617)	350,934	-	

38. RISK MANAGEMENT POLICY (CONTD.)

2009

	<----- Non Trading Book						----->			
	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading Book RM'000	Total RM'000	Effective profit rate %
ASSETS										
Cash and short-term funds	3,210,100	-	-	-	-	-	7,810	-	3,217,910	2.08
Securities held-for-trading	-	-	-	-	-	-	-	203,863	203,863	4.62
Securities available-for-sale	-	7,384	9,286	31,760	336,935	183,930	-	-	569,295	2.22
Derivative financial assets	-	-	-	-	-	-	1,885	-	1,885	-
Financing and advances										
– Performing *	762,591	440,423	(245,620)	86,593	2,019,866	6,772,547	-	-	9,836,400	7.88
– Non-performing **	-	-	-	-	-	-	(25,923)	-	(25,923)	-
Other non-profit sensitive balances	-	-	-	-	-	-	292,661	-	292,661	-
TOTAL ASSETS	3,972,691	447,807	(236,334)	118,353	2,356,801	6,956,477	276,433	203,863	14,096,091	
LIABILITIES AND EQUITY										
Deposits from customers	5,000,098	2,294,215	1,239,990	525,255	449,647	-	645,865	-	10,155,070	2.58
Deposits and placements of banks and other financial institutions	512,025	296,164	272,374	166,528	192,778	-	5,183	-	1,445,052	3.25
Derivative financial liabilities	-	-	-	-	-	-	1,884	-	1,884	-
Bills and acceptances payable	220,903	281,824	109,840	-	-	-	-	-	612,567	2.00
Subordinated Sukuk Musyarakah	-	-	-	-	400,000	-	-	-	400,000	4.80
Other non-profit sensitive balances	-	-	-	-	-	-	197,963	-	197,963	-
Total Liabilities	5,733,026	2,872,203	1,622,204	691,783	1,042,425	-	850,895	-	12,812,536	
Equity attributable to equity holder of the Bank	-	-	-	-	-	-	1,283,555	-	1,283,555	
TOTAL LIABILITIES AND EQUITY	5,733,026	2,872,203	1,622,204	691,783	1,042,425	-	2,134,450	-	14,096,091	
On-balance sheet profit sensitivity gap	(1,760,335)	(2,424,396)	(1,858,538)	(573,430)	1,314,376	6,956,477	(1,858,017)	203,863	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(1,760,335)	(2,424,396)	(1,858,538)	(573,430)	1,314,376	6,956,477	(1,858,017)	203,863	-	

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

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

38. RISK MANAGEMENT POLICY (CONTD.)

LIQUIDITY RISK

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

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

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

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

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

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

38. RISK MANAGEMENT POLICY (CONTD.)

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

2010

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

38. RISK MANAGEMENT POLICY (CONTD.)

2009

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

38. RISK MANAGEMENT POLICY (CONTD.)

CREDIT RISK MANAGEMENT

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

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

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

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

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

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

OPERATIONAL RISK MANAGEMENT

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

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

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

38. RISK MANAGEMENT POLICY (CONTD.)

LEGAL AND REGULATORY RISK

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

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

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

RISK MANAGEMENT POLICY ON FINANCIAL DERIVATIVES

Purpose of engaging in financial derivatives

Financial derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices. They include swaps, forward rate agreements, futures, options and combinations of these instruments. Derivatives are contracts that transfer risks, mainly market risks. The Bank’s involvement in financial derivatives is limited to options.

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

38. RISK MANAGEMENT POLICY (CONTD.)

Risk associated with financial derivatives

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

Credit risk of derivatives

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

39. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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

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

39. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTD.)

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

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

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

The following methods and assumptions were used to estimate the fair value of assets and liabilities as at 31 March 2010 and 31 March 2009:

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

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

39. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTD.)

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

The estimated fair value is based on quoted or observable market prices at the balance sheet date. Where such quoted or observable market prices are not available, the fair value is estimated using net tangible assets techniques. Where discounted cash flow techniques are used, the estimated future cash flows are discounted using market indicative rates of similar instruments at the balance sheet date.

(c) **Financing And Advances**

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

(d) **Derivative Financial Instruments**

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

(e) **Other Assets**

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

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

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

(g) **Bills And Acceptances Payable**

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

39. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTD.)

(h) Other Liabilities

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

(i) Subordinated Sukuk Musyarakah

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

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

40. CREDIT EXPOSURES ARISING FROM CREDIT TRANSACTIONS WITH CONNECTED PARTIES

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

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

(a) directors of the Bank and their close relatives;

(b) controlling shareholder and his close relatives;

(c) executive officer and his close relatives; executive officer refers to member of management having authority and responsibility for planning, directing and/or controlling the activites of the Bank;

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

(d) officer and his close relatives; officer refers to those responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually;

(e) firms, partnerships, companies or any legal entities which control, or are controlled by, any person (including close relatives in the case of individuals) listed in (a) to (d) above, or in which they have interest as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;

(f) any person for whom the persons listed in (a) to (d) above is a guarantor;

(g) subsidiary of, or an entity controlled by the Bank and its connected parties.

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

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

(i) the creditworthiness of the connected party is not less than what is normally required of other persons;

(ii) the terms and conditions of credit transactions with connected parties are not more favourable than those entered into with other counterparties with similar circumstances and creditworthiness;

(iii) the credit transactions are in the interest of the Bank and approved by the Board of Directors with not less than three quarters of all board members present.